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CORPORATE SOCIAL RESPONSIBILITY IN ISLAMIC COMMERCIAL BANKS IN SAUDI ARABIA

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ABSTRACT:

Corporate social responsibility (CSR) is a universal demand; this is due to its great importance in modern societies. CSR is one of the few roads to economic justice and human well-being in the western countries. However, the concept of CSR is embedded in the Islamic teachings deep within Maqasid Al-Shariah and a prerequisite as seen in the Holy Qur'an and Prophet Mohammed (PBUH). Therefore, this study was an exploratory qualitative research that aimed to identify and explore the perception of social responsibility in Islamic banks from an Islamic perspective. Triple bottom line approach that covered three areas included economic, environmental and social. Secondly, the study aimed to explore the role of Shariah Supervisory Boards (SSBs) in structuring CSR policies. The results indicated that each bank was implementing CSR according to their perception of the welfare of the community. However, one bank was socially responsible and had both a clear vision and strategic thinking that include the three dimensions. Banks in general and more precise Islamic banks should be more engaged in CSR activities. Regarding the role of SSB, the results showed that SSB has an indirect role. Therefore, SSB should have an active and a direct role in constructing CSR policies to perform Islamic principles by fulfilling the substance of Maqasid Al-Shariah not only its form.

INTRODUCTION:

Corporate social responsibility (CSR) is a new and widely used approach to do business which evolved into corporate citizenship and strategic socially responsible approach to organizational planning [1]. CSR are in many

different shapes and sizes included economic, social and environmental [2]. The economic development has its effect on both the society and environment; which causes many issues like global warming, natural disaster, pollution and social problems [3]. Therefore, large demands from individuals, activists, unions, firms, Non-Governmental Organizations (NGOs) and others have led to the emerging of CSR as a solution for many problems; and for that CSR relates to the companies' concerns for the good and benefit of the society.

CSR is defined as engagement of corporations which are integral constituents of society related to their obligations based on compliance with ethical values [4]. According to European Union law, CSR is defined as a concept based on enterprises voluntarily take into consideration social and ecological aspects in their commercial activities and relationship with stakeholders [5]. In additions, CSR meant the company considering, managing and balancing the economic, social and environmental impact of its activities [6]. The notion of CSR in Islam founded 14 centuries ago by the vital values and principles of Islam that brought by Prophet Mohammad Peace Be Upon Him (PBUH) and resembles of the CSR in the west in many areas. Islam believed that all companies must prove to be good no matter what their finance situation is positive or negative because to Islam CSR is a moral and religious principle. Even though, these recent years CSR was given an increased attention and considered as the business guidelines for an ethical and responsible behavior. However, there is a significant delay regarding CSR practice status in developing countries expect few countries such as Malaysia, India, and Bangladesh who are focusing on sustainability at the present [7]. Thus, Saudi Arabia was chosen to conduct this study because there is a gap in the literature especially in the academic research regarding CSR from an Islamic perspective. Therefore, this study aimed to explore the perception of social responsibility in Islamic banks from an Islamic point of view. Through, investigating their compliance with Shariah and its objectives' criteria in the form and substance. Besides, the study aimed to explore if the SSBs has a role in structuring CSR policies.

LITERATURE REVIEW

Islamic Bank and Social Responsibility

Since Islamic finance derived from religious concepts and advertised as religious based social responsibility value. This reputation of Islamic finance results from the big difference between Shariah-based values and ideals Islamic banks and the capitalistic profit maximization based conventional banks. Islamic ethical principles offer a wider structure for CSR and encourage Islamic Financial Institutions (IFIs) to add CSR into their company's portfolio. CSR strongly favored in IFIs due to strong religious and ethical values that control and guide IFIs. In contrary, conventional financial institutions have both CSR and socially responsible investing (SRI) and viewed as voluntary. The business behavior in the Middle East and North Africa (MENA) region willing to adopt CSR programs is affected by the social values. Despite the impressive growth of Islamic financial industry, a

general sensation of failure exists because of the social and ethical goals of Shariah were not accomplished by Islamic finance. Therefore, there is a need to return to basic Islamic structures to create new institutional developments models that transcend commercial Islamic banking and finance to defeat social failure. According to the leaders of Islamic economy, an ethical and economic system that serves both Muslims' needs and all humanity will achieve its purpose if it's built on Islamic values and principles. Therefore, Islamic moral economies where CSR and sustainable development (SD) are important parts intend to establish an economic development that focuses on humanity and social justice.

Islamic Corporate Governance

Corporate governance is defined as the mechanism for setting the goals and company objectives and means for achieving those goals and objectives [9]. In Islam perspective, corporate governance is correlated to all concepts related to behavior in business governance with spiritual that a consequence of Muslim belief to Allah SWT [10]. The corporate governance structure in IFIs has similarities with conventional banks. However, Islamic corporate governance is a little bit different from its counterpart. One of the main and vital body in Islamic corporate governance are SSBs, which ensures bank's compliance with Shariah laws in all bank's operations, transactions, and products. This shows that the SSB or called as Shariah Committee, a vital governance system that guarantees an IFI compliance with Shariah.

SSB plays important roles in the regulatory process in Islamic banks [11]. Ascertainment of product compliance with Shariah principles and values before release to the market is the immediate responsibility of the SSB. Achievement of the legal requirement should not be the only things that SSBs is looking. Besides, the banks should take on their consideration Maqasid Al-Shariah when they are approving any product. Thus, SSB with highly qualified members is strongly favored because of their ability to link both Shariah knowledge and Maqasid Al-Shariah with current Islamic banking and finance context. The role of SSBs will be achieved when integrating both the rules and values of Shariah in every operation and transactions

METHODOLOGY

Islamic banks contribution to CSR in Saudi Arabia will showcased because Islamic banks will give an ideal example to see the extension in these banks during applying CSR in their operations and activities from Maqasid Al-Shariah point of view. This study was carried out in four Islamic commercial banks in Saudi Arabia. This study was an exploratory qualitative research which used a primary method to collect the required data through semi-structured interviews with seven of the bank's CSR managers and SSBs or their representatives. The interview questions conducted between year 2012 and 2013 and designed to investigate CSR in three dimensions such as social, economic and environmental. The reason for selecting this approach instead of others because a general look of the bank's responsibilities. The three

dimensions were so important and cannot be separate one part from another. Under these three dimensions, there are another nine sub-categories that incorporated from interview questions included social dimension such as bank's social role in society, reasons and drivers behind addressing CSR, the social and developmental projects, sources were financing social and developmental projects and the responsibility of setting CSR policies, environmental dimension such as bank's role toward the environment and economic dimension such as Islamic risk management mechanisms, developing new Islamic products, and interests of stakeholders versus interests of shareholders.

FINDING AND DISCUSSION

Social Dimension

All participants agreed upon on a social role toward the community. Nevertheless, their social roles different and each bank has a different vision than others. The social roles of most banks are directed into their commitment to the Shariah rules and provision through provides financial solutions compatible with the provisions of Shariah, honoring contracts and being credible and transparent in their Islamic transactions. According to one of the participants from bank No. (2) that claimed social role have important aspects due to role as Islamic bank. Therefore, being Islamic banks follow the Shariah and Islamic values with investors and customers will achieve one of Maqasid Al-Shariah, which is protecting their wealth. Another aspect of banks' social role is to provide financing. The representative (1) from bank No. (3) stated social responsibility must serve investors, shareholders, and owners of capital to get funding for their needs whether the financing serves big business or financing individuals who need such as financing to own house. In addition, the bank offers financing for Small and Medium Enterprises (SMEs). According to representative (1) mentioned that this type of funding considers as a community service indirectly because meets the community needs. In another hand, bank No. (4) supported too many projects which one project directed to the productive family programs and interest-free loans. From the responses of the bank No. (3) and (4) which showed that even though these two banks considering financing as a social role. However, their approach is different. Islamic mechanisms that creating human well-being included Al-Qard Al-Hassan (AQAH) (Benevolent Loans) which was a loan free of interest. AQAH has zero return that is the reason of Muslims are urged by the Islamic teachings to offer this loans to anyone in need [60]. Between the previous two banks, one of the bank achieved Maslaha and Brotherhood by financing needy people through AQAH which decreased the gap between wealthy and poor people and create harmony and balance among society members. In addition, half of these banks such as bank No. (2) and (4), focusing on programs such as supporting employees by providing a suitable environment along with youth programs by empowering them through offering education, training or creating jobs. The reason might be that there are many Saudi citizens who are searching for jobs since the Saudi's

unemployment rate is high according to Central Department of Statistics and Information in Saudi Arabia. Besides, the bank No. (1) is supporting services and developing the community among other programs. Meanwhile, the bank No. (4), focused on programs directed for people with special needs.

Reason And Drivers Behind Addressing Corporate Social Responsibility

The data indicated that all banks engaged in social activities. However, the drivers that motivate these banks to practice CSR were vary. Most of the participants from banks No. (2), (3) and (4) perceived religion as the primary motivation to adopt CSR because that Saudi Arabia is a religious country and the banks in this study are Islamic banks which apply Shariah laws in their operations. Most of the banks were relating any act of goodness with religion as declared by participant (1) from bank No. (3), who stated that social responsibility is a consequence of their commitment to Islamic Shariah regulations. This answer indicated that these banks have confidence in their social role in community-based on their commitment and following Shariah rules. Therefore, Islamic banks consider religion as a core factor and that drive Muslims to practice any act of good toward the welfare of human being and by doing that they will achieve Maslaha. Another driver was the national obligation or duty. The religion drove bank No. (4) to engage in social acts but not considered as an important as religion. Another reason that made these banks adopt CSR was society's right. Half of these banks were mentioned society's right in their statements that the bank considers itself and the surrounding community as one entity. There is an integration and solidarity relationship depending on each other. A participant (2) from bank No. (1) stated need certain responsibilities toward society and working in fulfilling the need. Meanwhile, participant (2) from the bank No. (2) stated the banks should return something to community. The first statement showed that the participants were considering themselves part of the society. Moreover, the later declared a duty toward the community. The participant (2) from bank No. (2) also referred to the mutual benefit between the community and the bank. The study noticed that the participant mentioned the propaganda showed that the bank No. (2) is understood the benefit attain from practicing CSR, which is good reputation and bank's image. This can observe that bank No. (2) has a strategic vision that drove it to adopt CSR that considers social responsibility a win-win situation on both sides. Although, the bank No. (4) also used the term of propaganda when answering the question. However, the participant stressed that Board of Director (BOD) declared to them that the goal of their programs is not to bring advertising. On the contrary, they should be focusing to serve the community and by doing so, the media will be attracted to them eventually. Benefiting attain from advertisement when practicing CSR is not a bad thing. However, banks should focus how to serve Maslaha when helping the society. The bank No. (4) proved that it is interacting with its surrounding by listening to their customers and clients.

The Social And Development Projects

Some banks focus on two or three programs and others have more variety programs. The participant answers showed that most contributions were in the form of education, training and development for Saudi individuals to enter the labor market or to help to start small businesses such as programs for productive family and interest-free loans. In addition, some banks are supporting programs that directed to health, preservation the environment, and children who are; orphans, children with disabilities, and unknown parentage. Also, they are supported and cooperate with several agencies, charities, organizations, official bodies. There are two observations that the first observation is half of these banks, the bank No. (2) and (4) have structured plans regarding their social programs and know the achievement in the long and short run. For example, the participant (2) from bank No. (2) said the programs and projects have an explicit goal, specific time, defined beneficiary category and a clear implementation mechanism, as well as the financial cost. A vision and strategic thinking will help to achieve their goals and measure the results. The second observation was among of these banks which one bank who is tackling health care programs comparing to others. This finding indicated that the health dimension considered in the last of their agenda. The reason could be not considering as an important as the rest of other programs. In contrary, since the banks should look into the substance of Maqasid Al-Shariah instead of the form. Therefore, the engagement in health care programs can achieve the Maslaha among other programs.

Sources Are Financing Social And Developmental Projects

Regarding sources that finance the banks' projects, the interviewees identified three sources. The first source such as all banks agreed on the fact that deducting money from their annual profits. This finding indicated that Islam encourages Muslims to participate in society by giving Sadaqah to deprived people. Moreover, many verses in Qur'an and Ahadith mentioned and encouraged Muslims to participate in the society by helping and caring for each other such as the concept of brotherhood. Muslims in general and Islamic banks have an obligation toward all human being. The second source was the purification account. Most of the banks agreed on the fact that a purification account as one of the sources to finance the social activities. Half of these banks said that this account would be controlling by the SSBs and not the community service management. The SSBs will spend it directly on charities and do not use it in sustainable social projects. The third source was interest income and it is like the purification account, will spend on charities. Therefore, this indicates that both purification and interest income accounts do not consider as one of CSR aspects by half of these banks which cause no financial support in social projects which these banks controlled by SSBs. Furthermore, all interviewees was asked if the charitable and community activities financed from the account of Zakat. The participants from all banks confirmed that Zakat would be paid to the Department of Zakat and Income Tax as it is the law in Saudi Arabia. It indicates that government controls Zakat. Therefore, this left us with the direct donations or the money that deducts from the banks revenues as a primary source, to use them to finance

sustainable social projects, and that controlled by the top management in the banks.

The Responsibility Of Setting Policies

The IFIs were differentiated from conventional counterparts through compliance to Shariah. Therefore, all Islamic banks possess SSBs, who have an important task of confirming bank's compliance to Shariah in every process carried by the bank in its products, transactions, and IFIs operations. The SSB has the authority to approve and controls all executed transactions in the bank and their decisions are obligatory to all bank departments and employees. Although, most of the interviewees emphasized that SSBs responsibility is to ensure that the bank's operations, transactions and any decisions banks will make are in accordance with Shariah's rules. However, there is a lack of a direct role for SSBs to set any policies regarding CSR. Their roles were limited to put the general frame or instructions on the matter of spending in social projects. The participants can urge the BOD to be active in social aspect or can voluntarily provide suggestions and opinions to the community service management. Besides, most of the interviewees agreed that the top management who have the authority in creating these policies. This result indicated that the top management in Islamic banks are only authorized entity to construct policies regarding CSR as most of the banks noted.

Islamic risk management mechanism

Risks are part of the banking industry and the bank's activities exposed to several financial risks which require a profound analysis, assessment and management of many types of these risks. Therefore, risk management was considered a parcel of the bank's decision-making process. Responses from all banks asserted their possession of Islamic risk mechanisms. The risk management policies, procedures and systems in the four banks were designed to identify and analyze these risks so the banks can set appropriate risk mitigations and controls to minimize them to the minimum. Although, the Islamic banking has different financing tools than the conventional banking. However, the risks mitigation techniques in both conventional and Islamic banks have similarities, stated by both bank No. (3) and (4). One of the participants from bank No. (4) said there are great similarities between both traditional banking and Islamic in hedging against risk. All the interviewees agreed upon that their banks are using Islamic hedging tools because the banks must be compliant with Shariah rules. Hedging process must different according to the tool or product used in investments or financing by the bank because of different types and degrees of risks. This view agrees with the respond from the participant (1) from bank No. (4) that there are many kinds of financing. Therefore, this financing is an Islamic hedging tool fit with its kind of risks such as Murabaha formula contains less risk compared with the Musharaka, both of which have a different hedge tool. The participant had agreed that many hedging tools are in a conventional form but adjusted to meet Shariah's criteria. These banks will obey the Islamic law. Moreover, the

banks will fear for their reputation that will jeopardize if there is any sign that not complying with Shariah. Hence, the banks were using an Islamic mechanism to reduce the risk. However, there are only a few authentic Islamic hedging tools.

Developing new Islamic products

The role of the research center for product development is to develop new Islamic products to the market that are in accordance with the processes and procedures of Shariah. Regarding the presence of a research center, all banks have a research center to develop Islamic products. The findings indicated that these banks are engaged in offering new products to the market, which can help to answer the escalating needs for a different mode of finance which in compliance with Shariah. In the case of the interviewee (1) from bank No. (4), the banks are putting efforts to create these products and launch them into the market to help other banks to benefit from them. Even though, the banks were making efforts to create new products. However, there was a huge demand from customers and clients for financing for instance such as financing to own house. The Saudi government put all resources and means to alleviate poverty and raise the living standard for Saudi citizens. Therefore, all private sectors, especially banks have a social role depending on the Islamic values to help the community to live in a welfare and achieve the essentials. In this case protecting self (Al-Nafs), by owning a house.

Interests of stakeholders versus interests of shareholders

The bank was an institution seeking for profit as mentioned by most of the banks such as bank No. (1), (3) and (4). A statement from the participant (1) from the bank no. (1) that the bank is a joint stock company seek for-profit for the benefit of its shareholders. Another from the participant (1) from bank No. (4) mentioned that the responsibility of the bank is to maximize profit and minimize risks. Therefore, shareholders were expecting to achieve satisfactory profits. The bank operates based on profitability with considering the reduction of risks. The interviews results indicated that banks are highly concerned about maximizing profits. However, this view did not contradict with their social role as agreed that considering the interest of both stakeholders and shareholders with the statement from a participant (1) from bank No. (3) mentioned the bank has a social responsibility along with achieving profits. The interviewees intended to give appropriate answers to the questions and did not give a plain answer if considering their interests equally. However, bank No. (4) answered realistically based on the actual occurrence of things within banks (even the Islamic ones), and that is all are seeking for profits. Observation from a participant (1) from bank No. (3) who was the only one who mentioned Maqasid Al-Shariah achieving profit through community service can be done by interacting with the essentials needs and enhancements Maqasid Al- Shariah of the community.

CONCLUSION

In conclusion, the findings showed that these banks differed in their engagement levels and they are practicing the minimum CSR. Results indicated that they have the intention and desire to contribute to the welfare of human being driven by religion. Nevertheless, among the four banks, only one bank was found that a good strategic thinking regarding the three dimensions such as economic, environmental and social. Thus, the finding suggested need to consider socially responsible. On the contrary, the other banks considered socially irresponsible because of their lack of a clear vision and structured plans regarding the environmental program. In addition, the lack of strategic thinking which could the term of CSR is somehow a new subject in Saudi Arabia or it could be the unwillingness of corporate executives to advertising or take an advantage of their social activities. However, the banks should do annual CSR or TBL report to present their social and environmental projects. Another finding was that SSB does not have a direct role in setting CSR policies. In fact, their role is limited to set the general rules regarding the spending in social activities or to give opinions and suggestions. In addition, control purification and interest income accounts.

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