

Stakeholder Management in Designing CSR Activities: The Case of Bank Islam

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Abstract

CSR commitments should be viewed from a broad Islamic perspective of reducing poverty rate, and enhancing quality of Muslims' lives. The purpose of this study was to determine how Bank Islam manages its stakeholders, and their issues, in designing CSR activities through the three level of maslahah. A group of CSR players at the bank has been interviewed together with on-field observations as well as documentation reviews to gain insights into the process of managing stakeholders. The findings indicated that the bank acknowledges the importance of managing stakeholders, and their issues, through the engagement of various CSR activities. In designing CSR activities, the process of identifying the stakeholders and their issues may need to be carefully examined to improve the impact of the activities on the recipients. This study offers a new insight to the body of knowledge of CSR from the Islamic perspectives of stakeholder management.

Keywords: Corporate social responsibility (CSR), Islamic bank, case study, stakeholder management

1.0 Introduction

In the academic literature, corporate social responsibility (CSR) has been defined as "stakeholder-oriented concept that extends beyond the organisation's boundaries and is driven by an ethical understanding of the organisation's responsibility for the impact of its business activities" (Maon, Lindgreen, & Swaen, 2009, p. 72). Thus, from the Western point of view, CSR is about doing business sustainably, ethically, and being responsible for the wellbeing of all business stakeholders. The conventional perspective of CSR in Western settings is only concerned with the material aspects to fulfil the various expectations of stakeholders and does not cover the spiritual or religious obligations to The Creator (Allah SWT).

However, from the Islamic perspective, CSR is a tool to maintain *hablun min Allah* (a good relationship with Allah SWT), *hablun min an-nas* (a good relationship with other

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human beings), and a good relationship with the environment (Afridi & Navaid, 2006; Ahmad, 2001; Hanafy & Sallam, 2001) to achieve the objectives of *Shariah* (*maqasid Shariah*) for public interest (*maslahah amah*). These relationships can also be applied to all types of business organisations that have been identified as *Shariah* compliant business organisations including those in banking and finance, manufacturing, agriculture, and other sectors.

In addition, Islam considers social responsibility to be part of an individual's *ibadah* (worship) and the concept is derived from the *Tawhid* and *Shariah* paradigms. The concept promotes socio-economic justice and fairness to all business stakeholders such as shareholders, customers, employees, society, and the environment. Therefore, companies need to integrate CSR as part of their business agenda and manage these activities properly in order to optimise the benefits for all stakeholders of the business.

Furthermore, prior studies on the Islamic perspective of CSR had focused on; (i) the conceptualisation of CSR (Basah & Md Yusuf, 2013; Darrag & E-Bassiouny, 2013; Dusuki & Abdullah, 2007; Khan & Karim, 2010; Khurshid, Al-Aali, Soliman, & Mohamad Amin, 2014; Mohd Nor, 2012; Platonova, 2013); and (ii) its disclosure and reporting (Maali, Casson, & Napier, 2006; Thibos & Gillespie, 2011). However, limited attention has been given to the stakeholder management in designing CSR activities. In addition, even though many companies claimed that they are socially responsible, they still query how this concept should be operationalised on the ground (Dusuki & Abdullah, 2007; Sairally, 2013). This could be due to the fact that little has been written about how such commitment should be managed (Hond, Bakker, & Neergaard, 2007) or implemented (Smith, 2003), and the lack of a concrete managerial framework to manage diverse stakeholders' interests (Dusuki & Abdullah, 2007).

In addition, some of the dominant theories in the CSR discussion such as stakeholder theory (Freeman, 1984; Freeman, Wicks, & Parmar, 2004) and legitimacy theory (Deegan, Rankin, & Tobin, 2002; Suchman, 1995) also failed to explain the religious or spiritual obligations of business entities toward the society and other stakeholders, and focused more on material performance (tangible benefits). In other words, much of the literature discussed the governance of the relationship between individuals/organisations with other human beings and individuals/organisations with the environment, and a few studies focused on the relationship of businesses with Allah SWT. Thus, this study may enhance the body of knowledge of CSR from the Islamic perspective to reflect Islamic teachings, values, and principles.

Thus specifically, the study aimed to determine how the bank manages the stakeholders, and their issues, in designing CSR activities through the three levels of *maslahah*. This study was based on the underlying principles of *hablun min Allah* and *hablun min an-nas* (relationship of man to Allah SWT and man with other human beings). The integration of these concepts to discuss the Islamic concept of stakeholder management may enhance the body of knowledge of CSR to discharge religious, social, and economic responsibilities toward various businesses' stakeholders.

The remainder of this paper is organised as follows: first, previous studies on stakeholder management from conventional and Islam perspectives are reviewed; then, this is followed by the research method and design. Next, the findings and discussions of this study are presented and finally, some concluding remarks are documented.

2.0 Literature Review

Each organisation has different groups of stakeholders and their issues may also be different depending on the nature and location of the organisation (Hond et al., 2007). Thorne, Ferrell, and Ferrell (2008, p. 15) defined stakeholders as “constituents that have a stake in, or claim on, some aspect of a company’s products, operations, markets, industry, and outcomes”. Freeman (1984) suggested that stakeholders consist of individuals or groups that can directly or indirectly affect, or be affected by, a firm’s activities. Islam recognises the right of owners or shareholders to make a profit but not at the expense of other stakeholders, namely, employees, suppliers, customers, society, and the environment (Beekun & Badawi, 2005; Haniffa & Hudaib, 2002; Ullah & Jamali, 2010).

2.1 Conventional Views of Stakeholder Management in CSR

There are two major schools of thought in discussing the responsibility of businesses. The first approach is from theorists who claimed that the only responsibility of business is to maximise profits (Friedman, 1970) within legal boundaries and with minimal ethical constraints. The second approach is from a group of theorists who advocated that the responsibility of business is not only to make profits for shareholders, but also to be responsible for all the people directly or indirectly engaged with the business (Carroll & Shabana, 2010; Godfrey & Hatch, 2007). In today’s business world, businesses not only exist for their own benefits (focusing mainly on the owners’ or shareholders’ profit maximisation) but, to be sustainable, they have to embrace their various stakeholders by demonstrating social and environmental commitment (Carroll & Shabana, 2010). Principally, CSR involves doing good things for shareholders as well as for other stakeholders beyond the maximisation of profits.

Among the dominant theories that discussed on stakeholder management is stakeholder theory. The theory is a management theory which directs how managers should act to conduct the business and how to manage stakeholders’ relationships (Freeman, 1984; Freeman et al., 2004). The theory suggested that when business entities fulfil the expectations of various stakeholders, they are able to improve the performance of the business (Freeman, 1984) and obtain legitimacy (Donaldson & Preston, 1995). In this sense, managers should identify specific business stakeholders and their issues, and the role of managers and management is to handle stakeholders’ expectations and demands (Donaldson & Preston, 1995). Thus, the responsibility of managers is not only to the shareholders, but also to other stakeholders such as employees, customers, suppliers, the community, and the environment.

Furthermore, different groups of stakeholders have different views of how organisations should conduct their operations and have different abilities to affect an organisation (Deegan, 2002). Therefore, companies may conduct and develop their business in accordance with stakeholder theory for value creation and performance (Freeman et al., 2004). The good management system of an organisation is reflected in how its stakeholder relationships are managed (Waddock, 2009) by fulfilling the objectives of its primary stakeholders (shareholders and customers) and ensuring that the other stakeholders are also satisfied with the company's decisions (Carroll, 1989; Thorne, Ferrell, & Ferrell, 2008). However, this theory is not adequate to explain the Islamic concept of CSR which has a spiritual obligation to the Creator and to discuss how companies may discharge these spiritual obligations to their various stakeholders. Thus, the next section discusses the Islamic views of stakeholder management.

2.2 *Islamic Views of Stakeholder Management in CSR*

From the Islamic perspective, CSR is a tool to manage the relationship of man with Allah SWT, nature, and other human beings. The relationship is governed by the concept of *Tawhid* (the unity of Allah SWT) where Allah SWT is the Creator, Owner, Absolute, and Ultimate (Quran, 39:44), and *Shariah*. Thus, Islamic business organisations, particularly Islamic banks are not only responsible for running the business in a profitable way but also have to fulfil religious and social responsibilities toward society (Basah & Md Yusuf, 2013; Dusuki & Abdullah, 2007; Platonova, 2013; Sairally, 2013).

Furthermore, Islamic banks have a range of stakeholders and the issues pertaining to each group of stakeholders are varied. To reduce the conflict between stakeholders, banks should demonstrate CSR commitments through communication and reporting, and conduct business in accordance with *Shariah* principles. In addition, Dawkins and Lewis (2003), and Arshad, Othman, and Othman (2012) claimed that companies may carefully manage their stakeholders' expectations in designing business strategies through CSR engagement. Hence in designing the CSR initiatives, stakeholders, and their issues, should be carefully determined in order to maximise the value of CSR activities.

Furthermore, Beekun and Badawi (2005) classified stakeholders into three groups based on their priority of rights in the business, (i) those who are directly affected by the success or failure of the business such as employees and shareholders; (ii) those who are sufficiently affected by the success or failure of the business such as suppliers, customers, and government; and (iii) external parties such as the environment and the community. Moreover, Ullah and Jamali (2010) prescribed the rights and obligations of business entities toward their stakeholders based on the concept of unity, trusteeship, and justice. These three concepts suggested that stakeholders should be treated well and deserve to get benefits according to their stake (rights and claims).

Islam strongly encourages organisations to treat all their stakeholders fairly and honestly (Quran 4:58; 23:8; 70:32) especially employees and owners/shareholders,

followed by customers, suppliers, and other external parties (Beekun & Badawi, 2005). Islamic banks are accountable to various stakeholders like investors, creditors, owners, shareholders, *zakat* beneficiaries and payers, government, community, employees, and customers (Wan Abdullah, Percy, & Stewart, 2011). The importance of social justice to all stakeholders is mentioned many times in the Quran (Quran 17:35; 4:58; 4:149) and in the *Hadith* of Prophet Muhammad (PBUH): “He will be a witness against one who employs a labourer and gets the full work done by him but does not pay him his wages” (Sahih Al-Bukhari).

For the purpose of the discussion, this study used the level of *maslahah* (*dharuriyyat*, *hajiyyat*, and *tahsiniyyat*) as a conceptual framework to discuss some of the stakeholder management issues based on their priorities as shown in Table 1. However, in some cases, these priorities may evolve and thus the levels also may overlap or change based on the nature and urgency of the issue. This can be seen, for example, in the need to conduct training among employees. Employee training is considered a complementary need (*hajiyyat*) if the training is to equip employees with knowledge of *Shariah* rules. Hence, they are able to produce a new Islamic financial instrument (to protect the faith), and this need becomes an essential need (*dharuriyyat*) of the employees.

Table 1

Managing Stakeholders and Their Issues through Maslahah

Stakeholders	Issues pertaining to the stakeholders	Level of <i>maslahah</i>
Shareholders	i. Deliver reasonable shareholder returns or profits	<i>Dharuriyyat</i> (essential)
	ii. Ensure shareholders' rights (e.g., attending annual general meeting)	<i>Dharuriyyat</i> (essential)
	iii. Ensure transparency in reporting and communication	<i>Dharuriyyat</i> (essential)
	iv. Safeguard the investments, transparent and ethical business transactions in permissible (<i>halal</i>) business activities	
Shareholders	i. Invest in highly profitable investment	<i>Hajiyyat</i> (complementary)
Shareholders	i. Encourage shareholders to be involved in CSR programmes	<i>Tahsiniyyat</i> (embellishment)
Employees	i. Pay fair wages	<i>Dharuriyyat</i> (essential)
	ii. Provide a prayer room	<i>Dharuriyyat</i> (essential)
	iii. Safeguarding the employees' safety and health in the workplace	<i>Dharuriyyat</i> (essential)
Employees	i. Provide opportunity to enhance knowledge and skills through attending training, workshop, and seminars	<i>Hajiyyat</i> (complementary)

(continued)

Stakeholders	Issues pertaining to the stakeholders		Level of <i>maslahah</i>
Employees	i.	Offer bonuses to the excellent workers	<i>Tahsiniyyat</i> (embellishment)
	ii.	Conduct programmes to strengthen brotherhood (<i>ukhuwwah</i>)	<i>Tahsiniyyat</i> (embellishment)
Customers	i.	Provide products and services that are lawful (<i>halal</i>) and not harm their lives	<i>Dharuriyyat</i> (essential)
	ii.	Disclose all product information	<i>Dharuriyyat</i> (essential)
	iii.	Offer fair prices and quality products	<i>Dharuriyyat</i> (essential)
Customers	i.	Offer information, training and monitoring of product use and after sales services.	<i>Hajiyyat</i> (complementary)
Customers	i.	Provide a channel for customers' feedback, complaints, and suggestions	<i>Tahsiniyyat</i> (embellishment)
Community	i.	Public health and safety protection	<i>Dharuriyyat</i> (essential)
	ii.	Provide basic needs such as food and shelter to the poor and needy	<i>Dharuriyyat</i> (essential)
	iii.	Offer scholarships to poor students	<i>Dharuriyyat</i> (essential)
Community	i.	Participate in community activities such as community assistant projects (e.g., infrastructure development)	<i>Hajiyyat</i> (complementary)
Community	i.	Establish a foundation to manage CSR activities	<i>Tahsiniyyat</i> (embellishment)
Environment	i.	Minimise emissions and waste	<i>Dharuriyyat</i> (essential)
Environment	i.	Conduct programmes on environmental conservation	<i>Hajiyyat</i> (complementary)
Environment	i.	Conduct programmes on environmental awareness	<i>Tahsiniyyat</i> (embellishment)

3.0 Methodology

This study selected Bank Islam as a case study to gain a better understanding of stakeholder management in designing CSR activities. The bank is a pioneer in exploring and developing the Islamic banking system in Malaysia. The bank has been ranked as the 4th strongest bank in Malaysia and won several awards such as the "Corporate Social Responsibility Programme of the Year (Bronze)" at the Asian Banking and Finance Awards 2013 (Uy, 2013), the "Best Annual Report in Bahasa Malaysia (Gold)" in the National Annual Corporate Report Awards 2012, and the Malaysia Service to Care Awards 2011 and 2012 for the Islamic bank category by MarkPlus, Incorporated (Bank Islam Annual Reports 2011 and 2012).

In order to understand the groundwork of managing various stakeholders' aspirations, 17 respondents who were senior managers and officers of the bank were interviewed. As stated by Maignan, Ferrell, and Ferrell (2005, p. 967), "formal documents may not

be sufficient to elicit how the organisation envisions its relationships and contributions to stakeholders". In addition, six in-field observations of CSR programmes such as Home Project 2010 at Pokok Sena and Kulim, and zakat hand-over ceremony at UUM were conducted. Furthermore, CSR documentation and reports such as annual reports, corporate websites, and flyers were analysed to support the findings and arguments. The process of data collection took place during the period of September 2010 to March 2013.

The data from these three sources have been converted into analysable text which can be reduced, displayed, and used to draw conclusions (Miles & Huberman, 1994). The interview data were analysed following the steps recommended by Miles and Huberman (1994), and Creswell (2007). Then for the documentation analysis, all the relevant documents were analysed through qualitative content analysis as suggested by Bryman and Bell (2011).

4.0 Findings and Discussion

4.1 Managing Stakeholders and Their Issues at Bank Islam

Bank Islam acknowledges the importance of managing stakeholders and their issues. In managing their stakeholders, the bank may examine carefully all stakeholders (internal and external stakeholders) because they are important to the bank. *"At Bank Islam, we believe that one of the ways to build the better reputation of the bank is through the efficient sustainable management of stakeholders. This will help the bank to preserve market positions, margins, and organisational vitality. A corporate reputation is a broad entity that enables a bank to establish a relationship with their stakeholders and encompasses the full range of attributes associated with the underlying products and service experience"* (Respondent 9).

The internal stakeholders mentioned by the respondents include employees, customers/depositors, as well as shareholders, and external stakeholders include the government, schools, universities, government agencies, regulatory bodies, potential investors, and communities. The bank manages these various stakeholders' issues by mutual discussion and consensus with all stakeholders. For instance, Respondent 9 commented that *"at Bank Islam ... the shareholders support the [CSR] programme. There is no resistance from the shareholders ... and there is no conflict of interest. It [is] because they are in the same line with us, ... something that the shareholders expect you to do"*.

Furthermore, the depositors or individual consumers of the bank are among the largest group of stakeholders as compared to corporate consumers (Respondent 17). The bank is committed to improving continuously its services and products to the best benefits of its customers. Interestingly, in one of the tag lines in the 2011 Annual Report, the bank stressed on *"Cultivating a customer-centric philosophy: Understanding the diverse needs of its vast customer base, Bank Islam provides comprehensive and innovative*

solutions” (p. 156). For instance, the bank offers micro-financing via *Ar-Rahnu* businesses which provide credit facilities for traders and the small business community to support their financial needs.

In addition, the employees’ welfare and benefits at the bank are taken care of by the Human Resources Department and their Welfare Club (*Kelab Kebajikan Bank Islam*). The bank recognises the importance of its employees in driving success of the business by providing training and learning opportunities, as well as career progression, so that employees are able to acquire knowledge and skills for their own benefits. These efforts are central to the strategies of the Human Resources Department to build up the employees’ core competencies, management, performance management, and system enhancement (Bank Islam Annual Report 2011). Furthermore, according to Bank Islam Annual Report, 2011, the bank allocated approximately RM7.16 million in training and development of staff through 48 in-house and 270 external training programmes which covered soft and functional skills of 752 staff, with the overall purpose to inculcate high performance work culture.

From these findings, this study suggested that the bank gives fair consideration to all its stakeholders, such as customers and employees, to sustain their support and commitment to the bank. In managing the stakeholders’ expectations or aspirations, the bank should establish a good relationship with its stakeholders. Good CSR management also needs effective stakeholder management by fulfilling their various expectations. Furthermore, it is important to align the stakeholders’ expectations with business strategy in order to respond to changes in the business environment through CSR initiatives (Arshad et al., 2012; Dawkins & Lewis, 2003; Reeve, 2004). In this regard, the findings of this study indicated that the bank acknowledges the importance of stakeholders and their aspirations. Stakeholder management may influence the design of business strategies through CSR engagement for the sake of stakeholders as well as for business sustainability. Thus, this study discussed the findings based on the level of *maslahah* (*dharuriyyat*, *hajiyyat*, and *tahsiniyyat*) and Table 2 states the stakeholders, their issues, and strategies of the bank to improve stakeholder management.

Table 2

Stakeholders, Their Issues and Strategies of Stakeholder Management

Stakeholders	Issues	Strategy
Loan borrowers	Low financing rate and reasonable charge (<i>hajiyyat</i>)	Offer plenty of financing schemes to cater the financial needs of various types of stakeholders
Depositors	High profit-sharing rate and reasonable charge (<i>hajiyyat</i>)	Provide innovative Islamic financial products such as <i>Al-Awfar</i> , and <i>Mudharabah</i> saving accounts
Shareholders	High return on investment (<i>hajiyyat</i>)	Provide a reasonable return to meet the shareholders’ expectations

(continued)

Stakeholders	Issues	Strategy
Employees	Welfare and moral support (<i>dharuriyyat</i> , <i>hajiyyat</i> , and <i>tahsiniyyat</i>)	Establish <i>Kelab Kebajikan Bank Islam</i>
	Fair wages and compensation (<i>dharuriyyat</i> and <i>hajiyyat</i>)	Establish good service scheme – well compensated (under the Human Resource Department)
	Training and career development (<i>hajiyyat</i>)	Attending courses and seminar as part of KPI measurement – compulsory
	Improving skills and educational levels (<i>tahsiniyyat</i>)	Allow them to further study (sponsor their educational fee)
	Conducive work environment (<i>dharuriyyat</i> , <i>hajiyyat</i> , and <i>tahsiniyyat</i>)	Flexible work hours during <i>Ramadhan</i> Provide good facilities at the office (prayer room, parking space, and food court)
	Spiritual / moral activities (<i>dharuriyyat</i> and <i>hajiyyat</i>)	Organising religious talks and “ <i>fardhu ain</i> ” classes
Government / government agencies	Help the government to reduce poverty rate (<i>hajiyyat</i> and <i>tahsiniyyat</i>)	Collaborate with the government agencies to improve the wellbeing of society (e.g., <i>Man Jadda Wajada</i>)
Community	Provide basic facilities for the poor and underprivileged (<i>hajiyyat</i>)	Re-build and rehabilitation of homes
	Improve educational levels (<i>hajiyyat</i> and <i>tahsiniyyat</i>)	Involvement in the PINTAR programme
Regulatory bodies	Conduct business in accordance with the <i>Shariah</i> principles (<i>hajiyyat</i>)	Role and responsibilities of the <i>Shariah</i> Supervisory Council, <i>Shariah</i> Review Committee and <i>Shariah</i> Division Adhere to the Silver Book
Potential investors	Transparency and fair view in disclosure and reporting (<i>hajiyyat</i> and <i>tahsiniyyat</i>)	Adhere to all reporting guidelines and standards
	Look for ethical and responsible banker (<i>hajiyyat</i> and <i>tahsiniyyat</i>)	Conduct business in accordance with the <i>Shariah</i> principles
Environmental	Improve environmental awareness (<i>hajiyyat</i> and <i>tahsiniyyat</i>)	Conduct environmental projects to preserve and conserve the environment

For Bank Islam, the key stakeholders are the society, shareholders, employees, customers/depositors, and also the environment. Each group of stakeholders has its own preferences and intrinsic values which need to be satisfied at a minimum (Beekun & Badawi, 2005; Carroll, 1989; Maon et al., 2009) based on the nature and location of an organisation (Hond et al., 2007). In addition, there are various ways to get input from stakeholders, such as by conducting dialogues, panel discussions, or interview sessions with stakeholders (Maignan et al., 2005). During stakeholder dialogue, the stakeholders can express their views about CSR issues and managers can gain important information and feedback that is relevant for the organisation. Muslim stakeholders may have different preferences and values in accordance with the *maqasid al-Shariah* and *maslahah* (Dusuki & Abdullah, 2007), and also the Islamic moral code (Beekun, 1997). For instance, Muslim shareholders may be concerned about where their money is invested. The issue here is not only profitable investment but, more importantly, whether or not the investment is *Shariah*-compliant. Additionally, employees should also be treated fairly in terms of wages and compensation, performance evaluation, and opportunities to enhance their knowledge and skills through training and formal education development (Beekun & Badawi, 2005; Muhamad, 2007; Sadeq, 2001).

Therefore, this social commitment by the bank may improve the wellbeing of society and preserve the environment for future generations. According to Haniffa and Hudaib (2002), the social aspects of Islam are based on the concepts of *Tawhid*, justice, and *maslahah*. In this context, Islamic business entities are concerned with fulfilling their social obligations toward their stakeholders, such as to the employees, shareholders, customers, community, and the environment to attain *al-falah* as well as to promote socio-economic justice. Through the concept of *khalifah* (vicegerent), managers should properly manage company resources (human and financial resources) to the benefit of all stakeholders, and be accountable for all their decisions and actions in this life. In addition, Islam also urges Muslim business players to protect and preserve the environment because these natural resources are valuable assets that have been created by Allah (SWT) for the sake of human beings.

5.0 Conclusion

Islam strongly urges business organisations to be responsible toward the society by performing *zakat* and other kinds of charitable and social activities (Quran 2:195). The organisation should actively participate in the betterment of the society in which it operates and generates money. Thus, this paper recommends that companies may need to manage their stakeholders systematically to fulfil various stakeholders' demands by engaging in CSR activities. The bank appreciates the importance of the stakeholders and aspires to improve the wellbeing of stakeholders for business sustainability. In addition, this paper offers a new insight into the Islamic concept of stakeholder management in designing CSR activities. However, one size does not fit all. Therefore, conducting multiple case studies may help to gain more understanding on how to manage stakeholders' issues in a company.

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