

CSR practices at Bank Islam Malaysia Berhad (BIMB): Managing CSR fund

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Abstract

The notion of CSR from Islamic perspective has been viewed as a comprehensive discourse when it is already embedded the element of spiritual (*Tawhid* and *Taqwa*), economics, ethics and legality. However, there is a black box in the process of managing CSR fund which is used to conduct the CSR initiatives. Thus, this study attempts to revisit the issues by discussing Islamic concept of CSR practices and to gain insights the process of managing various sources of CSR fund. By using case study approach, a group of key CSR players at Bank Islam Malaysia Berhad as well as the recipients of the initiatives have been interviewed. Moreover, an in-field observation and CSR documentations analysis have been employed to get the whole picture of managing the CSR activities and also the fund. The results show that the CSR initiatives at the bank are highly associated with religious obligations and the main source of CSR fund is derived from the *zakat* fund. In addition, donation, non-compliance *Shariah* income and purification fund have been used to fulfill various stakeholders' demands. Thus, these findings provide an avenue to conceptualize the concept and practices of CSR in Islamic view and encourage other business entities to manage their financial resources (CSR fund) systematically to support the CSR activities.

Keywords: *corporate social responsibility (CSR), CSR fund, zakat, case study*

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Introduction

In Islamic perspective, the social responsibility of Islamic organization is not just a matter of legal obligations or a matter of fulfilling material rights of shareholders but it is spiritual and moral obligation that secure the existence of business as well as society (Parvez & Ahmed, 2004). The idea of social responsibility subsists in most religions and philosophies of the world (Davis, 1967). Islam urges its followers to establish socio-economic justice and be socially responsible.

Islam strongly urges on the responsibility of business organizations toward society by performing the *zakat* and any other kinds of charitable and social activities (Quran 2:195). Thus, business organizations may actively participate in the betterment of society well-being in which it operates and generates money by conducting CSR initiatives.

The CSR terminology has been borrowed from western and become an acceptance word for studies about responsibility of business towards community. The concept of CSR from Islamic perspective is a wide and comprehensive concept because it is derived from Al-Quran and *As-Sunnah* and integrates in the Islamic ethical system. Moreover, it covers spiritual, moral and material obligation (Mohammed, 2007; Parvez & Ahmed, 2004). Further, the objective of CSR in Islam is to promote social justice as well as to obtain Allah's blessing (*barakah*) and *al-falah* (success) in this life and in the Hereafter as the Quran enjoins in *Surah An-Nisa* ', verse 29:

O you who believe! Eat not up your property among yourselves unjustly except it be a trade amongst you, by mutual consent. And do not kill yourselves (nor kill one another). Surely, Allah is Most Merciful to you.

(Quran 4:29)

For this study CSR has been defined as about being responsible to various stakeholders as well as to business and a collective name of social activities that companies engage to discharge their religious, social and economic obligations to attain *al-falah* (success in this life and the Hereafter).

Prior studies on Islamic perspectives of CSR are more concerned on the concept (Dusuki & Abdullah, 2007; Khurshid, Al-Aali, Soliman, & Mohamad Amin, 2014). There is a lack of empirical studies on how this concept should be managed especially on managing CSR fund (financial resources of CSR). Particularly, in accounting literature, more studies have been conducted on the CSR disclosures and reporting (Abdul Rahman, Md Hashim, & Abu Bakar, 2010; Maali, Casson, & Napier, 2006) as well as factors that determined such disclosures (Amran & Devi, 2008; El-Bannany, 2007; Said, Hj Zainuddin, & Haron, 2009). Furthermore, while many companies claim that they are socially responsible companies, however they are still in the dark on how this concept should be operationalized on the ground (Dusuki & Abdullah, 2007; Sairally, 2013). Little has been written about how such commitment should be managed (Hond, Bakker, & Neergaard, 2007) and lack of a concrete managerial framework to manage diverse stakeholders' interests (Dusuki & Abdullah, 2007).

Thus, this study aims to understand the ground works of CSR engagements particularly in managing various CSR funds by conducting interviews with senior managers, officers, staffs of Bank Islam Malaysia Berhad (BIMB) and beneficiaries who received the benefits from CSR initiatives of the bank. In addition, we have conducted an in-field observation and analyzed together with CSR documentations and reporting such as the annual reports, project papers, corporate websites, and flyers to support the findings and arguments.

Hopefully, this study offers new insights on Islamic CSR discussion and provides empirical evidence on how companies should properly identify and manage their financial resources to support these activities. Thus, managers, consultants and business leaders of companies may gain better understanding on how to organize and manage their financial resources to conduct more CSR initiatives that give high impact to recipients. Furthermore, this study proposes a managerial guideline on *zakat* management process that will help *zakat* payer organizations to self distribute of *zakat* and encourage more Islamic business entities to pay business *zakat* to improve the well-being of *asnaf* and Muslim community (*ummah*) at large.

The remainder of this study is organized as follows: First, previous studies on CSR practices especially on managing financial resources to conduct the activities are reviewed. Then, it follows by research method and design. Third, the findings and a brief analysis of the findings are presented. Fourth, the major findings of this study are discussed including a managerial guideline on *zakat* management is proposed. Finally, some concluding remarks are presented.

Literature Review

In Islamic perspectives, engagement in business activities with accordance to the command of Allah are part of worship (*ibadah*) and deserve for God's blessing (*barakah*) and *al-falah* (everlasting success and prosperity) in this life (*dunya*) and at the Hereafter (*akhirah*) (Quran 4:29). Thus, this study employs *Tawhid* and *Shariah* paradigms (Haniffa & Hudaib, 2002; Muhamad, 2007; Muwazir, Muhamad, & Noordin, 2006) and other Islamic ethical principles such as fairness, justice, brotherhood, *ukhuwwah* (close relationship) and many more to discuss the concept of CSR. According to this paradigm, man has to maintain a good a good relationship not only with Allah (*hablun min Allah*), but also with other creatures which include human beings (*hablun min an-nas*) and also with environment (Afridi & Navaid, 2006; Ahmad, 2001; Hanafy & Sallam, 2001; Muwazir et al., 2006). Hence, a Muslim or Muslim businessman has to realize that Allah (SWT) is always watching and know everything including what lies in the heart (Quran 64:4) and thus, he or she has to accountable to all his/her deeds and ensure that all aspects of life (e.g. actions and decisions) are in accordance to the *Shariah* principles.

The objective of CSR in Islam is to promote social justice as well as to obtain Allah's blessing (*barakah*) and *al-falah* in this life and in the Hereafter as the Quran enjoins in *Surah An-Nisa*, verse 29:

O you who believe! Eat not up your property among yourselves unjustly except it be a trade amongst you, by mutual consent. And do not kill yourselves (nor kill one another). Surely, Allah is Most Merciful to you.

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According to Carroll (1979, 1991) classification of CSR, a business entity must fulfill four responsibilities: economic, legal, ethical, and discretionary (philanthropic) responsibilities while for Islamic business entities such as Islamic financial institutions, they are obligated to another big responsibility which is religious obligation (Farook, 2007; Parvez & Ahmed, 2004; Sairally, 2013). In this sense, Islamic banks should naturally integrate social agenda in their business objectives, strategies and culture (Arshad, Othman, & Othman, 2012; Mohd Nor & Asutay, 2011; Wan Abdullah, Percy, & Stewart, 2011) because the banks have social face or role (Arshad et al., 2012; Mohammed, 2007; Sairally, 2013). Islamic bank should consider additional obligations towards community surrounding the business as part of *fard kifayah* (Farook, 2007).

In a similar vein, the objectives of the bank establishment are closely related to religious and spiritual obligations. This concept is different from the western philosophy as they have more concerns on material achievements and performances. Thus, in designing and implementing such initiatives, companies should give a balance view of religious, economic and social obligations. Furthermore, the Islamic banks have a range of stakeholders and the issues pertaining to each group of stakeholder are various. Thus, to reduce the conflicts between the stakeholders, the banks have to demonstrate that the CSR commitments through communication and reporting and conduct the business are in accordance to the *Shariah* principles.

Islam strongly encourages to treat all organization's stakeholders fairly and honestly (Quran 4:58; 23:8; 70:32) towards stakeholders especially to employees and owners/shareholders, followed by customers, suppliers and other external parties (Beekun & Badawi, 2005). For Islamic banks, they are accountable to various stakeholders like investors, creditors, owners, shareholders, management, *zakat* beneficiaries, government, community, employees, customers and *zakat* payers (Wan Abdullah et al., 2011).

With growing awareness on socially responsible of business entity, it is little wonder on how companies of today take CSR into account when planning or implementing future CSR activities. The CSR budget and CSR fund can be considered as private and confidential information which is very limited discussion on these issues in articles or studies. Ironically, each company prepares CSR budgets or has a CSR to conduct the CSR activities. The CSR fund is a fund with some allocations and the amount and reasons for such allocation vary among companies. The process of CSR budgeting needs to be carefully designed to ensure that the companies have enough resources to finance the activities and all CSR initiatives could be implemented successfully. According to Bilson (2010), the advantages in improving CSR budgeting process are to enhance the accuracy of cash flow reporting to free up cash for the CSR initiatives, to

ensure that it is consistent with company's long term investment CSR strategy for CSR investments, to allow team management to better understand the company's business drivers and to enhance confidence in the financial management of the company.

Furthermore, another big question is about CSR fund. Arguably, the CSR fund is a year allocation to finance the CSR activities. Several questions like who manage the CSR fund and what is the basis in determining the amount of CSR fund are still needed to be explored. Does accountant manage the fund? Traditionally the accountant's role can be categorized as: financial accountant, management accountant and auditor (Tilt, 2009). Relating to CSR matters, generally, the financial accountant is concerned with accumulating information for the financial and narrative reporting of CSR matters, while the management accountant is responsible to provide qualitative and quantitative information to support decision making on costs, risks, investment approval and competitive advantage and the auditor is concerned with verification and assurance ("Tilley tells accountants to lead CSR.," 2006).

Currently, the roles of accountants in CSR matters are not only limited to social and environmental accounting but shift to account for the CSR actions in making or not making these initiatives (Tilt, 2009). The accountant should integrate his or her accounting knowledge with other soft skills such as influencing skills to help management team make better decisions ("Post-Dubai, whither Islamic finance?," 2010). Normally, the management accountants are also involved in preparing budgets (such as sales budget, cash flow budget, marketing and also project-based budget). However, the role of accountant in CSR management process especially in CSR budgeting is still under-researched and need further analysis.

Furthermore, other than depending on the CSR budgeting, some companies are using *zakat* fund to conduct CSR activities. In Malaysia, the role of collection and distribution of the *zakat* fund is managed and governed by 14 *zakat* authorities or institutions under supervision of the State Islamic Religious Councils (*Majlis Agama Islam Negeri*) or some states like Selangor, Wilayah Persekutuan Kuala Lumpur and Pulau Pinang have privatized their *zakat* institutions. These *zakat* institutions are responsible to promote socio-economy objectives through a good *zakat* management process especially in distributing the *zakat* to the rightful recipients (*asnaf*) using more proactive mechanisms (Ab Rahman, Alias, & Syed Omar, 2012; Abu Bakar & Abd Ghani, 2011) and should be governed as a social institution (Kaslam, 2011).

Conversely, several studies state that the *zakat* institutions have few challenges in the process of distributing the *zakat* fund, due to: (i) various responsibilities shouldered by the *zakat* institutions (Lubis, Yaacob, Omar, & A. Dahlan, 2011; Md Hassan, Mohd Nor, & Mohd Rom, 2012); (ii) ineffective and inefficient of the distribution method - selection of the recipients (*asnaf*) and the *zakat* application process (too long, bureaucracy and geographical problem) (Ab Rahman et al., 2012; Lubis et al., 2011); (iii) attitudes of *asnaf* to give a full commitment in the *zakat* distribution program (Md Ramli, Ahmad, Wahid, & Harun, 2011); (iv) lack of staffs in these institutions (Lubis et al., 2011) (v) lack of proper governance mechanism (Abd Wahab & Abdul Rahman,

2011); and (vi) information asymmetry (Lubis et al., 2011).

Therefore, these institutions should consider additional approaches or mechanisms to distribute the *zakat* in effective and efficient manner such as: (i) localize the process of distribution through mosque and local committee in the district level (Lubis et al., 2011; Wahid, Abdul Kader, & Ahmad, 2011); (ii) collaborate with microfinance institutions to provide business and capital assistance to the recipients (*asnaf*) to start a business (Md Hassan et al., 2012); (iii) provide self-sustained mechanism (monetary capital and equipment) to start a business (Abu Bakar & Abd Ghani, 2011; Md Ramli et al., 2011); (iv) let the *zakat* payer organizations to distribute their own business *zakat* (Ab Rahman, 2011); (v) establish long term distribution program such as capacity building (education, training or courses to equip them with certain skills and knowledge) (Ab Rahman et al., 2012; Kaslam, 2011); (vi) employ Geographical Information System (GIS) (Lubis et al., 2011); and (v) improving their transparency and reporting practices (Kaslam, 2011). All of these initiatives are proposed to help the *zakat* institutions to distribute the *zakat* especially in the process of identifying the right potential recipients and to provide sustainable contribution program that can produce more entrepreneurs among the *asnaf* (Ab Rahman et al., 2012; Abu Bakar & Abd Ghani, 2011; Md Hassan et al., 2012; Md Ramli et al., 2011). As mention beforehand, few have taken the initiative to assist *zakat* institutions to help the poor and needy people.

Interestingly, this study explores the practices of Bank Islam in distributing its business *zakat* to the eligible recipients under close monitoring of several *zakat* institutions and they are not alone in this matter. According to a study by Ab Rahman (2011), Affin Islamic Bank Berhad is also managing (paying and distributing) its own *zakat* to the eligible recipients (*asnaf*) acknowledges these practices are part of its CSR. In managing the *zakat* fund, the bank introduces a few mechanisms such as: (i) establishing the *Zakat* Department of Affin Islamic Bank Berhad to supervise all activities pertaining to the *zakat* payment and distribution; (ii) having the *Zakat* Policies as a guideline to manage the *zakat* fund of the bank; (iii) distributing the *zakat* directly to the *asnaf* based on the applications from individuals and organizations after determining their eligibility or recommendation from the *Zakat* Department; and (iv) the amount and form of distribution are based on the needs of the potential recipients such as home project, donation to students who study abroad, *zakat* distribution to higher education institutions and research centers.

Thus, the CSR engagements need strong supports of companies' resources like financial (Katamba et al., 2012; McGuire, Sundgren, & Schneeweis, 1988; Virakul, Koonmee, & McLean, 2009) and human resources (Farook, 2007; Katamba et al., 2012; McElhaney, 2009; Middlemiss, 2003; Virakul et al., 2009; Wood, 2007). The financial sources are vital for continuity of the CSR initiatives and normally the social responsibility companies will allocate some amount of money for such activities. Then, this budgeted figure will be channeled to the CSR fund or in some companies, they established their own foundations to manage the CSR fund like the Maybank Foundation.

Methodology

We employed case study approach to discuss, understand and explain the concept of CSR and also the process of managing CSR fund. This qualitative case study is more concerned on understanding and describing process rather than behavioral outcomes (Merriam, 1988) as well as when the concepts and context are not well defined because it can help to gain insights, understanding and explanation of certain phenomenon (Eisenhardt, 1989). Particularly, this study chooses Bank Islam Malaysia Berhad (BIMB) based on several underlying reasons such as: (1) the bank is Islamic business entity and *Shariah* compliance; (2) the bank has a long experience (30 years experience) in Islamic banking system; (3) the bank engages in CSR activities since the day one of operation (paying business *Zakat*); and (4) the management is willing to share the information. In addition, Islamic banks have a social face (Mohammed, 2007) where they the objectives of the banks are not only making profits but also to help community and environment around. Furthermore, Islamic banking sector is among the sector that has largest percentage of disclosing CSR information (Abdul Rashid & Ibrahim, 2002; Amran & Devi, 2008; Muhammad Jamil, Alwi, & Mohamed, 2003).

Typically, most of data collection activities are conducted in a setting or fieldwork for a certain period of time to understand the contextual issues or phenomenon. Such activities can be done for a variety of sources for qualitative data such as participant-observation, in-depth, open-ended interviews, questionnaires, and analysis of documentations (Patton, 1990; Scapens, 2004). In particular, 23 respondents (see appendix 1 for details) have been interviewed using the semi-structured interview settings. These respondents have been divided into three groups: which are (1) management team, (2) operational officers, and (3) beneficiaries. The beauty of interviewing the beneficiaries is to get their feedbacks and perspectives on the values and the impacts of CSR programs to them. All of these respondents are directly involved in designing, implementing, monitoring and receiving the CSR initiatives. Hence, their inputs and views are meaningful to illustrate the process. In addition, one CSR event has been observed and some of CSR documents such as the annual reports from 2009 to 2012, project papers, internal documents, brochures, websites, and flyers have been reviewed and analyzed to support the findings from interviews.

Finding

As an Islamic business organization, Bank Islam has been perceived as a bank with social face and this stakeholders' aspiration has forced the bank to engage actively in the CSR practices. The bank also considers CSR as part of its DNA and establishes specific objectives on the CSR engagement. Interestingly, at the bank, CSR is highly related to the *zakat* and the *zakat* management due to significant amount of the CSR fund is derived from this fund and most of the respondents agree that CSR is about giving back to society and as a tool to help and develop communities. Furthermore, the bank strongly believes on giving back to society and is committed to increase the well-being of community and lastly, the bank also supports the efforts of protecting and preserving the environment as part of its corporate responsibility (Bank Islam 2011 Annual Report). All of these practices and commitments reflect how the bank

perceives the CSR issues as part of its DNA by embedding it into the bank's mission, strategy, system, product development and also part of the organizational culture. Hence, basically, the objectives of CSR engagement of Bank Islam are dominated by three main purposes: (i) to fulfill the religious obligation as an Islamic business entity through the *zakat* and so on ; (ii) to promote the image of the bank as a responsible bank for sustainability of the business; and (iii) to enhance the well-being of all stakeholders.

These activities are funded from a few sources or funds like from *zakat*, donation or budget allocation, non-*Shariah* compliance income and also purification fund. These financial sources will help the bank to conduct various CSR initiatives for business sustainability as well as to be a good corporate citizen. At Bank Islam, the connection of the *zakat* and CSR is highly related to each other due to the *zakat* fund represents the largest portion in the CSR fund and most of the CSR activities are funded by the *zakat* fund. This statement has also been asserted by Dato' Sri Jamil Khir bin Baharom, Minister in the Prime Minister's Department during his speech at the Masjid An-Nur Pokok Sena (handover ceremony of Home Project 2010) on 4 September 2010 that CSR are associated with *zakat*. The *zakat* is only a tool or fund to conduct the CSR initiatives but CSR covers all activities that have been done as part of the responsibility to all stakeholders.

Four sources of CSR fund

There are four sources of the CSR fund at Bank Islam, which are: (i) *zakat* fund (biggest allocation); (ii) donation fund; (iii) non-compliance *Shariah* income; and (iv) purification fund. All of these funds will establish a sum of money in the CSR fund to conduct the CSR activities. In conducting the CSR initiatives, the bank tries to use several sources of the CSR fund to cater all stakeholders' needs as well as to comply with the *Shariah* principles and guidelines in one CSR event. One respondent illustrates an example;

When we have a TV program, such as Manjadda Wajada... we use zakat fund to prepare all facilities and equipments to the recipients (asnaf) and for programs during Ramadhan, some of the expenses we have to use other sources like the budgeted CR and when we want to contribute to asnaf...it takes from the zakat fund

Zakat fund

Firstly, the *zakat* fund is established after the bank pays the *zakat* amount (determined by accountants with the approval of the *Shariah* Supervisory Council (SSC) and management team) to the *zakat* authorities. Interestingly, some of the *zakat* paid amount will be refunded to the bank by the *zakat* authorities. Normally, the rate of refund is 3/8 or 4/8 of the *zakat* paid, based on the consensus of the *zakat* authorities. At Bank Islam, the *zakat* fund is managed by the *Zakat* Committee and the members of this committee comprised representative of several business units and divisions. In addition, the bank also does not fail to pay the business *zakat* regardless of profit or loss. For instance, for the first year of operation, the bank incurred loss amounted to RM1,286,821 and paid

the *zakat* of RM483,547 (Bank Islam Annual Report 1984). Then, for the financial year ended 30 June 2005, the loss before *zakat* and tax of the bank was RM479,778,000 due to higher provisioning on non-performing financings (NPF) of RM648 million (Bank Islam Annual Report 2005) and RM3,364,000 of its business *zakat* has been paid (Bank Islam Annual Report 2006).

The *zakat* fund at Bank Islam is one of the sources to conduct the CSR programs and normally this fund is ready in May (after payment of the business *zakat* to the *zakat* authorities and the bank gets some refund from these authorities). Officially, the fund is under the responsibility of the Head of *Shariah* Division and he is also a secretary of the SSC. In term of monitoring the fund, the council will monitor all of the fund's transactions and activities (approval and reporting wise). At the management level, the fund is governed by the *Zakat* Committee. The biggest allocation of the CSR fund comes from the *zakat* fund. This fund is mainly to the *asnaf* and the major groups of *asnaf* are: the hardcore poor (*fuqara'*), the poor (*masakin*) and for Allah's Cause (*fisabilillah*). Other than *asnaf*, the fund also has been distributed to mosques, Islamic institutions, religious schools, universities, NGOs, less fortunate people and needy homes center.

Donation fund

The Donation fund is derived from many sources, namely: (i) donation from the bank (budgeted figure in advertisement and publicity expenses); (ii) staff's contribution - through the *Kelab Kebajikan Bank Islam*; (iii) public/customer contribution - from the Bank Islam Credit Card (BICC) - during *Ramadhan* and the Bank Islam Alumni-UiTM Platinum MasterCard; (iv) sponsorship or joint venture program with other organizations; and (v) cash rewards from competitions - winning innovation award from MOSTI. These contributions (from staffs, customers and competition money) have been called as *Amal Jariah* contribution. At Bank Islam, the CSR fund is contributed by many departments and entities. For instance, the collection from public/customer in the BICC during *Ramadhan* is collected by the Bank Islam Card Division and then the fund will be managed by the Corporate Communications for the CSR activities. In 2010, the bank contributed about RM120,000 from the *amal jariah* contribution to a group of the *muallaf*, less fortunate people, senior citizens, orphans and single mothers nationwide and also provided 1,400 *waqf* Al-Quran to mosque, universities, NGOs and many other places (Bank Islam 2010 Annual Report).

CSR budgeting for the bank is prepared and controlled by the Corporate Communications Department based on the calendar of events for that particular year. For each event in that calendar, the anticipated cost will be determined to support the justification of the program. Then, the proposals of the program would be submitted to the Center of Excellence (COE) of the Finance Division and need to be presented at budget challenge session (except using *zakat* fund).

In fact, the CSR does not affect the bottom line of the bank. One respondent comments that: "*Zakat* has no impact to the bottom line. Then, the budget itself...that is

part of the operational expenditure (OPEX) and CAPEX is capital expenditure. OPEX is already budgeted for... so, is already taking into account the expected profit of the year". Furthermore, the bank will plan the CSR activities based on the budget allocation provided in marketing/promotion expenses. In the income statement of the bank, the figure is presented under other overhead expenses which are part of advertisement and publicity expenses. There are two types of the CSR budgeting: (i) at the corporate level - the budget challenge; and (ii) at the program level - for all CSR programs.

Non-Shariah compliance income (non-controlling income)

Another source of the CSR fund is the non-*Shariah* compliance income or some respondent name it as the non-*halal* income and there are three examples of such income can derive: (i) unavoidable transaction - NOSTRO account; (ii) credit card; and (iii) syndication.

Purification fund (controlling income)

This fund is derived from three main sources; (i) income from any transactions that break the *Shariah* rules and guidelines and can be detected during the *Shariah* audit or *Shariah* review; (ii) income from any false transactions due to the human factor (the transaction is valid to the customer but not to the bank) and that is operational risk; and (iii) income from cleansing exercises due to the late payment charge such as *ta'widh* - compensation for actual loss and *gharamah* - penalty for late payment resulting in financial loss. This fund can be used to conduct the CSR activities.

The bank would recognize the income from these transactions as the non-*halal* income and would not be considered as part of the profit. The funds can only be used for the public used (*maslahah 'ammah*) and not to the individual basis. Furthermore, these two funds are controlled by the *Shariah* Division under the supervision of the SSC. Several departments are collaborated in managing these two funds such as the *Shariah* Division, the Corporate Communications and the Finance Division.

CSR program: zakat contribution to universities - UUM

Bank Islam has allocated around RM1.5 million in 2011 *zakat* to 70 higher education institutions including universities, colleges and polytechnics through their Students Affairs Department and usually the UiTM gets more because it has a lot of branches all over Malaysia. All universities must fully utilize the allocation of the fund within the time frame (normally one year after they get the fund from the bank). This is a good effort of the bank to give the *zakat* to universities to help the underprivileged students and the low income families. At Bank Islam, the Cash Management Department is responsible to prepare the *zakat* proposal to universities and to present it to the *Zakat* Committee for the approval of the *zakat* distribution figure.

Actually, the department is managed and monitored all corporate customer accounts which one of the corporate accounts is universities' account. Then, the roles of this department are; (i) to identify the potential recipients of universities, colleges and poly-

technics; (ii) to propose the amount of *zakat* for each institution - usually based on the number of the Muslim students and expected number of the poor students ; (iii) to coordinate with the regional managers and the home/nearest branch for the giving ceremony; (iv) to deal with the universities or the colleges for the said event; (v) to provide a standardized guideline (the *Zakat Handling Guidelines of Bank Islam to University and College Students: Garis Panduan Pengendalian Zakat Bank Islam kepada Pelajar Universiti dan Kolej*); and (vi) to remind the university to submit a report to the *Shariah* Division after the fund has been fully utilized based on the format provided.

After receiving the *zakat* from the bank, the universities should distribute this allocation to the poor and needy students according to the guideline provided as well as their guidelines (if any). The guideline outlines the rules, conditions and procedures of distributing the fund to the students. On top of that, the university should be aware that the *zakat* fund is dedicated to the benefits of the students and not to the benefits of the university. The bank starts giving the *zakat* to all universities in Malaysia (public and private) since the last four or five years back. In the context of UUM, the practice has started since 2007. The collaboration of the bank and the universities in distributing the *zakat* to the students may give synergy to the practice because they (the Students Affairs Department of the universities) know better their students. Figure 1 illustrates the process of managing *zakat* distribution to universities.

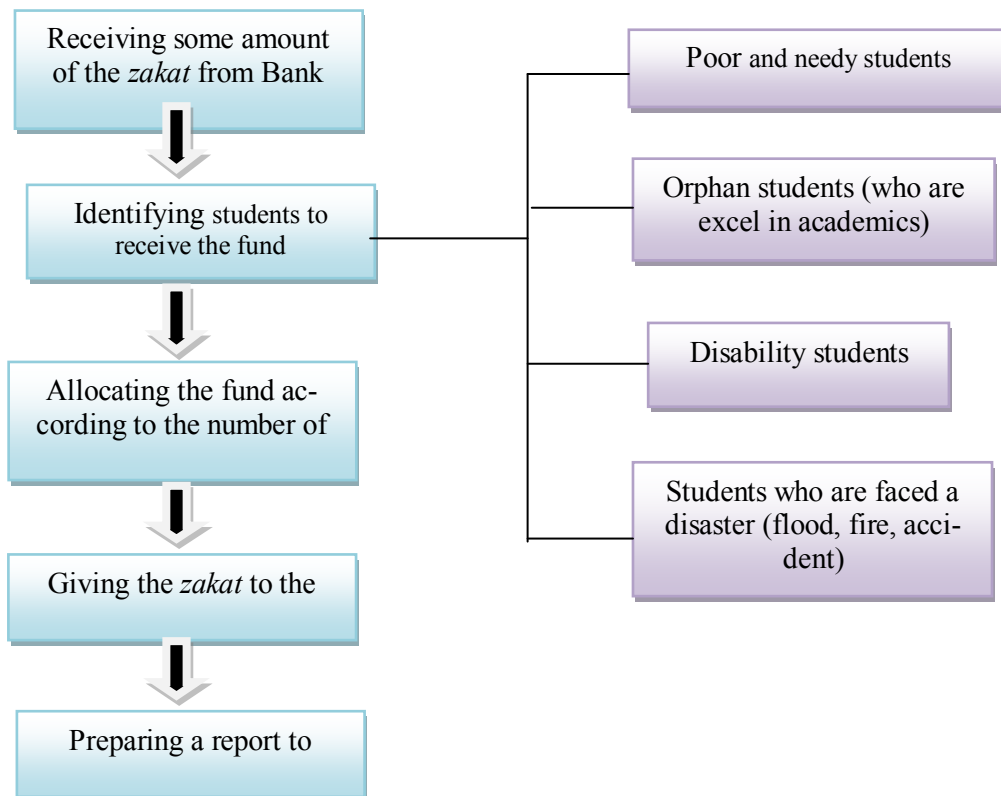


Figure 1. Process of managing zakat distribution to universities

Discussion

CSR is new terminology but old practice

The CSR engagements of the bank have been established since the day one of incorporation due to the bank does not fail to pay the *zakat* regardless of profit or loss. The respondents also claim that paying the *zakat* is a clear example of the CSR practice and they are more familiar with the *zakat* than CSR terminology to prescribe their social responsibilities. Then, this statement is articulated in previous studies that claim the concept of CSR is considered new in Malaysian companies and still at the early adoption phase (in the process of understanding and defining the concept) (Abdul Rashid & Ibrahim, 2002; Amran & Siti Nabiha, 2009; Lu & Castka, 2009; Ramasamy & Hung, 2004; Zulkifli & Amran, 2006). However, for Muslim business entities, they are engaged in the social activities for many years ago if they perform the business *zakat* or other kind of charitable donations and contributions which are mainly on the social development.

For Bank Islam, the respondents argue that the bank engages in the CSR practices for two reasons, which are to fulfill the religious obligation (as part of *fard kifayah*) in developing community surrounding the business and to promote the name of Bank Islam as well as the Islamic banking products and services. Previous studies also claim that the CSR engagements of Islamic banks are based on two connected reasons: to fulfill the religious obligation as well to maintain their position as an exemplary financial provider that promote social justice (*Accounting, Auditing and Governance Standards for Islamic Financial Institutions*, 2004; Farook, 2007; Parvez & Ahmed, 2004). Indeed, CSR is considered important to the Islamic business entities because relates to the concept of *Tawhid* and *Shariah* which govern the relationship between men and Allah, men and other human beings (*hablun min Allah* and *hablun min an-nas*), and men with the environment. Thus, this study suggests that Muslim business entities may naturally engage and conduct CSR initiatives to discharge their religious, social and economic responsibilities towards the community as well as to improve the well-being of Muslim's community.

Managing *zakat* fund

Essentially, Bank Islam's *zakat* management involves two main activities: (i) paying the business *zakat* to *zakat* authorities; (ii) distributing the *zakat* refund by conducting CSR initiatives nationwide to uplift the Muslims' economy and social status. Figure 2 illustrates the process of managing the *zakat* fund from determining the amount of *zakat* to be paid to communicating and reporting the CSR initiatives that have been funded by *zakat* fund to *zakat* authorities as well as to other stakeholders. This managerial guideline may help managers to utilize and manage their refundable *zakat* to conduct CSR initiatives to the *asnaf* under close monitoring of the *zakat* authorities. On the other hand, *zakat* authorities may employ this guideline to assist them in developing their own guideline or framework for self regulation on *zakat* distribution. Hopefully, it may encourage more Muslim business entities to pay business *zakat*.

The effectiveness of *zakat* distribution can be measured through better quality of the recipients' life, basic needs (*daruriyyat*) and comfort (*hajiyyat*) including the food, education, health, shelter and economy of the recipients (Abd Wahab & Abdul Rahman, 2011; Abu Bakar & Abd Ghani, 2011). Then, the bank's efforts in flourishing *zakat* practices have been recognized by the JAWHAR to receive the "Anugerah Zakat Kebangsaan 2012 - Kategori Syarikat Awam Berhad" (Bank Islam Annual Report 2012). From the finding, the study notices that the bank modifies the form of distributions based on the needs of the recipients to improve their standard of living and to maximize the value of giving. For instance, the bank conducts the home project as an annual program for the *zakat* fund to enhance the quality of recipients' life (*asnaf*). Providing a home (shelter) which is a basic need (*daruriyyat*) for the recipients to fulfill the objective of the *Shariah* (*maqasid al Shariah*) in the *zakat* practices.

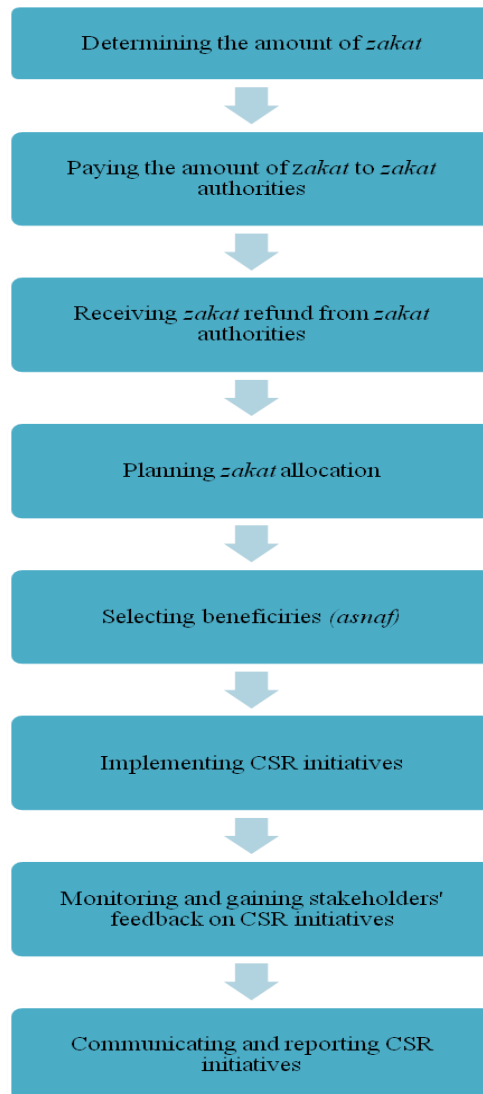


Figure 2. Zakat fund management process in CSR practices

Issues in managing *zakat* fund

The *zakat* fund can be used as a mean to establish equality among Muslims and to develop Muslim's economy by reducing the poverty rate (Abu Bakar & Abd Ghani, 2011). Hence, there is no doubt if the Islamic business organizations initiate to distribute their own *zakat* directly to the recipients (*asnaf*) as what have been done by Affin Islamic Bank and Bank Islam. But, the organizations should follow all the guidelines provided and the objective of *Shariah* on the *zakat* obligations (*maqasid al-Shariah*) is fulfilled (to help the poor and needy). However, Bank Islam may improve regularly the management of the *zakat* fund by considering the following concerns: (i) selecting the *asnaf* - get collaboration with government agencies and local authorities, conducting site visits and get third party verification; (ii) establishing a single (standardized) policies and guidelines in managing the business *zakat* (payment and distribution); (iii) establishing separate department or unit to manage *zakat* fund; (iv) conducting more long term distribution program; and (v) monitoring and reporting the activities regularly.

Furthermore, in order to encourage Muslim organizations to pay the business *zakat*, the *zakat* authorities may consider the culture of self regulation on distributing of *zakat* among Malaysian companies. But, the organizations have to demonstrate their capabilities and procedures to avoid the mismanagement of the fund. According to one respondent, this good initiative has been followed by other organizations; "I think self regulation from corporate side. It may drive other organizations to start giving the *zakat* during *Ramadhan*". Based on the findings, this study notices that in managing the *zakat* fund, the practices of Bank Islam and Affin Islamic Bank are not much different. In fact, both banks have a lot of similarities in term of: (i) the objectives; (ii) having separate committee to manage the fund; (iii) the managing process (selecting the *asnaf*); (iv) establishing the specific guidelines and policies; and (v) the programs that have been conducted (home projects and the *zakat* distribution to the higher education institutions). Possibly, Islamic banks, while they are competing with each other, may have same inner-circle that share common strategies to fund CSR activities.

Hence, this study proposes that the *zakat* authorities may produce a standardized guideline for the method of payment and distribution to all *zakat* payer organizations in Malaysia. This initiative may promote more *zakat* payer organizations to distribute their *zakat* by themselves but with close monitoring of such practices by the *zakat* authorities. In fact, this study believes that by delegating the power of *zakat* distribution to the *zakat* payer organizations, it will reduce the workload of the *zakat* authorities in managing the *zakat* fund particularly in identifying the right beneficiaries (*asnaf*). Previous studies also claim that the *zakat* authorities have problems in distributing the *zakat* fund like: (i) various responsibilities shouldered by the *zakat* institutions (Lubis et al., 2011; Md Hassan et al., 2012); (ii) ineffective distribution method and lack of staffs in these institutions (Ab Rahman et al., 2012; Lubis et al., 2011); (iii) lack of proper governance mechanism (Abd Wahab & Abdul Rahman, 2011); and (iv) attitudes of the *asnaf* to manage successfully the capital assistance in the *zakat* distribution program (Md Ramli et al., 2011).

Additionally, the government may provide more incentives to all *zakat* payer organizations especially on the tax incentives of the *zakat* paid amount (double tax deduction incentive or full deduction as for individual *zakat* payer) to encourage more business organizations to pay the *zakat*. This recommendation has also been highlighted in a study by Abdul Rahman and Awang (2003) which concludes that Malaysian companies are looking forward to pay the *zakat* if they get some tangible benefits (financial and other kind of benefits) and they feel hard to perform two types of levy: corporate tax and *zakat*. Hopefully, by providing this incentive, more Muslims business organizations will perform the *zakat* on business to develop Muslims society in Malaysia.

In addition, this study proposes that the bank may offer scholarship scheme to finance the best students of universities, such as students from Islamic banking and finance or *muamalat* studies to the highest level of educational system. Then, they (the scholarship holders) have to work with Bank Islam for certain periods as part of their scholarship contract. Indeed, this program may help the bank to establish a long term relationship with the students and to prepare them with all necessary skills as a preparation to enter the job market. Further, the bank may have to establish a separate entity (foundation) to enhance the effectiveness and efficiency of the program. This long term contribution CSR program is believed may improve relationship of the bank with all parties involved and provide a significant impact to the recipients in the community (Morris & Biederman, 1985).

CSR budgeting and role of accountants in CSR practices

From the findings, it seems like the CSR budgeting process at Bank Islam is a structured process and the management of the bank takes a necessary action to account their social activities. In this sense, conducting a budget challenge may provide a good medium to the bank in a way to utilize its financial resources for the benefits of recipients (high impact CSR programs). In managing CSR activities, the management accountants and the operational (financial) accounts will involve in several tasks such as: (i) preparing the budget including the overhead expenses (promotion) expenses; (ii) monitor the distribution of CSR fund (including *zakat* fund and donation fund); (iii) committee member for budget challenge session; (iv) preparing accounting entries; (v) making disbursement to all CSR related expenses; (vi) committee member of *Zakat* Committee; (vii) ensuring that all the CSR expenses are according to the budget; (viii) determining any CSR expenses that are entitled for tax relief; and (ix) providing financial data to Reporting Unit of Annual Report for CSR activities.

Furthermore, as an accountant, he or she should be equipped with all necessary skills and accounting knowledge to help the bank manages its CSR activities wisely - with limited budget but the high impact. In addition, the accountants also should also integrate accounting knowledge with other soft skills to assist management team to make better decisions ("Post-Dubai, whither Islamic finance?," 2010). The accountant should convince the management team that CSR is a good long term investment ("CSR is key to survival in tough times.," 2008; Davis, 1967) for the business sustainability and part of marketing tools to promote the bank's products and services. Then,

during the budget challenge session of the bank, the accountants should support proactively all CSR programs that can offer high impacts to the business performance. Among the objectives of the Budget Challenge is to determine the cost versus benefits for every single cent that the bank spends for the CSR activities.

Therefore, the roles of accountants in the CSR process should be shifted from focusing more on social and environmental reporting to assisting management team in the CSR decision making by providing accounting (figure data) to support these initiatives (Tilt, 2009) and using their soft skills like influencing skills to help management to make better decisions ("Post-Dubai, whither Islamic finance?," 2010). Hence, this study suggests that the accountants (management or financial accountants) may play a significant role in the process of managing CSR fund. The issue of CSR should be exposed to the business and accounting students and integrated in the final year undergraduate module as a mean to prepare them with an understanding of the role of accountants and their professions to the development of CSR and CSR practices (Holland, 2004) particularly in determining the allocation budget for the CSR activities.

Conclusion

For Bank Islam, the CSR practices are considered as an integral part of the bank and the bank realizes about its responsibility in giving back to the society to fulfill its religious, social and economic responsibilities. This commitment is accomplished to maintain a good relationship to Allah, other human beings (*hablun min Allah* and *hablun min an-nas*), and environment. In order to conduct all of these programs, the bank needs sufficient amount of CSR funds and these funds should be managed properly to maintain the continuity of the programs. Interestingly, the CSR engagement at the bank is highly related to the *zakat* and most of the CSR initiatives of the bank are funded by the *zakat* fund. Indirectly, the management of CSR initiatives of the bank is influenced by the practice of *zakat* distribution which has been prescribed in the *Shariah* principles and guidelines. Hence, all the business players may participate actively in the social activities as part of their commitments for the mutual benefits of all stakeholders and community.

This study offers new insights on the CSR practices from Islamic perspective and how the CSR fund should be managed to maximize the value of giving. This study has its own limitation especially on the case undertaken. It is highly recommended for the future research to increase the number of cases (two or more cases) to gain more insights in such practices. In addition, the comparative case studies can also be undertaken through: (i) cross-companies comparative studies within Malaysia - other Islamic banks and conventional banks that offer Islamic banking and finance services as well companies in different industries and nature of the business; and (ii) cross-countries comparative studies - other Islamic banks in Muslims countries and other developing countries. It is also noteworthy to mention that such approaches are not fault-free as well as different organizational culture, politics, and economic set-up may be the main drivers of differences. Such, studies are best-viewed in their own context.

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Appendix 1

Respondents' Profile

No.	Position	Group
1	Assistant General Manager, Corporate Communications, Corporate Services	1
2	Staff of BIMB Pokok Sena (Special Grade)	2
3	Branch Manager, BIMB Pokok Sena	2
4	General Manager - Strategic Relations, Managing Director's Office	1
5	Assistant General Manager, Strategic Planning Managing Director's Office	1
6	Principal, Sekolah Kebangsaan Haji Hassan Itam PINTAR program (2008-2010)	3
7	Students Welfare Officer, Students Affairs Department of UUM	3
8	Relationship Manager (Cash Management)	2
9	Branch Manager, BIMB UUM	2
10	Deputy Vice-Chancellor (Student and Alumni Affairs), UUM	3
11	Branch Manager, BIMB Kulim	2
12	Head, Shariah Department	1
13	Regional Consumer Business Manager Kedah/Perlis	2
14	Kulim Social Welfare Officer, Pejabat Kebajikan Masyarakat Daerah Kulim	3
15	Assistant Manager, Corporate Responsibility, Corporate Communications	2
16	Principal, Sekolah Kebangsaan Kuala Kupang PINTAR program (2012)	3
17	Vice Principal I, Sekolah Kebangsaan Kuala Kupang PINTAR program (2012)	3
18	Assistant General Manager, Central Finance, Finance Division	2
19	Manager, Accounting and Operations, Finance Division	2
20	Executive Officer, eChannel Department, Operations (Secretary of Kelab Kebajikan Bank Islam)	2
21	Clerk, eChannels, Operations (Committee Member of Kelab Kebajikan Bank Islam)	2
22	Manager, Corporate Responsibility, Corporate Communications	2
23	Branch Manager, BIMB Sungai Petani	2