Corporate Social Performance (CSP) Influences on Islamic Bank's Financial Performance

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Abstract — **This paper aims to assess the influence of corporate social performance (CSP) categories which are legal, ethical, economic and discretionary responsibilities over the *Dummy Islamic Bank*'s (the original name of the bank is remained confidential) financial performance. There are four components of CSP and findings indicate that this Islamic bank has fulfilled each category at minimum level - highest contribution was allocated for discretionary responsibility which is the pinnacle stage of CSP. This study has some limitations which need to be highlighted for future study. First, it only focused on one Islamic bank and may not reflect other Islamic banks in the country or in other region. Next, the period of observation is not lengthy to facilitate for more robust and rigorous analysis.**

Keywords – corporate social performance, corporate social responsibilities, financial performance, Islamic bank, return on equity,

I. Introduction

Financial performance is a widely-used yardstick when it comes to assessment of companies' performance (McCuddy & Pirie 2007, 2009; Richard et al., 2009). Contemporarily, many observers have suggested the use of social performance to complement the results indicate by the financial performance. These two sets of assessments will produce a holistic view on companies' achievements. Nevertheless, social performance in most of the time is side-lined and considered merely as public relation tool in form of corporate social responsibilities' (CSR) events – in reality it is beyond that.

Ali Alamer et al. (2015) and Hassan and Harahap (2010) emphasise that there is no consensus on the accepted universal definition of CSR. Accordingly, it triggers another significant concept known as Corporate Social Performance or CSP (Wood, 1991, Nelling and Webb, 2009, Khan, 2013). The idea is that CSP is segregated into three components: CSR_1; CSR_2; and CSP also known as CSR_3 (Frederick, 1994).

This article aims to assess the influence of CSP's categories which are legal, ethical, economic and discretionary responsibilities over the *Dummy Islamic Bank*'s (the original name of the bank is remained confidential) financial performance.

The remainder of the paper is structured as follows. First section is the discussion on the concepts of CSP and CFC. Next section is the research method, followed by analysis and findings sections. In the final section, we discuss on the conclusions and limitations of this study.

II. Corporate Social Performance (CSP) and Corporate Financial Performance (CFC)

Much has been debated on the periphery of corporate social performance (CSP) in the Western literature and such positive vibes transmitted to Islamic business, and so press the latter to fulfil more of such expectations than Western business models. This is understandably as a result of the IFIs being both religiously and commercially driven businesses whose roles are expected to be fulfilled concurrently (Asutay, M. 2008; Dar, H 2012).

Carroll (1979) concisely describes CSR_1 as the obligation of companies to realize their duties: legal, ethical, economic and discretionary responsibilities. These specific components help to bring focus to the wide concept of CSR which Frederick (1994) describes as the implementable and measurable tasks. The categorization of CSR into several components helps to bring focus to the key issues of CSP and facilitates better strategies or approaches to be considered when studying it. Wood (1991) suggests the key principles to be considered when assessing the CSP: principles of legitimacy; principles of public policy; and principles of managerial discretion.

This provides an alternative view, but still emphasizes the same components as laid down by Carroll (1979) - legal, ethical, economic and discretionary responsibilities.

Economic responsibilities are deemed to be the basic or first layer requirement of companies as business entities which are required to provide goods and services needed by a society and are expected to be profitable at the end of the process. Every other business role is assigned to this function. The next function is legal responsibilities regarded as the framework which the society expects companies to operate under by adhering to the rules and regulations imposed on them. After that come ethical responsibilities which can be described as an extension of the two prior responsibilities (economic and legal) in the sense that they are actually expected to be exercised ethically. However, the difference under this precept is that the society expects the companies to be ethically responsible beyond the prescribed ethics in the early two responsibilities.

The two prior responsibilities are ethically executed when the companies fulfil their responsibilities as required in a timely and proper manner. It is understood ethical responsibilities derive from established ethics in a community which everyone is expected to comply with, even companies. In this case, there is generally no legal implication, but ethical failure can possibly irk certain people, which is arguably not good for a company’s image. Lastly, discretionary responsibilities are ethical actions which may be taken above regular ethical responsibilities, and exercised by the companies voluntarily even though the society may not expect the companies to fulfil them. Carroll (1979: 500) gives instances of companies’ contributions in aspect, such as day care for the working mothers and training for unemployed people.

CSR_2 which Frederick (1994) describes as corporate social responsiveness, is treated here as the managerial response towards the precepts laid down in $CSR_{1,}$ and how companies respond to demands from society over a particular issue. Thus, management implementation of CSR_2 will produce CSR_3 or CSP, the outcomes or results from the implementation of activities in CSR_1 and CSR_2 which give an opportunity to measure the overall success of a firm’s CSR based on the empirically available data.

The benefits of CSP are not only received by the targeted groups in the CSR programmes. Moreover, it brings benefits to those companies which have a proper implementation of CSR programmes in form of business profit and positive financial performance for firms that invest in CSR activities as suggested by Bushee (2001). This relationship is somewhat of a virtuous cycle, as described by Dean (1998) due to both financial performance being influenced by CSR activities and CSR activities influencing a firms’ good financial performance. Nelling and Webb (2009) concur with the existence of a relationship between CSR and financial performance, but they caution such a relationship appears weaker if measured through a fixed effects Granger test.

The latest research on CSP of IFIs is conducted by Sairally (2013). Her research on the CSP of IFIs is the most comprehensive study on this specific area, whereby she measured 46 IFIs worldwide through a questionnaire and verified responses through content analysis when assessing the CSR practices of the companies. Other researchers on the same theme have mainly discussed and assessed the CSR_1 aspects while overlooking the other two components: CSR_2, and CSR_3 or CSP.

In term of IFIs, their philosophical aspects of CSP and CSR are rooted in *shariah*, similar like principles of Islamic finance. Di Bella and Al-Fayoumi (2016) regard that the philosophical aspects of CSR and CSP for IFIs can be categorized in four components: derived from Islamic ethical system; manifested in recommended contractual arrangement for IFIs (profit and loss contract); consideration and the use of principles of Islamic finance when developing the products and services; and AAOFI’s suggestion on the standard for corporate social responsibility conduct and disclosure (CSRCD).

El-Halaby and Hussainey (2015) assessed the corporate social responsibility conduct and disclosure (CSRCD) of 138 Islamic banks from 25 countries by employing content analysis (websites and annual reports). Their findings confirmed the early works conducted by Maali et al. (2006) which described the number of Islamic banks still low in term of disclosing their CSP and social activities. Nevertheless, there is progress from 2006 to 2015 when El-Halaby and Hussainey (2015) result shows higher percentages than Maali et al. (2006), and consistent with Haniffa and Hudaib (2007) on the gap between the findings and expectations towards the CSRCD.

In term of corporate financial performance vis-à-vis corporate social performance, there are abundance of literatures in this area. Previous literature measure financial performance in forms of average annual percentage return to investors (Abbott and Monsen, 1979), return on assets (ROA) (Pava and Krausz, 1995, Waddock and Graves 1997), return on equity (ROE) (Pava and Krausz, 1995, Waddock and Graves 1997; Spicer 1978; Richard et al., 2009).

III. Research Methods

This study used information gathered from the *Dummy Islamic Bank*'s annual reports and website. The information gathered were on CSP activities for five years from 2011 until 2015 and financial performance in form of Return on Equity (ROE) ratio analysis which have suggested in previous studies concerning CSP and financial performance. The Islamic bank name is not disclosed in order to maintain confidential information.

IV. Findings

In general, performance of *Dummy Islamic Bank*'s ROE for five years from 2011 until 2015 shows positive trend; even though in 2012 there was a significant dropped from 11.31% to 8.40% (Figure 1). However, the ROE was gradually improving since then.

Interesting to note that even though in 2013 the ROE dropped to 8.40%, however the number of CSR activities started to increase in that year, and highest was recorded for 2014. Again, the reverse trend was recorded in 2015 which showed that ROE was in upward trend but the number of CSR activities were declining than the previous year. It signifies that the CSR activities of this Islamic bank does not correlate positively (most of the time) with its financial performance as per the five years' observation (Figure 2).

The number of CSR activities were highest in 2014 with 18 activities, 12 activities organized in 2015 and the least was in 2011, five activities only (Table 1). The highest proportion of CSR contributions was for *zakat* and corporate tax – these two are categorised as legal responsibilities because both are regulated (Figure 3). *Zakat*, even though many see it from discretionary-philanthropy perspective; but for Islamic financial institution like this *Dummy Islamic Bank*, *zakat* must be paid since the Islamic financial institutions conducts are regulated by the central bank. Thus, it is appropriately placed under legal component but the intended beneficiaries are captured under discretionary activity. This is consistent with finding by Muhamat, Jaafar and Syed Alwi (2017) on the CSP of takaful operators in Malaysia – the number of CSR activities did not reflect the profit earned by the companies – also *zakat* and corporate tax were the biggest contributions for CSP's score card.

The rest of the contributions for CSR are mainly focused for activities which are categorised as discretionary: donations, sponsorships; blood campaign donations; endowment fund to the university and others. The *Dummy Islamic Bank* has spent millions every year for the CSR activities. For 2014, RM 8,750,365 has been spent for the CSR programmes, followed by RM 8,000,000 in 2012 and the least was in 2011, RM 3,300,000 (Table 2). In 2015, the number of CSR activities slightly dipped from 18 in previous year to 15; even though the ROE increased in the recorded year. There is no apparent reason for this but it can be regarded that the bank is still contributing steadily for CSR programmes for that year because in 2013 (Table 1) the amount contributed for CSR is higher than in 2015 but the number of activities is less (10 versus 12).

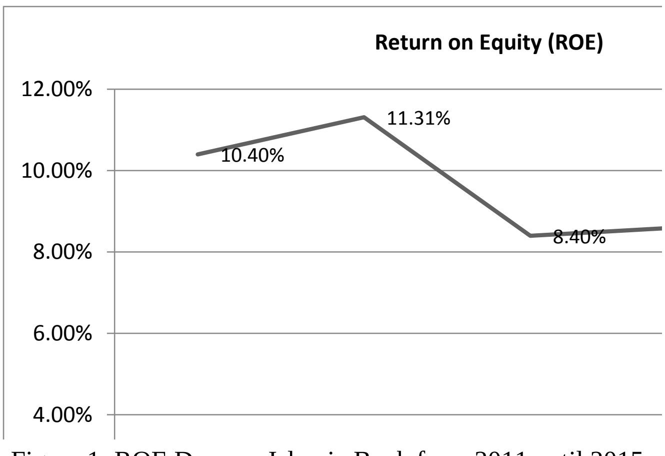

Figure 1: ROE Dummy Islamic Bank from 2011 until 2015

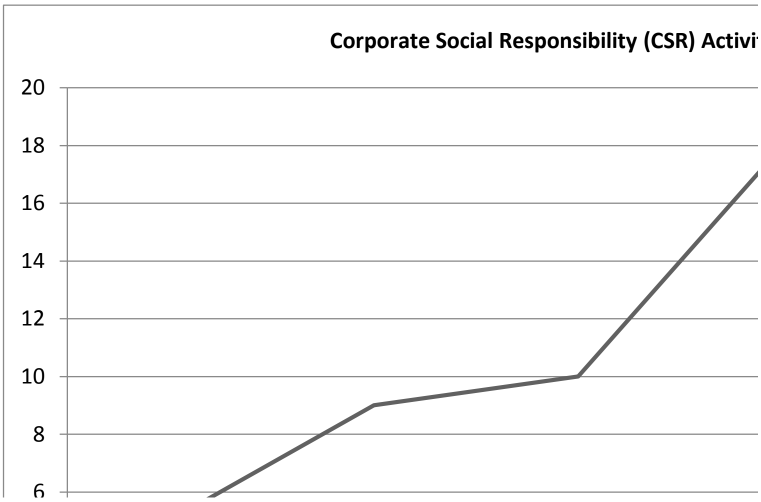

Figure 2: Growth of CSR Dummy Islamic Bank from 2011 until 2015

YEARS	CSR Number of Activities
2011	5
2012	9
2013	10
2014	18
2015	12

Table 1: Number of Corporate Social Responsibility (CSR) from 2011 to 2015

YEARS	Total Contribution Amount (RM)
2011	3,300,000
2012	8,000,000
2013	7,800,000
2014	8,750,365
2015	5,500,000

Table 2: Total contributions for CSR activities for 2011 until 2015

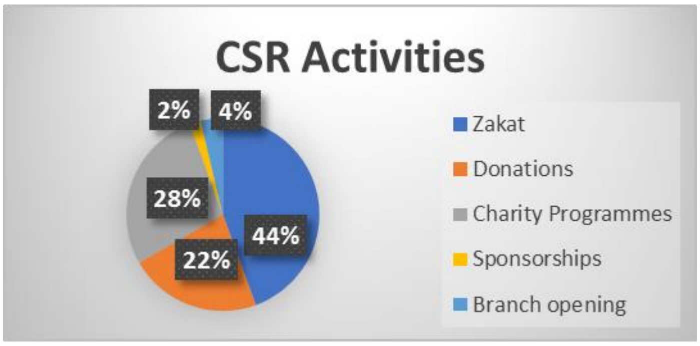

Figure 3: Pie Chart of CSR Activities

V. Conclusion

This study indicates that the financial performance of this Islamic bank does not correspond to the CSR activities which the bank has organized and implemented. Throughout five years' observation, there were incidences which the ROE dropped but the number of CSR activities increased and vice versa.

There are four components of CSP and this Islamic bank has fulfilled each category at minimum level - highest contribution was allocated for discretionary activity which is the pinnacle stage of CSP. It is important to note that the Islamic Research and Training Institute (IRTI), which is the research arm of Islamic Development Bank (IDB), has categorized *zakat* as one of instruments under Islamic social finance which plays an important role to alleviate the social condition of Muslim community throughout the world. Therefore, by linking this important role of *zakat* in the community with contributions given by corporate bodies like *takaful* operators, it can be suggested that the multiplier effect from *zakat* on social agendas is huge. As at the end of 2010, over 1 million people in Malaysia were receiving assistance through *zakat* (Islamic Research and Training Institute 2015).

This study has some limitations which need to be highlighted for future study. First, it only focused on one Islamic bank and may not reflect other Islamic banks in the country or in other region. Next, the period of observation is not lengthy to facilitate for more robust and rigorous analysis. Therefore, it is recommended for future study to address the limitations.

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