

CSR and Sustainability of Islamic Banking: The Bankers View
(*CSR dan Kemampanan Perbankan Islam: Pandangan Pegawai Bank*)

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ABSTRACT

Islamic banking (IB) practices have spread throughout the World, not only in Muslim countries but also in the West. To sustain in the very competitive market, Islamic banking must be outstanding and resilience from other conventional banks. Hence sustainable banking theme is deemed to be relevant to its operation by incorporating corporate social responsibility (CSR) and sustainable development concepts. Little that we know about CSR and sustainable development practices of Islamic banking from the managerial views. This paper attempts to explore the social responsibility and sustainability dimension of Islamic banking in Malaysia from the management insights. This is an inductive research employing semi-structured interview survey of 11 important Islamic bankers holding various positions. Thematic analysis approach was used to analyse data. The study reveals that Islamic banks are encouraged to perform various CSR activities however activities leading to significant socioeconomic impact are still lacking. Social banking may provide the answer.

Keywords: CSR; sustainable development; Islamic banking; social banking

ABSTRAK

Amalan perbankan Islam (IB) telah tersebar di seluruh dunia, bukan sahaja di negara-negara Islam tetapi juga di negara-negara Barat. Untuk bertahan dalam pasaran yang sangat kompetitif, perbankan Islam mestilah kukuh dan berdaya tahan daripada bank-bank konvensional yang lain. Oleh itu, tema perbankan mampan dianggap sebagai relevan dengan operasinya dengan menggabungkan tanggungjawab korporat sosial (CSR) dan konsep pembangunan mampan. Amat sedikit yang kita tahu tentang CSR dan amalan pembangunan mampan perbankan Islam daripada pandangan pengurusan. Kertas kerja ini cuba untuk meneroka tanggungjawab sosial dan dimensi kemampanan perbankan Islam di Malaysia daripada pandangan pengurusan. Kajian ini adalah berbentuk induktif dengan menggunakan kajian temu bual separa berstruktur daripada 11 pegawai penting bank Islam yang memegang pelbagai jawatan. Pendekatan analisis tematik digunakan untuk menganalisis data. Kajian ini mendedahkan bahawa bank-bank Islam adalah digalakkan untuk melakukan pelbagai aktiviti CSR, walau bagaimanapun aktiviti yang membawa kepada kesan sosioekonomi yang ketara masih lagi kurang. Perbankan sosial mungkin boleh memberikan jawapannya.

Kata kunci: CSR; pembangunan mampan; perbankan Islam; perbankan sosial

INTRODUCTION

The development of Islamic banking and finance (IBF) has been growing rapidly since the establishment of the first commercial Islamic bank in Dubai in 1975. At the same time, the uneasiness with the 'financialisation' of Islamic finance at the expense of economic and social aspiration of Islamic moral economy (IME) has also been expressed by few Islamic economic scholars. They believed that Islamic finance has deviated from its normative foundations by converging towards conventional finance (Asutay 2008).

The normative and philosophical foundations of Islamic economics, and hence IBF, give rise to social economy, which is evident in the writings of the founding fathers of Islamic economics, such as Ahmad (1979), Abu-Sulayman (1968), Chapra (1979, 1980, 1996), Naqvi (1994), and Siddiqi (1980) who considered Islamic economics as a system aiming at conducting economic and financial activities within the socio-economic justice parameters. Thus, the deviation of IBF from its fundamental foundations can be due to the lack of fundamental understanding of Islamic economics; as IBF has given more attention to Shari'ah compliancy in the form of legal functionalism in production and generating income by removing interest or *riba'* from the contracts and transactions. With such an understanding, more or less, IBF is identified as Islamic commercial banking, while the implications of the ideas articulated by the founders indicate a social banking, which was the case in the initial experiments of IBF in the 1960s in Egypt and Malaysia (Mohd Nor et al. 2013). Thus, contradicting commercial banking and formal Shari'ah compliancy of Islamic finance, Islamic economics, as prescribed in the Qur'an and articulated by the founders suggest a moral economic dimension, and hence social banking by paying attention to the substance of transactions and contracts rather than just in the form of related compliancy.

In contrast to the manner in which IBF currently being practised, IBF by its very nature gives priority to the social dimensions of economic and financial activities. Therefore, during this time of impressive growth in order to correct the way it has deviated from the social dimension, the practice of IBF should be re-examined, (Asutay 2012). Islamic banking consequently must consider its position with regard to social issues and should move towards an ethical position, being concerned with the welfare of society as theorised by Islamic economists, and as embodied in the first example of an Islamic bank in Egypt, in the late 1960s. One method towards achieving such a move is through the inculcation of Corporate Social Responsibility concepts (hereafter known as CSR) in Islamic banking policy. This is done through social banking aspiration aiming at sustainable development, which should be an endogenised part of IBF by definition as the 'Islamic' in the prefix of IBF suggests.

The practice of CSR prevails in the banking and financial sector in the United States and European countries including the United Kingdom for more than three decades. Following to this development, both companies and financial institutions are moving towards more ethically acceptable business practices or new forms of ethical businesses and financial organisation are being formed to respond to the increasing demand from civil society. With that, the practice of CSR is an essential part of the teachings of Islam whereby ethics (*akhlaq*) alongside faith (*taqwa*) guide all aspects of life including economic and financial activities, in achieving eternal reward in this world and the Hereafter, as defined by the *falah* or salvation process (Dusuki 2008; Mohd Nor & Asutay 2011)

In re-orienting IBF institutions towards the social banking dimension or expectation of an Islamic moral economy, it is proposed that CSR provides competitive strategies for the

'commercial IBF institutions' to overcome the perceived social failure of Islamic banks and also to achieve sustainable development. Therefore, this study attempts to explore the perceptions and practices of CSR in Islamic banks in Malaysia from the managerial point of view.

LITERATURE REVIEW

Since the early days of its establishment, it is a common belief that IBF has high moral ground, which is missing in conventional finance practices. The latter was criticised at the outset of the financial crisis in 2008 as having a moral deficit. IBF stemmed from the imagination of Islamic political economy, a moral economy aimed at creating a world order based on a systemic understanding. Due to having its basis in the Islamic moral economy (IME), it is expected as a financial intermediary, to conform to the principles and philosophy of Islamic economics. By definition, therefore, IBF's operations have to comply with Shari'ah or *maqasid* Shari'ah. Balz (2008) asserted that the principles applied by Shari'ah lean more towards ethical behaviour than to legal principles. It should, therefore, be noted that Shari'ah is defined as 'human well-being'; implying that whatever is done or acted upon should consider the aspect of 'human well-being'.

ISLAMIC MORAL ECONOMY (IME)

IME is a model introduced by Tripp (2006) inspired by the concept of moral economy that resembles the aspiration of Islamic economy in promoting socioeconomic justice. The traditional moral economy concept emphasises on justice, fairness and equity. The core elements in moral economy are the integration of (i) faith, (ii) ethical behaviour and (iii) economic activities of which could be translated into the Islamic sphere as (i) '*Aqidah* (faith), (ii) '*Akhlaq* (ethical and moral behaviour) and (iii) '*Muamalah* (economic transaction). Thus, IME is considered as a balanced system, which is based on the integration of spiritual, moral and material aspects. Besides, moral economy is known to operate in small community that encourages trust upon *ukhuwwah* or brotherhood (Mohd Nor & Asutay 2011). In a nutshell, IME is a morally-oriented alternative economic system based on Shari'ah principles that defines social and economic justice as its bedrock. Dusuki and Abozaid (2007) asserted that Shari'ah is a complete set of rules that manifest the holistic idea of Islam; that is, a complete grasp of knowledge that result in the values of justice, brotherhood and social welfare in society.

IME revolves around the dimension of *taqwa*; or, as one could translate it, God-consciousness or spiritual accountability as its pillar. The concept of *taqwa* is the most fundamental notion emphasised in Islam whereby a believer must put in his utmost effort to achieve *falah* in this world and the hereafter, which is the ultimate goal of Islam (Ismail 2010). An important aspect of this process is *ihsan* or beneficence. It is for an individual to achieve for himself, and also for the development of other individuals and the society at large provided that the individual has the resources. For a believer, the sense of *taqwa* could be realised through *ihsan*, by having a consciousness of God's presence in his daily life and activities with others, including economic and financial dealings (Iqbal & Mirakhor 2007). Thus, IME, notwithstanding being a system, is very much a human-centred approach, which places spiritual accountability as essential in engineering homo-Islamicus.

CORPORATE SOCIAL RESPONSIBILITY

In moderating the consequences of mainstream economic and financial institutions with an attempt to overcome the 'ethical deficiency', Corporate Social Responsibility (CSR) and Sustainable Development as concepts and policies are brought to the surface as dynamic tools to uphold social justice. These two major concepts of social justice together form a complementary paradigm that emphasises on the importance of social concerns in economics and in financing, which by definition reflects the Islamic aspirations of a moral economy.

It should be noted that the various definitions derived by scholars may be caused by different perceptions and interpretations of CSR as identified by American and European traditions. Matten and Moon (2008) argued that such differences in definitions can be attributed to political systems, financial systems, education and labour systems as well as cultural beliefs. It is, however, important to note that such differences make it difficult to conduct cross-country studies on CSR's theory and practice in understanding its implications and outcomes (McWilliams et al. 2006). The initial definition of CSR can be traced back to Bowen's seminal book, *Social Responsibilities of Businessman*, in the 1950s, in which Carroll (1999) acknowledged him as the 'Father of Corporate Social Responsibility'. The beginning of the modern period of literature on CSR, however, was marked when Bowen (1953) defined CSR as,

“refer[ing] to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society”.

Carroll and Buccholtz (2006) stated that CSR is related to the impact of company's activity on society; it revolves around the issues such as employees' rights, gender policies, being environmentally friendly, charitable and helping the poor, transparency in management and also validation of financial reports. In further exploring the concept and theories of CSR, Dahlsrud (2008) had categorised CSR into 5 main groups: (i) social, (ii) environmental, (iii) voluntariness, (iv) economics, and (v) stakeholder. CSR's compliancy and disclosure have become an essential part of measuring 'ethicality' and the 'social' nature of corporations in this new era marked with post-financial crisis realities.

The evolving concept of CSR has resulted in the scope of CSR being widened to include more elements. In fact, organisations have attempted to comply with the objective of sustainable development through CSR's contributions since the 1990s, including, from the early 2000s by the banking sector (Relaño 2011). Moon (2007) suggested that the interest in CSR has resulted in increased socialisation of the market and also the changing of governance at national and global levels in line with ethical expectations. In fact, CSR is said to have contributed to the concept of sustainable development through conceptual and practical expansion in terms of its scope by endogenising environmental issues and social sustainability in business.

In relation to the banking industry, Relaño (2011) believed that the equator principles and SRI are the two instruments employed to respond to the challenge of sustainable development. Relaño (2011) further explained that these tools are a set of environmental and social benchmarks as to enable banks to comply with the demand for environmental and social accountability. The first instrument, equator principle, relates to project financing while the latter tool, the SRI, relates to the investment domain.

Hence, the objectives of CSR are interlinked with sustainable development. It is, hence, particularly relevant to also discuss that sustainable development offers a good opportunity to achieve social justice.

SUSTAINABLE DEVELOPMENT

The 1960s saw the emergence of the concept, ‘sustainable development’ which, in reality, is about moral values and ethics (Iqbal 2005). Sustainable development as a concept initially focussed more on environmental issues, which were adversely affected as a result of industrial activities.

The World Commission on Environment and Development’s 1987 report entitled, ‘*Our Common Future*’, often known as ‘Brundtland Report’ (WCED 1987) has provided the most commonly used definition for the concept of sustainable development:

“seeking to meet the needs of the present without compromising the ability to meet the future generation to meet their own needs”.

According to this definition of sustainable development, there are four key points that should be highlighted (Hassan & Chachi 2005; Hornby 2005):

- (i) social progress which recognises the needs of everyone;
- (ii) effective protection of the environment;
- (iii) prudent use of natural resources, and
- (iv) maintaining high and stable levels of economic growth and employment

LOCATING CSR AND SUSTAINABLE DEVELOPMENT IN ISLAMIC MORAL ECONOMY

In locating and rationalising CSR in Islam, IME provides the foundation, as it articulates the values of justice, fairness and equity. IME is constituted through Islamic moral values and cultural norms derived from Islam but can be local in shaping the nature of economic activity. The cultural norms that are mentioned here could be referred to as the holistic values of Islam, while moral and ethical values according to Islamic teaching are known as *akhlaq*. Thus, *akhlaq* and *aqidah* in line with cultural norms derived from Islam shaped the nature of economic and business activities.

As the foundation, IME as articulated by Tripp (2006) is based on the earlier literature by Ahmad (1980), Chapra (1980), Siddiqi (1980), who advocated that Islamic economic system which follows Shari’ah parameters, ought to accomplish the objectives of social and economic. This system contested that capitalism had failed to bring moral values to its practice and IME is reckoned to be more effective at delivering material benefits to the development of the economy (Siddiqi 1980; Tripp 2006) and is more transparent and ethical. In reality, however, this is still far out of reach. Despite forty years of Islamic finance, it has yet to bring much development to Muslim countries (Zaman & Asutay 2009). Within the sustainable development, in particular, the concepts of sustainable human development (SHD) and sustainable livelihood (SL) are the closest to Islam. The motivation of poverty alleviation, which abundantly being reiterated in the *Qur’an* and *Sunnah*, attests that similar goals, from Islamic and conventional perspectives, could be achieved in ensuring a promising future. For example, Shari’ah imposes *zakah* on every Muslim endowed with certain level of wealth for the purpose of alleviating poverty and fulfilling

the needs of the poor and needy (Yousri 2005). For that reason, IBF needs to learn from social banking that promotes the developmental needs of the society.

METHODOLOGY

The nature of this study is exploratory and attempts to discover CSR and sustainability aspects in Islamic banking from managerial point of view. Thus, qualitative research is most appropriate because it distills meaning and understands phenomena (Jones 1997; Eldabi et al. 2002). In this qualitative approach, researchers are more interested in acquiring the understanding of the natural setting of the phenomenon through observation and interviews (Daft & Weick 1984; Irani et al. 1999); for example, “how people make sense of the CSR, experiences, and their structures of the world” (Creswell 1994). It describes social reality from the perspective of the subject, not the observer. It emphasises on getting close to the subjects of study and that experience is a good way to understand social behaviour, i.e. it answers the ‘why’ questions (Yin 1994). As a result, qualitative research methods are associated with ‘face-to-face’ contact with people in the research setting, together with verbal data and observations (Eldabi et al. 2002).

In order to understand the subject in depth, this study employed semi-structured interview to seek information from managerial perspectives. The semi-structured interview was selected as it allows respondents to talk about their opinions on a particular subject. The objective is to understand the respondent's point of view rather than making generalisation about behaviour. Most of the time, the focus of the interview is decided by the researcher. Open-ended questions are raised and some arise naturally during the interview. Thus, allowing some areas to be explored in detail. Eleven important bank officers holding different positions in various Islamic banks in Kuala Lumpur were interviewed. This number is justified as previous researchers had used between four and ten respondents to gather their qualitative data (e.g., Iacovou et al. 1995; Hashim & Abdullah 2014). These officers were directly involved with the operational and managerial aspects of their respective Islamic banks. The interview protocol questions included:

- 1) Based on your general knowledge, how would you describe Islamic banking?
- 2) What should be the objectives of Islamic banks?
- 3) What does CSR mean to you?
- 4) Do you think that CSR concept is relevant to Islamic banking? Please explain?
- 5) What form of CSR options are practised in your bank?
- 6) Does your bank publicise its CSR report?
- 7) What are the benefits gained by your bank from conducting CSR activities?
- 8) Do you think Islamic banks generally fulfil CSR policies?
- 9) What might be the factors that could hinder Islamic banks from practicing CSR? Please explain.
- 10) Do Islamic banks have consciousness to conserve the environment? Are there any contributions made?
- 11) Do you think in current practice, Islamic banks contribute to community development?

Among the interviewees are panels of the Shari’ah Advisory Committee, operational and corporate strategy managers, and product development executives of the selected Islamic banks. Each of the interviews was conducted approximately between 1 hour and 1 hour 30 minutes at the interviewees’ respective Islamic bank premises.

Permission from all the interviewees was obtained for their conversations to be recorded, and then all the interviews were self-transcribed. It is very important to be discrete as to ensure important information is not missed or omitted. The transcripts were analysed manually via the methods of coding analysis, in which thematic approach was employed to find similar patterns (Silverman & Marvasti 2008).

ANALYSIS AND DISCUSSION

This section offers the analysis of study which is supported by informative discussions with the interviewees. The interviews began by introducing the interview profile, and followed by important questions on CSR and Sustainable development of Islamic banks.

PROFILE ANALYSIS

This study managed to interview 11 important bank officers from various backgrounds and positions. Table 1 depicts the respondents and their respective positions. They were middle level managers and senior officers with different responsibilities.

TABLE 1. Interviewee profile

No.	Institution	Position	Category
1.	IB1	Shari'ah Development Officer	
2.	IB2	Operational Officer	
3.	IB3	Shari'ah Advisor	
4.	IB4	Shari'ah Manager	Local Islamic Subsidiary Bank
5.	IB5	Corporate Planning Manager	
6.	IB6	Shari'ah Manager	
7.	IB7	Shari'ah Advisor	Foreign Islamic Subsidiary
8.	IB8	Operational Officer	Bank
9.	IB9	Shari'ah Manager	Foreign Fully-fledged
10.	IB10	Operational Manager	Local Fully Fledged

Six of the respondents, about 54.5%, were responsible at ensuring that Shari'ah standards are implemented in their Islamic banks; and they held the positions such as Shari'ah Development Officer, Shari'ah Advisors and Shari'ah Manager. Meanwhile, 4 of the respondents (36.3%) were in charge of the operational aspects of Islamic banks, including products and services, risk management and others. These respondents were the Operational Managers and Operational Officer. Only one Corporate Planning Manager was involved in this study, and was responsible for the bank's strategic planning. Referring to Table 1, the majority of the respondents (54.5%) worked with local Islamic subsidiary bank, 18.2% worked with foreign Islamic subsidiary bank and local fully-fledged Islamic bank. Only one respondent worked with foreign fully-fledged Islamic bank.

KNOWLEDGE ON ISLAMIC BANKING

The interviews began by gauging the basic understanding of the respondents on Islamic banking. Based on the interview, there were five best answers being brought up by the respondents that identify Islamic banking: 'financial institution', 'Shari'ah', 'ethical banking', 'alternative to

conventional banking' and 'contribution to society'. Therefore, the overarching theme in describing Islamic banking is that it is generally viewed as a financial institution that adheres to the Shari'ah law and has similar qualities to ethical banking as well as focuses on contributing to society; thus, Islamic banks are alternatives to conventional banking. At the moment, Islamic banks value the idea of progressing together with the community as mentioned by one of the respondents, IB10:

"Islamic banks roles go beyond the interest of shareholders... they also contribute to the society. They do not only provide financing but share the risk with entrepreneurs in order to grow economically together with the society"

This statement supports the visions of the founding fathers of Islamic economy of promoting a balance in material and social aspects in order to fulfil the developmental needs of the Muslims (Abu-Sulayman 1968; Ahmad 1979; Chapra 1979, 1996, 2000; Siddiqi 1980). Moreover, it indicates the desire for an alternative banking system that differs from conventional banking which lacks in moral values.

OBJECTIVES OF ISLAMIC BANKING

The next question revolves around the respondents' knowledge of Islamic banks' objectives. The study discovered six objectives: 'Shari'ah', 'banking institution', 'ethical dimension', 'not a charitable organisation', 'alternative to conventional banking' and 'contribution to society'. The objectives of Islamic banking according to the respondents' views are similar to any other banking institution; i.e. seeking profit and performing other financial services. This statement is supported by IB3 and IB7 who stated that maximising profit is not wrong in Islam. However, profit should be yielded according to the Shari'ah law. In contrast to the statement given above, IB10 believed that,

"Islamic banks have bigger objective than profit maximisation, which is promoting economic activity in the society with risk sharing".

Islamic banks have to be balanced; not only in terms of maximising profit but placing an emphasis on the ethical dimension and making contributions to society. It is an alternative way of doing banking; however it should not be mistaken as a charitable organisation. This is elaborated by IB4,

"Islamic bank is a business operation and not a charitable organisation. The objective is to gain profit so that to prove to the public that it is a resilient banking institution in compliance with Shari'ah...so that the whole society could benefit".

It is important to educate the society that Islamic banks are not a charity or welfare organisation, but a financial institution that operates ethically by norm and contributes to the betterment of society and the environment, similar to social banking (Sairally 2006; Mohd Nor et al. 2013).

KNOWLEDGE ON CORPORATE SOCIAL RESPONSIBILITY

CSR was explained by the respondents from their own perspectives resulting in the establishment of six aspects according to the respondents' views: philanthropy, social welfare and charity; corporate sustainability, responsible business, embedded in Shari'ah, giving back to society and environmentally friendly. In summary, CSR is an act of altruism expressed in various terms such as philanthropy, social welfare and charity. In general, CSR means giving back to the society with the aims of community development and conserving the environment. Moreover, some interviewees stated that CSR emphasises responsible business by performing good deeds beyond what is necessary for corporate sustainability. IB3 articulated that,

“CSR is already embedded in Shari’ah. When we talk about Shari’ah based institution, definitely the element of being socially responsible... (and) being ethical are very much entrenched in the operation and in the whole outlook of the business operational. CSR from Islamic point of view has broader meaning than the conventional understanding...especially the current practice of CSR is just to satisfy the business’s needs and the business’s objective. Basically it relates to profit maximisation philosophy. You undertake CSR because you know in return you will get something out of it. There is a commercial dimension to it. Islamic institutions, regardless profit or non- profit oriented... CSR is very much deeply rooted in the basic operation of these institutions”.

Dusuki (2008) affirmed that CSR has a broader meaning from an Islamic point of view, for it values spiritual reward over the material reward. Someone who achieves the highest level of moral is considered as to manifest *taqwa*-centricity or the sense of God-consciousness. Thus, CSR should be considered as an endogenous element of IME rather than an imposed concept of Islamic banking. These elements of CSR are relevant from Islamic perspective since the principles are embedded in Shari'ah; i.e. by defining Islamic moral economy. In essence, it is characterised by caring for the society and environment, in extending help to the needy and developing together with the community. This is manifested in the following response by IB10:

“...CSR should be integral to Islamic banking...because the role of Islamic banking is to be part of the community in order to progress it”.

Meanwhile, IB11 responded:

“The objective of Islamic banks is not only to promote profit sharing between public and shareholders... but to develop the ummah as well. It is what Islam really wants”.

The study also emphasises CSR's ethical dimension in the financial and managerial activities. This is highly recommended in Islam since it follows the IME that prioritises ethics in every aspect of life.

Although respondents understand and have knowledge of CSR, the majority believed that Islamic banks do not fulfil CSR policies which they said still need to be improved. This is articulated by IB10,

“I think there are more to be done. There’s no full philosophical understanding in Islamic banks’ roles and the difference with their conventional banking counterparts, and the role to the community”.

However, about 36 percent of the interviewees perceived otherwise since Islamic banks fulfil their obligations of paying *zakah* and giving charity. On the other hand, researches conducted by Dinar Standard and Dar Al-Istithmar (2009), Asutay (2008) and Sairally (2006) highlighted on the need to establish a systematic way of performing CSR; whereby this will assist in community development at large with the hope to escape the dogma of merely associating CSR with charity. Only 2 interviewees have yet to decide whether Islamic banks fulfil CSR policies or not since they said that there are no tools, guidelines or index to measure levels of CSR activity.

CSR ACTIVITIES

According to the investigation, the bankers revealed that several CSR activities had been conducted by their Islamic banks which are mostly related to charity, *zakah* and environmental awareness campaigns. In addition, other practices that involve human capital development and also community development were also performed. Generally, all Islamic banks are involved in charitable activities especially in the month of Ramadhan. This is because it is a Holy month in the Muslim calendar and every Islamic bank is obliged to pay its corporate *zakah*. A few Islamic banks have taken the initiative to manage the *zakah* in terms of collecting and distributing it to those specified beneficiaries. In fact, Affin Islamic Bank Berhad involved in the construction of low cost housing for the beneficiaries in Kelantan by using the *zakah* collection. For human capital development, Islamic banks provide educational sponsorship to students and staff. Moreover, ongoing training and development programs are provided to the bankers as to ensure that they are well equipped at competing in the industry. Not forgetting the community, there are many activities that have been conducted for community development such as financial literacy to students and villagers, as well as encouraging them to spend wisely and begin saving at early age. Different from other Islamic banks, IB11 mentioned that their respective Islamic bank provides *Musafir* card, specifically for pilgrims to use for the purpose of cash withdrawal during their stay in Makkah and Madinah. This product is said to reduce the possibility of pilgrims' cash being misplaced or stolen.

CSR REPORT

These activities are mostly reported in the Islamic banks' annual report for their stakeholders' information. Islamic banks are yet to make special report on CSR, separate from their annual reports. It is suggested by Haniffa (2002) that showing transparency and accountability of the company is in accord with Islamic ambits, however it should not be misinterpreted as boasting. Thus, to avoid misinterpretations, IB3 articulated that:

'Islamic banks should not leverage CSR activities to portray their good image. Otherwise you are doing things which people may deem as insincere. As long as the activities conducted by Islamic banks fulfilled Shari'ah requirement... that is sufficient.'

This is actually a debatable issue, best practice is to ensure that CSR disclosure is performed sincerely (*ikhlas*) with the objective of seeking God's blessing, realising benefits to society and the environment and also for pursuing the company's material goals. On another note, most Islamic banks prefer to circulate CSR news through their internal bulletins making them

exclusive to their employees. From time to time, Islamic banks publicise their CSR reports to the public through mass media.

CSR ADVANTAGES

Islamic banks believed that the major benefit of performing CSR is improved image and reputation, which makes CSR an indirect marketing strategy to promote the banks' goodwill. Importantly, it fulfils the Shari'ah requirement, which submits to the teaching of Islam. CSR also resulted in stakeholders' loyalty and improves their confidence in the respective Islamic bank. An important note by IB3 in support to the statement above,

"...conducting CSR related activities can bring confidence of stakeholders that Islamic banks are fulfilling their ethical dimension and are socially responsible. Fulfilling Shari'ah requirement, for instance by having charitable account that is transparent (audited)".

It also increases the level of awareness of social responsibility throughout the entire banking system, which could help reduce the barriers between bank and society. It is cost-effective since CSR's activities promote conservation of the environment and help the society.

CHALLENGES OF ISLAMIC BANKING

Even though CSR's activities are encouraged by the Central Bank of Malaysia or known as Bank Negara Malaysia (BNM), there are still, many setbacks for Islamic banks in performing CSR. The results revealed that the main hindrance for Islamic bank in practising CSR is trying to change the society's mind-set of solely seeking profit maximisation. Instead, this must be tied with ethics and giving back to the community.

Islamic subsidiary banks would also encounter bureaucracy problems due to rigid regulation by their parent banks. Each budget request for CSR activity needs the parent banks' approval. This is explained by IB9,

"Most of the Islamic banks tend to be part of conventional banking group and depends on the groups' values. If they make contributions to the community, then Islamic banks are free to conduct such activity. They have to follow the policies of the group".

Additionally, the level of CSR awareness is generally low. This is supported by a study revealing the relatively low awareness of CSR among Malaysians in general as reported by Ramasamy et al. (2007). Apart from these factors, there should be no other obstacles except for the banks' willingness, since the government strongly encourages Islamic banks to conduct CSR for sustainable development.

KNOWLEDGE ON SUSTAINABLE DEVELOPMENT

The concept and definition on sustainable development are undeniable and have positive connection to Islamic teaching. Hence, Islamic banks, should not avoid realising the objectives of sustainable development.

Referring to the aspiration of IME, the main objective of IBF is to promote socioeconomic justice. Therefore, respondents were questioned about the role of IBF in alleviating poverty and providing a better living standard to the community.

The study shows that the majority of respondents believed that it is partly Islamic banks' obligation to alleviate poverty; but this is definitely not a priority since an Islamic bank is a financial institution that needs to serve other areas as well as the financial markets. IB3 responded,

"...poverty eradication is not the priority of Islamic banking. Islamic banks are business entities and financial intermediaries which have very clear objectives...However, Islamic banks should not only focus on the normal commercial products to the rich but also extend it to the not-so-low income earner".

On the other hand, the majority of respondents stated that it is the Islamic banks' obligation to ensure a better living for the society. In order to achieve this goal, Islamic banks need to comply with Shari'ah; hence, leading to the improvement of the quality of life. Additionally, among the objectives of Islamic banks are wealth circulation and risk sharing that aim to ease the burden of society and a balanced economic status among community members. According to the views expressed by the participants, the current practice in Islamic banks contributes to community development. However, it has been identified that even though contributions are made, the practices are not significant and there is further room for improvement. The participants stated that there are several channels to help the community such as by distributing *zakah*, providing educational sponsorship and also educating society on financial matters in order to provide knowledge on basic spending and saving.

Islamic banks also need to be environmentally friendly. The results indicated that IBFs have low consciousness on the need to conserve the environment. Mostly, activities are done through indoor environmental awareness campaigns (recycling, reduce energy consumption and reduce wastage) and screening investments that harm the environment. These are manifested from the responses given by two different individuals:

"In this regard, the consciousness is still very limited. In general, the whole society has low consciousness in this matter" (IB4)

"No Islamic bank in Malaysia speaks about environmental agenda explicitly" (IB10)

Nonetheless, one Islamic subsidiary bank makes an extra effort by initiating special savings accounts specifically to donate to environmental causes. This is done in order to show their full support of going green.

CONCLUSION AND IMPLICATION

This study has analysed and explored the social responsibility and sustainability of Islamic banking in Malaysia through the perceptions and opinions of the bankers. The qualitative analysis using a face-to-face interview involving eleven interviewees employed by Islamic banks and had answered the expectation paradox; and suggested that Islamic banks have socially failed. The results in general revealed that Islamic banking in Malaysia has not socially failed due to the CSR contribution made in the form of *zakah*, charity and social welfare, community

development and so on. However, these contributions are not very satisfactory and improvement is needed in order to compete with conventional banking. In fact, the contributions made are minimal, and to satisfy the government's encouragement in performing CSR in return for tax incentive. Islamic banks need to ensure that the impact of CSR and sustainable development hits the society and fulfils the developmental needs of society. An important finding from the above study reveals that poverty alleviation is not a priority to Islamic banks. This implies the need for a paradigm shift in the IBF industry; i.e. to relook into its objective of promoting socioeconomic justice. Hence, social banking that complies to Shari'ah is relevant at this point as to take over the role of IBF in poverty alleviation and community development.

The above findings provide implication to the literature and also industry. The findings of the study provide signposts for the improvement of the Islamic banking operation with the objective of identifying the importance of moral economy. It is vital that the Islamic banking top management views this matter seriously for Islamic banking is to succeed harmoniously. Secondly, this study suggests to the introduction of a new banking institution as to demonstrate Islamic moral economy concept; that is Islamic social banking, considered by only a few contenders in the literature (Asutay 2007; El-Gamal 2006). In order to do that, managers in-charge should be send for trainings or seminars to understand the real concept of Islamic banking and the importance of moral economy. Failure to that may resulted in a poor image of Islamic banking, as revealed from the interviews.

This study has provided some understandings of CSR in the Islamic banking operation. There is little research that criticises Islamic banking operation especially on the CSR. This study provides the impetus for future research on many issues. Future research can build on the issues discussed in this paper including other potential factors from different contexts. It will, therefore, be necessary to explore other statistical analyses, either of the same factors or of new ones. Furthermore, the findings will help to gain a better understanding of Islamic banking operation and how it can help in the moral economy

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