



CORPORATE SOCIAL RESPONSIBILITY (CSR) IN
MALAYSIA AND SAUDI ARABIA WITH SPECIAL
REFERENCE TO BANK ISLAM MALAYSIA BERHAD
(BIMB) AND AL-RAJHI BANK OF SAUDI ARABIA
(AL-RAJHI): A COMPARATIVE STUDY

BY

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the degree of Doctor of Philosophy in Laws

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ABSTRACT

Corporate Social Responsibility (CSR) is considered as one of the important concepts that the corporations need to practice, it from the conventional and *Shari'ah* perspective. Thus, this research analyses the concept of CSR from both perspectives in detail. It also evaluates the implementation and application of CSR in Malaysia and Saudi Arabia with special reference to the practice of CSR by Bank Islam Malaysia Berhad (BIMB) and Al-Rajhi Bank of Saudi Arabia (Al-Rajhi) accordingly. The research is carried out with the objective to examine and compare the practice of CSR in Malaysia and Saudi Arabia especially on what has been done by BIMB and Al-Rajhi. It is also aimed to propose some recommendations for the improvement of CSR practice in Malaysia and Saudi Arabia in general and BIMB and Al-Rajhi in particular. In order to achieve such objective and aim, the research relies on the published materials such as journals, books, newspapers, government documents, periodicals and magazines, and the semi-structures interviews conducted on various relevant personals of BIMB and Al-Rajhi. From the data collected, the research finds that there are various similarities and differences on conventional and *Shari'ah* concept of CSR. Not only that there are also similarities and differences on implementations and practices of CSR in Malaysia and Saudi Arabia, and by BIMB and Al-Rajhi. To improve the implementations and practices of CSR in both countries and institutions, the research has recommended that the practice of CSR should be legally binding in both countries and a proper regulatory framework of CSR be enacted.

خلاصة البحث

تعتبر المسؤولية الاجتماعية للشركات من إحدى المسؤوليات التي تحتاج إليها الشركات إما من منظور شرعي أو تقليدي، ولذا يهدف هذا البحث إلى تحليل مفهوم المسؤولية الاجتماعية للشركات من الناحية الشرعية و التقليدية تحليلاً مفصلاً، ويقوم البحث أيضاً بتقييم تنفيذ وتطبيق المسؤولية الاجتماعية للشركات في ماليزيا والسعودية مع الإشارة إلى تطبيق المسؤولية الاجتماعية للشركات في بنك إسلام ماليزيا وبنك الراجحي في السعودية على حد سواء. ويهدف البحث إلى دراسة و مقارنة تطبيقات المسؤولية الاجتماعية للشركات في ماليزيا و السعودية خاصة ما قد قدمه كلا البنكين. ويهدف البحث أيضاً إلى تقديم بعض الاقتراحات لتحسين تطبيق المسؤولية الاجتماعية للشركات في ماليزيا والسعودية عموماً وفي بنك إسلام ماليزيا وبنك الراجحي خصوصاً. ولتحقيق هذا الهدف يعتمد البحث على المواد المنشورة مثل المجلات، الكتب، الصحف، الوثائق الحكومية، المجلات الدورية المحكمة وبعض المقابلات مع بعض الأشخاص المسؤولين في بنك إسلام ماليزيا وبنك الراجحي. ووفقاً للبيانات المجموعه اكتشف البحث أن هناك بعض أوجه الاختلاف و التشابه في مفهوم المسؤولية الاجتماعية للشركات في المنظرين التقليدي والشرعي في تطبيق المسؤولية الاجتماعية للشركات. وليس هذا فقط بل هناك أوجه اختلاف و تشابه بين تطبيق المسؤولية الاجتماعية للشركات بين بنك إسلام ماليزيا وبنك الراجحي. وقد اقترح البحث لتحسين تطبيق المسؤولية الاجتماعية للشركات يجب أن يكون هناك إلزام قانوني في الدولتين ووضع إطار قانوني مناسب.

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DECLARATION

I hereby declare that this thesis 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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*This thesis is dedicated in the loving memory of my beloved parents, my husband and
my entire family*

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Praise be Allah (S.W.T), Creator of the heavens and earth for His bounty and blessings bestowed upon us. Peace and blessings be upon the Prophet Muhammad (S.A.W), His family, companions and followers till the Day of Judgement. Allah (S.W.T) created me with the capacity to persevere and provided the means to complete this study. Unto Him belongs the highest in praise and gratitude.

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Companies Act 1965 (Act 125) Malaysia

LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ALAM	Akademi Laut Malaysia
ATMs	Automated Teller Machine Service
BC	Before Christ
BIMB	Bank Islam Malaysia Berhad
BC	Before Christ
CARIF	Cancer Research Initiatives Foundation
CEO	Chief Executive Officer
CPR	Cardio Pulmonary Resuscitation
CR	Corporate Responsibility
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Division
CSP	Corporate Social Performance
DIS	Draft International Standard
ECER	East Coast Economic Region
FAO	Food and Agriculture Organization of the United Nations
FAiEH	First Aider in Every Home program
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GLCs	Government Linked Corporations
HBR	Harvard Business Review
ICCA	Imbak Canyon Conservation Area
ICSC	Imbak Canyon Study Centre
IKBN	Institut Kemahiran Belia Negara
ILO	International Labor Organization
ISO	International Standards Organization's Standard for Corporate Sustainability
KAKP	Kenali Anak Kita PETRONAS
KSA	Kingdom of Saudi Arabia
KWAN	Klinik Waqaf An-Nur
KWNP	Kuching Wetland National Park
LNG	Liquefied Natural Gas
MENAT	Middle East Region, North African and Turkey
MILE	<i>Al-Madina</i> Institute of Leadership & Entrepreneurship
MNCs	Multinational Corporations
NEP	New Economic Policy
NITI	National Industrial Training Institute
NGLs	Natural Gas Liquids
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Corporation and Development
OSHA	Occupational Safety and Health Act
PCG	Putrajaya Committee on GLC High Performance
PESP	PETRONAS Education Sponsorship Programme
P.I.E	Promote Inform and Educate

PLCs	Public Limited Companies
PUBH	Peace Be Upon Him
SFCSB	Sarawak Forestry Corporation Sdn Bhd
SHC	Safety & Health Committees
SLIM-GEES	the Skim Latihan 1Malaysia Graduate Employability Enhancement Scheme
SSIOPG	Sabah- Sarawak Integrated Oil and Gas Project
SSM	Suruhanjaya Syarikat Malaysia
SR	Social Responsibility
SRI	Socially Responsible Investing
STCW	Standards of Training Certification and Watch keeping for Seafarers
UK	United Kingdom
UN	United Nations
UNICEF	United Nations Children's Fund
USA	United States of America
VISTA	Vocational Institutions Sponsorship & Training Assistance
WB	World Bank
WEF	World Economic Forum

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE RESEARCH

In the present commercial practices, the evaluation of companies is no longer focusing merely on profits. The companies also no longer rely on building their reputation merely on the financial positions but instead a modern concept has emerged as a tool in order to help create a working environment that is able to deal with the rapid developments in the economic and technological aspects and management across the world. One of the most prominent tools is the concept of corporate social responsibility (CSR).

CSR is a widely contested concept in terms of conceptualizations. What constitute(s) basic elements of CSR is a diverse array of issues and programs embark upon by companies in a given society.¹ Therefore, in order to properly defined the concept many issues have to be taken into consideration. Issues like environment, pollution, scholarship, education, health and charity are the major ones. These are the prominent areas where some companies discharge their social responsibilities (SR) to society. In this way there are many definitions for CSR due to different views in determining the form of this responsibility. Some see it as a reminder of the corporate responsibilities (CR) and duties towards the society they belong to, while others believe that this responsibility may be no more than just a voluntary initiative by

¹ McWilliams et al., "Corporate social responsibility: Strategic implications" *Journal of management studies*. 43, no. 1: 1-18.

companies with regard solely to the community. Others also see it as a form of social suitability due to the companies.²

It is agreed that trading and economic companies, as well as national and international financial institutions are not charitable companies.³ Their main mission is to achieve the greatest return of profit to their stakeholders. Hence the idea crystallized should remind companies, social and ethical responsibilities, and not to make profit for business that are immorally or illegally acceptable such as child labor and breach of equal pay and working conditions, or denial of basic rights of the individuals.⁴ In addition, if the zeal for profit maximization drives the activities of companies in most of the time there is possibility of them trampling upon the basic ethics of society. As long as the primary motive of companies is to make profit it may be difficult to persuade them to be wary of their SR.

The fact that companies turn toward SR ensures to some extent the support of all members of society to its objectives and mission to the development and the recognition of its existence. It also contributes to the success of its objectives as planned in advance, as well as to support the needs of the society and the requirements of life and living necessities. In addition, it also creates new jobs through the establishment of charitable and social projects of a developmental nature.

² Carroll, Archie B., and Kareem M. Shabana, "The business case for corporate social responsibility: a review of concepts, research and practice." *International Journal of Management Reviews* 12, no. 1 (2010): 85-105.

³ Margolis, Joshua D., and James P. Walsh, "Misery loves companies: Rethinking social initiatives by business." *Administrative science quarterly* 48, no. 2 (2003): 268-305.

⁴ Davies, Iain A., and Andrew Crane, "Ethical decision making in fair trade companies." *Journal of Business Ethics* 45, no. 1-2 (2003): 79-92.

Among the benefits to companies with SR practices are that it reduces the operating costs, improves the public image of the product categories and reputation, increases sales, customer loyalty, and the rise of the productivity and quality.⁵

Studies indicated by the Organization of Making Business for Social Responsibility in the United States of America show that companies that balance their interests with the interests of the shareholders generate a quadrupled skilled employment rates compared to other companies.⁶ The initiatives and events depend on the nature of the surrounding environment and scope of activity of the company and its forms, where each company enjoys the ability of both financial sectors and individuals.⁷ This responsibility is not static, but dynamic and realistic character development is characterized by continuing the adaptation rapidly according to their interests, economic, political and social variables.⁸

Regardless of the benevolent and beneficial role that CSR plays in the society it remains global product that is rooted in the behaviour of man and society. In this wise, it is amiss of anybody to think that CSR is a Western-induced concept. The application and nomenclature attach to such practice are by no means vary from one culture to another.

Hence, the CSR is deeply rooted in every society from the earliest period. Needless to say, the environmental world catastrophic crisis is caused by the most

⁵ Agilent Technologies Inc. "Agilent Environmental and Social Responsibility Report 2003" (Palo Alto, CA, 2003).

⁶ Advanced Micro Devices, Inc. "2002 Sustainability Progress Report" (Sunnyvale, CA, 2002).

⁷ Nathan E. Hurst, "Corporate Ethics, Governance and Social Responsibility: Comparing European Business Practices to those in the United States" A Study Conducted for the Business and Organizational Ethics Partnership (Markkula Center for Applied Ethics Santa Clara University, 2004)

⁸ Scherer, Andreas Georg, & Guido Palazzo, "Globalization and Corporate Social Responsibility." In Andrew Crane et al. *Oxford Handbook of Corporate Social Responsibility*. (Oxford University Press, 2008). pp. 413-431.

prominent mega international corporations that claim adherence to CSR norms.⁹ This may be explained by the way and manner multinational corporation exploit environment to their own advantage.

Despite the great debate about CSR issues in the Western world, it remains nearly untouched in the Muslim world corporations, especially those corporations that claim adherence to Islamic codes. But one may ask, how does *Shari'ah* look at CSR.

Shari'ah gives priority to charity and SR as required by Allah (S.W.T) and not for any worldly purpose.¹⁰ It gives priority to practicing the legitimate purposes or authentic imperatives that have been confined to five basic tenets i.e. preservation of religion, dignity, kinship, intellect, and property to maintain the resources and services. Muslim rights are social responsibilities and if the individual has social responsibility then groups, companies and banks have the greatest responsibility.

Muslim relationship with others must be based on Islamic moral values, such as trust and honesty and firmness, fairness and respect for the law, kindness and tolerance. Every Muslim must be socially conscious and manage the responsibility of having what they need without extravagance. With regards to business organizations they should respect the legitimate right of all the parties concerned, such as shareholders, employees and suppliers, as well as the environment.

CSR is embedded by *Shari'ah* based on three foundations. Firstly, the faith arouses the inner conscience and directs and animates his sense of duty to the original impetus to SR. Secondly, the legislation and system to emphasize this role required, and with that Islam leaves "plenty of room" for those who want to increase what

⁹ Griffin, Jennifer J., & John F. Mahon. (1997). "The corporate social performance and corporate financial performance debate twenty-five years of incomparable research." *Business & Society* 36, no. 1 (1997): p.5-31.

¹⁰ Dusuki, Asyraf Wajdi, & Nurdianawati Irwani Abdullah, "Maqasid al-shari'ah, Maslahah and corporate social responsibility." *The American Journal of Islamic Social Sciences (AJISS)* 24, no. 1 (2007): 25-45, p.31

he/she likes in a cycle, all for the sake of Allah (S.W.T).¹¹ The other responsibility, which involves Islam building its reality in moderation, at the same time climbing to higher grades, disseminating the realism and idealism, in place of what can and could be willing to grow from, the original rule as it is stated in the Qur'an:

“So fear Allah as much as you are able and listen and obey and spend [in the way of Allah]; it is better for your selves. And whoever is protected from the stinginess of his soul - it is those who will be the successful”.¹²

It is also stated in the Qur'an:

“And hasten to forgiveness from your Lord and a garden as wide as the heavens and earth, prepared for the righteous”.¹³

Thirdly, *Shari'ah* goes even further to include the psychological needs and sense of everything that affects society, behavior, and the environment. SR in *Shari'ah* assumes psychological needs, the need for appreciation, education and counseling, sympathy, and good communication with others, visiting the sick, attending calls and meetings. SR is the result of a synergy between public interests and private interests. Islam calls for harmonization of public and private interests and it balances trends, individualism and communitarianism at the expense nobody.

This embeds social solidarity and inclusiveness to the idea of SR. Social solidarity in Islam encompasses society, individuals, groups, and rulers, governed, positive attitudes, which are motivated by sentimental feeling and stem from the origin of the Islamic faith. Therefore, this research analysis the concept of CSR from the conventional and *Shari'ah* perspective by looking into its implementation in Malaysia and Saudi Arabia with special reference to the actual practice of CSR by

¹¹ Asyraf Wajdi Dusuki, “What Does Islam explain about Corporate Social Responsibility?” *Review of Islamic Economics*, Vol. 12, No.1, (2008)

¹² The Qur'an, 64:16

¹³ The Qur'an, 3:133

Bank Islam Malaysia Berhad (BIMB) and Al-Rajhi Bank of Saudi Arabia (Al-Rajhi) respectively.

1.2 STATEMENT OF PROBLEM

The concept of CSR is gradually developing in Malaysia and Saudi Arabia as there is no doubt about the status of its application and implementation in both countries. CSR practice has become increasing where most companies of these countries including BIMB and Al-Rajhi, recognise CSR as a business priority. However, there is lack of institutionalization of CSR within companies and within the business community especially on sustainable environmental dimension.

1.3 RESEARCH QUESTIONS

In order to understand the subject matter of the research accordingly the following research questions are raised:

- a) What is the concept of CSR from conventional and *Shari'ah* perspective?
- b) How CSR is practiced in Malaysia and Saudi Arabia?
- c) How Malaysia and Saudi Arabia implement the concept of CSR?
- d) What are the distinguishing features for the implementation and application of CSR by BIMB and Al-Rajhi?

1.4 OBJECTIVES OF THE RESEARCH

Arising from the questions being raised above, this research intends to achieve the following objectives:

- a) To analyse the concept of CSR from conventional and *Shari'ah* perspective.