



Standards, Frameworks, Guidelines and Initiatives Relating to Corporate Social Responsibility: A Literature Review

Corporate Social Responsibility

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Standard, Rangka Kerja, Garis Panduan dan Inisiatif Berkaitan Dengan Tangungjawab Sosial Korporat: Suatu Sorotan Literatur

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ABSTRACT

With increased media attention, pressure from non-governmental organizations, and rapid global information sharing, there is a surging demand from communities, consumers, governments, and other parties for corporations to perform sustainable business practices. The concern over corporate social responsibility (CSR) is also significant to Islamic banks. In fact, the majority of Islamic banks worldwide are sensitive to CSR, and this is parallel with the goal of their establishment as institutions with moral and profit making motives. However, as business entities established within the ambit of *Shari'ah*, there is no specific CSR standard, guideline, or framework for Islamic banks' application especially in Malaysia thus far. Thus, the purpose of this study is to review standards, frameworks, guidelines and initiatives relating to CSR. It is found that although there are standard, framework, guidelines and initiatives locally and globally with regards to CSR, none of them is Islamically *Shari'ah* driven and as a result unable to guide Islamic banks comprehensively.

Keywords: Standards, Frameworks, Guidelines, Corporate Social Responsibility, Islamic Banks





ABSTRAK

Dengan peningkatan perhatian daripada pihak media, tekanan daripada organisasi bukan kerajaan dan perkongsian maklumat global yang pantas, terdapat tuntutan yang mendesak daripada masyarakat, para pengguna, kerajaan, dan pihak-pihak lain agar syarikat-syarikat korporat untuk melaksanakan amalan perniagaan yang mampan. Perhatian terhadap tanggungjawab sosial korporat (TSK) juga signifikan kepada bank-bank Islam. Bahkan, majoriti bank-bank Islam di seluruh dunia adalah sensitif terhadap TSK, dan perkara ini selari dengan matlamat penubuhan bank-bank Islam sebagai institusi yang bermotifkan moral dan penjanaaan keuntungan. Walau bagaimanapun, sebagai entiti perniagaan yang terbina dalam batas Syariah, tiada sebarang standard, garis panduan atau rangka kerja TSK yang khusus untuk aplikasi bank-bank Islam terutama di Malaysia setakat ini. Justeru, tujuan kajian ini dibuat adalah untuk meninjau standard, rangka kerja, garis panduan dan inisiatif berkaitan dengan TSK. Kajian ini mendapati bahawa, walaupun terdapat standard, rangka kerja, garis panduan dan inisiatif di peringkat kebangsaan dan antarabangsa mengenai TSK, tiada satu pun yang berpandukan Syariah dan akibatnya ia tidak mampu untuk memandu bank-bank Islam secara komprehensif.

Kata Kunci: Standard, Rangka Kerja, Garis Panduan, Inisiatif, Tanggungjawab Sosial Korporat, Bank-bank Islam

INTRODUCTION

At present, CSR strategies and activities are utilized by business corporations as initiatives to respond to numerous business-related and non-business-related pressures (Darus, Yusoff, Naim, Amran, & Fauzi, 2018). In fact, their CSR expectation is more compared to conventional banks (Dusuki, 2006) since they are in an exemplary position as Islamic financial intermediaries (Farook, 2007). Unlike conventional banks, long-term economic benefits should not be the foremost motive of doing CSR for Islamic banks. Despite the fact that viable economic institutions have to be driven by profit incentives, in the case of Islamic banks, it is not their only priority and certainly not the only reason for them to implement CSR. Definitely, any notion that Islamic banks or any other institution that claims to be Islamic, for that matter, should be socially responsible must derive its justification from Islamic law and principles, as contained within the Qur'an and the Sunnah. Without this ultimate source of legitimacy, there is no reason for any action (Farook, 2007). Islamic banks as part of business community are highly qualified to set plans for social change, and integrate their development goals with the country's agenda at large, as well as engage with the other organisations on collaborative projects.

Islamic financial institutions (IFIs) are established based on Islamic foundations and their corporate practices are expected to be aligned with Islamic laws and framework (Yusoff, Azhari, & Darus, 2018). It is also found from a study based on six Islamic banks in four countries that Islamic banks commitment to CSR is due to their pre-occupation with



following legal decrees according to *Shari'ah*, rather than being informed by a higher-order framework of social responsibility in Islam (Mohammed, 2007). Although there are many present practices in Islamic banks that are in line with notions of CSR in Islam, these seem to be merely ad-hoc and driven more by *Shari'ah* legal requirements rather than by a higher-order understanding based on fundamental religious texts concerning social responsibility. In addition, there is no legal requirement and clear guidance on the CSR stipulations imposed on Islamic banks (Aribi, 2009). Even reports of Islamic banks also show that selected Islamic banks are too customer centric and efficiency driven, but, that efficiency is targeted at the cost of sacrificing *Shari'ah* norms (Rashid, Abdeljawad, Siti Manisah Ngalim, & Hassan, 2013). Probably, that is why there are so many “versions” of CSR practices in Islamic banks in Malaysia (see Al Rajhi Bank Malaysia, 2018; Bank Islam Malaysia Berhad, 2018) since there is no standard framework in CSR practices. Hence, this study aims at reviewing standards, frameworks, guidelines and initiatives relating to CSR that can be or have been adopted by Islamic banks in Malaysia. As such, relevant national and international standards, frameworks, guidelines and initiatives relating to CSR have been reviewed for this purpose.

STANDARDS, FRAMEWORKS, GUIDELINES AND INITIATIVES RELATING TO CORPORATE SOCIAL RESPONSIBILITY

In order to benchmark their CSR activities in the industry, Islamic banks need to comply with certain CSR regulations. The following are among standards, frameworks, guidelines and initiatives relating to CSR either internationally or locally.

Accounting, Auditing and Governance Standards for Islamic Financial Institutions (AAOIFI Standards)

The Accounting and Auditing Organizations for Islamic Financial Institutions, AAOIFI, have introduced Standard for Islamic financial institutions or IFIs. AAOIFI is an Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and *Shari'ah* standards for IFIs and related industries. AAOIFI was established in accordance with the Agreement of Associations which was signed by IFIs on 26 February 1990 in Algiers. Then, it was registered on 27 March 1991 in the State of Bahrain (AAOIFI, 2012).

In 2010, AAOIFI introduced a new standard namely Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions under Governance Standard for Islamic Financial Institutions (GSIFI) No. 7. The purpose of this GSIFI is to establish standards on the definition of CSR for IFIs, provide both mandatory and recommended standards to implement CSR in all aspects of the IFIs activities and provide guidance on disclosure of CSR information to the IFI's stakeholders (AAOIFI Standards, 2010).

This standard has been formulated in order to achieve two objectives; firstly, to prescribe uniform standards on CSR activities and compliance for IFIs, and secondly, to ensure that the CSR activities and compliance of IFIs are communicated in a uniform, truthful, transparent and comprehensible manner to relevant stakeholders to whom the



IFI owes a duty of accountability. By having these two objectives, it is hoped that the standard is able to encourage IFIs to take a proactive role in applying CSR to all aspects of their operations (AAOIFI Standards, 2010).

In terms of scope, the principles of this Standard are applicable to all IFIs, regardless of their legal form, country of incorporation or size. Nevertheless, the specific rules and provisions of this standard are classified into mandatory and recommended sections. The mandatory sections are applicable to all IFIs regardless of their legal form, country of incorporation or size, while the recommended sections are only applicable to IFIs which have the capacity, financial or otherwise, to carry out or comply with such activities (AAOIFI Standards, 2010).

According to this Standard, CSR for IFIs "refers to all activities carried out by an IFI to fulfil its religious, economic, legal, ethical and discretionary responsibilities as a financial intermediary for individuals and institutions" (AAOIFI Standards, 2010). Each responsibility has been defined clearly in paragraph 5:

Religious responsibility refers to the overarching obligation of IFIs to obey the laws of Islam in all its dealings and operations. Economic responsibility refers to the obligation for Islamic banks to be financially viable, profitable and efficient. Legal responsibility refers to the obligation of IFIs to respect and obey the laws and regulations of the country of operation. Ethical responsibility refers to the obligation of IFIs to respect the mass of societal, religious and customary norms which are not codified in law. Discretionary responsibility refers to the expectation from stakeholders that IFIs will perform a social role in implementing Islamic ideals over and above the religious, economic, legal and ethical responsibilities.

(AAOIFI Standards, 2010).

Under Governance Standard for Islamic Financial Institutions No. 7 in AAOIFI (2010) also, the responsibilities are divided into two categories namely mandatory and recommended conduct. For mandatory conduct, there are specific responsibilities which an IFI must carry out, while for recommended conduct the responsibilities carried out are based on the discretion of the IFI. There are five policies under mandatory conduct namely, policy for screening clients, policy for dealing with clients responsibly, policy for earnings and expenditure prohibited by *Shari'ah*, policy for employee welfare and policy for zakat. While under recommended conduct, there are seven policies namely, policy for *qardh al-hasan*, policy for reduction of adverse impact on the environment, policy for par excellence customer service, policy for micro and small business and social savings and investments, policy for charitable activities and policy for *waqf* management (AAOIFI Standards, 2010).

Although AAOIFI introduces five corporate responsibilities of IFIs and has divided them into mandatory and recommended, it still unable to guide the IFIs to the fullest since the explanation of the responsibilities is too general. In addition, the classification of CSR



into mandatory and recommended is not really comprehensive. Hence, improvisation is still needed in order to have an inclusive and clear Islamic CSR understanding.

Bursa Malaysia Corporate Social Responsibility Framework

Bursa Malaysia CSR Framework is a national guideline on CSR which was launched on 5th September 2006 for Malaysian Public Listed Companies (PLCs). Bursa Malaysia CSR Framework is relevant to Islamic banks in Malaysia since most of them are adopting Bursa Malaysia CSR Framework (see Bank Islam Malaysia Berhad, 2018; Bank Muamalat Malaysia Berhad, 2018; Kuwait Finance House Malaysia, 2018), although the banks are not PLCs. This CSR Framework is basically a set of guidelines to help PLCs in the practice of CSR. It is also meant to encourage them to become more engaged in being socially responsible and to make the way they approach the process of CSR, part of the way they normally work and think (Bursa Malaysia, 2012).

Simultaneously with the launching of the CSR Framework, CSRD was made mandatory following the national budget announcement in 2006, in an effort to encourage PLCs in Malaysia to embrace greater transparency and accountability, and be in line with international trends in reporting. Thus, all PLCs are now required to disclose their CSR activities in annual reports beginning from the financial year ending 31 December 2007, as part of Bursa Malaysia Listing Requirements (see Bursa Malaysia, 2014). However, the contents of CSRD remain voluntary (see Bursa Malaysia, 2012).

In the Bursa Malaysia framework, CSR is defined as open and transparent business practice based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders, and it is designed to deliver sustainable value to society at large. The Framework fundamentally looks at four core dimensions of CSR practice, namely the environment, the workplace, the community and the marketplace. Ideally, companies should consider all four CSR dimensions when designing their own visions. However, that does not mean a company must do everything, since this framework is merely a framework, and not a template (Bursa Malaysia, 2012).

Additionally, for some companies there will be certain areas or initiatives which they do not apply. In this light, the important thing is that the company uses the framework to facilitate and identify its choices and priorities. Individual CSR initiatives will depend on the nature of each company's business, its inclinations and its resources; although sometimes a company can adopt initiatives that may even have indirect effects (Bursa Malaysia, 2012). It means that companies may choose different paths based on their nature of business, but their destination is the same, which is aligning their business practices and decisions to benefit the society, the environment and themselves.

Even though Bursa Malaysia CSR Framework offers four CSR dimensions that are widely adopted by most of Islamic banks in Malaysia, it is still not Islamically driven. Therefore, this framework still needs to be adjusted to suit the nature of the IFIs.



The Silver Book

The Silver Book or Initiative 5 which covers CSR, is one of 10 initiatives of Government-Linked Company (GLC) Transformation Programme (Transformation Management Office, 2006), which is a core part of the 15-year national mission towards 2020 as the Government pushes the envelope further to move the economy up the value chain (Mohamed Zain & Mohammad, 2007). This national guide book on CSR launched on 25 September 2006 is under the supervision of the Putrajaya Committee on GLC High Performance (PCG). The Silver Book is relevant to all parties involved in the PCG-led transformation efforts, including Government, Government-Linked Investment Companies (GLICs), GLCs' Board of Directors (BOD) and their management and staff (Putrajaya Committee on GLC High Performance, 2006).

The Silver Book is a set of principles and guidelines to be implemented by GLCs to enable them contribute proactively to the society while still creating value for their shareholders (Putrajaya Committee on GLC High Performance, 2006). It is devised to achieve three objectives; firstly, to clarify expectations on the GLCs' contributions to society, secondly, to guide the GLCs in evaluating their starting position in contributing to society and lastly, to provide the GLCs with a comprehensive set of mechanisms to proactively contribute to society while simultaneously still creating value for their shareholders (Putrajaya Committee on GLC High Performance, 2006). In other words, the Silver Book is meant to guide GLCs on how they can clarify and manage their social obligations.

Contributions, as visualized in the Silver Book, are not merely about philanthropy or even meeting an external set of compliance criteria on CSR. Rather, it is about creating benefits to society as an essential part of a company's business and operations, with the opportunity to obtain a competitive advantage for the company itself. In the Silver Book, CSR is called "contributions to society" which is defined as an activity undertaken by a business where the prime objective is to benefit the society in which it operates or groups of individuals or communities within that society. Such activities include both voluntary contributions as well as social obligations (Putrajaya Committee on GLC High Performance, 2006). Under the Silver Book guidelines, GLCs' CSR activities must be in line with their business objectives and corporate philosophy, as well as enhance stakeholder and shareholder values. GLCs are expected to formulate a comprehensive policy on their contributions to society that goes beyond corporate philanthropy (Transformation Management Office, 2006).

The Silver Book can be considered as a complement to Bursa Malaysia CSR Framework even though the focus is on a different group of companies since it guides companies on how they can clarify and manage their CSR initiatives. Nevertheless, same as Bursa Malaysia CSR Framework, the Silver Book is not Islamically driven. Hence, it is still unable to ensure that the IFIs comply to a *Shari'ah* based CSR framework.



Shari'ah Governance Framework (SGF)

Bank Negara Malaysia has issued *Shari'ah* Governance Framework effectively on 1 January 2011. The primary objective of the issuance of the framework is to strengthen the *Shari'ah* governance structure, processes and arrangements in order to meet the needs of *Shari'ah* principles. This framework is applicable to all IFIs regulated and supervised by Bank Negara Malaysia. In terms of approach, the framework is divided into six sections i.e. General requirements of the SGF, Oversight, accountability and responsibility, Independence, Competency, Confidentiality and consistency, and *Shari'ah* compliance and research functions (Bank Negara Malaysia, 2011).

Looking at this framework, as stated clearly in its name, SGF is formulated to only guide IFIs in Malaysia in governing *Shari'ah* matters effectively and smoothly. In relation to CSR, *Shari'ah* governance is merely a small component of the huge CSR programme which is unable to function as a comprehensive guide for IFIs in the application of CSR. With this in mind, this writer attempts to create an all-inclusive CSR framework which is crucial and required for IFIs best practices especially Islamic banks.

Islamic Financial Services Board Guidelines

The Islamic Financial Services Board (IFSB) which is based in Kuala Lumpur, serves as an international-standard setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market and insurance. IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with Islamic *Shari'ah* principles and recommend them for adoption. IFSB complements the work done by the Basel Committee on Banking Supervision, International Organization of Securities Commissions and the International Association of Insurance Supervisors (Islamic Financial Services Board, 2019).

There is no special standard of IFSB in relation to CSR. Nevertheless, there are three standards published by IFSB which those are relevant to it. They are Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds) (Islamic Financial Services Board, 2006), Guiding Principles on *Shari'ah* Governance Systems for Institutions Offering Islamic Financial Services (Islamic Financial Services Board, 2009a), and Guiding Principles on Conduct of Business for Institutions Offering Islamic Financial Services (Islamic Financial Services Board, 2009b). Generally, the guiding principles in those three standards, only touch small parts of CSR i.e., corporate governance and business ethics. Thus, a comprehensive standard is vital and needed in guiding IFIs to manage their CSR programmes and initiatives and is going to be the focus of this study.



Social Accountability 8000 (SA8000)

Social Accountability 8000 (SA8000) is a global, verifiable standard for managing auditing and certifying compliance with workplace issues. SA8000 seeks to assure the basic rights of workers which are based on conventions of the International Labour Organization and related international human rights instruments, including the Universal Declaration of Human Rights and the UN Declaration on the Rights of the Child (Leipziger, 2001). This standard was developed in 1997 by Social Accountability International, which is a non-governmental, international, multi-stakeholder organization dedicated to improving workplaces and communities by developing and implementing socially responsible standards (Social Accountability International, 2013b).

This voluntary code of conduct (Leipziger, 2001) is one of the world's first auditable social certification standards for decent workplaces, across all industrial sectors (Social Accountability International, 2013a). It is believed that the SA8000 is not only able to reinforce communities by improving conditions in the workplace, but also able to benefit companies that adopt it. Among the benefits are greater employee retention and enhanced performance, enhanced product quality and productivity, improved management, protection of reputation, and development of new markets and new customers (Leipziger, 2001).

There are nine issues addressed by SA8000 i.e. child labour, forced and compulsory labour, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration, and management systems (Social Accountability International, 2008). In order to certify compliance with SA8000, qualified auditors visit facilities regularly to assess performance on a wide range of addressed issues above (Leipziger, 2001).

Albeit SA8000 is an international standard for CSR, it is formulated only to manage auditing and certify compliance with regards to workplace issues. Evidently, it is not comprehensive enough. In addition, the standard also is not Islamically driven.

Global Reporting Initiative (GRI) Sustainability Reporting Guidelines

Comprehensive and sustainable Reporting Guidelines was pioneered and formulated by Global Reporting Initiative (GRI), and widely used around the world. The GRI is a non-profit organization that promotes economic, environmental and social sustainability (Global Reporting Initiative, 2013a). Although GRI is an independent institution, it enjoys strategic partnerships with the United Nations Environment Programme, the UN Global Compact, the Organisation for Economic Co-operation and Development, International Organization for Standardization and many others (Global Reporting Initiative, 2013b).

The GRI Sustainability Reporting Guidelines (GRI Guidelines) enable all organizations to measure and report their economic, environmental, social and governance



performance (Global Reporting Initiative, 2013b). This framework, which includes the Reporting Guidelines, Indicator Protocols, Technical Protocols, and Sector Guidelines, enables greater organizational transparency about economic, environmental, social and governance performance. Thousands of organizations, of all sizes and sectors, use GRI's Framework in order to understand and communicate their sustainability performance, since transparency and accountability builds stakeholders' trust in organizations, and can lead to many other benefits (Global Reporting Initiative, 2013b).

Sustainability reports based on the GRI Guidelines disclose outcomes and results that occurred within the reporting period in the context of the organization's commitments, strategy, and management approach. Ultimately, this framework is intended to serve as a commonly accepted framework for reporting on an organization's economic, environmental, and social performance regardless of size, sector or location (Global Reporting Initiative, 2011). It guides an organization on how to measure and report its CSR performance systematically, responsibly and transparently.

The GRI Guidelines are designed to guide organizations on how to disclose their CSR activities, the outcomes and results through CSR or Sustainability Report. Although, the framework provides special guidelines for the financial sector, it is still Western oriented and unable to guide Islamic organizations appropriately, especially in prioritizing their CSR activities based on *Shari'ah* principles.

United Nations Global Compact

The Global Compact is a strategic United Nations (UN) initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere (United Nations Global Compact, 2013a).

The UN Global Compact's ten principles enjoy universal consensus and it originated from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention against Corruption (United Nations Global Compact, 2013c). The UN Global Compact is the world's largest corporate citizenship and sustainability initiative. Since its official launch on 26 July 2000, the initiative has grown to more than 10,000 participants, including over 7,000 businesses in 145 countries around the world (United Nations Global Compact, 2013b).

Although UN Global Compact provides a good initiative for businesses in aligning the company's operations and strategies with its ten core principles, it only covers small part of CSR areas i.e. human rights, labour, environment and anti-corruption. Thus, a comprehensive and balanced Islamic CSR framework is still required in order to fulfil the market's needs.



DISCUSSION

Clearly, Islamic banks operations are based on *Shari'ah* and must depart further from conventional banks that are intensely profit motivated. Thus, the concept of brotherhood, social obligations, justice and fairness would be the goals of Islamic banks (Masruki, Ibrahim, & Azizan, 2010). Supposedly, Islamic banks should play an active role in executing their social responsibilities because of their status as a financial institution fulfilling a collective religious obligation and their exemplary position as a financial intermediary (Farook, 2007). Moreover, the CSR practices in Islamic banks should not only be based on collective religious obligation (*fardh kifayah*) and obtain a positive corporate image, but can be considered as a method to alleviate poverty and achieve the true economic goals of Islam (Yusuf & Bahari, 2011).

Based on the above review, there is no special CSR framework that is able to guide Islamic banks comprehensively thus far. Even though there is CSR framework for Malaysian public listed companies provided by Bursa Malaysia, it is very general and not an Islamically driven even it depends on how the individual company interprets it. Furthermore, not all Islamic banks in Malaysia are PLCs especially the foreign Islamic banks, and subsequently, they are not governed and guided by any regulations concerning CSR. On the other hand, although AAOIFI Standards is the only international standard that provides inputs on CSR for IFIs, by introducing five corporate responsibilities, it is still incapable to guide the IFIs to the fullest since the elucidation of the responsibilities is too general. In addition, the classification of CSR into mandatory and recommended is not really comprehensive. Therefore, improvisation is still needed in order to have an inclusive and clear Islamic CSR understanding. Thus, a balanced and comprehensive Islamic CSR framework is required for Malaysian Islamic banks best practices that may cover the five CSR dimensions elaborated by AAOIFI Standards (religious, economic, legal, ethical and discretionary responsibilities) and four CSR focal areas of Bursa Malaysia CSR Framework (the marketplace, workplace, community and environment).

It seems that without some form of regulatory intervention, reliance on voluntary action alone is unlikely to result in efficient and effective CSR applications. Hence, a special CSR framework for Islamic banks in Malaysia would be a practical suggestion to resolve the issues (Wan Jusoh & Ibrahim, 2017).

CONCLUSION

Based on the above discussion, it is recommended that regulatory authorities standardize the concepts of social responsibility for IFIs especially Islamic banks practices based on *Shari'ah* principles. In order to encourage good CSR practices, it is deemed appropriate for regulators to develop a framework as a basis for CSR of Islamic banks. Such an attempt may indirectly necessitate banks to plan and strategize their CSR activities systematically and efficiently. Therefore, there is a vital need to propose an Islamic CSR framework that can be used by the regulators involved like Bank Negara Malaysia, Security Commission and Bursa Malaysia to establish a CSR framework that is



comprehensive and applicable to be practiced not only in the Islamic banks, but also for other Islamic financial institutions and all Islamic business entities in Malaysia.

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