ISLAMIC BANKS’ CORPORATE SOCIAL RESPONSIBILITY AND ITS IMPACT ON SOCIETAL DEVELOPMENT IN MALAYSIA: AN ANALYSIS FROM ISLAMIC AND CONVENTIONAL ECONOMICS PERSPECTIVES.

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ABSTRACT

This study was carried out to investigate the impact of Islamic banks’ corporate social responsibility on the societal development in Malaysia. It is highly recommended for all the Islamic financial institution and other institutions that claimed to be Islamic to set up a standard of behaviour as part of their operations which will impact the society in a positive and in a productive manner at the same time as abiding by values which exclude profit seeking at all cost. However, the study used five elements namely zakat, charitable activities, qard hasan, micro & small size business and social savings and investment, and social impact based investment quotas policies in its investigations. The target population of this study was the stakeholders of Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Malaysia Berhad (BMMB), CIMB Islamic Islamic Berhad and Maybank Islamic Berhad in Alor Star, Kedah State of Malaysia and 196 respondents were involved. In order to realize the objective of the study, the researcher used multivariate techniques in examining the relationship between the dependent and independent variables. It was found that there was a statistical significant relationship between the Islamic banks’ corporate social responsibility and societal development in Malaysia.

Keywords: Zakat, Charitable activities, Qurd hasan, Micro & Small size business and social savings and investment, and Social Impact Based Investment Quotas Policies.

1. INTRODUCTION

Corporate Social Responsibility (CSR) has been identified by Islamic Scholars as an integral part of Islamic Banks responsibilities due to its impacts on societal development and its emphasis on people’s welfare. This was ascertained through the higher objectives of the Sharia’ah (Maqasid al-Shari’ah)\(^1\) which are meant to protect the interests of the creations in this world and the hereafter. Apparently, organizations’ throughout the world now realize that CSR is an important part of a company’s operations, because of its positive impact on society, staff members and the general public at large.\(^2\) Stakeholders such as the consumers, employees, investors, and local communities expect organizations to contribute to the societies where they operate (Hassan 2010).

\(^1\) The five higher objectives of the maqasid shariah are: protection of religion, protection of life, protection of intellect, protection of progeny, and protection of wealth.

Specifically, financial institutions can positively influence the environment by implementing CSR that match with the expectation of the society (Taimoor et al, 2012). According to Dusuki & Dar (2005) Corporate Social Responsibility outline the standard of behaviour that the businesses must subscribe to impact society in a positive and productive manner which abides by values and exclude profit seeking at any cost. Therefore, more specifically, the responsibility of Islamic Banks from Shari’ah perspective transcends the paying of zakat to the poor and the needy but extend to the societal welfare, wellbeing and any other activities that will bring about positive development to the society.

The extant literature on CSR is awash with varying views albeit with convergent conclusion on what Islamic CSR should be especially for Islamic financial institutions. The study of Farook (2007) provides the basis for Islamic corporate social responsibility for Islamic financial institutions and the justification for developing a flexible Islamic corporate social responsibility standard that encompasses both mandatory and recommended forms. The study of Dusuki (2011) on the other hand has offered instructive discussions on what constitutes the ethical and social responsibility dimension of Islamic finance. Also, Muhammed and Zakaria (2011) examined the criteria and Islamic instrument of corporate social responsibility towards the creation of a sustainable economic development. Other studies such as Zulkifli (2012) have declared corporate governance on corporate social responsibility in Islamic financial institutions as part of their ethical responsibilities. In addition, many Islamic writers have claimed that Islamic corporate social responsibility, if well practiced will lead to societal development.

A matter arising from the foregoing and which deserves research attention is the fact that CSR from Islamic perspective is not only a corporate voluntary obligation but also a manifestation of corporate spiritual commitment. When organizations obtained economic benefit from the society, expectations are that they also give back to the society. While this is the norm in most corporate firms, the dimension from an Islamic perspective offers more benefit beyond just giving back to the society. This is because the motivation for such action will take into cognizance both the mechanics and spirit of operational efficiency in its entire ramification including economic, social, and spiritual development. It is from this concern and in particular context of Malaysia that this study evolved. In this regard, the objective of this paper is to empirically investigate the impact of Islamic banks’ policy on zakat, qard Hassan, charitable activities, and social investment activities on societal development.

2. LITERATURE REVIEW

Financial institutions, regardless of whether they are Islamic or conventional must be active and profound in discharging their responsibilities to the society of their operations. According to Soludo (2004), banking industry occupies a unique position in every economy and that is why it often attracts more than a casual regulatory attention. He also mentioned in his paper that industry in the 21st century must have a moral face and live up to some modicum of social responsibility. Another study by Sabarudin & Norhanim (2010) contended that the awareness and placing CSR as part of the corporate agenda is a significantly sign shows that bank is not just aggressively poise for bigger profit but also focus their investment strategies on benefits of socially and environmentally responsible investing³.

For example; Bank Islam Malaysia Berhad (BIMB) has been building and rehabilitating homes to old and handicapped as part of its social responsibility programs. Bank Muamalat Malaysia Berhad as another example also involved in different social activities. The press releases by the Media Relation & Event Management (MREM) on January 20, 2013 revealed that Bank Muamalat invited under-privileged

³ This is also known as the “triple bottom line’
children for football talent clinic with Tottenham Hotspur’s legend so as for some of them to choose football as their future career and for social reasons.

Also, CIMB Islamic Bank as another example has been partaken in philanthropic and social responsibility for different reasons as can be seen from its *Islamic Finance & CSR* report presented by the CEO of this bank in World Islamic Finance Conference in London, UK on the 27, March 2012:

*Philanthropy and social responsibility is a part of CIMB Islamic culture and recently through the CIMB Foundation successfully raised USD 1 million for Padang’s earthquake disaster relief.*

Similarly, Maybank Islamic Berhad is not lacking behind in the area of CSR. Maybank has been participating in CSR programmes for the betterment of the community and for environmental sanitation as can be seen from its website.

Sequel to the forgoing CSR activities by Malaysian Islamic banks, it appears that in today’s business, ignoring the importance of CSR in business endeavors will give a bad impression to the business not only by the public but also by the shareholders and investors. This new global tactic may affect a bank's relationship with its clients and shareholders. There are market benefits and competitive advantages for those companies whose business policies integrate CSR (Ogrizek, 2004). It need to be reiterated here that being socially responsible is not limited to the Islamic banks in Malaysia alone but encompasses all Islamic banks in the world. Therefore, it is very essential for Islamic banks to be socially responsible to the society under their operation in a positive ways. This involvement will not only bring about the development to their operations but also to the society at large.

### 2.1 ISLAMIC BANKS CORPORATE SOCIAL RESPONSIBILITY AND SOCIETAL DEVELOPMENT

According to Farook (2007), Islamic banks corporate social responsibility was categorized into two major which are mandatory forms and recommended forms. The mandatory forms are; screening of investment, earning prohibited by Shari’ah, responsible dealing with clients, employee and zakat. Recommended forms on the other hand are; *qard hasan*, charitable activities, employee welfare, micro & small size business and social savings and investment. Other recommended forms are par excellence customer service, environmental impact based investment quotas, social impact based investment quotas, industry wise investment quotas, screening clients and contractors reduction of impact on the environment and *waqf* management.

However, this study focuses on one of the mandatory forms (i.e. zakat) and four of the recommended forms (i.e. *qard hasan*, charitable activities, social impact based investment quotas and micro & small size business and social savings and investment) in order to determine the impact of Islamic banks CSR on societal development in Malaysia. Thus, this section will stress on these five only.

#### 2.1.1 ZAKAT

The principle of Zakat and the importance attached to it in Islamic law and teaching is such that it will be a welfare tax system for ensuring that the basic need of the less fortunate Muslims are met by the society (Mohamed 2009). Zakat is a fixed religious obligation calculated by reference to net assets (including cash) that have appreciated or have the capacity to appreciate in value over a specific period of time. This excludes assets that have been acquired for consumption or use in the production of revenues. Zakat is a religious obligation on wealth for every Muslim, including a child or an insane person, provided that the

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net assets are liable for zakat (AAOIFI, 2008). Zakat serve as means or mechanism to transfer the wealth from the haves to have-nots in the society because Islam does not allow the concentration of wealth in the hand of few people while other people suffer. Moreover, the needy and the poor people can improve their living standard by receiving zakat money. Hence, with a better condition of life, they will have a higher chance to get a better education and knowledge as well as contributing to the way of Allah.

However, the importance of zakat cannot be ignored by the institutions, most especially IFIs because of the gravity of its capacity to improve the standard of living of the poor and needy. As a result of this, Allah has approved zakat and made it obligatory on those who are qualified to pay it including the institutions of this nature. Allah says:

"وَالْمُؤْمِنْينَ وَالْمُؤْمِنَاتَ يَعْفُضُوهُ مِنْ أَوْلِيَاءِ الْمَالِ يَقْبَضُونَ بِالْمَعْلُوْفِ وَيَتَبَيَّنُونَ عَنَّ الْمَرْكَزِ وَيَتَبَيَّنُونَ الْصَّلَاةَ وَيَبْتَغُونَ أَلْزَمَةَ وَيَطَّمُونِ اللَّهَ وَرَسُولَهُ ﷺ النَّطْرَٰلِّيُّوٰكَاحُ السَّياقَةَ أَوْلُدُ بِالْمَوْجُودِ" سَيْزِرْهُمَّ ﷺ ﴿الْقُوْلُ النَّبِيِّ ٧١﴾

“The believing men and believing women are allies of one another. They enjoin what is right and forbid what is wrong and establish prayer and give zakah and obey Allah and His Messenger. Those - Allah will have mercy upon them. Indeed, Allah is Exalted in Might and Wise” (al-Tawbah 71).

It was also narrated by Ibn Abbas (RA):

"وَالْمُؤْمِنْينَ وَالْمُؤْمِنَاتَ يَعْفُضُوهُ مِنْ أَوْلِيَاءِ الْمَالِ يَقْبَضُونَ بِالْمَعْلُوْفِ وَيَتَبَيَّنُونَ عَنَّ الْمَرْكَزِ وَيَتَبَيَّنُونَ الْصَّلَاةَ وَيَبْتَغُونَ أَلْزَمَةَ وَيَطَّمُونِ اللَّهَ وَرَسُولَهُ ﷺ النَّطْرَٰلِّيُّوٰكَاحُ السَّياقَةَ أَوْلُدُ بِالْمَوْجُودِ" سَيْزِرْهُمَّ ﷺ ﴿الْقُوْلُ النَّبِيِّ ٧١﴾

The Prophet (SAW) sent Mu‘adh to Yemen and said, “Invite the people to testify that none has the right to be worshipped but Allah and I am Allah's Messenger (SAW), and if they obey you to do so, then teach them that Allah has enjoined on them five prayers in every day and night (in twenty-four hours), and if they obey you to do so, then teach them that Allah has made it obligatory for them to pay the Zakat from their property and it is to be taken from the wealthy among them and given to the poor” (Sahih al-Bukhari).

As it is wildly known, Islamic banks in Malaysia including other part of the world have been paying zakat to improve the welfare of their various societies. This was ascertained after reading through some of their financial report.

According to Hizamuddin, the managing director of bank Islam Malaysia berhad stated in banks Islam CSR 2012 report,

*In 2009 a total of RM 8.9 million in zakat was contributed to a variety of causes, projects and events. And in 2010 a total of RM11.8 million was given out where the beneficiaries included State zakat authorities, mosque, Islamic institution and religious schools, nongovernmental organization, the less fortunate and needy homes through various charitable activities*.

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5 Translation of Sahih International
The above statement has shown the contribution of bank Islam Malaysia Berhad to the society for 2009 and 2010 respectively.

Kahf (2007) argued that many Islamic banks also establish social funds, especially designed for relieving the economic hardship of the poor and needy. These funds are usually financed by the yearly zakat dues on shareholders’ equity as well as many investment depositors who give their consent to the bank’s management for the deduction and distribution of zakat annually.

Another study by Ahmed (2008) also asserts that the areas in which zakat can contribute in the macro-context would be improving the human capital through specific programs for the poor and vulnerable. Zakat also has a more significant role to play with regard to poverty alleviation strategies in the micro level such as providing education and skill development, health facilities, social services that improve the welfare of the poor, provision of physical capital (like a taxi, sewing machine, etc.), and making available financial capital to start a business so that the poor can be productively employed to earn a living.

2.1.2 CHARITABLE ACTIVITIES
Charity in Islam means spending out of what Allah has given to individuals. It involves using the energy, talent, resources, money, possessions etc. to help and provide for those in need in order to improve their living standard and for equal participation in the society. As mentioned, Islam does not approve the concentration of wealth in the hand of few people while others are not able to fulfill their daily needs. Because of this, charitable activities policy of Islamic banks can serve as a means to provide for these needy in the society. In addition, charity has occupied an important position in Islam because Allah the Most High Has mentioned it in the qur’an as part of the responsibility of a good Muslim and this responsibility has been extended to the responsibility of IFIs. Allah says:

قال تعالى:
(Faithfully Allah said, ﴿وَأَنْفُسَاتُكُمْ وَمَالُكُمْ وَأَنْفُسَاتُ الْمُجَاهِدِينَ ﴾ البغاء 16)

“So be pious to Allah as best as you can, (Literally: as much as you are able to) and give ear, and obey, and expend; (that is) most charitable (i.e., best) for yourselves. And whoever is protected against the avarice of his self, then those are they who are the prosperers” (al-Taghabun: 16).8

It was also narrated by Abu Darda:

حَدَّثَنَا سَعِيدُ بْنُ ابْنَ يَزَادَ، حَدَّثَنَا شُعبَانُ، حَدَّثَنَا مَعْبُودُ بْنُ مَعْبُودٍ، مَنَّ ابْنَيْهِ عَنْهُ، عَنْ عُلِيَّ بْنِ أبي طلِبَةَ، عَنْ أَبِيهِ، عَنْ حُجَّاجَ بْنِ الْمُتَّمِّمِ، عَنْ النَّبِيِّ صلى الله عليه وسلم قَالَ " إِنَّا مَنَّ اللَّهُ عَلَى كُلِّ مَسْلِمٍ صَنَّفَهُ " قَالَ ابْنُ يَزَادَ " إِنَّ اللَّهَ مَنَّهُ مَنْ لَمْ يَجِدَ فَقْوًا " يَعْمَلَ بِهِ مَالَ عَلَى نَفْسِهِ وَيَنْتَصَدِقُ " قَالَ فَأَمَّا فَإِنَّهُ لَا يَجِدُ فَقْوًا فَيَعْمَلَ بِهِ مَالَ عَلَى نَفْسِهِ وَيَنْتَصَدِقُ " قَالَ فَأَمَّا فَإِنَّهُ لَا يَجِدُ فَقْوًا فَيَعْمَلَ بِهِ مَالَ عَلَى نَفْسِهِ وَيَنْتَصَدِقُ " قَالَ فَأَمَّا فَإِنَّهُ لَا يَجِدُ فَقْوًا فَيَعْمَلَ بِهِ مَالَ عَلَى نَفْسِهِ وَيَنْتَصَدِقُ " قَالَ فَأَمَّا فَإِنَّهُ لَا يَجِدُ فَقْوًا فَيَعْمَلَ بِهِ مَالَ عَلَى نَفْسِهِ وَيَنْتَصَدِقُ " قَالَ فَأَمَّا فَإِنَّهُ لَا يَجِدُ فَقْوًا فَيَعْمَلَ بِهِ مَالَ عَلَى نَفْسِهِ وَيَنْتَصَدِقُ " " قَالَ فَأَمَّا فَإِنَّهُ لَا يَجِدُ فَقْوًا فَيَعْمَلَ بِهِ مَالَ عَلَى نَفْسِهِ وَيَنْتَصَدِقُ " From his father from his grandfather that the Prophet (SAW) said, “Every Muslim has to give in charity.” The people asked, "O Allah's Prophet! If someone has nothing to give, what will he do?" He said, "He should work with his hands and benefit himself and also give in charity (from what he earns)." The people further asked, "If he cannot find even that?" He replied, "He should help the needy who appeal for help." Then the people asked, "If he cannot do that?" He replied, "Then he should perform good deeds and keep away from evil deeds and this will be regarded as charitable deeds" (Sahih al-Bukhari).9

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8 The translation of Dr. Ghali
However, as a representative institution that serves collective religious obligation, Islamic financial institutions have implemented CSR policy as part of their charitable activities in order to provide for the needy and to improve the society at large. According to AAOIFI standard (2008) on CSR of Islamic financial institutions, the provisions of charitable activities policy of IFIs may include matters pertaining to:

- Establishing a charity fund
- Establishing avenues for voluntary donations by donors (e.g. from depositors, shareholders, clients, contractors and employees) for the charity
- Establishing fund raising drives (emergency or otherwise) from employees) for the charity
- Establishing target groups, communities and institutions that require assistance, including those described in policy for social impact based investment quota and policy for environmental impact based investment quotas, means by which charity may be distributed to prospective donees,
- Contracting an agent or establishing a trust foundation to distribute funds to allocated charities.

More so, Kahr (2007) also claimed that the charitable activities of Islamic banks are also financed by interest that may accrue to the bank from its deposits in conventional banks and from certain transactions that the Shari’ah boards may find doubtful/suspicious from a Shari’ah point of view. This is on the ground that such earned interest cannot be taken by the bank and must be distributed as charity. His motion was supported by the standard of AAOIFI discussed above that charitable funds of Islamic banks are usually also open to receiving donations from the public.

Another study of Farook (2007) also contended that IFIs are in a special position to source charitable funds, both from within and without the IFI, for deserving causes. With minimal financial outlay, IFIs are able to create charity accounts and fund raising drives for charity from customers and clients to complement their banking operations. This will allow IFIs to utilize their existing capacity for the benefit of society’s most deserving individuals. In addition, Samina (2012) argued that Islamic banks should give charity to the fullest extent of their capacity.

From the Western perspectives, CSR also addresses at least the following areas: the environmental dimension, the human resource dimension, the philanthropic dimension, and the human rights dimension. The philanthropic dimension on the other hand include helping solve social problems, supporting charities and community projects, participating in management of public affairs and playing a role in society that goes beyond profit maximization (Dusuki 2011).

2.1.3 QARD HASAN

Another distinctive characteristic of Islamic banking’s social responsibility can be traced to its commendable commitment in providing *qard hasan* or benevolence loans to the needy (Dusuki 2011). AAOIFI (2008) defined *qard hasan* as a non-interest bearing loan intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the period. Even though this is not well practiced by Islamic financial institutions due to high default rate from the beneficiaries, it’s still considered as one of the commendable characteristic of IFIs which distinguish it from the conventional financial institutions.

*Qard hasan* financing is performed in order to improve the economic life of the financing participants. It is important to mention that the participants of *qard hasan* financing are the participants who have not the feasibility to obtain the other types of financing (such as *mudharabah, musyarakah, murabahah* financing) so they need to be helped by using *qard hasan* financing (Irawan & Arimbi 2012). In many places in the Holy Qur’an, Allah Has encouraged the Muslims to give *qard hasan* by assuring reward in this world and in the hereafter. Allah the Most High says:

قَالَ ﷺ: (مَنْ ذَٰلِكَ يُقْرَسْنَهُمْ أَفْقَرَ مِنْهُ فَسَ نَجْعَلْ لَهُ مَعْلُومًا حَسَنًا فِي الْقَرْنِ الْمُخْتَلِفَةِ وَاللَّهُ يُعْلَمُ وَيَبْصُرُ وَإِلَيْهِ تُرْجَعُونَ) البَرْقَةُ 245
“Who is he that will loan to Allah a beautiful loan, which Allah will double unto his credit and multiply many times? It is Allah that giveth (you) want or plenty and to Him shall be your return” (Al-Baqar. 245).

It was also narrated by Abu Hurairah:

وَلَوْ صَلَّى الَّذِي صَلَّى الله عليه وسلم، فَالَّذِي يُسْرُّ عَلَى مَعْسَرٍ مُّسْرَـرٍّ عَلَيْهِ فِي الدُّنْيَا وَالْآخِرَةَ وَمَنْ سَنَرَ عَلَى مُسْرَـرٍّ فِي الدُّنْيَا سَنَرَ الله عليه في الدُّنْيَا وَالْآخِرَةَ وَاللهُ في عَوْنِ الْمُسْرَرِينَ.

Abu Hurairah narrated that the Messenger of Allah said: “Whoever relieves a Muslim of a burden from the burdens of the world, Allah will relieve him of a burden from the burdens on the Day of Judgement. And whoever helps ease a difficulty in the world, Allah will grant him ease from a difficulty in the world and in the Hereafter. And whoever covers (the faults of) a Muslim, Allah will cover (his faults) for him in the world and the Hereafter. And Allah is engaged in helping the worshipper as long as the worshipper is engaged in helping his brother.”

However, as a financial intermediary, IFIs are in a special position in society to encourage qard hasan activities both within it and with its clients and customers. This is because IFIs are able to direct funds from depositors and customers and also allocate them to the neediest purposes (Farook, 2007). According to AAOIFI standard (2008) on CSR of Islamic financial institutions, IFIs may implement a CSR policy for qard hasan for social reasons. Therefore, as a representative institution that serves collective Islamic religious obligation, Islamic financial institutions need to improve on CSR policy relating to qard hasan and consider it as part of their charitable activities in order to provide for the needy and to improve the society at large.

2.1.4 SOCIAL IMPACT BASED INVESTMENT QUOTAS

Global Impact Investing Network (GIIN) defines social impact investments as investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. GIIN emphasizes that such investments could be made across sectors and industries both in the developed and developing world with varied returns on investments. An impact investor seeks to create social good or improve the health of the environment in addition to achieving financial returns. En Lee, the director of Impact Investment Exchange Asia (IIX), impact investment is still nascent in Asia but the industry is expected to grow significantly, reportedly to a US$1 trillion asset class by 2020.

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10 Translated by Sahih International
11 Jami` at-Tirmidhi, Chapters on Righteousness and Maintaining Good Relations with Relatives.
AAOIFI standard (2008) on CSR of Islamic financial institutions stipulated that, Islamic banks should invest in industries that produce social, cultural or religious development. These policies may include quotas/targets for social-impact investments, based on the role that the investments play in:

- Assisting poor and needy individuals and families, by financing business opportunity and/or education
- Assisting orphans
- Assisting heavily indebted individuals or families with unfortunate circumstances
- Assisting in the provisioning of health and medical services to impoverished communities or areas
- Assisting in the development of research and education facilities, particularly those that utilize and empower disadvantaged individuals or communities
- Assisting the development of small and medium sized entrepreneur and family businesses
- Encouraging the development of Islamic and native societal culture, discouraging contemporary social ills and vices.

More so, IFIs can set aside a portion of their investment quota as a target for increasing investments in social impact based projects. Again, individual research undertaken by the banks could lead to an appreciation of the particular projects that have the greatest social impact (Farook, 2007).

2.1.5 MICRO AND SMALL Sized BUSINESS, SOCIAL SAVINGS AND INVESTMENTS

Many believe that financing for micro-enterprises and SMEs is a natural niche for Islamic banking as it deals directly with the real economy, creates employment, involves the productive use of resources, especially capital and finance, and contributes to the alleviation of poverty (ITC 2009).

Access to financing is one of the major problems for SMEs especially for expansion and business development. In this regard, in order to facilitate the easy access to the fund and financing Government, Islamic commercial institutions provide loans for working capital, purchase of fixed assets and project financing (Ahcene, 2010).

Islamic banking is community oriented and entrepreneur-friendly, emphasizing productivity and the physical expansion of economic production and services. Hence, it shifts from the predominant practice of focusing on financial collateral or the financial worth of borrower to the entrepreneur’s trustworthiness and the project’s viability and usefulness. This feature has important implications for the distribution of credit as well as the stability of the system (Dusuki 2011). This policy has occupied an important position in Islam because Allah the Most High Has mentioned it in the *qur’an*:

قَالَ تَعَالَى:  
الَّذِينَ أَحْصِرُواْ فِي سَبِيلِ اللَّهِ لَا يَسْتَطِيعُونَ ضَرْرًا فِي الْأَرْضِ يَخْضَبُونَ الْجَهَّالَ أُحْيَاءً مِّنْ أَنْفُعُفُ نَعْرُفُهُمْ بَسْيِنَتْهُمْ لَا يَسْتَطِيعُونَ الْجَهَّالَ أُحْيَاءً وَمَا نَتَفَقُّوْنَ مِنْ خَيْرٍ إِنَّ اللَّهَ بَيْنَهُمْ

“(Alms are) for the poor who are straitened for the cause of Allah, who cannot travel in the land (for trade). An ignorant [person] would think them self-sufficient because of their restraint, but you will know them by their [characteristic] sign. They do not beg of men with importunity. And whatsoever good thing ye spend, lo! Allah knoweth it” (Al-Baqara: 273).15

15 Translated by Sahih International & Dr. Ghali.
However, Islamic financial institutions are expected to provide assistance for poor and weak units in the economy (Samina, 2012). This can be achieved most significantly through the financial empowerment of family units in the lowest echelons of society. Micro and medium-sized business can usually be run by such families if given the appropriate seed capital to initiate business. IFIs can also make profitable divisions serving this class of clients, particularly because existing examples of conventional micro-credit banks are very successful (Farook, 2007). AAOIFI standard (2008) on CSR of Islamic financial institutions stipulated that, IFIs may implement a CSR policy to assist micro and small business and social savings and investments. The provisions of this policy may include matters pertaining to:

- Encouragement of micro and small business savings through special features and terms for these types of investment depositors.
- Encouragement of social savings for marriages, children’s education, community based programs and other social welfare programs through special features and terms for these types of investment depositors.
- Encouragement of both micro and small business savings and types of investment depositors (e.g. saving deposit with higher rates of return and investment loans discounts etc.).
- Encouragement of both family savings and investment through combination features and terms for these types of investment depositors (e.g. savings deposit with higher rates of return and investment loan discounts etc.).

Therefore, Islamic banking and finance itself is perceived by a number of Muslims as a social enterprise whereby Islamic banks are expected to play a socially responsible role in the development process. Islamic banking is believed to have the great potential to be involved in microfinance programmes to cater for the needs of the poor who usually fall outside the formal banking sector (Dusuki, 2008).

3. METHODOLOGY

The researchers used both primary and secondary data in order to achieve a credible study. Secondary data was used to obtain relevant information from the published annual reports of the Islamic banks understudy. Other secondary data includes academic books, journals, website information, articles and previous theses in CSR arena. Primary data on the other hand was used to elicit the respondents’ opinions toward the impact of CSR of Islamic banks in Malaysia on societal development. Data obtained were subjected to both descriptive and inferential statistics using SPSS version 18.0.

4. ANALYSIS AND FINDINGS

4.1 PROFILE OF THE RESPONDENTS

The respondents of this study were Islamic banks’ managers, customers, employees and local community (that is, citizen). However, the total number of male as identified from the results were 92 and total number of female were 102 with 48% and 52% respectively. The proportion of the respondents who were Malay is 180 with 91.8%, Chinese is 6 with 3.1%, and Indian 3 with 1.5% and the proportion of others were 7 with 3.6%.

In addition to the above, the qualification of the respondents are as follows; primary school certification was 19 with 9.7%, higher school was 43 with 21.9%, diploma was 54 with 27.6%, Bachelor Degree was
62 with 31.6%, master degree was 18 with 9.2% and none of the respondents identified themselves as Ph.D. holder. More so, out of the respondents surveyed, 81 of them belong to Bank Islam Malaysia Berhad with 41.3%, 41 belong to CIMB Islamic Berhad with 20.9%, 23 belong to Bank Muamalat Malaysia Berhad with 11.7% and 51 belong to Maybank Islamic Berhad with 26%.

Furthermore, only two (2) out of four (4) managers filled and returned their questionnaires and the percentage of this two was 1.0% out of the whole respondents, customers were 137 with 69%, employees was 50 with 25.5% and member of local community was 7 with 3.7%. Even though the number of the participants who identified themselves as member of local community was the lowest among the targeted group, but the majority of the respondents were Malay and most of them preferred to identify themselves as the customer rather than member of local community. All demographic distribution are shown in table 4.2 below.

<table>
<thead>
<tr>
<th>TABLE 4.1 PROFILES OF THE RESPONDENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>Gender:</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>Age:</td>
</tr>
<tr>
<td>20 or below</td>
</tr>
<tr>
<td>21-30</td>
</tr>
<tr>
<td>31-40</td>
</tr>
<tr>
<td>41-50</td>
</tr>
<tr>
<td>51 or Above</td>
</tr>
<tr>
<td>Race:</td>
</tr>
<tr>
<td>Malay</td>
</tr>
<tr>
<td>Chinese</td>
</tr>
<tr>
<td>Indian</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Religion:</td>
</tr>
<tr>
<td>Islam</td>
</tr>
<tr>
<td>Buddhism</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Highest qualification:</td>
</tr>
<tr>
<td>Primary school certificate</td>
</tr>
<tr>
<td>Higher school</td>
</tr>
<tr>
<td>Diploma</td>
</tr>
<tr>
<td>Bachelor degree</td>
</tr>
<tr>
<td>Master degree</td>
</tr>
<tr>
<td>Indicate the bank you belong to:</td>
</tr>
<tr>
<td>Bank Islam Malaysia Berhad</td>
</tr>
<tr>
<td>CIMB Islamic Berhad</td>
</tr>
<tr>
<td>Bank Muamalat Malaysia Berhad</td>
</tr>
<tr>
<td>Maybank Islamic Berhad</td>
</tr>
<tr>
<td>Do you have an account with another bank?</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Indicate your banking relationship:</td>
</tr>
</tbody>
</table>
4.2 MULTIPLE REGRESSION ANALYSIS
The multiple regression analysis was also used to investigate the impact of Islamic banks’ zakat, charitable activities, qard hasan, social impact based investment quotas and micro & small sized business, social savings and investments policies on the Malaysian societal development. The following table contained the important results of this analysis.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95% Confidence Interval for B</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>T</td>
<td>Sig.</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.057</td>
<td>.633</td>
<td>1.669</td>
<td>.097</td>
</tr>
<tr>
<td></td>
<td>ZP</td>
<td>.315</td>
<td>.076</td>
<td>.152</td>
<td>4.119</td>
</tr>
<tr>
<td></td>
<td>QHP1</td>
<td>1.000</td>
<td>.118</td>
<td>.301</td>
<td>8.492</td>
</tr>
<tr>
<td></td>
<td>CAP</td>
<td>.320</td>
<td>.057</td>
<td>.237</td>
<td>5.630</td>
</tr>
<tr>
<td></td>
<td>SIBIQ</td>
<td>.130</td>
<td>.023</td>
<td>.251</td>
<td>5.743</td>
</tr>
<tr>
<td></td>
<td>MIBSS IP</td>
<td>.329</td>
<td>.058</td>
<td>.234</td>
<td>5.716</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SD

4.3 RESULTS SUMMARY
The aim of this section is to provide the summary of major findings in this paper. Such findings are discussed based on the statistical results shown below and in the context of the literature review.
TABLE 4.3 SUMMARY OF THE HYPOTHESIS TESTING

<table>
<thead>
<tr>
<th>Hypothesis Statement</th>
<th>Adj R²</th>
<th>Sig. Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic banks’ zakat policy Societal Development = α + βZP + ε</td>
<td>.391%</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Islamic banks Qard hasan policy Societal Development = α + βQAP + ε</td>
<td>.458%</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Islamic Banks’ Charitable Activities Policy Societal Development = α + βCAP + ε</td>
<td>.553%</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Islamic banks’ Social Impact Based Investment Quotas Policy Societal Development = α + βSIBIQP + ε</td>
<td>.576%</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Islamic Banks’ Micro &amp; Small Sized Business, Social Savings and Investments Policy Societal Development = α + βMBSSIP + ε</td>
<td>.508%</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

By achieving the objective of the study, the above findings support the study of Dusuki and Dar (2005) which proved that corporate social responsibility is not an alien to Islamic banking. It also proved that Islamic banks in Malaysia are versatile in discharging their responsibility to their stakeholders as recommended by Farook (2007).

5. CONCLUSION

This research was conducted in order to study the impact of the Islamic banks’ corporate social responsibility on the societal development in Malaysia. In order to achieve this aim, researchers structured this paper into five main sections in which section one contained the introductory aspect of the study, section two was basically on reviewing the literature of the past study within the scope of the study, section three was on the methodology used to achieve the aims of this study, while findings of the various analysis was presented under section four and section five contained the conclusion and recommendation for this study.

However, multivariate techniques of the statistics were employed to test whether there is a significant relationship between the Islamic banks’ corporate social responsibility and societal development. The variables used to investigate this objectives were Islamic banks’ zakat policy, qard hasan policy, charitable activities policy, social impact based investment quotas policy and micro and small sized business, social savings and investments policy. All these variables were linked with the societal development and it was found that there was a significant relationship between the dependent and independent variables. Therefore, the objective of this study was achieved because there was a significant relationship between the Islamic banks corporate social responsibility and societal development.

5.1 RECOMMENDATION

As mentioned, the result of this study was all significant. As a result, the researchers argued that the importance of Islamic banks’ CSR cannot be overemphasized. But this does not mean that Islamic banks have extremely contributed to the society of Malaysia and they are therefore recommended to improve more extensively in supporting the needy, businesses and the entire society as a whole.
More so, the Islamic banks from other part of the world are as well recommended to emulate the Islamic banks in Malaysia in supporting the needy and the societies of their respective countries so as to achieve the aim and objective of Shari’ah.

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