Pertanika Proceedings 1 (1): 47 - 52 (2025)

PERTANIKA JOURNALS

PERTANIKA PROCEEDINGS

Journal homepage: http://www.pertanika.upm.edu.my/

Islamic and Conventional Financial Institutions: Emerging Market Perspectives on Corporate Social Responsibility

Heba Abou-El-Sood[1,2]*, Marwan Izzeldin[3], Mohd Rizal Muwazir[4] and Sheeja Sivaprasad[5]

[1]*United Arab Emirates University, College of Business & Economics, Abu Dhabi, 15551, United Arab Emirates*
[2]*Cairo University, Faculty of Commerce, Accounting Department, Giza 12613, Egypt*
[3]*Lancaster University, Management School, Lancaster, LA1 4YW, United Kingdom*
[4]*Universiti Malaya, Academy of Islamic Studies 50603 Kuala Lumpur, Malaysia*
[5]*School of Finance and Accounting, Westminster Business School, NW1 5LS, United Kingdom*

ABSTRACT

Concerns about corporate social responsibility (CSR) have emerged for several reasons related to the change in the CSR agenda and international compliance. This study presents new evidence by investigating the perceptions of CSR practices among executives of Islamic and conventional financial institutions in Malaysia, a prominent financial hub and partner for Middle Eastern, Central Asian, and European markets. The paper employs a mixed methods approach, using a survey questionnaire covering 27 Islamic and 20 conventional financial institutions and probit regression to test the effect of executives' attributes on the importance of different elements of their perceived CSR. The findings challenge a prevailing CSR view that underplays the importance of values and responsibilities. Overall, the results show that executives pay close attention to ethical considerations, contrary to longstanding prior results. Findings reflect stakeholders' interest in corporate environmental, social, and governance practices, prompting businesses to align with long-term social and ethical values beyond financial returns. This paper adds to the literature on CSR in financial institutions, providing insight into the impact of executives' attributes. It provides a clear understanding of CSR in Islamic and conventional financial institutions grounded in the framework of stakeholder theory.

Keywords: Corporate social responsibility, developing countries, emerging markets, executives' demographics, financial institutions, Islamic finance

ARTICLE INFO

Article history:
Received: 09 January 2025
Published: 17 February 2025

DOI: https://doi.org/10.47836/pp.1.1.010

E-mail addresses:
h.abouelsood@uaeu.ac.ae (Heba Abou-El-Sood)
m.izzeldin@lancaster.ac.uk (Marwan Izzeldin)
mrmkl@um.edu.my (Mohd Rizal Muwazir)
s.sivaprasad@westminster.ac.uk (Sheeja Sivaprasad)
* Corresponding author

INTRODUCTION

Corporate social responsibility (CSR) has gained prominence due to shifts in the CSR agenda and international compliance,

© Universiti Putra Malaysia Press

impacting investor confidence (Abd Rahman et al., 2011; Brogi & Lagasio, 2019). The COVID-19 pandemic further emphasized aligning with environmental, social, and governance (ESG) practices for long-term value. Islamic financial institutions (IFIs), driven by Islamic ethical principles, have shown significant potential in promoting CSR (Aribi & Arun, 2015). However, academic research on CSR in IFIs remains limited. This study addresses this gap by examining CSR practices in Malaysia, a key financial hub, and aims to contribute to CSR development within Shari'ah principles.

This study surveys 27 Islamic and 20 conventional financial institutions (CFIs) in Malaysia to assess CSR understanding among executives, the impact of demographics, and motivations for CSR engagement. Unlike Carroll's (1979) CSR pyramid, which prioritizes economic responsibilities, this study suggests ethics as paramount, challenging Visser's (2008) view that ethical priorities are lower in emerging markets.

Exploring CSR perceptions within Malaysia's financial sector addresses a critical knowledge gap for aligning with global sustainability goals. CSR has evolved from shareholder value to broader social, economic, legal, ethical, and environmental responsibilities (Carroll, 1991; Dhingra & Mittal, 2014; Kumar & Srivastava, 2022; Sarkar & Searcy, 2016). This shift, rooted in stakeholder theory, is especially relevant in Islamic finance, where CSR reflects values of social good, governance, and environmental stewardship (Di Bella & Al-Fayoumi, 2016; Freeman, 1984; Platonova et al., 2018).

Studies indicate that growing CSR awareness in Malaysia is driven by government initiatives (Abdul Hamid, 2004; Ahmad & Rahim, 2005; Broadstock et al., 2020). This study applies Carroll's (1979, 1991) CSR model to identify key elements of CSR and examine its applicability to IFIs in an emerging market context while testing the effect of demographic factors on ethical standpoints. The study conjectures the following hypotheses:

H_{01}: The perception of how CSR affects institutional performance differs by the gender of the executive.

H_{02}: The perception of how CSR affects institutional performance differs significantly by the age of the executive.

H_{03}: The perception of how CSR affects institutional performance differs significantly by ethnic group.

H_{04}: The perception of how CSR affects institutional performance differs significantly by religious beliefs.

H_{05}: The perception of how CSR affects institutional performance differs significantly by work experience.

MATERIALS AND METHODS

The survey explored CSR attitudes among executives at IFIs and CFIs in Malaysia, sampling from Bank Negara Malaysia's licensed institutions, including Islamic banks,

takaful companies, conventional banks, and insurance companies. Out of 540 distributed questionnaires, a 67% response rate resulted in 360 returns. The anonymous survey used a Five-point Likert Scale across 16 items in three sections: attitudes towards Carroll's CSR pyramid, motivations for CSR engagement, and the influence of gender, age, ethnicity, religion, and work experience. Table 1 summarizes descriptive statistics. Four probit regression models are applied to economic, social, ethical, and philanthropic responsibility to test the association between respective perceptions of four CSR elements (Carroll, 1979, 1991, 1999, 2000, 2016) and executive-specific characteristics (Table 2).

RESULTS AND DISCUSSION

The results reveal that ethical responsibilities are prioritized over philanthropic, legal, and economic responsibilities, with "increasing community trust and support" and "enhancing public image and reputation" as key CSR motivations. At the same time, factors like "government pressure", "international regulations", and "NGO pressure" are less influential. Over 90% of respondents emphasize trust and public image, whereas legal and economic responsibilities rank lower. Ethical and philanthropic duties, including equal employee treatment and avoiding activities like alcohol and gambling, are highly valued.

Gender significantly affects CSR orientation: males in IFIs prioritize legal responsibilities ($p<0.05$) and both legal and economic responsibilities in CFIs ($p<0.01$). Younger executives (<30) focus on economic responsibilities, while older respondents (>51) emphasize legal ones. Ethnicity also impacts CSR priorities, with economic ($p<0.01$) and legal ($p<0.05$) responsibilities more significant in CFIs. Religion influences CSR views, especially economic and legal responsibilities across IFIs and CFIs ($p<0.01$ and $p<0.05$).

Table 1
Corporate social responsibility score (mean, ranking, and standard deviation)

	Islamic financial institutions			**Conventional financial institutions**			**t-test differences in means**
	Mean (ranking)	**Std. Dev.**	**95% confidence interval**	**Mean (Ranking)**	**Std. Dev.**	**95% confidence interval**	
Economic responsibility	12.25 (4)	2.51	11.88 to 12.61	12.45 (4)	2.51	12.08 to 12.83	0.44
Legal responsibility	14.91 (3)	2.44	14.56 to 15.27	14.59 (3)	2.43	14.22 to 14.95	0.20
Ethical responsibility	15.92 (1)	2.55	15.56 to 16.29	15.67 (1)	2.44	15.30 to 16.03	0.33
Philanthropic responsibility	15.83 (2)	2.60	15.45 to 16.20	15.55 (2)	2.52	15.17 to 15.92	0.30

Note. Std. Dev. = Standard deviation

Table 2
Probit regression models

	Islamic financial institutions (IFIs)								Conventional financial institutions (CFIs)							
	Model (1) Economic		Model (2) Legal		Model (3) Ethical		Model (4) Philanthropic		Model (1) Economic		Model (2) Legal		Model (3) Ethical		Model (4) Philanthropic	
Intercept	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**	**B**	
Gen_{ij}	1.82	.13	6.53**	.01	.22	.24	2.40	.38	5.52**	.00	3.89*	.03	1.59	.65	5.71	.09
Age_{ij}	1.60	.19	.53	.49	.44	.42	.41	.50	.63	.18	.29*	.04	.20	.15	.09*	.03
$Ethn_{ij}$	.53	.15	72.17	.99	.15	.41	16.53	1.00	1.42	.37	.42	.17	.64	.57	1.87	.64
Rlg_{ij}	.77	.28	.00	.99	6.49	.39	1.39	1.00	.75	.30	2.38	.13	.77	.69	.84	.83
Exp_{ij}	.55**	.01	1.93	.24	2.93	.10	3.40	.15	.77	.27	1.72	.17	4.94*	.03	6.29**	.01
Own_i	1.28	.62	10.56	.16	.22	.13	17.76	1.00	.71	.37	.83	.75	.68	.71	.48	.42
No. of obs.	186		186		186		186		174		174		174		174	
Pseudo R^2	.186		.333		.163		.260		.221		.138		.192		.277	

Note. *p<0.05; **p<0.01

$$\text{EconResp}_{ij} = \partial_1 + \partial_2\text{Gen}_{ij} + \partial_3\text{Age}_{ij} + \partial_4\text{Ethn}_{ij} + \partial_5\text{Rlg}_{ij} + \partial_6\text{Exp}_{ij} + \partial_7\text{Own}_{ij} + \varepsilon_{ij} \quad (1)$$

$$\text{LegResp}_{ij} = \beta_1 + \beta_2\text{Gen}_{ij} + \beta_3\text{Age}_{ij} + \beta_4\text{Ethn}_{ij} + \beta_5\text{Rlg}_{ij} + \beta_6\text{Exp}_{ij} + \beta_7\text{Own}_{ij} + \varepsilon_{ij} \quad (2)$$

$$\text{EthicResp}_{ij} = \gamma_1 + \gamma_2\text{Gen}_{ij} + \gamma_3\text{Age}_{ij} + \gamma_4\text{Ethn}_{ij} + \gamma_5\text{Rlg}_{ij} + \gamma_6\text{Exp}_{ij} + \gamma_7\text{Own}_{ij} + \varepsilon_{ij} \quad (3)$$

$$\text{PhilResp}_{ij} = \delta_1 + \delta_2\text{Gen}_{ij} + \delta_3\text{Age}_{ij} + \delta_4\text{Ethn}_{ij} + \delta_5\text{Rlg}_{ij} + \delta_6\text{Exp}_{ij} + \delta_7\text{Own}_{ij} + \varepsilon_{ij} \quad (4)$$

Where each dependent variable is measured as the mean score for the relevant questions (economic/legal/ethical/philanthropic) for respondent *i* at firm *j*; Gen_{ij} = A dummy variable that equals one (1) if respondent *i* at firm *j* is a male and zero (0) otherwise; Age_{ij} = A dummy variable that represents age group of below 30, 31–40, 41–50, and above 51; $Ethn_{ij}$ = A dummy variable that represents ethnicity groups of Malay, Chinese, and Indian; Rlg_{ij} = A dummy that represents the religion of Buddhism, Christianity, Hinduism, Islam, and other; Exp_{ij} = A dummy variable that represents work experience of ≤ 5, 6-10, 11-15, 16–20, and ≥ 21 years; Own_{ij} = A control variable representing ownership structure and is measured as a dummy variable that equals one (1) if the firm *i*, of respondent *j*, is dominated by foreign investment and zero (0) otherwise.; B = coefficient; Sig. = t-statistic ; Obs. = number of observations

Work experience does not significantly impact ethical and philanthropic responsibilities in IFIs yet is associated with economic responsibility in CFIs ($p<0.05$), with less experienced respondents more inclined toward economic aspects.

Probit regression (Table 2) shows gender and work experience as significant predictors for CSR views, especially in CFIs, where males rate economic and legal responsibilities higher than females. Among IFIs, gender distinctions are primarily noted in legal responsibilities. Younger and Malay executives in IFIs prioritize economic aspects, whereas Indian executives emphasize legal ones. In CFIs, executives of diverse ethnicities focus on economic responsibilities. Religion affects IFI executives' focus, with Muslims emphasizing economic aspects, Christians legal, and Hindus ethical. Overall, IFI executives slightly prefer economic dimensions, while CFI executives lean toward ethical and philanthropic priorities.

CONCLUSION

The findings of this paper show that executives in IFIs and CFIs prioritize ethical and philanthropic responsibilities, challenging Carroll's (1979, 1991) CSR framework. Notably, demographic differences influence CSR attitudes, with IFIs emphasizing community support and public image over external pressures. The integration of ethics and philanthropy is crucial in Malaysian business, especially within Islamic finance. The study highlights the strategic importance of workplace diversity in achieving CSR goals, leveraging Malaysia's multi-ethnic context. It also underscores the need for further research on the influence of demographic factors on CSR in the Islamic financial industry, particularly in the context of rising FinTech and digitalization.

ACKNOWLEDGEMENTS

The authors are grateful to the Sunway Business School and Lancaster University Management School conference participants at Sunway University, Malaysia, for their insightful comments. This study is supported by a post-doctoral research fellowship from the Ministry of Higher Education Malaysia and Universiti Malaya. The authors also thank Gulf One Lab for Computational and Economic Research (GOLCER), Lancaster University Management School, and United Arab Emirates University for providing support.

REFERENCES

Abd Rahman, N., Zain, M. and Al-Haj, N. (2011). CSR disclosures and its determinants: evidence from Malaysian government link companies. *Social Responsibility Journal*, *7*(2), 181-201.

Abdul Hamid, F. Z. (2004). Corporate social disclosure by banks and finance companies: Malaysian evidence. *Corporate Ownership and Control*, *1*(4), 118–130. https://doi.org/10.22495/cocv1i4p10

Ahmad, N. N. N., & N. A. A. Rahim (2005). Awareness of corporate social responsibility among selected companies in Malaysia: An exploratory note. *Malaysia Account. Rev*., *4*(1): 11–24

Aribi, Z. A., & Arun, T. (2015). Corporate social responsibility and Islamic financial institutions (IFIs): Management perceptions from IFIs in Bahrain. *Journal of Business Ethics*, *129*, 785–794.

Broadstock, D. C., Matousek, R., Meyer, M., & Tzeremes, N. G. (2020). Does corporate social responsibility impact firms' innovation capacity? The indirect link between environmental social governance implementation and innovation performance. *Journal of Business Research*, 119, 99–110.

Brogi, M., & Lagasio, V. (2019). Environmental, social, and governance and company profitability: Are financial intermediaries different? *Corporate Social Responsibility and Environmental Management*, *26*(3), 576–587.

Carroll, A. B. (1979). A three-dimensional model of corporate performance. *Academy of Management Review*, *4*(4), 497–505.

Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons*, *34*(4), 39–48.

Carroll, A. B. (1999). Corporate social responsibility: Evolution of definitional construct. *Business and Society*, *38*(3), 268–295.

Carroll, A. B. (2000). Ethical challenges for business in the new millennium: Corporate social responsibility and models of management morality. *Business Ethics Quarterly*, *10*(1), 33–42.

Carroll, A. B. (2016). Carroll's pyramid of CSR: Taking another look. *International Journal of Corporate Social Responsibility*, *1*, 3.

Dhingra, D., & Mittal, R., (2014). CSR practices in Indian banking sector. *Global Journal of Finance and Management*, *6*(9),853–862.

Di Bella, V., & Al-Fayoumi, N. (2016). Perception of stakeholders on corporate social responsibility of Islamic Banks in Jordan. *EuroMed Journal of Business*, *11*(1), 30–56.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman.

Kumar, V., & Srivastava, A. (2022). Trends in the thematic landscape of corporate social responsibility research: A structural topic modeling approach. *Journal of Business Research*, *150*, 26–37.

Platonova, E., Asutay, M., Dixon, R., & Mohammad, S. (2018). The impact of corporate social responsibility disclosure on financial performance: Evidence from the GCC Islamic banking sector. *Journal of Business Ethics*, *151*, 451–471.

Sarkar, S., & Searcy, C. (2016). Zeitgeist or chameleon? A quantitative analysis of CSR definitions. *Journal of Cleaner Production*, *135*, 1423–1435.

Visser, W. (2008). Corporate social responsibility in developing countries. In A. Crane, D. Matten, A. McWilliams, J. Moon, & D. S. Siegel (Eds.), *The Oxford handbook of corporate social responsibility* (pp. 473–500). Oxford University Press.