



**IMPACT OF ISLAMIC WORK ETHICS ON  
CORPORATE SOCIAL RESPONSIBILITY (CSR)  
PRACTICES AMONG MANAGERS OF SELECTED  
PUBLIC LISTED COMPANIES IN MALAYSIA**

**BY**

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**A dissertation submitted in fulfilment of the requirement  
for the degree of Doctor of Philosophy in Business  
Administration**

**Kulliyyah of Economics and Management Sciences  
International Islamic University Malaysia**

**DECEMBER 2013**

## **ABSTRACT**

The concept of Corporate Social Responsibility (CSR) has appeared and gained popularity among researchers in Malaysia. It is widely understood as an agenda for the role of business organisations in society and setting appropriate corporate behaviour to comply with. Many previous studies regarding CSR have concentrated on disclosing good corporate practices and the influence of social and cultural differences. However, such research has not as yet been undertaken to study the impact of Islamic work ethics (IWE) in the Malaysian context. To fill this gap, the present study therefore investigated the influence of IWE on CSR practices of Malaysian Public Listed Companies' (PLCs). To further examine whether IWE have an impact on CSR practices by Malaysian PLCs', this study provides empirical evidence based on the survey which was conducted on the executives and managers in randomly selected industries. The findings of this research reveal that there was a positive relationship between IWE and CSR practices. This considered as a recent significant contribution in the field of CSR. Additionally, these aspects are under researched thus proposed further study needed to explore in-depth understanding regarding this issue. The results also indicated that the executives and managers of Malaysian PLCs regardless of their religion, and their perceived CSR benefits had already implemented IWE on CSR practices. Furthermore, the size of the corporations and industries also play an important role in CSR practices of Malaysian PLCs. While acknowledging several implications and limitations of this study, the significant findings uncovered from this study will be a stepping stone to enhance the CSR practices in Malaysia incorporated.

## خلاصة البحث

قد ظهرت فكرة المسؤولية الاجتماعية للشركات في الآونة الأخيرة (CSR) وحازت شهرة ملفتة للنظر بين الباحثين في ماليزيا. وتفهم المسؤولية الاجتماعية للشركات (CSR) كجدول أعمال لدور المنظمات التجارية في المجتمع، وبناء سلوك مناسب للتقيد به في الشركات. وركزت العديد من الدراسات السابقة حول المسؤولية الاجتماعية للشركات (CSR) على إبراز التطبيقات الجيدة للشركات ومدى تأثير الفروق الثقافية والاجتماعية في ذلك. إلا أنه لم يعثر من بين تلكم الدراسات دراسة عنت بدراسة أثر أخلاقيات العمل الإسلامي (IWE) على تطبيقات المسؤولية الاجتماعية للشركات الماليزية العامة المدرجة (PLCs). ولدراسة ما إذا كان لأخلاقيات العمل الإسلامي (IWE) تأثير في المسؤولية الاجتماعية للشركات (CSR) عبر الشركات الماليزية العامة المدرجة (PLCs)، فقد زودت هذه الدراسة أدلة تجريبية استناداً على استبانة وزعت على المديرين ومديري التنفيذ في الشركات المختارة بطريقة عشوائياً. وقد توصلت نتائج الدراسة إلى وجود علاقة إيجابية بين تطبيقات أخلاقيات العمل الإسلامي (IWE) والمسؤولية الاجتماعية للشركات (CSR). وتعتبر هذه النتيجة مساهمة مهمة في مجال المسؤولية الاجتماعية للشركات (CSR). بالإضافة إلى هذه الجوانب تناولتها هذه الدراسة ومن ثمّ خلصت الدراسة إلى ضرورة إجراء دراسات أخرى بخصوص القضية قيد البحث لدراسة واقعها بشكل واضح ودقيق. وتمحضت عن النتائج كذلك إلى أنه بغض النظر عن البعد الديني، فإن المديرين ومديري التنفيذ للشركات الماليزية العامة المدرجة (PLCs) والفوائد التي يتوقعونها الفئة المعنية عبر المسؤولية الاجتماعية للشركات (CSR)، قد طبقت أساساً أخلاقيات العمل الإسلامي (IWE) على تطبيقات المسؤولية الاجتماعية للشركات (CSR). علاوة إلى ذلك، فإن حجم الشركات والصناعات يزاول دوراً مهماً في تطبيقات الشركات الماليزية العامة المدرجة (PLCs). وبغض النظر من أنه لا مناص من الإقرار بالعديد من الآثار والقصور المنوطة بهذه الدراسة، فإن أهمية النتائج التي تم التوصل إليها في هذه الدراسة ستكون نقطة انطلاق لتعزيز تطبيقات المسؤولية الاجتماعية للشركات المدرجة في ماليزيا.

## **APPROVAL PAGE**

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature .....

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INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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AMONG MANAGERS OF SELECTED PUBLIC LISTED COMPANIES  
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## ACKNOWLEDGEMENTS

First of all, I am really thankful to Allah (*s.w.t*) for His Mercies, Guidance and Blessings thus enabling me to complete this Ph.D thesis, alhamdulillah.

I wish to express my sincere thank to my supervisor, Professor Dr. Khaliq Ahmad for his constant assistance, expert, sincere encouragement extended to me along the way. His valuable guidance, comments and feedback on the submitted work have been very much appreciated. I also want to acknowledge the selfless efforts of my supervisor, for his fatherly support, mentorship and assistance throughout my study. There were times the author was so puzzled and stressed out, did not know which way to go or what action to take. This patient, untiring, humble, and knowledgeable Professor Dr. will always squeeze valuable time out of his busy schedules as a Dean to listen and to advice on appropriate route of my research. Same goes to my co-supervisor Associate Professor Dr. Noor Hazilah Abdul Manaf, who looked at my quantitative analysis and provided fruitful guidance with great passion. I sincerely extend my gratitude to you for your kindness, guidance and support. I always pray that Allah (*s.w.t*) will always bless you and your entire families and friends.

I would also like to thank all those who helped me in collecting the data needed for this study. Thanks go to those who gave their valuable time to complete the questionnaire. I would also like to express my gratitude to my family members: to my late father, my prayers will always be for you all the time, In Shaa Allah. To my mother, thank you for your continuous love, support and prayer for my success. I also would like to thank all my brothers and sisters for their constant help and encouragement. Special thanks to my friends Prof. Dr. Jasmine Ahmad, Dr. Yarina Ahmad, Sister Ida Rosmini Othman and Sister Lailatul Faizah Abu Hasan for their kindness, friendship, ideas, suggestions and guidance throughout my study.

Last, but not least, my very special thanks go to my beloved husband, Abdul Razak Arsat, for his deep understanding, unceasing encouragement, understanding, sacrifice, patience and support during this study. To my dearest daughters and son, Nor Farah Izzaty, Nor Farah Balqis and Muhammad Haiqal Izzat, thank you for your endless love, prayer and understanding. You all have sacrificed a lot throughout my Ph.D journey and thus I dedicate this thesis to all four of you.

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## TRANSLITERATION TABLE

ء	'	خ	kh	ش	Sh	غ	Gh	ن	N
ب	B	د	D	ص	ṣ	ف	F	هـ	H
ت	T	ذ	dh	ض	ḍ	ق	Q	و	W
ث	Th	ر	r	ط	ṭ	ك	K	ي	Y
ج	J	ز	z	ظ	ẓ	ل	L		
ح	ḥ	س	s	ع	ʿ	م	M		

## **LIST OF ABBREVIATIONS**

CSR	Corporate Social Responsibility
DV	Dependent Variable
EFA	Exploratory Factor Analysis
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Principles
GLCs	Government Link Companies
IPC	Infrastructure Project Companies
IV	Independent Variable
IWE	Islamic Work Ethics
PLCs	Public Listed Companies
REITs	Real Estate Investment Trusts
SAS	Statistical Analysis System
SPSS	Statistical Package for the Social Sciences
SRBC	Socially Responsible Business Conduct
SRI	Socially Responsible Investment

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Corporate social responsibility (CSR) is a notion whereby business organisations care about the interests of communities by taking responsibility for the impact of their conduct on customers, suppliers, distributors, employees, shareholders, communities at large including other stakeholders, and the environment (Grayson & Hodges, 2004). Montero, Araque, and Rey (2009) have defined CSR as the voluntary integration of social and environmental concerns into the firm's decision-making. Therefore, CSR is widely understood as a corporation managing its' business activities while taking into account a community's larger interest by making a purely profit making decision. Thus it simultaneously and voluntarily contributes to the larger interests of respective stakeholders.

According to Ibrahim, Angelidis and Howard (2006), research on CSR has followed several streams namely link between CSR and organisation's financial performance, to develop various conceptual models for investigating the association between business and its bigger environment and the ethical attitudes including behaviour of corporate executives. Recent phenomena of ethical failings and revelations about questionable or abusive practices by wider sections of companies have incited anxiety over the societal impact of business corporations' activities to the extent to which managers are held responsive to the public's outcry. The collapse of Enron, the destruction of documents at Arthur Andersen, questionable compensation packages for Tyco and Disney executives, and charges of fraud at WorldCom have led

to new calls for reform (Gibbs, 2002; Maignan & Ralston, 2002; Jackson, 2003; Ibrahim, Angelidis & Howard, 2008) Besides, these business scandals had damaged the society's confidence in business organisation and decreased investors' trust in the reliability of corporate resolutions and the integrity of business managers (Zabid & Alsagoff, 1993; Khaliq, Noor Hazilah & Nor Suziwana, 2010; Ibrahim et al., 2006).

In Malaysia, there was a call for greater CSR disclosure specifically on financial reporting transparency due to abusive practices by corporations such as Perwaja Steel, Transmile and MAS (Lo & Yap, 2011). The occurrences of ethical failings and exposures about questionable behaviour by business organisations have encouraged fresh concern over the societal impact of corporate practices and the degree to which managers are reactive to society's anticipations (Ibrahim et al., 2006). According to Shim (2006), KPMG Fraud Survey Report 2005 showed that corporate fraud in Malaysia was on a rise with 62% of the respondents said that fraud is a major problem. Additionally, there was an increase of 4% on the perception of fraud as a main dilemma in KPMG Malaysia Fraud Survey Report 2009.

Previous studies have identified several factors that determine the degree of CSR among companies. Some of these are company specific, while others are more industry or country focused. Gray et al. (2001), Cormier and Magnan (2003) and Gao et al. (2005) found that CSR varies according to industry and firm size. Large and high profile companies disclose more of their CSR activities. In a study of multinational operating in Australia, Singapore and South Korea, Newson and Deegan (2002) confirmed that CSR disclosures are industry specific, but are also influenced by the country of origin. However, among local firms in the Asia Pacific region, Williams and Ho (1999) pointed to cultural, political and civil systems as the driver of CSR, where the legitimacy theory is the driving force. That would imply that the

societal environment determines the extent to which companies engage in CSR (O'Donovan, 2002).

Numerous researchers have studied the issues surrounding the practice of CSR. For example, CSR enables a firm to avoid costly government-imposed fines (Bragdon & Marlin, 1972; Belkaoui, 1976; Shane & Spicer, 1983; Belkaoui & Karpik, 1989; Freedman & Stagliano, 1991), CSR and interests of other stakeholder for instance, customers, employees, suppliers and society at large (Freeman, 1984; Banfield, 1985; Wood & Jones, 1995; Donaldson & Preston, 1995; Carroll, 1995; Mitchell, Agle & Wood, 1997; Swanson, 1999; Windsor, 2001; Paine, 2002; Nik Nazli & Norliana Akida, 2005; Husted & Allen, 2006; Hine & Preuss, 2009), CSR disclosures (Teoh and Thong, 1984; Foo and Tan, 1988; Mustaffa, 1999; Unerman, 2000; Nik Nazli, Maliah & Siswantoro, 2003; Mustaffa, 2004; Mustaffa & Rashidah, 2006; Naser, Al-Hussaini, Al-Kwari & Nuseibeh, 2006; Mustaffa & Janggu, 2006; Janggu, Joseph, & Madi, 2007; Azlan, Lim & Yahya, 2007; Mustaffa & Rashidah, 2007; Collier & Esteban, 2007; Sharifah, Bakhtiar, Nor Hasimah & Noor Raida, 2008; Bakhtiar, Maliah & Nik Nazli, 2009; Azlan & Siti-Nabiha, 2009; Fathilatul & Ruhaya, 2009; Nor Hawani, Mustaffa & Norashfah, 2011), CSR and firm's performance (Aurpele, Carroll & Hatfied, 1985; Waddock & Graves, 1997; Orlitzky, Schidmt and Rynes, 2003; Smith, Khadijah & Ahmad Marzuki, 2007; Rettab, Brik & Mellahi, 2009; Mustarudin, Norhayah & Rusnah, 2010) and CSR and ethics (Singhapakdi, Kraft, Vitell & Rallapalli, 1995; Etheredge, 1999; Singhapakdi, Karande, Rao & Vitell, 2001; Vitell, Paolillo & Thomas, 2003; Marta, Singhapakdi, Attia & Vitell, 2004; Banerjee, 2006; Cacioppe, Forster & Fox, 2008; Singhapakdi, Gopinath, Marta & Carter, 2008; Noor Hazlina & Seet, 2010; Potluri, Batima & Madiyar, 2010; Jin & Drozdenko, 2010; Fassin, Rossem & Buelens, 2011; Noor Hazlina & Ramayah,

2012). Since various studies on several aspects of CSR have been carried out, it is noted that most of the researchers especially in Malaysia are merely interested in CSR disclosure and as for Western countries their main concern was towards CSR and company performance as the motivating factors. Until today, the researcher did not come across any study relating Islamic work ethics and CSR in Malaysia. There is the gap concerning empirical research on Islamic work ethics and CSR in the country. Thus, the main focus of this study is to analyse extensively on Public Listed Companies (PLCs) practices with particular reference to Islamic work ethics and its relationship with CSR dimension, the advantages, the constraints as well as providing recommendations to the concerned parties. This will go along way to demonstrating exemplary corporate citizenship in Malaysia. Additionally, according to Nik Nazli and Norliana Akida (2005), very little study examined CSR from managers' viewpoint especially in any developing country including Malaysia. Furthermore, effective from 2006, all Malaysian PLCs are required to disclose their CSR activities. The requirement is to encourage Malaysian PLCs to become more engaged in being socially responsible and to make the way they approach the process of CSR, part of the way they normally work and think. Empirical work on Islamic work ethics and CSR in a developing country is still relatively rare, especially in Malaysia (Asyraf, 2008). Thus, this research intends to explore further on this issue.

High priority for economic development at the expense of the deteriorating environment, coupled with the lack of strong civil conscientious also reflects Malaysian experience in its Malaysia incorporated context in the 1970s to 1990s (Azilah, 2006). According to the Fifth Malaysia Plan (Chapter I, pg. 29), "an essential ingredient that will contribute to higher productivity and increased economic growth is positive attitudes towards work, or work ethics. Hard work compliments

enhancement in capital investment, job skills as well as managerial expertise in the process of wealth creation. Hard work is always associated with higher productivity, since resources are more fully utilised to increase output by avoiding wastes. Work ethics also integrates the importance of thrift, self-reliance, discipline, and the forfeit of present needs for long-term increases in income and the standard of living". Besides, a country's progress is not only measured by its economic and technological achievements but also the high social, intellectual, ethical and moral values its people embrace and practice (Muhyiddin, 2011).

Yusli (2007) said that CSR is about the way in which a company integrates social and environmental concerns in its business operations, and how it interacts with its stakeholder on a voluntary basis. It is based on the belief that a company cannot divorce itself from the community in which it operates and that the company and the community are interdependent. He further elaborated that companies are expected to behave ethically as stakeholders hold them accountable for their decision's impact, not only on society and the environment, but also on their business practices. Additionally, business organisations also need to realise that CSR goes beyond their business practices (Asyraf & Tengku Farah, 2008). Corporations also need to realise that CSR goes beyond the philanthropic acts of goodwill towards the community at large (Yusli, 2007). It critically encompasses how businesses are run with regards to business ethics, corporate governance, socially responsible investing, environmental sustainability and community's quality of life (Maignan & Ferrel, 2004; Hellsten & Mallin, 2006). With the ever-increasing scrutiny of corporate activity, the voluntary assumption of social responsibilities has become central to corporate growth (Marrewijk, 2003). In fact, CSR strengthens the precise fibre that builds both internal and external trust and for this to work, everyone in the organisation has to be engaged.

Thus the human values must be incorporated into every aspect of the company's operations (Yusli, 2007).

Interests in CSR have been on an increasing trend. The early 50's and 60's, era of rising demand, generous profit margins and limited competitive pressure, saw the directors enjoying free hands in making decisions (Mustaffa & Rashidah, 2007). The exercise of CSR was subject to much dispute and criticism. Advocates used to argue that there exists a strong business circumstances for CSR, in that business corporations gain in multiple means by functioning with a viewpoint broader and longer than their own immediate, short-term view of making only profits. Opponents used to contend that CSR diverts from the primary economic role of businesses; others used to assert that it is nothing more than superficial window-dressing; still today some argue that it is an effort to precept the role of the government as a watchdog over powerful multi-national corporations.

According to Gray, Owen and Maunders (1987), taking responsibility for its effect on society denotes in the first instance that an organisation accounts for its deeds. They said that social accounting, a notion portraying the interaction of social and environmental impacts of a company's economic actions to specific interest groups within a society and to societies at large, an imperative facet of CSR. They also posited that another driver of CSR is the function of impartial mediators, mainly the government, in ensuring that business corporations are prohibited from damaging the broader social well being, comprising public and the environment.

According to Bursa Malaysia, the involvement of numerous stakeholders is crucial to creating about an atmosphere where CSR can succeed. According to Mohd Najib (2004), government policies and regulations be able to and act as an essential role. He said that as an illustration, there are minimum criterions narrated in law for

environmental protection and health including public safety, and companies are rightly bound to conform to them. While the government does play a crucial role in encouraging the development of CSR in the corporate sector, such practices and changes in corporate behaviour cannot be legislated into being, by Acts of Parliament alone (Mohd Najib, 2004). According to him, it is significant for organisations to comprehend that no one-size-fits-all when it comes to CSR.

Reseachers found that business corporations will gain enormous benefits when they are perceived by the stakeholders as being socially responsible (Crowther, 2003; Idowu & Towler, 2004; Hine & Preuss, 2009; Preuss & Perschke, 2010; Ditlev-Simonsen & Midttun, 2011). Multinational Corporations (MNCs) followed international CSR guidelines from their parent companies whereas Government Linked Companies (GLCs) in Malaysia were adopting Silver Book as a government CSR guideline set and monitored under Khazanah Nasional (Zulhamri & Yuhanis, 2011). With the objective of encouraging PLCs to practise holistically, Bursa Malaysia has developed a CSR framework to help guide PLCs in the crafting of their own CSR programmes. This move by the Bursa Malaysia is outcome of the Exchange's of many efforts to enhance the acceptance and attractiveness of Malaysian PLCs to both local and foreign investors.

## **1.2 PROBLEM STATEMENT**

It is apparent that CSR practices are vital facets in attaining national development goals (Goi & Yong, 2009). The need to nurture such practices among Malaysian corporate sector is obvious. As business leaders, it is incumbent upon them to drive the adoption of appropriate CSR practices (Mustaffa & Rashidah, 2006). Global developments demonstrate that large organisations have been at the forefront of strong

corporate social responsibility with exception of a few. According to Aupperle, Carrol and Hatfield, (1985), assessing profitability is a relatively clear-cut process but assessing social responsibility is not.

The latest wave of corporate scandals has heightened attention to the imperative need for CSR and ethics across the world (Hellsten & Mallin, 2006; Asyraf & Tengku Farah, 2008; Jalil, Azam, & Rahman, 2010). Besides, attention to ethics and CSR is vital because recent scandals suggested that ethical business values are in decline (Trevino & Nelson, 2004; Valentine & Fleischman, 2008). There is rising pressure from stakeholder for business corporations to behave ethically and in a socially responsible way (Koh & Boo, 2004). Thus, managers must beware of two separate but interrelated concerns namely ethics and CSR (Potluri, Batima & Madiyar, 2010; Jin & Drozdenko, 2010). According to Noor Hazlina and Seet (2010), ethics and CSR were important consideration to create harmonious relationships between the stakeholders and in the long term will benefit the companies' survival.

In Malaysia most of PLCs are doing well, but still there is an issue of corruption, bribery, environment pollution and misleading information. Companies must make a profit in order to survive and grow (Asyraf 2008); however the pursuit of the profits must stay within the ethical bounds. According to Norlela and Siti Khadijah (2010), the root of misconduct is nonadherence of individuals to the basic ethical value system. People use ethics as a model for their own actions and for evaluating the actions of other (Hellsten & Mallin, 2006; Haque, Djeghim, Shehu & Sulaiman, 2010). Shah Haneef (2008) asserted that managers should always preserve his/her integrity and avoid any decision that may invade upon his/her ethical conduct in business. Besides, the utmost importance in managers' conduct is to uphold the Islamic work ethics (Rokhman, 2010). Additionally, ethical behaviour is more

profitable, and rewarding rational than unethical actions (Etheredge, 1999), and crucial for the effectiveness of corporations (Velasquez, 1996).

Islam provides a climate of work whereby ethics cannot be separated from economics (Hameed, 2009; Jalil et al., 2010). According to Norlela and Siti Khadijah (2010), Islamic work ethics (IWE) is applicable and practical to all irrespective of religion, race or tribe as it has universal set of values. IWE can guide the managers in the right path in making their decision for the company they are attached with (Jalil et al., 2010). Besides, Junaidah (2009) asserted that it would be sinful for Muslims if we fail to perform our activities according to *Shariah* and Islamic code of conducts.

Ibrahim *et al.* (2008) found that managers' religiosity play a significant role in their perception and behaviour pertaining CSR. Furthermore, CSR can be the result of championing by a few managers, due to their religiosity, despite the risks associated (Hemingway & Maclagan, 2004; Hellsten & Mallin, 2006). Thus, religion plays a role in the pursuit of the CSR agenda in Malaysia (Lu & Castka, 2009). The best way forward for CSR is by incorporating religious values in business domain (Mustaffa, 2009). The factors that influence organizational culture namely religion of the managers (Abdul Rashid & Ibrahim, 2002; McLaren & Abdul Rashid, 2002) which has important influence in shaping the individual's perception of CSR in Malaysia (Asyraf & Tengku Farah, 2008).

According to Al-Buraey (2008), corporate culture is the collective behaviour of people using common shared values, beliefs, habit, working language, systems and symbols. Additionally, beliefs and values are what shape people's attitudes about everything around them which in turn determine how they behave in any given situation. Besides, different individuals bring to the workplace their own value uniqueness, knowledge and culture. Therefore, corporate culture encompasses moral,