

A Preliminary Study of Social Responsibility of Islamic Insurance Companies in Malaysia

Mohd Rizal Muwazir, Kamaruzaman Noordin, and Azian Madun

Abstract—Corporate Social Responsibility (CSR) often cited to have a positive long term effect on the success of the business financial performance. Islamic religion on the other hand, sees CSR as part of business commitment to social justice and brotherhood. In spite of increasing interest has been accorded to CSR studies in Islamic financial institutions (IFIs), research in Islamic insurance is an overlooked area. Therefore, this article is aim to explore the current landscape of social and ethical awareness of Islamic insurance (*Takaful*) industry in Malaysia. A quantitative survey design was used to gather primary data from managers of the companies. The finding reveals that the managers of Islamic insurance industry express a positive commitment to improve society well-being through social and ethical activities.

Keywords— Corporate Social Responsibility, Islamic Insurance, Takaful, Malaysia.

I. INTRODUCTION

TODAY, business corporations are expected to embrace social responsibility activities because of several reasons such as (a) the emerging public standards for social performance (the United Nations Global Compact), (b) the proliferation of independent evaluations and rankings that make social performance more transparent (*Fortune's Most Admired Companies*), and (c) the scandals associated with big giant companies (Enron and Worldcom). The existing literature indicates that many successful and profitable organizations spent significant amounts of money in fulfilling their social responsibilities [1]. Kitchen and Schultz [2] argue that companies that adopt CSR program often build positive corporate reputation and profitability. This proposition is supported by both theoretical and empirical research. The basic concept of CSR believes that business depends on society for its existence, continuity and growth. As a consequence, business organizations should take into account social demands and integrate them in such a way that the business operates in line with social values [3].

Mohd Rizal Muwazir is with the Department of Shariah and Management, Academy of Islamic Studies, University of Malaya, 50603 Kuala Lumpur, Malaysia (corresponding author's phone: +60379676165; e-mail: mrmkl@um.edu.my).

Kamaruzaman Noordin is with the Department of Shariah and Management, Academy of Islamic Studies, University of Malaya, 50603 Kuala Lumpur, Malaysia (e-mail: zamann@um.edu.my).

Azian Madun is with the Department of Shariah and Management, Academy of Islamic Studies, University of Malaya, 50603 Kuala Lumpur, Malaysia (e-mail: azianm@um.edu.my).

II. CSR FOR ISLAMIC FINANCIAL INSTITUTIONS (IFIS)

The philosophical idea of the development of Islamic financial institutions (IFIs) is to establish socio-economic justice that is derived from the principle of general mutual responsibility and the principle of social balance [4]. These principles stem from the teaching of the *Qur'an* and the *Sunnah* (saying and practices of the Prophet of Islam), providing a better alternative philosophical framework for man's interaction with his fellow human beings as well as to the environment. According to Muwazir, Muhamad and Noordin [5], CSR of Islamic corporation is to cover the responsibility to God, responsibility to the fellow human beings as well as responsibility to the natural environment. This framework is derived from the concept of *tawhid* (oneness of God), which requires a total commitment to the will of God. For example, the teaching of Islam requires that business should give the needy a specific portion of wealth. This contribution is called *zakat* and is usually about 2.5 percent of wealth or profit. The main philosophy of *zakat* contribution is to narrow the gap between the rich and the poor as well as to reduce social inequality through philanthropic orientation. Any voluntary activities such as supporting education program and scholarship will contribute to the betterment of life.

The introduction of the development of IFIs in Malaysia was inspired by the Government's effort in introducing Islamic banking system through the establishment of Bank Islam Malaysia Berhad (BIMB) 30 years ago. Since then, Islamic financial services sector continue to grow steadily to include among others, Islamic insurance products and services. There have always been demands for Islamic financial products and services that conform to the teaching of Islam. The first Islamic insurance company in Malaysia was established in 1984. Globally, Islamic insurance industry attracts nearly USD10.9 billion of gross contribution in 2012. Driven largely by Malaysia and Saudi Arabia, the industry is expected to grow around 16 percent annually.

Studies in CSR have received increase attention from researchers around the world. However, most of these studies were conducted in the context of developed countries. It shows that the awareness about, and adoption of CSR agenda is less apparent in developing countries compared to the developed countries of the West [6]. To date, most of the CSR literature in developing countries focuses on Asian region, with a significant attention on China, India, Malaysia, Indonesia, Thailand and Pakistan. It is also noted that majority of the

previous empirical studies have less focus on Islamic business industries. For instance, Chapple and Moon [7] claim that the way CSR is practiced and perceived in Asia is not homogeneous as it is shaped by different culture, religion, political and socio economic condition. Therefore, there will be a significant difference of CSR practices across different countries, regions as well as different business organizations.

III. RESEARCH METHODOLOGY

This study used survey design as a primary data collection method. The questionnaires were distributed to top managers working in Islamic insurance companies. The questionnaire mailing and follow-up generated 59 responses or 40 percent of response rate. The questionnaire was designed to address the following research objective:

1. The understanding of Islamic insurance' managers towards CSR.
2. To discover the CSR orientation of Islamic insurance companies in Malaysia.

The preliminary analysis (reliability test) carried out in this study indicates that the value of Cronbach's Alpha coefficient for all seventeen statements is 0.848, which signify a satisfactory high degree of internal consistency for further statistical analysis.

IV. FINDINGS

As depicted in Table I, most respondents were predominantly male. Slightly more than three quarter of the respondents were male (78 percent) compare to female (22 percent). The combination of respondents between age 31-40 and 41-50 represents 74.6 percent of the total respondent. Relatively few were either below 30 years of age (6.7 percent) or over 50 years of age (18.7 percent). The distribution of age indicates that the perceptions of respondents towards CSR commitment will be dominated by the opinion of the middle-aged respondents.

TABLE I
DEMOGRAPHIC PROFILE

| | Frequency | Percentage |
|--------------------|-----------|------------|
| Gender | | |
| Male | 46 | 78 |
| Female | 13 | 22 |
| Age Distribution | | |
| 30 years and below | 4 | 6.7 |
| 31 - 40 years | 21 | 35.6 |
| 41 - 50 years | 23 | 39 |
| 51 years and above | 11 | 18.7 |

A. CSR Understanding

Table II demonstrates the views and opinions and of Islamic insurance managers in Malaysia towards various CSR issues. Statement 1 shows that majority of the respondents (84.2 percent) agreed with the proposition that business corporations should response to the society in where they do their business.

In other words, Islamic insurance managers believed that as part of the society, they should react to the issues of ethics, morality and contribute to the social and environmental awareness. This particular result confirms the findings made by Fulop, Hisrich and Szegegi [8] and Muwazir et al. [9]. Next, statement 2 examines the perceptions of respondents towards the impact of CSR initiatives on business image. The result indicates that 81.1 percent agree with the proposition. Only 13.9 percent of them were either disagree or undecided. This finding is consistent with previous research done in other corporations [2] [10]. Nevertheless, only 47.1 percent of respondents agreed with statement 3 that the involvement of business corporations on CSR programs is profitable. Another 36.1 percent were undecided, and 16.8 percent of them were disagreed. This finding supports other research conducted by Orpen [11].

TABLE II
CSR UNDERSTANDING

| Statements | Disagree | Undecided | Agree | Mean |
|---|----------|-----------|-------|------|
| | (in %) | | | |
| 1. Business is part of society and therefore it should response to social, ethical and environmental issues. | 4.2 | 11.6 | 84.2 | 4.11 |
| 2. CSR initiatives can help build a favorable image of a business. | 4.9 | 9.0 | 86.1 | 4.21 |
| 3. Contributing to the solution of social and environmental issues such as poverty and pollution can be profitable. | 16.8 | 36.1 | 47.1 | 3.38 |

B. CSR Orientation in Islamic Insurance – Factor Analysis

This section analyses the level of CSR orientation in Islamic insurance companies using factor analysis. Factor analysis is used to reduce a large number of variables into a smaller set of underlying factor that summarizes the essential information that was contained in the variables. In this section, factor analysis is used as an exploratory technique to summarize a set of CSR orientations (variables). In total, there are 15 statements of CSR activities which measured based on five Likert scale (from 1- 5). On this scale, 1 represents strongly disagree while 5 represents strongly agree. The rotated component matrix solution has discovered the presence of a simple structure with the 3 factors showing a number of strong loadings. The result shows that Islamic insurance managers in Malaysia placed Ethical orientation as the most important part of their CSR activities, followed by Philanthropy and Cultural programs. This finding indicates that Islamic insurance companies in Malaysia offer more support towards ethical activities such as improving *Shariah* (Islamic teaching) standards on products and services, promoting employees welfare/training, supporting consumers education and respect ethical values of the society.

V. CONCLUSION

This article observes the issue of CSR in Malaysia by exploring the current views and commitment of Islamic insurance industry towards CSR. The findings show that in general, Islamic insurance companies in Malaysia express a positive attitude and understanding of CSR concept. This maybe outcomes from continuous efforts and initiatives by the Malaysian government together with Security Commission and Bursa Malaysia. It is hope that future research efforts may want to widen the scope of the study to other economic sectors such as food and beverage, manufacturing, retail, property and construction so that clearer and more detailed views of CSR in Malaysia can be achieved.

ACKNOWLEDGMENT

This article is part of the research outcome financed by the University of Malaya Research Grant (UMRG), Project No: RG403-12HNE.

REFERENCES

- [1] P. I. Doukakis, K. M. Kapardis and M. Katsioloudes, "Corporate Social Responsibility: The Way Forward? Maybe Not. A Preliminary Study in Cyprus," *Journal of European Business Review*, vol. 17, no. 3, pp. 263-279, 2005.
<http://dx.doi.org/10.1108/09555340510596661>
- [2] P. J. Kitchen and D. E. Schultz, "Managing Reputation: Global Issues and Problems," in *Proc. 7th Annual Conference on Corporate and Marketing Communications*, 29-30 April 2002.
- [3] E. Garriga and D. Melé, "Corporate Social Responsibility Theories: Mapping the Territory," *Journal of Business Ethics*, vol. 53, no. 1/2, pp. 51-71, 2004.
<http://dx.doi.org/10.1023/B:BUSI.0000039399.90587.34>
- [4] K. Khir, L. Gupta, and B. Shanmugam, *Islamic Banking: A Practical Perspective*. Kuala Lumpur: Pearson Malaysia, 2008.
- [5] M. R. Muwazir, R. Muhamad and K. Noordin, "Corporate Social Responsibility Disclosure: A Tawhidic Approach," *Journal of Shariah*, vol. 14, no. 1, pp. 125-142, 2006.
- [6] K. Sriramesh, C. W. Ng, S. T. Ting and L. Wanyin, "Corporate Social Responsibility and Public Relations: Perceptions and Practices in Singapore", in *The Debate over Corporate Social Responsibility*, S. May, G. Cheney and J. Roper, Eds. Oxford: Oxford University Press, 2007.
- [7] W. Chapple and J. Moon, "Corporate Social Responsibility (CSR) in Asia: A Seven- Country Study of CSR Web Site Reporting," *Journal of Business and Society*, vol. 44, no. 4, pp. 415- 441, 2005.
<http://dx.doi.org/10.1177/0007650305281658>
- [8] G. Fulop, R. D. Hisrich and K. Szegedi, "Business Ethics and Social Responsibility in Transaction Economies," *Journal of Management Development*, vol. 19, no. 1, pp. 5-31, 2000.
- [9] M. R. Muwazir et al., "Understanding Corporate Social Responsibility: A Survey of Malaysian Muslim Managers," *Advances in Natural and Applied Sciences*, vol. 6, no. 8, pp. 1445-1450, 2012.
- [10] A. M. Z. Rashid and S. Ibrahim, "Executive and Management Attitudes towards Corporate Social Responsibility in Malaysia," *Corporate Governance*, vol. 2, no. 4, pp. 10-16, 2002.
- [11] C. Orpen, "The Attitudes of United States and South African Managers to Corporate Social Responsibility," *Journal of Business Ethics*, vol. 6, pp. 89-96, 1987.
<http://dx.doi.org/10.1007/BF00382022>