CORPORATE SOCIAL RESPONSIBILITY AND TAKAFUL AGENCY’S BUSINESS PERFORMANCE IN MALAYSIA: A CRITICAL REVIEW.

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ABSTRACT

Insurance has existed since 215CE and it is a product designed to provide protection to individuals and businesses against specified contingencies. Whereas, the concept of Islamic insurance or Takaful was first introduced in 1970s and it is a concept of mutual cooperation to guarantee mutual protection of the participants. Takaful is inspired by the growing needs of the Muslim consumers around the world for insurance protections that conforms to the Islamic law. From the Islamic perspective, there is similarity between the concept of Takaful and social responsibility as both concepts emphasizes on the community’s benefits which is developed based on relationship characteristics. Although more Islamic finance including Takaful studies have been conducted but empirical Takaful research is still limited. Moreover, most conducted Takaful research are exploratory study and more conceptual in nature. Recently, there have been calls for Takaful industry to apply societal concept to make the industry more competitive. Explorations of the applicability of social responsibility in Takaful are inadequate and this paper is proposed to fill the gap.

Keyword: Takaful, Corporate Social Responsibility, Business Performance, Malaysia.

1. Introduction

Insurance is to protect individuals and businesses against any specified contingencies (Redzuan et al., 2009). Insurance becomes a contract that reduces loss risk caused by any accidents or unfortunate circumstances (Maysami and Williams, 2006). Initially, Muslim scholars all over the world had expressed different opinion on the permissibility (halal) or prohibition (haram) of insurance (Farooq et al., 2010; Maysami and Williams, 2006). However, the majority of scholars had discussed and finally mutually agreed that commercial insurance is prohibited (Farooq et al., 2010). It was also suggested the development of an Islamic insurance (Takaful) system and products that
are free from any form of “Riba”, “Usury”, “Gharar” and “Maisir”.

The development of the *Takaful* industry in Malaysia had started in the 1980s. Syarikat *Takaful* Malaysia Sdn. Bhd. became the first *Takaful* operator established in 1985 and later in 1988, Bank Negara Malaysia (BNM) assumed the regulation and the supervision of conventional insurance and Islamic insurance (*Takaful*) industries. In order to create competition and exchange of business through *reTakaful*, *Takaful* Nasional Sdn. Bhd. became the second company established in 1993 (Abdul Hamid and Othman, 2009). Maybank received the *Takaful* license in 2002, and later in 2003 *Takaful* Ikhlas Sdn Bhd was also given the license. Currently, there are more than ten *Takaful* operators in Malaysia, where most of them offer Family and General *Takaful* (Bank Negara, 2010). Generally, *Takaful* companies’ business model in Malaysia adopt either *Wakalah* (Agency-based model) or *Mudarabah* (profit-sharing model), but *Wakalah* model is identified as a more efficient and sustainable distribution channel and has shown a rapid growth (Halim, 2012). It is evidenced by the increase of *Takaful* agents which was only 11,000 only in 2006 to 74,089 in 2010 and the number keeps on growing (Bank Negara Malaysia, 2010).

Basiclly, *Takaful* agency plays an important role in marketing *Takaful* products and reaching a wider customer base including penetrating non-Muslim market (Sharif, 2012). *Takaful* agents help creating awareness and ownership of family *Takaful* scheme among Muslim in Malaysia as evidenced by early empirical study that showed nearly 50 percent of the respondents are aware of Family *Takaful* Scheme (Norlida et al., 2004). The extension study later has shown the awareness level has increased to 86 percent (Abdul Hamid and Othman, 2009).

Although the *Takaful* industry has seen double-digit growth since 2010, but it is reported that the industry still suffers from a lack of market penetration, and still underperforms (Halim, 2012) Moreover, Bank Negara Malaysia reported that large potential *Takaful* market still remain untapped to its fullest (Bank Negara Malaysia, 2001). The recent *Ernst & Young Takaful* Report 2012 also showed the current *Takaful* market share in Malaysia and GCC countries stands only at 10% and 15% respectively which is lesser than the whole potential of the industry. Recently, there have been calls for *Takaful* industry to apply entrepreneurial, marketing and societal concept to make the industry more competitive (Halim, 2012; Sharif, 2012).

According to Askari et al., (2010) the Islamic financial system consists of several components namely Islamic banking, Islamic insurance (*Takaful*), Islamic capital market, and other non-bank financial institutions. The original concept of Islamic finance is to help Muslims to conduct the economic activities based on the principles of Shariah (Warde 2000). Although many Islamic finance studies have been conducted, most studies are conducted in the context of Islamic banking (Amin et al., 2009; Dusuki, 2008; Kumar et al., 2010; Osman, 2011). However, empirical *Takaful* study is still limited (Abdul Hamid and Othman, 2009). Moreover, most *Takaful* studies are exploratory study (Farooq et al., 2010; Lim et al., 2010; Billah, 2001; Maysami and Williams, 2006) and more conceptual in nature (Abdul Hamid and Othman, 2009).

Basically, this study focused on the concept of Corporate Social Responsibility (CSR) which is also known as social responsibility (Arnaudov and Koseska, 2012). *Takaful* industry in Malaysia is chosen as the context of the study as Chapple and Moon (2005) argued that relatively little research on CSR concept focuses on companies in Asia. From the Islamic point of view, there is a similarity between *Takaful* concept and social responsibility (Yaacob and Abdul Ghani Azmi, 2012). The foundation of *Takaful* concept is about relationship or brotherhood where it strongly encourage...
community’s benefit (religion, intelligence, life, honor, dignity and property) in fulfilling the Maqasid al Shariah (Yacob and Abdul Ghani Azmi, 2012; Muji Tahir, 2009). This topic has attracted many researchers to study CSR either from Islamic perspective (Siwar and Hossain, 2009; Yacob and Abdul Ghani Azmi, 2012) or other perspectives (Carroll and Buchholtz, 2000; Moir, 2001, Greenfield, 2004, Suchman, 1995; Maignan and Ferrell, 2004).

Another growing issue in CSR topic is about the relationship of the construct and business performance that produces disparity finding (Wickham, 2006). Several scholars argued CSR-performance research is context dependent study and by proposing environment as a moderator in the relationship between the constructs may contribute to a better understanding of the concept (Goll and Rasheed, 2004). Therefore, the relationship between CSR and business performance in the context of Takaful agency in Malaysia will be investigated by proposing the role of environment as a moderator of the constructs’ relationship. Based on the discussion above, the key questions that this study would like to explore are: What elements of Corporate Social Responsibility are related to Takaful concept?; Is there any relationship between Corporate Social Responsibility and Takaful agency’s business performance in Malaysia? What is the intensity of relationship between Corporate Social Responsibility and Takaful agency’s business performance in Malaysia? Does external environment moderate the relationship between Corporate Social Responsibility and Takaful agency’s business performance in Malaysia?

2. Literature Review

Takaful concept

Technically, Takaful comes from an Arabic word of “kafala” which means to guarantee, to look after or trust (Abdul Hamid and Othman, 2009). Literally, “Takaful” is derived from adverbs “takafala” which means “looking after one another” (Abdul Hamid and Othman, 2009). Bakar (2000) exerted that Takaful is different from conventional insurance because from Takaful perspective a company is not the ‘insurer’ insuring the participants but the participants are actually mutually insuring one another and this is the very essence of the word Takaful.

Conceptually, Takaful is an arrangement by a group of people with common interests to protect each other from certain defined misfortunes such as premature death, disability and property damages (Obaidulllah, 2005). Generally, insurance does not contradict with the Islamic principles since it is essentially a system of mutual help (Redzuan et al., 2009). However, uncertainty (gharar), gambling (maysir) in the insurance contract and usury (riba) in its investment activities cause the operation of conventional insurance contradicts to the principle of Shariah (Redzuan et al., 2009).
**Takaful Principle**

According to Haron and Wan Azmi (2009), there are three core principles in Takaful which become the foundation of Takaful company in Malaysia:

(i) **Mutual responsibility.**

Muslims are responsible towards Allah (s.w.t) and other creations.

(ii) **Mutual cooperation**

It is illustrated in the following Quranic verse.

“It is not righteousness that ye turn your faces towards east and west; But it is righteousness to believe in God, and the Last Day, and the Angel, and the Book, and the Messengers; To spend of your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask, and for the ransom of slaves, to be steadfast in prayer, and practice regular charity; to fulfill the contract which ye have made; and to be firm and patient, in pain (suffering), and throughout all periods of panic. Such are the people of truth, the God-fearing.”

(Quran 1: 177)

(iii) **Mutual protection**

Disaster and prosperity are given by Allah (s.w.t) and Islam strongly encourages Muslims to help each other.

3. **Corporate Social Responsibility (CSR)**

The concept of CSR is widely discussed in the literature but its definition is still debatable (Green and Peloza, 2011; Jamali, 2008). This is because the concept has been conceptualized from various angle (McDonald and Lai (2009). The concept is discussed from economic perspective (Friedman, 1962), good corporate citizenship (Hemphill, 2004), consumer, economics and theoretical perspective (McDonald and Lai, 2009), and from a broader perspective which covers economic, legal, ethical and philanthropy (Carroll, 1979). The earlier definition comes from Bowen (1953 p.6) who defined CSR as:

“the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society”.

Zenisek (1979) defined the concept from economics point of view as it is return maximizing activities to shareholders. However, some researchers argue that businesses have only one responsibility which is to maximize investor return and it can be achieved by fully utilizing resources through profit maximization as people have freedom to choose what they want (Friedman, 1996; Sternberg, 2000; Henderson, 2001). This view is consistent with classical economics view of profit maximization that believed only a financially stable organization can support the cost of performing CSR (Handy, 2002).
Even though several scholars view promoting social good as beyond company’s economic interest (McWilliams and Siegel, 2001; Turban and Greening, 1997), other scholar has viewed the concept in a broader scope that encompasses economic, legal, ethical, and philanthropy dimensions (Carroll, 1979). Economic responsibility of an organization embraces activities such as operation efficiency activities, creating job and fair pay for employees and providing return of investment (ROI) to shareholders Jamali (2008), as well as other economic activities to its stakeholders (Carroll, 1991). Legal dimension entails organizational responsibility to adhere to rules and regulation (Carroll, 1979). Ethical responsibility embraces activities that are not necessarily legalized Jamali (2008), but the activities are based on religion and commitment towards humane principles and human right (Novak, 1996). Finally, philanthropy responsibility encompasses activities that promote human welfare (Carroll, 1991). Philanthropy responsibility has the widest scope and become the most controversial aspect of CSR concept (Jamali, 2008).

CSR is widely discussed from the perspective of stakeholder theory (Reverte, 2009). This theory concerns with any individual or group that can affect or affected by organizational achievement (Freeman, 1984). This is because the responsibility towards shareholder (one of the stakeholders) cannot be performed without considering to some degree the need of other stakeholders (Jamali, 2008). Different stakeholders’ views on how an organization should carry out its activities may cause them to negotiate various social contracts with various stakeholders (Reverte, 2009). Although the concept is widely discussed from different theoretical point of view, the concept of stakeholder still becomes central to CSR practice Maon et al., (2009), and its main challenge is to improve the relationship between an organization with its stakeholders by delivering benefits to them through its policies and activities (Post et al., 2002).

4. CSR from an Islamic Perspective

CSR has been discussed and established in the literature more than 50 years Carroll and Buchholtz (2006), but interestingly, the concept is chosen as the solution for recovery of moral deficiency in the neoclassical economy (Mohd Nor, 2012). Recently, scholars have started to show their interest to rationalise CSR where Islamic moral economy (IME) becomes the underlying foundation by articulating the values of justice, fairness and equity (Mohd Nor, 2012). Islamic moral economy (IME) promotes justice in social and economic aspect as accentuated in Islamic economic system which is based on Shariah principles, where having a consciousness of God’s presence (taqwa) in daily activities including economic activities becomes the fundamental bedrock of IME (Iqbal and Mirakhor, 2007). IME becomes the alternative to the neoclassical economy which promotes capitalism and profit maximisation (Ahmad, 1980; Chapra, 1979; Siddiqi, 1980; Naqvi, 1994; Tripp, 2006). IME is viewed to have the capabilities to deliver material benefits to the economic development more effectively and transparently because IME stresses on ethics and morality (Siddiqi, 1980; Tripp, 2006). IME is inspired from the Western concept of ‘moral economy’ that comprises elements of faith or cultural norms, moral and ethical values as well as economic activities. Therefore, Islamic CSR is built upon faith (aqidah), personal moral behavioural disposition (akhlaq) and Shariah-compliance economic activities (Mohd Nor, 2012).
5. Corporate Social Responsibility and Business Performance

Several empirical studies found a positive relationship exists between the construct and organizational business and financial performance (e.g. Bird et al., 2007; Kang et al., 2010; Luo and Bhattacharya, 2006; Waddock and Graves, 1997; Wang, 2010). However, in other studies, it was found no existence of relationship between corporate social responsibility and organizational business performance (e.g. Aupperle et al., 1985; Margolis et al., 2007), and even negative effect of the concept on organizational performance (e.g. McGuire et al., 1988 and Qu, 2009). Several researchers argued that failure in considering the market segment or industry effect when investigating the relationship become the reason of mixed finding in CSR and performance study (Chand, 2006). Another reason is organizational financial performance relies on industry characteristics that define the accepted degree of ethics and morality in evaluating whether the activities are socially responsible or not (Lee et al., 2012).

Research works that study corporate social responsibility and business performance relationship are rapidly growing (Wickham, 2006). McWilliam and Siegel (2000) suggested two types of business performance in corporate social responsibility study; short run and log run profitability. Generally, there is a mixed finding of corporate social responsibility and performance research for example several studies have shown a positive correlation between corporate social responsibility and business performance (Luo and Bhattacharya, 2006; Waddock and Graves, 1997). However, other researchers found that the adoption of corporate social responsibility is important but it leads to negative business performance (Qu, 2009), and even no relationship exists between the constructs (Aupperle et al., 1985). Hence, on the basis of the ongoing discussions, it is proposed that:

P1: Corporate social responsibility exerts positive influence on business performance of Takaful agency in Malaysia.

6. External Environment

The study on external environmental concept on an organization’s strategic choices is widely researched in the literature Boyd et al., (1993), and it is considered as one of the important contingencies in organization theory and strategic management (Child, 1972). Environmental complexity and volatility influence organizational decision making May et al., (2000), and different organizations are affected by different numbers of environmental factors that are uncertain, complex, and dynamic (Wang et al., 2012). Any organization that does not take environmental factors seriously will be facing troubles Wang et al., (2012), because an organization’s strategy and structure should favorably align its business with the environment (Dess and Keats, 1987). This view is consistent with Aldrich and Pfeffer (1976) that believe managerial choice may be severely constrained by environmental factors and managers must understand the nature and factors of environment.
Although the concept is widely discussed and regarded as a fundamental concept in management theory, there is little consensus regarding the conceptualization and measurement of the construct (Boyd et al., 1993: Fuentes-Fuentes et al., 2004). According to Dess and Beard (1984), environmental condition also known as objective environment comprises of three dimensions; munificence, complexity, and dynamism. Whereas, Jaworski and Kohli (1993) have conceptualized market turbulence, technological turbulence, and competitive intensity are its dimensions. Lumpkin and Dess (2001) exerted that many conceptualizations are consistent with the conceptualization developed by Dess and Beard (1984), and it becomes commonly-researched dimensions in environmental study (Fuentes-Fuentes et al., 2004). Even, Gotteland and Boule (2006) argued that only objective environmental factor can affect performance.

Munificence is described as the extent of the competition that can exist based on price or non-price factors (Grant, 1995), and the boundary of environment in providing sufficient resources for firms (Sharfman and Dean, 1991). A slow growth market might be extremely munificence if it contains few competitors (Fuentes-Fuentes et al., 2004). Environmental hostility becomes the opposite concept to environmental munificence (Covin and Slevin, 1989; Fuentes-Fuentes et al., 2004; Zahra and Covin, 1995) which emerges as a result of too many competitors, unfavorable supply condition and strict regulation (Zahra and Bogner, 1999). Environmental munificence often reduces the profit and research and development (R&D) activities of an organization (Zahra, 1996).

Complexity is believed a similar concept with heterogeneity (Fuentes-Fuentes et al. 2004). This view is consistent with the exertion by several researchers (e.g. Silverblatt and Korgaonkar, 1987; Thompson, 1967; Tan and Litschert, 1994) who defined the complexity of the environment as “the heterogeneity degree of its constitutive elements”. Heterogeneity indicates the distinct of market segments in which the company operates (Dess and Beard, 1984; Zahra, 1991). Companies operate in heterogeneous market usually face greater complexity than those companies in homogenous market (Slater and Narver, 1994).

Dynamism is similar to turbulence or volatility that are connected to the degree of newness in the changes or to their speed (Ansoff, 1979), and it indicates the industrial rate of variation, the volatility of customers’ behavior and competitors’ way of actions, as well as the shifts in the technological conditions of an industry (Zahra, 1996). Several scholars define the dimension as “the variation degree over time of its constitutive elements” (Aldrich, 1979; Dess and Beard, 1984; Tan and Litschert, 1994). Dynamism also relates to the rate of unpredictable change in a firm’s environment (e.g. Duncan, 1972; Tosi et al., 1973) which indicates the uncertainty that minimize managers’ ability to anticipate future and its impact on an organization (Khandwalla, 1977). According to Goll and Rasheed (2004) argued CSR is a context dependent study where the performance consequences of socially responsible corporate behavior are likely to vary significantly across environments. Based on that argument, it is proposed that:

**P2: External environment will moderate a relationship between Corporate Social Responsibility and business performance of Takaful agency in Malaysia**
Conclusions

There is a need to review CSR in Takaful for academic and practitioners purpose. This study has made an attempt to fulfill these needs. First, this review clearly demonstrates that CSR is possible and suitable to be implemented in a Takaful setting. Second, this article has proposed a model of CSR, performance, and environment among entrepreneurs. This paper provides insight into the future of CSR research; however, there are some limitations in this paper. First, the study is limited to secondary data-review of past studies. Therefore, it is important for future research to conduct empirical research on the issues that are discussed. This research will contribute towards the knowledge in Islamic banking and finance including Takaful area. The finding of the study may help Takaful companies to fine-tune their business strategies in order to sustain the business and eventually grow the industry. In addition, the finding of the study will also help the authority that governs the industry to come up with new ideas and policies to help Malaysia to become an international Islamic financial hub in the Asian region.

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