AN ISLAMIC PERSPECTIVE ON CORPORATE SOCIAL RESPONSIBILITY: THE IMPACT ON THE CORPORATE REPUTATION MOTIVES FROM THE SUBSETS OF STAKEHOLDER MANAGEMENT THEORY

Juliana Anis Ramli
Department of Accounting, College of Business Management and Accounting,
Universiti Tenaga Nasional,
26700 Muadzam Shah, Pahang, Malaysia.
Juliana@uniten.edu.my

ABSTRACT

Business has multi-fiduciary roles which transcends its economic pursuits, especially those Islamic business organizations which attempt to reflect its Islamic image. This provides a motivation to examine the extent of CSR reporting disclosure of Malaysian Shariah-compliant companies (SCCs) and the propensity of companies in engaging CSR practices under the two competing theories; normative and instrumental which underpinning the stakeholder management theory. The results seem to suggest that the CSR practices are linked to the firms’ strategic motives, especially for non-pecuniary advantage. This strategic tool is a way to enhance their corporate reputation image. Ways forward and limitation of the study are further deliberated.

Keywords: Islamic, Business, Corporate Social Responsibility, Stakeholder, Reputation.

INTRODUCTION

Corporate business emerges in the midst of society is functioning more than making a profit. Given its enormous functions and complexities, the business operators seem to forget the original purpose of the firm’s existence. Reminiscing to the seminal idea of why firms do exist by Coase (1937), the existence of firms is a way to supersede the market transaction which is coordinated by price movements and allows the business operators to earn sum of profits from the minimum factors of production (or transaction costs). This denotes that why firms exist is to fulfill the society’s needs and demands through providing products and services. However, succumbing to the materialistic pursuits, most of the organizations have strayed from the true path following to the aim of achieving profit maximization, which ultimately led to the giant corporate downfalls (Kolstad, 2007). Rather to serve shareholders’ interests in isolation, hence government and capital market regulators have put corporate social responsibility (hereafter ‘CSR’) as one of the agendas in the corporate governance (CG) reforms to serve to the wider interests of other stakeholders.

The emergence of CSR has begun since 1910s and constantly growing in remarkable patterns and magnitudes (Cho, Michelon, Patten and Roberts, 2015). The increased interests in CSR
policy is to moderate sense of discontent among explicit and implicit business constituents towards self-interests of pursuing greedy economic goals which inherently underpin the Western economic worldview (Haneef, 1997). Aiming for sole economic pursuits, the rights of the wider circles of stakeholders have been put to ignorance. This is the culprit to the social ills which requires companies to take responsibility into the account through CSR practices.

From the lens of Islam, CSR is a kind of noble practices by companies, since business organizations are perceived as the ‘booster’ of economic and social life of community throughout history (Abeng, 1997). In fact, Islam has recognised business activities are not primarily being carried for the economic and legal purposes, but to fulfill religious responsibilities as well (Chapra, 1992; Nik Yusoff, 2002). In fact, the Holy Prophet encourages people’s involvement in the business as a main source of living sustenance as business plays significant roles in delivering both religious and social responsibilities, as he spelt out “Righteous businessmen will be the first to enter paradise”. Islam never dichotomize between the religion and commercial pursuits under the Tawhidic paradigm, and Allah ever reminds the Muslims to safeguard the welfare of the society while carrying out the commercial activities without fulfilling self-interest motives:

“Wealth should not circulate only among the rich” (Al-Hashr: 7)

“Satan inspires you with a fear of poverty (for investing in society) and commands you obscenities; God, on the other hand, promises you forgiveness and prosperity from such investment”. (Al-Baqarah: 268)

Recognizing the positive consequences of CSR practices, Malaysian regulators have taken initiatives to promote corporate accountability through engagement of CSR activities. However, the magnitudes of such CSR practices may vary across companies, given that CSR engagements entail for substantial amount of costs unless if it yields substantial business-related benefits to the practicing companies (Burke and Logsdon, 1996). It has been understood that Malaysian companies historically have been inoculated by the Western’s ideology based on the utilitarian approach (universalism), hence the practicing companies may weigh the prevailing benefits over costs from the CSR practices (Sprinkle and Maines, 2010). In fact, it is not surprising to note that the large foundation base of Carroll (1979 & 1991)’s CSR pyramid rests on the profit-making. Thus, since large corporations hold too much power to attract attention from their stakeholders, therefore their CSR practices are perceived as a part of their corporate strategy (Goodpaster, 1991).

Practicing certain compliance voluntarily calls for strong motivation (or motives) from the company’s management therein. The basis assumption on the utilitarian concept is that the ethical voluntary compliance of the CSR practices is invoked by the outcome- or consequences-oriented. Therefore, the likelihood of companies in reporting its CSR practices are driven by two internal preference dimensions; ritualism and opportunism (Gibbins, Richardson and Waterhouse, 1990). The former dimension expounds uncritical acceptance of rules and norms, whilst the latter dimension is a propensity a company to seek firm-specific advantage (Gibbins, et.al., 1990). Since this study underpins the two competing theories which are subsets of the stakeholder management theory; normative theory vis-a-vis instrumental theory, thus it is important to associate the two theories with the internal preference dimensions. The ritualism dimension fulfills the normative theory based on the
postulation that company’s management has multi-fiduciary obligations beyond its commercial motives to look after the welfare of the wider constituents other than the shareholders. In fact, Islam supports what firm ought to act under the ethical parameter and morally responsible. Being Islamic organizations, engaging in socially and ethically responsible activities is salient from the perspective of the SCCs in a way to exude positive image in order to reflect the Islamic image to the stakeholders. Muhamad (2007) supports this notion from the Tawhidic paradigm with the view that the SCCs are not only explicitly functioning as an economic entity, but tacitly serving their roles and responsibility to the society, environment and God. These responsibilities fulfill the requirements of Shariah framework.

Doing good to others is espoused in Islam. Islam accepts the argument of Freeman (1984) in the premise that given the corporate stakeholders are so vulnerable with the firm’s business activities, Islam promotes benefits (manfaah) but abhors any transgression or harmful (mafsadah) activities against the stakeholders. In this context of CSR practices which is motivated by the altruistic behaviour to feel content by helping others, thus the stakeholder theory is pertinent to the Islamic perspective. This is consistent to the Islamic ethical system philosophies which emphasize on the acts of justice, balance, trust and benevolence (Beekun, 1997; Beekun and Badawi, 2005; Naqvi, 1997), without completely depending on human reasoning. In fact, the CSR is perceived meets the Shariah objectives (or Maqasid Shariah) as it helps to protect human well-being and enhance quality of life. Incorporating the worldly matter into Shariah elements are very inspiring. It is interesting to know that Che Azmi, Ab Aziz, Non and Muhammad (2016) have categorized the CSR practices under the ‘desired’ (Hajiyyat - Need) and ‘expected’ (Tahsiniyyat– Embellishment) based on survey interviews, although they do not provide succinct classification of CSR items to each category of the Maqasid As-Shariah. Since Islam seeks for value maximization rather than profit maximization, therefore based on the normative theory, the Islamic business organization (or SCCs) is expected (or hypothesized) to engage in reporting of CSR practices in high virtues and moral consciousness without hoping for better rewards in the form of pecuniary (i.e. profitability, return on equity/assets) and non-pecuniary (i.e. award) advantages.

Taking from a different view of the instrumental theory, this theory is associated with the aforementioned latter internal preference dimension – opportunism. Opportunism is a behavioural assumption and it relates to the interest-aligning mechanism (Donaldson and Preston, 1995). The formulation of the instrumental theory in this context of philanthropic (CSR) activities is based on the assumption that the CSR practices are treated as an ethical investing or a strategic tool in order to achieve economic goals (Jones, 1995; Burke and Logsdon, 1996; Lantos, 2001 and 2002; Greenfield, 2004). In other words, this instrumental theory is used to describe a pattern of practices as an instrument to reach some ends (Donaldson and Preston, 1995). The proponents of this theory contend that the propensity of management or firm to engage in CSR initiatives is ignited by the motivations to enhance the good image and maintenance of good reputation as well. Since the CSR practices are endogenously determined, such motivations are literally driven by the self-interests motive or opportunism (Donalson and Preston, 1995). Due to the imperfect contracts, the said motivations are consistent to the tendency of companies to act opportunistically in reporting CSR initiatives so that they could achieve targeted economic goals in return (Campbell, 2007; Gibbins, et.al, 1990) and also inevitably to fulfill the interests of the main providers of capital, shareholders (Donaldson and Preston, 1995). Therefore, based on the instrumental
theory it is expected (or hypothesized) that the SCCs may engage the CSR initiatives to enhance their corporate reputation motives by hoping for better rewards in the form of pecuniary (i.e. profitability, return on equity/assets) and non-pecuniary (i.e. award) advantages.

There are abundant of CSR-related studies in theoretical and empirical settings have been done from conventional approach. Although there are growing literatures on the CSR-related studies from the Islamic perspective, however most of them have been theoretically deliberated in normative approach (Muhammad, 2007; Khurshid, Al-Aali, Soliman and Amin, 2014; Darus, Yusoff, Abang Naim, Mohamed Zain, Amran, Fauzi and Purwanto, 2013; Dusuki, 2008; Dusuki and Abdullah, 2007). As far as the corporate motives is concerned, Anas, Abdul Rashid and Annuar (2015) find that award has strong motivation to exert influence for companies to engage in the CSR. Most of the prior studies which measuring the causality between the CSR practices and firm performance are only taking the monetary measurements (i.e. ROA, ROE, profitability, etc.) into consideration (Aras, Aybars and Kutlu, 2010; Saleh, Zulkifli and Muhamad, 2011; Nollett, Filis and Mitrokostas, 2016), in which the non-monetary measurement in terms of award recognition is understudied. The current study which attempts to examine the extent of CSR disclosure of the Malaysian SCCs and to investigate whether such CSR disclosure practices are associated with corporate reputation motives under the two subsets of the stakeholder management theories (instrumental vis-à-vis normative theory); is expected to reduce the scantiness of the existing realm of the CSR-related studies from the Islamic perspective especially in empirical setting.

The remainder of the paper is organised as follows. Section 2 outlines the research design and measurement of variables, sample and sampling procedures. Section 3 presents the analysis of findings and the discussion of the results. Ultimately, Section 4 presents conclusion and limitation of the current study and a way forward for future research.

RESEARCH METHODOLOGY

The research design of this study is quantitative in nature, and is carried out in order to achieve the objectives of the study. Given the population of the study is the Shariah-compliant companies with a total of 629 for a single year of 2014, the sampling procedures is undertaken by using simple random sampling method to come up with a sample size of 239 companies (Sekaran and Bougie, 2010) across different industries. However, the original sample size has been reduced to 218 companies after considering some circumstances that require to rule out certain companies, for instance due to unavailability of the company’s annual report for that particular year, those companies under finance sector which are subject to adhere different regulations background and legal standing factors (i.e. change company’s name, delisted, etc.).

Pertaining to data acquisition, since the current study is quantitatively carried out, hence it requires for the utilization of the quantitative content analysis (2004). Referring to the Table 1 below, the analysis of CSR information has been quantified using one of the five indices, which is dichotomous method to represent the extent of the disclosure (Krippendorf, 2004), rather than to signify the quality pattern of disclosure (Baretta and Bozzolan, 2008). This method has been extensively used by the proponents of the disclosure-related studies. The
information relating to the reporting of company’s CSR practices under four CSR dimensions and the accounting figures which reflect to the measurements of corporate reputation motives in both pecuniary items (measured by return on equity (ROE), return on assets (ROA) and return on sales (ROS) and non-pecuniary item (measured by ‘award’) are gathered from the most available and easily accessible document; corporate annual report. All the data have been analysed in both descriptive and inferential statistics by using the SPSS to accomplish the objectives of the study.

Table 1: Operationalization of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable:</strong></td>
<td></td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>Dummy variable: (1 = “Disclosed”, 0 = “Non-Disclosed”)</td>
</tr>
<tr>
<td>(Dimension: Environment, Community, Workplace and Marketplace)</td>
<td></td>
</tr>
<tr>
<td><strong>Independent variables:</strong></td>
<td></td>
</tr>
<tr>
<td>Pecuniary Items:</td>
<td></td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>Net Income / Shareholders’ Equity</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>Net Income / Average Total Assets</td>
</tr>
<tr>
<td>Return on Sales (ROS)</td>
<td>Earnings Before Interests and Tax/ Net Sales</td>
</tr>
<tr>
<td>Non-Pecuniary Item:</td>
<td></td>
</tr>
<tr>
<td>Award</td>
<td>Dummy variable: (1 = “Award”, 0 = “No Award”)</td>
</tr>
</tbody>
</table>

RESULTS

Results Of Descriptive Statistics

Table 2: Disclosed Item based on respective Sub-Theme Category

<table>
<thead>
<tr>
<th>Theme</th>
<th>Sub-Theme Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Energy</td>
</tr>
<tr>
<td>∑ = 41.17%</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td>(38.5%)</td>
</tr>
<tr>
<td>Community</td>
<td>Children</td>
</tr>
<tr>
<td>∑ = 50.55%</td>
<td>86</td>
</tr>
<tr>
<td></td>
<td>(39.4%)</td>
</tr>
<tr>
<td>Workplace</td>
<td>Health &amp; safety</td>
</tr>
<tr>
<td>∑ = 66.28%</td>
<td>169</td>
</tr>
<tr>
<td></td>
<td>(77.5%)</td>
</tr>
<tr>
<td>Marketplace</td>
<td>Green</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 2 above depicts the descriptive results of disclosed items based on respective sub-theme category, made by the SCCs \((n=218)\). Among the four themes of the CSR, the Workplace theme ranks the highest disclosure \((66.28\%)\) in which the SCCs made highest disclosure pertaining to their employee-related issues that they have been taken care for. Being one of the primary social stakeholders, the employees are deserve to receive employee-related benefits which reflect to their work contribution made to the company they served for. This can be seen to the highest disclosure made by the health and safety sub-theme \((77.5\%)\).

On the other hand, the Environment theme ranks the lowest disclosure made by the SCCs \((41.17\%)\), given that engaging in environment-related activities entails for substantial amount of costs. Sacrificing for such costs is a bit difficult for companies to compromise unless if the business-related benefits prevails the CSR-related costs to the companies \((\text{Burke and Logsdon, 1996; Sprinkle and Maines, 2010})\).

Under category of environment theme, the disclosure on protecting flora & fauna \((61\%)\) appears the highest disclosed item made by the SCCs. This denotes that the SCCs have taken substantial efforts to appreciate the God’s creation by preserving flora & fauna from the extinction. \((\text{i.e. involvement in firefly conservation project})\). Meanwhile, the disclosure made on the contributions to the privileged folks constitutes the highest disclosure under the category of Community theme \((72\%)\). Regarding the Marketplace theme, it is not surprising to know that the corporate governance (CG) category is the highest disclosure made by the SCCs, given the pertinent information on how governance helps to protect the welfares of the primary social stakeholders including the shareholders as well.

Results Of Inferential Statistics

<table>
<thead>
<tr>
<th>Theme/Reputation</th>
<th>Pecuniary Reputation</th>
<th>Non-Pecuniary Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ROA</td>
<td>ROE</td>
</tr>
<tr>
<td>(\Sigma) CSR disclosure</td>
<td>0.052 (0.132)</td>
<td>0.003 (0.203)**</td>
</tr>
<tr>
<td>Environment</td>
<td>0.585 (0.37)</td>
<td>0.356 (0.063)</td>
</tr>
<tr>
<td>Community</td>
<td>0.001 (0.223)**</td>
<td>0.000 (0.311)**</td>
</tr>
<tr>
<td>Workplace</td>
<td>0.921 (0.007)</td>
<td>0.423 (0.054)</td>
</tr>
<tr>
<td>Marketplace</td>
<td>0.176 (0.092)</td>
<td>0.054 (0.130)</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (two-tailed).**

Table 3 above depicts the correlation results on the association between the disclosure on CSR practices and corporate reputation motives proxied by firm performance in the form of pecuniary and non-pecuniary items under the two competing theories underpinning the stakeholder management theory; normative and instrumental. The above findings seem to
imply that the CSR practices are treated as an instrument for the SCCs to accomplish their economic goals, especially on the ROE and award achievements. Among the four theme of CSR disclosure, theme of Community has significant relationship with all pecuniary and non-pecuniary reputation motives at 5 percent significant level. This denotes that the contributions made to the community provide positive consequences to the SCCs’ reputation advantages.

In addition, it is interesting to note from the above findings that overall CSR disclosure together with each category disclosure theme are positively associated with the non-pecuniary reputation - award. Since the award conferment is one of the ways to promote better disclosure and corporate governance practices among the public listed companies by the regulators, the practicing companies have taken this initiative positively and simultaneously enjoy the reputation advantage from such good practices. However, overall CSR disclosure, the disclosure theme of respective environment, workplace and marketplace have no relationship with ROA and ROS as well. Besides, the environment, workplace and marketplace themes are unable to have significant relationship with the ROE. In overall, the engagement of the SCCs on CSR practices is partially driven by the pecuniary reputation motives. Being the Islamic organizations, the SCCs are very concern to exude their public positive image through winning CSR-related practices award, and this is consistent to the two studies, firstly the findings of Gibbins et.al. (1990) that find that the motivation of companies in disclosure practices is to seek firm-specific advantage (or opportunism) and secondly the study by Anas, et.al. (2015) who find that award has been an exogenous motivation factor for companies to engage in the CSR practices. Thus the above findings seem rather to fulfill the instrumental theory on the association between the CSR disclosure practices and corporate reputation motives among the SCCs.

CONCLUSION

In Islam, there is no dichotomy between business and religion matter. This implies that business is functioning as a unifying role between the relationship with God and human beings. Being large organizations that have multi-fiduciary obligations to serve wide interests of the stakeholders including shareholders, the SCCs which are inherently derived from the conventional companies, are torn between to ensure its financial health and investing social and ethical activities through CSR practices. The proponents of the CSR from normative perspective espouse the ethical and social activities to be carried out by companies in commensurate to the Shariah framework. However, since the true corporate objectives have been ‘contaminated’ by the secularists’ ideology, the pursuit of materialistic motive prevails the ideal business functions for being a part of religious requirement (Nik Hassan, 2002). Given the externalities factors and internal business complexities, the propensity of companies to engage in CSR practices is largely driven by strategic interests and opportunities to benefit from CSR by way of supporting firm’s core business activities and eventually translating it into profits. In other words, CSR activities is strongly linked to the strategy of the firms. However, since this study is quantitatively undertaken, this provide limitation to this study and to confirm whether the companies are truly recognise the CSR as a strategic tool, therefore further research could be undertaken through semi-structured interviews and survey.
In the context of the SCCs, the engagement of companies in the CSR activities is commendable and it is such extolling the virtues of upholding the philanthropic and humanitarian sensitivities. As far as the Shariah injunctions are concerned, it is a way forward for the future researches to incorporate the Shariah compliance values into the existing CSR dimensions and can be further classified into \textit{Maqasid as-Shariah} categories. Firms shall not treat CSR engagement as a way to trade off the firms’ profit, but it shall take account CSR activities as taking for preventive or corrective measures for safety or motivational factors in which those measures are seem so important from the eyes of stakeholders, as for value creation and to ensure firms’ future sustainability.

REFERENCES


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