

UNIVERSITI TEKNOLOGI MARA

**THE APPLICATION OF *MASLAHAH*
AND *MAQASID AL-SHARI'AH* IN
CORPORATE SOCIAL
RESPONSIBILITY DISCLOSURE
PRACTICES: THE CASE OF
MALAYSIAN ISLAMIC BANKS**

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ABSTRACT

There is a growing global interest in Corporate Social Responsibility (CSR) including its disclosure across all sectors and that they have received much attention in the literature since the early seventies. The banking sector has not been an exception. Nevertheless, previous studies have found that various Corporate Social Responsibility Disclosure (CSR/D) theories exclude religion in explaining why business corporations such as Islamic banks should disclose social responsibility information in fulfilling their obligation to God. There is also lack of comprehensive studies in CSR/D practices in Islamic banks that offer an insight into the nature of CSR/D in Islamic Banks, which are influenced by the value of Islam. This study aims to analyse CSR/D practices in light of the concept of *Maslahah* and *Maqasid Al-Shari'ah* in order to propose an integration of *Maslahah* and *Maqasid Al-Shari'ah* with the CSR/D practice by which Islamic banks can address their social responsibilities and provide a better banking system for the Muslims, in particular and the communities at large. This study examined the nature and extent of CSR/D and the key motivating factors for Islamic Banks in Malaysia. The study also seeks to understand why corporations in Malaysia are disclosing social information. To achieve these objectives, this study conducted a mix of qualitative and quantitative research approaches. In the quantitative phase, 17 Islamic banks were studied by examining the annual reports over the period of 2007 to 2014. The content analysis method was utilised to examine the nature and extent of CSR/D for Islamic banks. In the qualitative phase, interviews were conducted to gain the perspectives, attitudes and opinions of the senior executives and *shari'ah* committee on CSR and CSR/D in order to understand the practice of CSR and CSR/D by Islamic banks, who are involved in decision making and in charge of producing corporate reports, and also to understand the reasons behind disclosing or non-disclosing social responsibility information. Content analysis demonstrates that Islamic banks are actively disclosing social information with corporate strategy information is the main social theme disclosed. Interviews reveal that all of the Islamic banks are disclosing social information due to compliance with AAOIFI Standards and the pressure from *Shari'ah* Committee (SC). This study presents evidence that Islamic values have driven the business practice of Islamic banks and consequently influenced CSR and CSR/D. The principle of accountability to Almighty Allah was found as the prominent driver for CSR and CSR/D in Islamic banks. Overall, the study demonstrates the importance of the concept of *Maslahah* and *Maqasid Al Shari'ah* that have significant impact on an Islamic framework for CSR disclosure (CSR/D) and greatly distinguish the Islamic framework from the mainstream. The uppermost objectives of *Shari'ah* rest within the concept of compassion and guidance that seeks to establish justice, eliminate prejudice and alleviate hardship. It promotes cooperation and mutual supports within the family and society at large. This is manifested in the realisation of *maslahah* (public interest) which the Islamic scholars have generally considered to be the all-pervasive value and objective of the *Shari'ah* and is to all intents and purposes synonymous with compassion. This findings has therefore contributed to the understanding and knowledge of CSR and CSR/D in the business environment of Islamic banks.

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TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	ii
AUTHOR'S DECLARATION	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	xii
LIST OF FIGURES	xiv
LIST OF ABBREVIATIONS	xv
CHAPTER ONE: INTRODUCTION	1
1.1 Introductory Statement	1
1.2 Background Of Study	4
1.3 Problem Statement	7
1.4 Justification Of The Study	10
1.5 Research Question	13
1.6 Objectives Of The Study	13
1.7 Significance Of The Study	14
1.8 Organisation Of Chapters	14
CHAPTER TWO CSR AND CSRD: THE GLOBAL AND MALAYSIAN CONTEXT	17
2.1 Introduction	17
2.2 The Regulatory Setting Of CSR And i-CSR	17
2.2.1 CSR: The Global Context	18
2.2.1.1 <i>The Role Of Government</i>	22
2.2.1.2 <i>CSR Initiatives</i>	22
2.2.1.3 <i>CSR Regulations</i>	29
2.2.2 CSR: The Malaysian Context	31
2.2.2.1 <i>Government And Government Linked Institutions Initiatives</i>	32

CHAPTER ONE

INTRODUCTION

1.1 Introductory Statement

The emerging issue of corporate social responsibility (CSR) has globally heightened the interest among business corporations and is an area of considerable debate for both practitioners and academicians across the business world. In order to be recognised and accepted as being progressive, business corporations involve in CSR activities as a response to the demand in economic, societal and environmental within the marketplace. By doing so, many organisations believe to provide a clear competitive advantage, stimulate innovation and moving in tandem with a tide of public opinion. The organisations are motivated to involve stakeholders in their decision making process as well as to address societal challenges because today stakeholders are increasingly aware of the importance and impact of corporate decisions upon society and the environment (Zain et al., 2014). Pfeffer (1998) argued that there are firms that practice CSR because it provides additional benefits such as enhancing their reputations, the licence to operate in society and reducing risks. Some firms believe that participating in CSR are ways to discharge their accountability to society (Abbot and Monson, 1979). Hence, it has become a common practise for business corporations to have established guidelines on ethical and social responsibility issues.

Without exception, Malaysian Islamic organizations have joined in the bandwagon by undertaking their respective CSR activities, their intentions clearly bearing no difference to the above mention activities (Zain et al., 2014). The primary purpose of social reporting is to determine the impact of corporate actions on the quality of life of the society (Daykin, 2006). CSR has an important informational value and investors are expected to incorporate CSR information on their assessment of the firms' value (Hassan and Harahap, 2010).

Within this dimension, Islamic Corporate Social Responsibility (*i*-CSR) plays an important role particularly to the Muslim decision-makers in providing the right information regarding *i*-CSR and its disclosure practices. Malaysian companies have experienced pressure to embrace internationally accepted corporate governance best