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Corporate social responsibility and Islamic social finance impact on banking sustainability post-COVID-19 pandemic

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Abstract

This study aims to explore Corporate Social Responsibility (CSR) and Islamic Social Finance activities in Bank Pembangunan Malaysia Berhad (BPMB) as one of the Development of Financial Institutions (DFIs) in Malaysia and their impact on sustainability post-coronavirus disease (COVID-19) (2021–2023). A semi-structured interview was conducted among the top management and employees of BPMB. Resultantly, the bank has aligned its Islamic Social Finance and CSR activities with the third Sustainable Development Goal (SDG). Nevertheless, the impact on banking sustainability post-pandemic remains uncertain as efforts towards SDG remain at the preliminary stage. Conclusively, Islamic Social Finance and CSR are critical to enhance banking sustainability. This study provide insight to other DFIs in understanding the role of Corporate Social Responsibility (CSR) and Islamic Social Finance activities in achieving sustainability post pandemic. © 2023

Author Keywords

CSR; Islamic social finance; SDG; Sustainability

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The scenario has impacted people's livelihoods, specifically their socioeconomic well-being. Hence, it is essential to provide solutions and strategies for coping with the pandemic and its negative consequences, which require combining all resources and uniting efforts by all stakeholders, individuals, organisations, and governments. This situation calls for the integration of Islamic Social Finance mechanisms and CSR initiatives for the stakeholders' benefit, specifically those in need. Businesses have attempted to provide support in coping with the pandemic in various ways based on the CSR concept [1]. Islamic Social Finance is gaining significant attention in the finance industry. Thus, Islamic financial institutions need to explore the Islamic Social Finance mechanism, such as zakat and qard for CSR initiatives. The DFIs remain significant and relevant due to their vital complementary and development role in supporting national socio-economic objectives. The pandemic has impacted nations worldwide, including Malaysia where the government is committed to alleviating the citizens in need. For instance, PENJANA (Pelan Jana Semula Ekonomi Negara) or the National Economic Recovery Plan was introduced, with emphasis on three (3) key thrusts: (1) empower people, (2) propel businesses, and (3) stimulate the economy [11]. These initiatives provide an overall impact to support the citizens' economic well-being. The appointment of Malaysia ninth prime minister, Datuk Seri Ismail Sabri Yaakob during the pandemic has enable the National Recovery Plan to stay on track, including in efforts to combat the COVID-19 pandemic and implement the vaccination programme. Interestingly, DFIs also function to support the needs of the strategic sectors in improving national socio-economic objectives [1]. discovered various ongoing CSR efforts by organisations worldwide in the fight against the COVID-19 pandemic, including large companies, such as Amazon and Walmart. Additionally, the financial sectors are among the most vital sectors sustained during the health crisis. Consequently, support from financial institutions is imperative during the pandemic compared to other fragile sectors, such as tourism and transportation. According to Ref. [25], based on stakeholder theory, the main objective of an organisation is the creation and maximization of stakeholder value. This can be achieved by paying attention to all the relationships that affect organisational goals [26]. find that CSR through Zakat can support the stakeholder theory as Islamic banks focus on social obligations which meet the needs of their stakeholders and hence will lead to improvement in their financial performance. The result is supported by Ref. [27] who contend that Zakat as CSR activities are in line with the stakeholder theory from an Islamic perspective. This is based on their findings that there is a positive and significant relationship between Zakat contribution and the financial performance proxied by Return on Asset (ROA) and Return of Equity (ROE) of the Islamic banks in Malaysia [28]. also analyze zakat from stakeholder perspective. They use primary and secondary data from Islamic rural banks in the Special Region of Yogyakarta and confirmed that corporate zakat is in line with stakeholder theory because it positively impacts the performance of Islamic rural banks in Yogyakarta. The CSR research and its impact are crucial in further comprehending how companies can facilitate all stakeholders to sustain in the current crisis. This global predicament affects people's health and livelihood worldwide. Hence, financial institution sectors need to provide incentives and initiate CSR activities supporting the community without neglecting their employees and

customers. In line with CSR, zakat is also used to help the poor and needy through urgent funds for basic needs fulfillment [30]. For example, zakat is a dedicated fund to aid people and close down SMEs during the pandemic [31]. It outlined that zakat can save lives by providing medical assistance, aid households by creating a social safety net and graduation programme, and save businesses through financial assistance to micro and small enterprises. Nonetheless, zakat is only limited to Muslims [30]. It emphasised the pivotal role of Islamic in deploying this fund to mitigate the adverse effects of COVID-19 [32]. It underscored that Muslim countries, such as Indonesia have great potential to accumulate funds through zakat during the COVID-19 pandemic as the country with the largest Muslim population. Nevertheless, this potential may not be realised optimally owing to low public trust in zakat institutions. Some communities prefer giving zakat directly to the recipients following the lack of enforcement from zakat institutions. Regarding CSR, Interviewee 2 stated that BPMB employees are granted one-off assistance, albeit for selected staff as everybody worked from home during the pandemic. Hence, the assistance allowed them to make financial adjustments. The BPMB has made various efforts towards the community and their employees during the pandemic through zakat distribution and CSR activities. The efforts aligned with the third SDG, which aims to protect public health and well-being to ensure that their activities significantly impact the people and planet. Nevertheless, the extent of the impact remains under review by the institution as the MIND framework is newly launched. Overall, the result highlights that various efforts have been done by BPMB in relation to COVID-19 with more focus on the usage of zakat fund and again, these efforts of distributing zakat fund is highlighted under CSR activities.

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