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STAKEHOLDERS' EXPECTATION TOWARDS CORPORATE SOCIAL RESPONSIBILITY OF ISLAMIC BANKS

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Abstract

Surge in interest in Corporate Social Responsibility (CSR) has taken its stronghold in developed countries, especially in United States and in European corporations of all sizes across business sectors. Extant literature suggests that companies benefit from being able to demonstrate their social responsibility towards stakeholders. CSR has also received an increasing public attention elsewhere, especially in emerging economies like Malaysia. However, shadow of doubt remains as to whether such initiatives could potentially lead to firm's better performance or as a source of sustained competitive advantage. Using a sample of over 1500 respondents from Islamic banking industry, this paper, aims to examine the perceptions towards CSR of various stakeholders, comprising managers, employees, regulators, Islamic legal advisors, customers, depositors and local communities. Since Islamic banks are regarded socially responsible, it is imperative to elicit the opinion of the stakeholders to get implications for drawing a CSR framework for Islamic banks. The main questions addressed are whether the various stakeholders support CSR initiatives and that they perceive CSR as a potential tool to benefit the firms that subscribe to it.

Key Words: corporate social responsibility, stakeholder perception, Islamic banks, performance, empirical survey.

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1. INTRODUCTION

Surge in interest in Corporate Social Responsibility (hereafter CSR) has taken its stronghold in developed countries, especially in United States and in European corporations of all sizes across business sectors. It is a framework for the role of business in society, setting standards of behaviour to which a company must subscribe to impact society in a positive and a productive manner. The emergence of social enterprise, business ethics, environmental practices, a human rights approach to recruitment and employment conditions, and investment in the community are examples of such impacts.

Despite the growing interest in CSR, shadow of doubt remains as to whether such initiatives could potentially lead to firm's better performance and as a source of sustained competitive advantage. Those who are sceptical to CSR anticipate that, such initiative may incur additional costs and hence would jeopardise overall performance and sustainability of an organisation (Friedman 1996; Pikston and Carroll 1996; Henderson 2001). On the other hand, those who advocate the adoption of CSR policies strongly feel that such practices may instead, enhance reputation and subsequently enable companies to reap long-term strategic benefits of maintaining its legitimacy, competitiveness and sustainability in the market (Burke and Logsdon 1996; Lantos 2001; Porter and Kramer 2002; Johnson 2003; Snider, Hill et al. 2003).

The concern over CSR is also relevant to Islamic banks. As a business entity established within the ambit of Islamic Law (Shariah), Islamic banks are expected to be guided by an Islamic economic worldview, which based on the principle of social justice and well-being. This is particularly true since those involved in Islamic banking and finance normally regard their ethics and social responsibility commitment as being more enduring since they are ultimately based on divine revelation, whereas ethics and social responsibility derived from secularist morality are inevitably transitory. This in turn provides a strong indication for CSR to be naturally embedded and instilled in Islamic banking practice.

This paper aims to explore the issues of CSR from multiple stakeholder groups' perspectives. This will help us to better understand the actual attitudes and perceptions of diverse stakeholders towards CSR. Also, by eliciting their opinion would help assess the business benefits and costs associated with, respectively, responsible and irresponsible corporate behaviours. Indeed, a study that investigates various stakeholders' opinion of CSR from an emerging economy like Malaysia will add a new dimension to the literature.

The remainder of the paper proceeds as follow: The following section discusses the relevance of CSR to Islamic banks. The stakeholder theory is further analysed in section three. Hypothesis development and research methodology adopted in this study is discussed in section four and five respectively. While the findings are offered in section six, the conclusion is presented in the final section.

2. CSR AND ISLAMIC BANKING PHENOMENON

PHILOSOPHY OF ISLAMIC BANKING

Many Islamic banking scholars, including Ahmad (2000), Mirakhor (2000), Warde (2000), Lewis and Algoud (2001), and Iqbal and Molyneux (2005), assert that although Islamic banks perform mostly the same functions as conventional banks, they do this in distinctly different ways. In their views, some of the salient features of Islamic banking and finance which make it distinct and unique from its conventional counterparts include: firstly, Islamic banking strives for a just, fair and balanced society as envisioned by the Islamic economics. Hence, the many prohibitions (e.g. interest, gambling, excessive risks, etc.) are to provide a level playing field to protect the interests and benefits of all parties involved in market transactions and to promote social harmony. For example, the prevailing practice of interest in the conventional banking system involves injustice to the borrowers since the interest on their loans have to be paid irrespective of the outcomes of their business. Similarly, interest contracts can be unjust to the lenders especially when their returns on deposits, which have been channelled by the banks to the entrepreneurs, do not commensurate the actual performance of the investment (Lewis and Algoud 2001; Iqbal and Molyneux 2005).

Secondly, Islamic banking is constructed upon the principle of brotherhood and cooperation which stands for a system of equity-sharing, risk-sharing and stake-taking. It promotes such sharing and cooperation between the provider of funds (investor) and the user of funds (entrepreneur). Thirdly, as a system grounded on ethical and moral framework of the Shariah, Islamic banking is also characterised by ethical norms and social commitments (Ahmad 2000; Mirakhor 2000; Warde 2000). There is a moral filter based on the definition of halal (permissible) and haram (prohibited and undesirable) operating at different levels, carving the conscience of entrepreneur and firm, promoting a positive social climate for society, and providing an expedient legal framework. Accordingly, Islamic banks cannot finance any project which conflicts with the moral value system of Islam such as financing a brewery factory, a casino, a night club or any other activity which is prohibited by Islam or known to be detrimental to society.

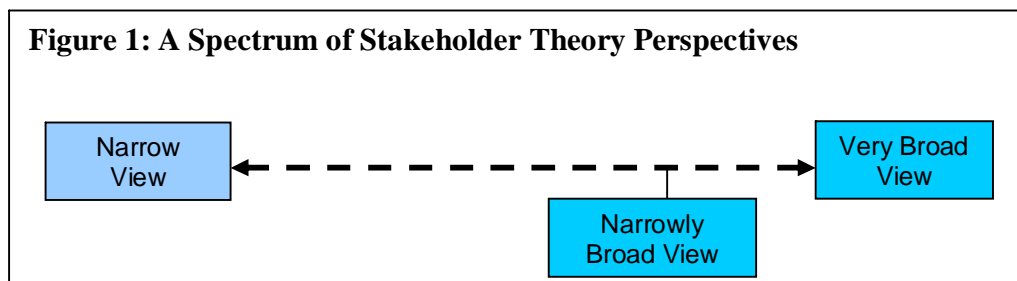
These characteristics somehow imply the relevance and significance of CSR as a globally accepted practice to Islamic banks. Islamic banking system has an in-built dimension that promotes social responsibility, as it resides within a financial trajectory underpinned by the forces of Shariah injunctions. These Shariah injunctions interweave Islamic financial transactions with genuine concern for ethically and socially responsible activities at the same time as prohibiting involvement in illegal activities or those which are detrimental to social and environmental well-being.

3. STAKEHOLDER THEORY

One of the most important theories in construing the construct of CSR is provided by stakeholder theory. Generally the proponents of this view posit that paying attention to the interests, needs and rights of multiple stakeholders of a business is a useful way of inculcating socially responsible behaviour among corporations (Goodpaster 2001; Greenwood 2001, 2001; Ruf, Muralidhar et al. 2001; Dawkins and Lewis 2003; Maignan and Ferrell 2004). Freeman (1984) distinguishes between primary stakeholders (owners, management, local community, customers, employees and suppliers), those whose continuing participation is necessary for the survival of the corporation, and secondary

stakeholders (the government and communities that provide infrastructure and markets, trade unions and environmentalists), who are not essential to the survival of the corporation although their actions can significantly damage (or benefit) the corporation (Freeman 1984). Like shareholders, the other stakeholders may place demands upon firms and bestowing societal legitimacy. Firms must address these demands otherwise face negative confrontations from non-shareholder groups, which can lead to diminished shareholder value, through boycotts, lawsuit, protests, etc. (Ruf, Muralidhar et al. 2001).

On the whole, stakeholder approaches to CSR taking a wider perspective of a firm's responsibility, expanding the scope of classical theory. Figure 1 illustrates the various positions and views of CSR taking into account the stakeholder theory perspectives. The narrow view represents the restricted view of corporate responsibility to that of the shareholder, while the broad view highlights the position of stakeholder theory.



On one side of the spectrum (as depicted in Figure 1), is the narrow view, representing classical strand advocated by Friedman (1967; 1996), argues that CSR is altogether a pernicious idea as the sole responsibility of business is profit maximisation. The proponents of this view posits that manager has only one fiduciary obligation – to use resources supplied by its shareholders and to engage in activities designed to increase profits on their behalf. They contend that obligation of managers to other stakeholders (employees, customers and others) is morally significant, but they are non-fiduciary obligations. Hence, treating obligations to shareholders and stakeholders alike, according to them, is to obscure an important distinction between them (Friedman 1967, 1996; Goodpaster 2001).

As the spectrum moves towards the right, the doctrine of CSR emerges, incorporating stakeholder perspectives, thereby broadening the classical definition of business responsibilities. It takes into account the multi-fiduciary role of a firm by recognising firm's responsibilities that go beyond shareholder-management relationship. In this context, the management sees itself as being responsible for satisfying and meeting the demand of the multiple stakeholder interests. More specifically, as depicted by the narrowly broad view, firms have social responsibilities to various groups that have direct financial connection with them: consumers, employees, shareholders, and suppliers (Freeman 1984). Moreover, as the spectrum moves further to the extreme right, the very broad view extends the definition of stakeholders to include society at large and other relevant stakeholder groups. The reason for extending the firm's social responsibility to include all possible effects on society, according to this view, is that firms, especially big corporations, have great economic and social power. Therefore, in return for granting companies their legal status as separate entities, society is entitled to expect from them a significant net positive contribution for the general good (Greenwood 2001).

PURPOSE OF STAKEHOLDER ANALYSIS OF CSR

The underlying purpose of a stakeholder analysis of CSR is twofold: First, to understand the expectations of diverse stakeholder groups with respect to CSR. As discussed above, the firm's relations with all key stakeholder groups should be of primary concern to the management. To identify which social problems, needs, and interests or demand that a firm need to address is essential for continued goodwill and support of the firm by relevant stakeholder groups. This in turn, provides a signal to the firm on whether their CSR practices may potentially be a useful marketing instrument to the organisation and to avoid stakeholder sanctions.

Secondly, stakeholder analysis can also provide ongoing evaluations of the CSR programmes' effectiveness. Much past research suggests that perceptions of CSR may generate increased resources from stakeholders. Indeed positive perception towards CSR is considered an important determinant of corporate effectiveness (Singhapakdi, Kraft et

al. 1995; Singhapakdi, Vitell et al. 1996). In particular, companies may reap long-term benefits of brand enhancement, differentiation, goodwill, increased worker motivation, quality workforce retention and higher profitability by committing themselves to CSR practices (Murray and Vogel 1997; Turban and Greening 1997; Greening and Turban 2000; CSR Europe 2001; Lantos 2001; O'Brien 2001; Lantos 2002; Davies 2003; Maignan and Ferrell 2004; Peterson 2004).

Some studies have even established a positive relationship between a company's CSR actions and customer loyalty (Maignan, Tomas et al. 1999). Other studies have demonstrated that consumers are willing to patronise companies committed to CSR-related activities and initiatives, such as good ethical behaviours, environmental friendly practices, philanthropic contributions, community commitment and employees' good and favourable treatments (Brown and Dacin 1997; Creyer and Ross 1997; Ellen, Mohr et al. 2000; Mason 2000; Dawkins and Lewis 2003; Dean 2004). Furthermore, studies have also demonstrated a positive attitude and perceptions among CEOs and managers of companies towards CSR constructs and practices (Gupta and Sulaiman 1996; Robertson and Nicholson 1996; Murray and Vogel 1997; Fulop, Hisrich et al. 2000; Quazi and O'Brien 2000; CSR Europe 2001; Singhapakdi and Karande 2001; Ahmad and Rahim 2002; Dawkins and Lewis 2003; Cordano, Frieze et al. 2004; Tencati, Perrini et al. 2004).

Apparently, previous research on stakeholders' perceptions is mainly in more developed economies like the Western countries. Similar research investigating stakeholders' perceptions and attitudes towards CSR in an emerging economy, especially Malaysia, remains scarce. There is only a little researches that attempts to study attitudes and perceptions of stakeholders towards CSR (Ahmad and Rahim 2002; Rashid and Ibrahim 2002; Ramasamy and Ting 2004). Ahmad and Rahim (2002), for example, although limited in scope as it is based on a sample of only 29 corporate managers in Malaysia, indicating that managers are aware of CSR and willing to positively contribute towards its realisation. In a comparative analysis of CSR awareness between Malaysian and Singaporean companies, using a total of 102 responses (38 Malaysian; 64 Singaporean) Ramasamy and Ting (2004) found that employees in both countries tended to have a low

level of CSR awareness. Their findings partly reflect the infancy of the CSR sector in developing countries, particularly in Malaysia. Nevertheless, the low level of CSR awareness in Malaysia may improve, as there is evidence of increased senior-level CSR awareness and positive attitudes toward CSR over the past decade (Rashid and Ibrahim 2002). The results of these studies, however, should be treated with caution especially with regards to the limited number of sample responses used in the respective studies.

THE COVERAGE OF STAKEHOLDERS IN CSR EMPIRICAL STUDIES

Overall, past research investigating various stakeholders' perceptions and attitudes toward CSR issues remains embryonic. In particular, investigations have been limited in terms of stakeholder categories considered. Previous studies on perceptions of CSR issues have largely elicited information from specific stakeholder groups such as managers, employees, consumers, investors and other stakeholders. Table 1 provides a summary of the stakeholder coverage, findings and research methodology instrument used in the literature to date on the perceptions of CSR from diverse stakeholder groups.

Table 1: Studies of Perceptions of CSR from Multiple Stakeholder Groups

Literature		Stakeholder							Method
		A	B	C	D	E	F	G ^a	
Adkins and Radtke	2004					+	+		Questionnaire
Angelidis and Ibrahim	2004					+			Questionnaire
Cordano, Frieze et al.	2004	+						+	Questionnaire
Dean	2004			+		+			Questionnaire
Elias	2004					+			Questionnaire
McLachlan and Gardner	2004				+				Questionnaire
Peterson	2004		+						Questionnaire
Ramasamy and Ting	2004		+						Questionnaire
Simpson, Taylor et al.	2004	-							Multiple ^c
Tencati, Perrini et al.	2004	+							Questionnaire
Vuontisjarvi	2004	+							Multiple
Maignan and Ferrell	2003			+					Questionnaire
Dawkins and Lewis	2003	+	+	+	+			+	Questionnaire
Al-Khater and Naser	2003						+	+	Questionnaire
Rashid and Ibrahim	2002	+							Questionnaire
Ahmad and Rahim	2002	+							Questionnaire
CSR Europe	2002			+					Questionnaire
Singhapakdi and Karande	2001	+						+	Questionnaire
Carrigan and Attalla	2001			-					Interviews
Mohr, Webb et al.	2001			+					Interviews
Sen and Bhattacharya	2001			± ^b		+			Questionnaire
Maignan	2001			+					Questionnaire
CSR Europe	2001	+							Questionnaire
Boulstridge and Carrigan	2000			-					Interviews
Fulop, Hisrich et al.	2000	+							Questionnaire
Greening and Turban	2000		+			+			Secondary Data

Ellen, Mohr et al.	2000			+		+			Experimental
CSR Europe	2000			+					Questionnaire
Quazi and O'Brien	2000	+							Questionnaire
Falkes and Kamins	1999			-					Questionnaire
Henriques and Sodorsky	1999	+							Questionnaire
Maignan, Ferrell et al.	1999	+				+			Questionnaire
Weaver, Trevino et al.	1999	+							Questionnaire
Al-Kazemi and Zajac	1999		+						Questionnaire
Ahmed, Montagno et al.	1998	+							Questionnaire
Murray and Vogel	1997	+							Questionnaire
Turban and Greening	1997		+			+			Questionnaire
Tsui, Pearce et al.	1997		+						Questionnaire
Ibrahim, Angelidis et al.	1997	+							Questionnaire
Creyer and Ross	1997			+					Questionnaire
Brown and Dacin	1997			+		+			Questionnaire
Singhapakdi, Vitell et al.	1996					+			Questionnaire
Robertson and Nigel	1996	+							Questionnaire
Gupta and Sulaiman	1996	+							Questionnaire
Ibrahim and Angelidis	1993	-				+			Questionnaire
Kraft and Singhapakdi	1991	+				+			Questionnaire
Smith and Alcorn	1991			+					Questionnaire

Notes: + indicates a positive and significant result, ± indicates an equivocal result, - indicates negative or no significant result.

A: Managers C: Consumers E: Students G: Others
B: Employees D: Investors F: Academicians

^a Other stakeholders include government regulators, auditors, politicians, environmentalists, NGOs etc.

^b The study highlights the mediating role of consumers' perceptions of congruence between their own characters and that of the company in their reactions to its CSR initiatives. In particular, the study found that CSR initiatives may sometimes have a negative impact on consumers' intentions to buy a company's products.

^c The thesis employed postal questionnaire, interviews and content analyses as the major research methodology instruments.

Despite the extensiveness of empirical research on CSR perceptions from diverse stakeholder groups, past findings are hardly comparable. The reasons are threefold: First, as mentioned earlier and evidenced in Table 1, investigations on stakeholders' reactions either to socially responsible or irresponsible business practices have been limited in terms of the stakeholder categories considered. The use of different stakeholder groups as samples in different studies further accentuates the difficulties in comparing the results from the previous studies.

Secondly, one must also recognise that the differing responses may very well be due to heterogeneity in questionnaire design and methodology. In designing the questionnaires many studies have adopted different measurements to suit their objectives. Notwithstanding, with the inherent problems mentioned, past empirical studies, to a

certain extent, provide some interesting insights into the practice of CSR serving as potential tools for long-term achievements and success for companies of all sizes, across industries and economies.

4. HYPOTHESIS DEVELOPMENT

REPUTATION, SUSTAINABILITY AND COMPETITIVENESS

As discussed above, there are many conflicting expectations of CSR practices. On the one hand, the opponents of the CSR doctrine perceive CSR and profit maximisation as two conflicting goals, which is not good for market-oriented firms. (Pikston and Carroll 1994; Friedman 1996; Pikston and Carroll 1996; Waddock and Graves 1997; Henderson 2001).

On the contrary, the proponents of CSR counter-argue that business exists to serve the greater community as well as direct beneficiaries of company's operations. They further assert that instituting CSR components into the business strategy, can create strategic benefits for the organisation thereby enabling it to reap higher financial returns in the long run and enhancing the company's competitive standing and financial performance in the market (Burke and Logsdon 1996; Turban and Greening 1997; Greening and Turban 2000; CSR Europe 2001; Lantos 2001; O'Brien 2001; Lantos 2002; Porter and Kramer 2002; Sjovall 2002; Davies 2003; Johnson 2003; Snider, Hill et al. 2003).

More specifically, it has been widely recognised in the literature that enhancing corporate reputation is one of the most important reasons driving corporations to commit themselves to CSR activities. By communicating effectively about their social and environmental activities, it is believed that corporations can strengthen their brand, enhance their corporate image and reputation with customers and suppliers, as well as attract and retain a committed and skilful workforce. Hence, it is important for companies to be concerned about their organisations' relations with their stakeholders and how these various stakeholders perceive them in terms of CSR performance and commitment. Against these backdrops, the study further proposes the following hypotheses to be tested. The hypotheses read as follow:

- H₁: There is no significant difference among various stakeholder groups of Islamic banks in Malaysia on the degree of disagreement regarding an issue that being socially responsible is costly and not good for sustainability of the bank.*
- H₂: There is no significant difference among various stakeholder groups of Islamic banks in Malaysia on the degree of disagreement regarding an issue that being socially responsible is competitively disadvantageous to the Islamic bank*
- H₃: There is no significant difference among various stakeholder groups of Islamic banks in Malaysia on the degree of disagreement regarding an issue that social responsibility and profit maximisation are two conflicting goals.*
- H₄: There is no significant difference among various stakeholder groups of Islamic banks in Malaysia on the degree of agreement regarding an issue that social responsibility can enhance the reputation and public image of an Islamic bank.*

CSR AS A SOURCE OF COMPARATIVE ADVANTAGE

The study also assumes that stakeholders may expect Islamic banks to behave socially responsible more than their conventional counterparts. This is based on the arguments that there is much more to Islamic banking than solely focusing on profit maximisation like commercial institutions do, rather they have to incorporate the social responsibility components into their operation with the ultimate aim of serving society (Chapra 1985; Haron 1995; Ahmad 2000; Haron 2000a, 2000b; Haron and Hisham 2003; Rosly and Bakar 2003). In other words, a firm governed by the spirit and principles of divine guidance should always be socially responsible regardless of any economic consequences. To gauge the opinion of stakeholders about this issue, the study proposes the following hypotheses to be tested.

- H₅: There is no significant difference among various stakeholder groups of Islamic banks in Malaysia on the degree of agreement that, Islamic*

banks must show a higher level of social responsibility compared to conventional banks.

H₆: There is no significant difference among various stakeholder groups of Islamic banks in Malaysia on the degree of agreement that, Islamic banks should commit to social responsibility regardless of economic consequences since they are ultimately based on the Islamic principles of Shariah.

Drawing on the hypotheses above, this study aims to gauge the opinion of diverse stakeholder groups of Islamic banks in Malaysia regarding the various issues of CSR to Islamic banks.

5. RESEARCH METHODOLOGY

SURVEY INSTRUMENTS

A structured questionnaire consisting of mainly close-ended types of questions with a few open-ended questions was carefully constructed for the study. Respondents had to rate on a 5-point Likert scale a list of statements such as: I believe that (a) CSR is costly and not good for sustainability; (b) CSR is competitively disadvantageous; (c) Social Responsibility and profit maximisation are two conflicting goals; (d) CSR can enhance the reputation and public image of an Islamic bank; (f) Islamic banks must show higher level of social responsibility compared to conventional banks; and (g) Islamic banks should commit to CSR regardless the economic consequences since they are based on Islamic principles of Shariah.. The questionnaire was originally prepared in English and then translated into Malay by using the backward translation method with an assistant from a third party who was fluent in both languages to avoid translation bias and error. Only minor discrepancies were observed between the original instrument and its back translated version and hence easily resolved by the translator.

Before the final version of the questionnaire was sent out, it was pilot tested to determine the appropriateness and relevance of the questions in the instrument. This early draft was circulated and piloted on lecturers at the Faculty of Economics and Management Sciences, International Islamic University Malaysia, experienced researchers on CSR

areas, businessmen, Islamic legal advisors and bank officers of the Islamic banks understudy. Based on the feedback from these respondents, several modifications were made to the wording of some questions, and some less important questions were deleted to reduce the length of the questionnaire.

The final version of the questionnaire was then distributed to seven stakeholder groups of two main Islamic banks in Malaysia (namely Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad). The stakeholder groups were financing customers, depositors, branch managers, employees, Islamic legal advisors, regulators (Central Bank officers) and local communities. The choice of these diverse groups was based on the grounds that they represent the primary groups of stakeholders of Islamic banks in Malaysia. It follows closely the widely quoted definition of stakeholders, defined as “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman 1984).

DATA COLLECTION

The process of data collection continued for three months, from May through July 2004. The data were collected through ordinary mail as well as self-administered questionnaires distributed by hand to individuals at the various Islamic banks’ branches in the four chosen states representing four main regions of Malaysia; namely Kelantan (Eastern), Johor (Western), Penang (Northern) and Kuala Lumpur (Central). These efforts were deliberately taken in order to seek wider representation of bank stakeholders. Table 2 shows the number of questionnaires that were distributed; the number of usable returned and completed questionnaire (the response rate), the overall response rate and the strategy used in distributing the questionnaire for each group.

Table 2: Target Groups, Methodology Used and Response Rate

Target Groups	Distributed Questionnaire	Usable returned and completed Questionnaire	Response Rate (%)	Methodology Adopted in Distributing Questionnaire
Customers	400	367	92	By Hand (fieldwork)
Depositors	400	383	96	By Hand (fieldwork)
Local Communities	400	280	70	By Hand (fieldwork)
Employees	400	335	84	Mail Questionnaire
Branch Managers	134	100	75	Mail Questionnaire
Regulators	36	25	69	Mail Questionnaire
Islamic Legal Advisors	10	10	100	Mail Questionnaire
Total:	1780	1500	84.27	

In general from the total of 1780 questionnaires distributed, 1541 were returned, out of which 1500 were usable (completed), yielding a response rate of 84%. This response was considered large enough and sufficient for statistical reliability and generalisability (Tabachnick and Fidell 1996; Stevens 2002). This high response rate undoubtedly improved the validity and reliability of the survey since the greater the response, the more accurately it estimates parameters in the population sampled (Pallant 2002). Hence, no further attempt was made to increase the sample size.

6. FINDINGS

REPUTATION, SUSTAINABILITY AND COMPETITIVENESS

Table 3 presents the descriptive statistics and the results of non-parametric Kruskal-Wallis test.

Table 3: Respondents' Expectation towards CSR Practices of Islamic Banks

	Statement	N	Mean Score*	Std. Deviation	Kruskall-Wallis Test		
					Chi-Square	df	Level of significance
1	<i>CSR is costly and not good for sustainability</i>	1451	2.5024	1.03549	9.138	6	.166
2	<i>CSR is competitively disadvantageous</i>	1435	2.3819	.97483	4.149	6	.656
3	<i>Social Responsibility and profit maximisation are two conflicting goals</i>	1448	3.1312	1.11566	43.844	6	.000
4	<i>CSR can enhance the reputation and public image of an Islamic bank</i>	1456	4.2019	.73715	5.760	6	.451

Note: * 1 = strongly disagree; 5 = strongly agree

The results in Table 3 reveal that, no significant differences can be traced among various stakeholder groups of Islamic banks in Malaysia on three statements, namely **Statement 1, 2 and 4**. Only chi-square value for **Statement 3** ($\chi^2 = 43.844$) is higher than the tabulated chi-square value $\chi^2 = 12.59$ at 0.05 confidence interval and 6 degrees of freedom, while for **Statements 1, 2 and 4** ($\chi^2 = 9.138$, $\chi^2 = 4.149$ and $\chi^2 = 5.760$ respectively) reported a lower chi-square value. Thus, we may reject hypotheses **H₃** but accept **H₁**, **H₂** and **H₄** respectively. To delineate the pattern of response more clearly, the frequency results are presented in Table 4 below.

Table 4: Frequencies Table: Degree of Agreement on CSR Issues

Degree of Agreement	Value	Statement 1 (%)	Statement 2 (%)	Statement 3 (%)	Statement 4 (%)
Strongly Disagree	1	10.8	12.4	5.6	.9
Disagree	2	53.8	57.0	31.3	2.6
Cumulative %		64.6	69.4	36.9	3.5
Agree	4	16.4	13.4	38.7	56.6
Strongly Agree	5	4.6	3.3	8.4	34.0
Cumulative %		21	16.7	47.1	90.6
Neutral	3	14.4	13.9	16.0	5.9
Mean Value		2.5024	2.3819	3.1312	4.2019
Median Value		2	2	3	4
Mode Value		2	2	4	4
Std. Deviation		1.03549	.97483	1.11566	.73715

The results in Table 4, suggest that respondents seem to hold a consistent view pertaining to various statements posed to them about issues concerning sustainability and performance implications of CSR to Islamic banks. From Table 4, the mean for **Statement 1** is 2.5024 while the median is 2. It implies in general, the respondents disagreed with the view that, CSR is costly and not good for sustainability of the bank. It is shown from the table that the majority of the respondents (65%) tend to disagree with the statement. Another 21% agree with the statement, while the remaining 14% of the respondents were indifferent. Considering the relatively low standard deviation (1.04) associated with this statement, it is believed that a conclusion based solely on the mean score is adequate to measure the degree of agreement among the respondents. This is further confirmed by the result obtained in Table 4 above, where no significant differences were observed among the stakeholder groups on the statement. Therefore, it can be deduced that stakeholders of Islamic banks are in consensus that CSR is not costly and may instead provide a source for long-term sustainability of the bank in the market.

To investigate whether there is a consistency in responses, **Statement 2** was posed to further gauge the perception of respondents on whether CSR may jeopardise a competitive niche of Islamic banking. Table 4 reveals similar patterns of responses. The majority (69%) of the respondents disagreed that, being socially responsible is competitively disadvantageous to Islamic banks. Comparing the results obtained in Table 4, there is no significant disagreement among various stakeholder groups on the issue. With mean scores of 2.3819 and low standard deviation of 0.97483, it implies a strong

disagreement among the respondents on the statements. The results also suggest a large number of respondents may have subscribed to similar attitudes of CSR proponents, who staunchly believe that, business organisation should incorporate CSR in the strategic-business planning to maximise 'licence to operate' in order to satisfy their multiple stakeholders to stay in business (Burke and Logsdon 1996; Lantos 2001; Quester and Thompson 2001; Windsor 2001; Lantos 2002; Husted 2003; Garriga and Melé 2004; Greenfield 2004).

Additionally, **Statement 3** examines perception of stakeholders regarding a conflicting nature between social responsibility and profit maximisation goals. From Table 4, there is a spectrum of views regarding the conflicting nature of the two goals. The mean score for statement 3 is 3.1312 with standard deviation of 1.11566 while the median score is 3. Thirty-seven percent of the respondents disagreed that social responsibility and profit maximisation are two conflicting goals, while 47% agreed with the statements. Another 16% were considered as neutral. Examining the Kruskal-Wallis test result also reveals that there is a significant difference in the opinion of the seven stakeholder groups. This particular result is not surprising since there have been long conflicting expectations among the scholars themselves towards the nature of business organisation's responsibilities.

To further gauge stakeholders' opinion about CSR's potential in boosting the reputation and public image of Islamic banks, **Statement 4** was posed. The result in Table 4 clearly indicates that high percentage of respondents (91%) agreed that "*social responsibility can enhance the reputation and public image of an Islamic bank*". A high mean of 4.2019 and low standard deviation 0.73715 also implies a strong consensus has been reached by the respondents on the statement. In addition, the results in Table 3 reveal that there is no significant difference in the opinion of seven stakeholder groups regarding this statement. Apparently, the result supports the assertion made earlier by exponents of strategic CSR (Barney 1991; Waddock and Graves 1997; Key and Popkin 1998; Quester and Thompson 2001; Ruf, Muralidhar et al. 2001; Cox, Brammer et al. 2004). This finding reinforces the need for Islamic banks to be seriously engaged with CSR activities by carefully strategies

CSR initiatives and incorporating them into their corporate strategy, planning and marketing.

CSR AS A SOURCE OF COMPARATIVE ADVANTAGE FOR ISLAMIC BANKS

Table 5 further depicts the descriptive statistics and the results of non-parametric Kruskal-Wallis test on the stakeholders' perceptions towards CSR practices of Islamic banks.

Table 5: Stakeholders' Expectation towards CSR Practices of Islamic Banks

	Statement	N	Mean Score*	Std. Deviation	Kruskall-Wallis Test		
					Chi-Square	df	Level of significance
5	Islamic banks must show higher level of social responsibility compared to conventional banks	1473	4.1595	.86505	19.381	6	.004
6	Islamic banks should commit to social responsibility regardless of the economic consequences since they are based on Islamic principles of Shari'ah	1469	4.2682	.77877	72.324	6	.000

Note: * 1 = strongly disagree; 5 = strongly agree

The results reveal that there are significant differences (at 0.05 levels) in the expectations across different responding stakeholder groups regarding practice of CSR of Islamic banks. The significance level was 0.004 and 0.001 for Statement 5 and 6 respectively, which are less than the required alpha level of 0.05. This suggests that there are differences in expectations across stakeholder groups of Islamic bank pertaining to Statement 5 and 6. Hence, we may reject hypotheses H5 and H6 respectively.

Table 6: Ranks among Stakeholder Groups' Opinion

	Respondent Group	N	Mean Rank
Statement 5: <i>"Islamic banks must show higher level of social responsibility compared to conventional banks"</i>	Shariah Advisors	10	829.80
	Depositors	372	777.50
	Customers	361	754.56
	Local Communities	278	742.72
	Employees	331	705.46
	Managers	97	645.90
	Regulators	24	543.38
	Total	1473	
Statement 6: <i>"Islamic banks should commit to social responsibility regardless the economic consequences since they are based on Islamic principles of Sharī'ah"</i>	Customers	357	798.70
	Depositors	372	792.96
	Shariah Advisors	10	787.45
	Local Communities	276	757.30
	Employees	331	660.68
	Regulators	24	574.81
	Managers	99	507.35
	Total	1469	

An inspection of the mean rank table (as depicted in Table 6) reveals that, the Sharī'ah advisors showed the highest degree of agreement towards **Statement 5**, with the regulators reporting the lowest. As for **Statement 6**, the customers showed the highest degree of agreement while managers showed the lowest. To provide better insights, the extent to which stakeholders have agreed in each statement is tabulated in Table 7.

Table 7: Frequencies Table: Degree of Agreement on CSR Issues

Degree of Agreement	Value	Statement 5 (%)	Statement 6 (%)
Strongly Disagree	1	1.0	.8
Disagree	2	6.9	3.9
Cumulative %		7.9	4.8
Agree	4	51.6	50.6
Strongly Agree	5	36.7	40.9
Cumulative %		88.3	91.5
Neutral	3	3.8	3.7
Mean Value		4.1595	4.2682
Median Value		4	4
Mode Value		4	4
Std. Deviation		.86505	.77877

The results in Table 7 clearly indicate that vast majority (88%) of the responding stakeholders were either agree or strongly agree with **Statement 5**. Only 8% of the respondents disagreed with the statements while another 4% remain neutral or indifferent. A high mean of 4.1595 and low standard deviation 0.86505 implies a strong consensus

has been reached among the respondents on the statement. Moreover, Table 7 also reveals a similar pattern of response on **Statement 6**, where the majority of stakeholders (92%) expected that Islamic banks are committed to CSR regardless of economic consequences, since they often claim their operations are ultimately based on Shariah principles. Only a small percentage (5%) disagreed with **Statement 6**, while the remaining 4% was indifferent. These results reinforce the importance of CSR which is deeply inscribed in Islam and thereby, binding on Islamic banking institution since its operation entirely works within the parameter prescribed by principles and philosophy of Shariah. This is consistent with the assertions made by Islamic banking theoreticians such as Chapra (1985); Haron (1995; 2000a); Ahmad (2000), Haron and Hashim (2003); and Rosly and Bakar (2003) who firmly believe that, there is much more to Islamic banking than solely focusing on profit maximisation like any conventional institutions do. Instead they have to incorporate social responsibility components in their operation with the ultimate aim of serving the society as whole.

MANN-WHITNEY U-TEST

Furthermore, it is hypothesized that, stakeholders who rated highly on their level of agreement to the two statements would be those who have proclaimed their willingness to support Islamic banks with a higher degree of CSR. The U-Test results as depicted in Table 8 seem to support this expectation. Since the U-test is a two-tailed test, the null and alternative hypotheses are stated as follows:

$$H_0: u_1 = u_2 \text{ and } u_3 = u_4,$$

Alternatively,

$$H_1: u_1 \neq u_2 \text{ and } u_3 \neq u_4$$

Where u_1 , u_2 , u_3 , and u_4 , represents the mean ranks (mean degree of importance) **Statement 5** and **6**, for both stakeholders who are willing and unwilling to support Islamic bank perceived as having a higher level of CSR commitment respectively.

Table 8: Mann-Whitney U-Test of Association between Statements 5 & 6 and Support for CSR

Variable	Support Islamic Banks with CSR?	N	Mean Rank	U Value	z value	Probability (2-tailed)
Statement 5 <i>"Islamic banks must show a higher level of social responsibility compared to conventional banks"</i>	Yes	1328	$u_1 = 686.58$	9194.5	-5.371	.000
	No	29	$u_2 = 332.05$			
Statement 6 <i>"Islamic banks should commit to social responsibility since they are based on Islamic principles of Shar'ah"</i>	Yes	1322	$u_3 = 681.10$	13747.0	-3.222	.001
	No	30	$u_4 = 473.73$			

From Table 9 above, it is evident that stakeholders who indicate their willingness to support Islamic bank with high level of CSR commitment have higher mean scores for the **Statement 5** and **6** which implies that they strongly agree with the two statements than those who decline to support Islamic banks. The z values are -5.371 and -3.222 respectively which are obviously higher than the critical value of $z_{0.025} = 1.96$. Hence, the null hypotheses that $u_1 = u_2$ and $u_3 = u_4$ are rejected. These variations in mean ranks are also likely to hold in the population, since the observed probabilities (0.000 and 0.001 respectively) are lower than the 0.05 significant levels. Therefore, it can be inferred that, only stakeholders who support CSR commitment of Islamic banks had strongly agreed with the **Statement 5** and **6**.

The above results imply that Islamic banks should adopt CSR policies in their operation and decision making in order to reap comparative advantage in competing with conventional banks, especially in the dual-systems co-existing together like the case of Malaysia. These findings prove that Islamic bank operating side by side with a relatively more established conventional bank may still create its own niche in the market for customers who are not only committed in avoiding interest but also concern for high ethical and socially responsible practice of banking institutions. By effectively and efficiently be involved in CSR activities, Islamic banks may inevitably generate valuable resources in terms of reputation, long-term standing, and loyalty from various stakeholders. This in turn may prove beneficial in the long-run for Islamic banks to reap

the benefits of brand enhancement, differentiation, goodwill, quality workforce retention and ultimately profitability and sustainability as proposed by the previous studies (see for example, Murray and Vogel, 1997; Turban and Greening, 1997; Greening and Turban, 2000; CSR Europe, 2001; Lantos, 2001, 2002; O'Brien, 2001; Davies 2003; and others).

7. CONCLUSIONS

Overall, this paper provides a clear justification and indication from the empirical evidences of various stakeholders' perspectives about the significance of CSR to business organisations especially Islamic banks in Malaysia. Organisations cannot count only on financial performance to survive in this ever-changing scenario of global competition, but also has a responsibility to the various stakeholders in which they exist. Based on the positive results on perceptions of various stakeholders towards the practice of CSR, as evidenced in this study, managers need to be convinced that CSR and profit maximisation need not be conflicting goals. Instead, CSR can be used as a strategic tool to enhance the reputation and public image of a business institution, while at the same time, prove to be profitable for an institution in the long-run.

Therefore, it must be emphasised that good CSR practices and viability are not necessarily mutually exclusive. Rather, consistent to many assertions made by Western CSR theoreticians, CSR and viability in terms of long-term profitability are in fact two sides of the same coin. CSR and viability result in a virtuous cycle in the sense that they are mutually reinforcing - the more financially successful an Islamic bank is the better the ability to undertake CSR, and the higher level of CSR should in turn lead to increase support and patronage from stakeholders with better consequent long run performance.

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