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STUDY ON
ISLAMIC FINANCE INSTITUTION IMPLEMENTING
CSR AND NEW PROCESSES

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Introduction

In this report, we will be discussing on the fundamentals that cause the increment for the adoption of corporate social responsibility (CSR) within the business. CSR, in general, is an activity that is being carried out by an organization in order to help society. According to Baker (n.d), CSR can be defined as how an organization conducted their businesses in a way that can contribute a positive impact on the community. It involves a lot of aspects such as sustainability, social effects and ethics as well as doing the right things that are based on the organization's core business which is making money.

However, according to Holme and Watts (2000), CSR is the continuity with responsibility by business to carry on morally and add to financial advancement while improving the personal satisfaction of the workforce and their families including the local community and society. There are many ways on how to conduct and define CSR since they have many definitions as well as practices. Different company and country contribute to different ways of CSR being defined as well as implemented by the business.

CSR has been an important task for companies in the last few recent years. According to Murphy (2018), there are a few aspects that are being taken into consideration in conducting corporate social responsibility events. Firstly, it helps in improving the name of the brand. The perception of the company that comes from the public is vital to the customer as well as building up the shareholders confidence. By giving a positive image, the company would not only look as profitable financially but as well as conscious to society.

Next, it is looking into the engagement with the customer (Boyden, n.d). The relationship between the organization and the customer are considered one of the important aspects that are needed to be considered by the company. Even when the price high but the brand is well known by the customer, they would not hesitate to buy the product since they know the benefits and it is worth the money. Lastly, with the help of CSR, the company will stand out of the competitors (Murphy, 2018).

Nature, Principles and Driving Motives of Islamic Finance

Islamic finance, in general, refers to the fundamentals that help in investment, savings as well as receiving insurance or borrowing instruments (Obaidullah, 2005). The products that come from Islamic finance can be described as a financing service or products that are based on Shariah or Islamic law on interest, non-Islamic investment as well as speculations (Gait and Worthington (2009). Islamic economics is being used as guidance for Islamic finance system (Lim, 2019).

Islamic finance is being governed by 3 principles which are the principle of equity, the principle of participation and principle of ownership (Mumtaz, et al, 2015). Islamic finance derives from changeless standards established in the decisions of the Shariah law code. It is not being recognized between religious and other aspects that exist in life. Firstly, the principle of equity. It is prohibited in Islam for a predetermined payment (*riba*). The term *riba* being the meanings of hump or elevation. Besides that, it is also preventing excessive vulnerability (*Gharar*). In the nature of the investment, *Gharar* is used to measure the legitimacy of the risk or vulnerability that exist (CFI, n.d). The presence of *Gharar* could invalidate the contract received.

Next, we move to the principle of participation. Islamic finance is known as free-interest financing. However, the term “riba” cannot be used towards the capital that is not going to be rewarded. There is one Shariah law that rules, “reward comes with risk-taking”. The return that comes from the investment has to be earned by risk-taking and not through the passage of time. This principle ensures that the increment in wealth is due to productive activities that take place in the process.

Lastly, the principle of ownership. Quoted from the ruling that is based on the Shariah law, “you can only sell the things that you own” and “property cannot be disposed from you except if it was in the basis of right”. It enquires ownership before any transaction can take place (Hussain et al, 2015). It is to be known as asset-based financing system. Finance and the real economy are forged through a robust link. The respect and preservation for property rights are required as we all holding onto the contractual obligations.

According to Copeman (2019), Islamic finance products are driven by 5 compliances which are *Murabaha*, *Ijara*, *Sukuk*, *Musharaka* and *Mudaraba*. *Murabaha* is known as the cost plus margin contract. The goods were bought by the bank and was delivered to the customers upon on a fee that has been agreed by both parties involved (Hussain et al, 2015). The full repayment including the fees are paid by the client over a stipulated time that had been agreed in the contract (Ali, 2011).

Next, *Ijara*. It is commonly used in the process of letting go or leasing of huge inventories or real estate and up until businesses. The differences between *Ijara* and *Murabaha* is the way of the repayment being made. The bank may choose either to rent the property to others or sell it to pitch the security to the borrower and get an offer of the benefits created from its utilization (Ali, 2011).

Sukuk are a benefit supported, medium-term note made on a particular salary delivering security, as an advance for a business (Ali, 2011). Interest payments are not received by the bank that provides this loan contract as it is restricted by Islamic finance. However, an incentive is received from the execution of the insurance for which the advance was made. *Murabaha*, *Ijara* and *Sukuk* are categorized as non-profit sharing products.

We move to profit sharing products which are *Musharaka* and *Mudaraba*. *Musharaka* is the most genuine form of Islamic finance. Capitals to finance a project or even owning a real estate either temporarily or permanently are being contributed by two or more partners. Profits gain are distributed according to the ratio agreed upon the contract and the losses are shared accordingly to the contribution of capital (Copeman, 2019).

Lastly, in the case of *Mudaraba*, the funds are contributed by one person and the other provides effort and expertise in management with focusing on profit (Ali, 2011). The profits are distributed according to the mutual agreement but the losses are fully responsible by the funders. It also referred to as a sleeping partnership where one partner (*mudarib*) do the business and the funders have no right to be involved in the management.

Benefits and Challenges Implementing CSR Practices and New Processes

Many changes have been made through the work of CSR such as practices that are related to human rights as well as the environment (Al-Abdour et al, 2010). According to Skudiene and Auruskeviciene (2012), CSR is benefited in four factors which are CSR associated with their users internally as well as externally, the local community are associated with CSR externally and partner-flying business is involved in CSR externally. However, Al-bdour et al (2010), CSR refers to the internal practices of organizations and these are directly identified with the physical and mental workplace of employees.

Some adoptions have been made by Islamic finance based on the Carrol Model of CSR accordingly to Shariah (Azeez, 2018). Some improvising had been made to the original model. The economic responsibility for Islamic finance is focusing on the obligations on the elimination of *riba*, *gharar*, *maysir* and others. As for legal responsibility, they are extended according to the Shariah law. Next, the ethical responsibility covers up the whole Shariah ethical responsibility. Lastly, philanthropic responsibility. This is the most vital of all. It is the payment of zakat, donation and others.

However, the challenges in implementing CSR are that Islamic finance tends to focus more on the commercial as well as economic aspects while social issues are being held at the bottom of the discussion (Dusuki, 2008). Considering social objectives may be an illusion for Islamic finance.

Recommendation

According to a study that was carried out by Williams and Zukin (2010), Islamic finance fulfills the requirements that were set by the Global Company in a number of ways. The scope of Islamic finance appears to be wider such as the development of humanity. Next, they have clear instructions regarding what they can do and what they cannot do. Lastly, they have high enforcement on the mechanism of Shariah to the community. Hence, Islamic finance should establish and implements CSR practices and normal natural administration approaches which are at any rate practically identical with or, best case scenario surpass those pursued by conventional non-Islamic banks.

Differences CSR Engagement Bank Islam Malaysia Berhad (BIMB) and National Bank of Kuwait (NBK)

Bank Islam Malaysia Berhad (BIMB) which is an Islamic Bank applied CSR in multiple of ways and they are focusing on the four pillars that are parallel with the CSR Framework for Malaysian Public Listed Company which are namely, work environment, marketplace as well as the community. They are not just focusing on *zakat* and charitable activities (Farook, 2007). Donations, sponsorship as well as charity activities are one of BIMB CSR initiatives. For example, diversity was offered at the workplace. Besides that, as a vicegerent (khalifah) on earth, it is our obligations to take good care of nature (Darus, Yusoff & Mohd Azhari, 2013).

Compared to National Bank of Kuwait (NBK) which is one of the conventional banks, their CSR is focused on education, healthcare and community welfare (Chintaman, 2014). They are focused on organizing activities. They organized training and skill enhancement are at the top of their CSR list. Regardless it is a conventional bank, they carried out few religious activities in order to occupy their CSR.

Executive Summary

Based on the evidence showed, most of the Islamic finance institution are aware of the importance of CSR. Most of the banks fulfill the requirement carrying out CSR activities. Besides making the name for the company, CSR provides engagement between the company and the community. CSR is a part of Islamic finance since they are apart of Islamic finance that contributes in the same way CSR does. However, minimum initiatives are being taken by Islamic finance institutions. A dependent division that is specialized for CSR needs to be established in order to ensure the continuity of the programme. A special framework to carry out CSR especially for the Islamic finance needs to be taken into consideration in order to resolve all the issues occurred (Hazlina&Uzaimah, 2017).

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