

## Corporate Social Responsibility: An Islamic Perspective

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### ABSTRACT

*This paper addresses the issue of corporate social responsibility from Islamic perspectives and presents the principles, framework, dimensions and initiatives that govern Islamic corporations to be socially responsible. The objective of this paper is to provide a reference for Muslim managers at corporate governance and other managerial levels that reminds them with the core values of Islamic businesses, provides an Islamic framework of CSR to help them assess their CSR practices from an Islamic perspectives and advises them on how to maximize the benefits of their contributions to achieve the welfare of the whole Ummah (Islamic community).*

### 1. INTRODUCTION

The ongoing global financial crises have brought to the fore questions of ethics, responsibility and justice in economic behaviours of human agents and corporate entities. The materialistic view of the economy that isolates it from other human, social, and environmental dimensions of life is no longer sustainable in today's world. Problems of poverty, illiteracy, new diseases, income and wealth disparities, exploitation of workers, wastage of resources and natural environmental risk are all too apparent. Governments are no longer able to tackle, control and solve all these problems, which are very interlinked. In the age of globalization, it is believed that the most effective players are the big corporations that are controlling the flow of human, financial and natural resources. From this believe, the idea of the corporate social responsibility emerged with the aim to involve corporations in the growing social and environmental problems to achieve sustainable development of the society, environment as well as the economy of nations. Thus, corporate social responsibility has evolved literally in response to particular issues or problems that are specific to businesses in a Western context.

However, the modern concept of Corporate Social Responsibility emerges from the same wreckage of the conventional Western practice of corporate finance, banking and economic behaviours. Thus, it may not be immune to fundamental shortcomings of strong and obliging moral values and principles across time and space. It is believed that Islam prescribes some fundamental legal-ethical values and principles that can be considered universal foundations for Corporate Social Responsibility. The notions of corporate social responsibility have been

suggested to be consistent with an Islamic view of society. Indeed, values and principles that have been central to Islam since the time of the Prophet Mohammed (Peace and Blessings be upon him) may serve as a foundation for notions of corporate social responsibility higher to those in the West. Islam, as a religion of life, considers social responsibility and justice an integral part of Islamic society that aims for social, spiritual and economic achievements, within the Islamic norms, for human welfare in this world and in the hereafter. Because of Islam having interdependent view of the religion, society, and economy, all Islamic businesses are indeed socially responsible by their objective of existence and the divine guidelines of Shari'ah.

This paper addresses the issue of corporate social responsibility from Islamic perspectives and presents the principles, framework, dimensions and initiatives that govern Islamic corporations to be socially responsible. The objective of this paper is to provide a reference for Muslim managers at corporate governance and other managerial levels, that reminds them with the core values of Islamic businesses, provides an Islamic framework of CSR to help them assess their CSR practices from an Islamic perspectives and advises them on how to maximize the benefits of their contributions to achieve the welfare of the whole Ummah (Islamic community).

## **2. CORPORATE SOCIAL RESPONSIBILITY (CSR)**

The idea of corporate social responsibility (CSR) began to take recognizable shape over the past thirty years or so. The fundamental idea embedded in CSR is that business corporations have an obligation to work for social betterment and should be held accountable for any of its actions that affect people, their communities, and their environment. It is maintained that the business organizations exist only because they satisfy valuable needs of society. For that reason, if business wishes to stay viable in the long run, it must come to terms with the society's needs and demands (Muhamad, 2007).

CSR is an organization's commitment to conduct its business in an economically, socially and environmentally sustainable manner whilst balancing the interests of a diverse range of stakeholders. In another definition, CSR refers to the responsibility taken by organizations and the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. This obligation is extended beyond the statutory obligation to fulfill with legislation to see organizations voluntarily taking further steps to improve the quality of life for employees and their families as well as to the local community and society at large. CSR is not a philanthropy concept; rather the ongoing commitment by organization to behave ethically and add to economic development by satisfying the requirement of stakeholders. Therefore, it is believed that CSR can actually enhance brands' reputation and the perception

that stakeholders have on their interaction with the corporation (Siwar & Hossain, 2009).

However, from a materialistic secular view, exercising social responsibility is likely to be seen as a cost, and cost implies a reduction in profits, and this in turn can be considered to be against the interest of the business. From this perspective, it can be understood why business organizations limit their time and other resources for meeting their social responsibilities, or even try to absolve themselves from such commitment if they can. Thus, in order to make organizations comply in fulfilling their social responsibilities some kind of policy or legislation would be required. However, this reduces social responsibility to a legal obligation and, which over time, weakens the importance of it being viewed as a moral or social obligation (Parvez & Ahmed, 2004).

Corporate social responsibility (CSR) has grown enormously in the last 25 years as a strategy to sustainable competitive advantage in the highly competitive environment. It involves corporate giving that is directly or indirectly linked to business objectives, which serves dual purposes: contributing funds to corporate community investment while simultaneously benefiting the firm's financial bottom line and enhancing business political legitimacy. For example, in 1997 Ted Turner, founder of CNN, made one of the largest philanthropic donations to a specific cause when he donated \$1 billion to the United Nations' Children's Fund. He then challenged wealthy business people to follow his lead to promote human welfare and goodwill. On 16 September 1999 Bill Gates created \$1 billion "Gates Millennium Scholarship" designed to create college scholarships for black, Hispanic and American Indian students. In 2006, Warren Buffett donated US\$37 billionn to Bill Gates Foundation for charity work in the area of health care, education and other socio-economic activities all over world especially for the underdeveloped African countries (Abul Hassan & Abdul Latiff, 2009).

However, the above examples of strategic business charities are only exceptional cases because such model is not followed by the entire corporate sector. In general, according to contemporary business terms, first, social and economic objectives are separated and distinct, so that a corporation's social spending comes at the expense of its economic results. Second, there is the assumption that corporations, when they address social objectives, provide no greater benefit than is provided by individual donors. Furthermore, exercising social responsibility by businesses is seen as a cost, and cost implies a reduction in the net profits, and this in turn can be considered to be against the interest of the business. From this perspective, it can be understood why business organizations limit their time and other resources for meeting their social responsibilities. In order to make the business organizations in complying and fulfilling their social responsibilities, some kind of legislation is usually required. To implement this legislation, there is involvement of cost. In turn, this may reduce social responsibility to a legal

obligation and, which over time, weakens the importance of it being viewed as a moral obligation (Abul Hassan & Abdul Latiff, 2009).

### 3. TRADITIONAL THEORIES AND DYNAMISM OF CSR

Over the past 50 years, business ethicists and management theorists have devoted much effort to thinking through the business-society relationship, which led to a consensus in thinking about CSR. In fact, large differences exist among business scholars with regard to whom corporations have responsibilities to and what these responsibilities are. The following figure summarizes these theories.

Friedman Theory	Corporation has <u>no responsibility</u> except making profit in a legal way
Social Contract Theory	Business should be <u>regulated</u> as a social institution and should join with other social structures like the family
Instrumental Theory	Business <u>may choose</u> to support some social programs for reasons of <u>good image</u> and for <u>competitive advantage</u>
Legitimacy Theory	Business act in <u>response to the environmental pressures</u> involving social, political and economic forces for its survival
Stakeholders Theory	Pays attention to the needs and rights of all the stakeholders of a business as <u>a useful way</u> of developing socially responsible behavior by managers

According to Friedman, corporation has no responsibility except making profit in a legal way. The practice of CSR only incurs additional cost, hence would jeopardize overall performance and sustainability of an organization. If the corporation makes a contribution, it prevents the individual stockholders from themselves deciding how they should dispose of their funds. Friedman further says that if charitable contributions are to be made, it should be made by individual stockholders or, by extension, individual employees and not by the corporation (Abul Hassan & Abdul Latiff, 2009).

On the other hand, according to the social contract theory, business must act in a responsible manner, not only because it is in its commercial interest to do so, but also because it is a part of how society implicitly expects business to operate. Business should be regulated as a social institution and should join with other social structures like the family.

According to the instrumental theory, business may choose to support some social programs for reasons of good image and for competitive advantage. Similarly, legitimacy theory indicates that CSR is a response to the environmental pressures involving social, political and economic forces. The perceptions of society towards the organizations are crucial, and they may affect the survival of the business.

Finally, the stakeholder theory pays attention to the needs and rights of all the stakeholders of a business as a useful way of developing socially responsible behavior by managers (Siwar & Hossain, 2009).

From the above fact, it is inferred that all theories perceive CSR as a critical element for business sustainability. However, they all emphasize that the specifications are dependent on external factors such as legislations, competition, social and environmental pressures, etc. the level of pressure by any of stakeholders would be the key driver for the appropriate reactive or responsive CSR commitment.

#### **4. CSR FROM AN ISLAMIC PERSPECTIVE**

##### **Islam: A System of Life**

Islam literally means submission, obedience and surrender. It is derived from the word *aslama* meaning “to resign oneself” or “to give oneself up to God”. A Muslim is one who resigns himself to Allah (SWT) and thereby professes the faith of Islam. Muslims believe that Islam is not only a religion, but also a guideline for the complete way of life. Thus, it needs to discuss each and every part of life. Furthermore, the goals of Islam itself are based on Islamic concepts of human well-being and good life that emphasize brotherhood and socioeconomic justice and require a balanced satisfaction of both material and spiritual needs of all humans (Muhammad, Ilias, Ghazali, 2008). As such, is acceptable to entire society and therefore has universal applicability. Quran discusses about literature, law, economics, socialization, politics as well as Jihad. In fact, the Quran provides the theoretical framework while the Prophet is the practical example of Quran. Indeed, values and principles that have been central to Islam since the time of the Prophet Mohammed may serve as a foundation for the notion of Islamic business practices including CSR similar as a more reliable, structured and durable alternative to those in the West (Siwar & Hossain, 2009).

##### **Islamic Perspectives on Businesses**

Islam recognizes private ownership and the freedom of economic activities, but within the norms and values of Islam. These values though do not agree with the conventional concept of business, they never suggest that Islam opposes making

a profit. Rather, it is seen as a necessary condition, though not the sole purpose, of a corporation's existence. Invoking the Shari'ah and employing a *taqwa*-based business paradigm imply that the Islamic management is no longer driven by profit maximization alone, but by the pursuit of ultimate happiness in this life and in the Hereafter. Important reference to profit maximization is not being the ultimate goal or only ethical outcome of trade in Islam. It is supported through the following Surah 18:46: "Wealth and sons are allurements of the life of this world; But the things that endure, good deeds, are the best in the sight of your Lord, as rewards, and best as the foundation for hopes." However, no single Muslim denies the advantages of wealth (or economic development) for individuals and the whole Ummah. Good, healthy economy enables one to lead a good Islamic life performing all Islamic obligations including hajj, jihad, zakah (Ibn al-Qayyim), and it leads to national and political strength, stability and strong national defense. On the other hand, the economic backwardness leads to political instability, poor national defense, politico-economic dominance of the super power (Islamic Economic Thinking, n.d.).

Consequently, Islam does not reject profits or trade and does not aim to remove all differences in income and wealth that may result in various social and economic classes (Shikoh, R., 2005). However, Islam requires all commercial activities to be undertaken in accordance with principles of the *shariah* in order to obtain *barakah* (God's blessing) for the sake of achieving *Al-falah*, which is the ultimate goal of Muslims' life. What is been prescribed as lawful (*halal*) and unlawful (*haram*) in different aspects of commercial activities need to be closely observed (Muhamad, 2007).

From the Islamic perspective, business organizations are trustees, and thus, are responsible towards the owners of funds under the concept of *amanah*. Islamic business organizations, among others are responsible to ensure that the stockholders get a fair amount of returns and that their investments are optimally utilized. Management of business organizations should be based on discussion and consensus between managers and stockholders, i.e. following the concept of *shura*; matters related to *akhlaq*/ethics in managing the business. The management should be closely observed; should be transparent and accountable with regards to profit and loss arising from the business operation as warned by the Prophet (PBUH) "*Those who cheat is not of us*" (Muslim); and any agreement between business organizations and stockholders should be in writing to avoid any future dispute between parties involved (Muhamad, 2007). Allah said in the Holy Quran:

*"O you who believe! When you deal with each other in transactions involving future obligations in a fixed period of time, reduce them to writing. Let him who incurs the liability dictate, but let him fear his Lord God, and not diminish aught of what he owes" (2:282)*

The main objective of the *shariah* framework is to ensure a society that is free from all traces of *zulm*, in order to achieve socio-economic justice. As such, it is presumed that the *shariah* explicitly prohibits transactions involving *riba* (usury), uncertainty (*gharar*), price manipulations, hoarding, free market interference, exploitation and fraud. In addition, the obligation of *zakat* from the social perspective is considered as an important tool to abolish poverty by making the rich alive to the social responsibilities they (Muhamad, 2007).

In this sense, a person has to maintain a relationship not only with *Allah (swt)*, but also with human being and the environment. Similarly, in the case of business entities, they need to consider these three relationships in conducting their business operations. In terms of *relationship with Allah*, business organizations must ensure that their business operations are in compliance with the *shari'ah* law as well as contributing to the public *maslahah* (goodness) and conservation of the environment for the future generation (Muhamad, 2007).

### **Islamic CSR**

Business organizations have vital role in the economic and social life of peoples throughout the ages. In Islam, business activities are considered as religious obligation. Social responsibility refers to obligations that organization has to protect and contribute to the society in which it functions. Therefore, CSR is considered crucial for Islamic business organizations (Muhamad, 2007). It encompasses a broader meaning embracing the *taqwa* (God consciousness) dimension by which a corporation as a group of individuals, assuming the roles and responsibility as servants and vicegerents in all situations. This should naturally manifest in business activities as well as in the relationship with all stakeholders (Siwar & Hossain, 2009).

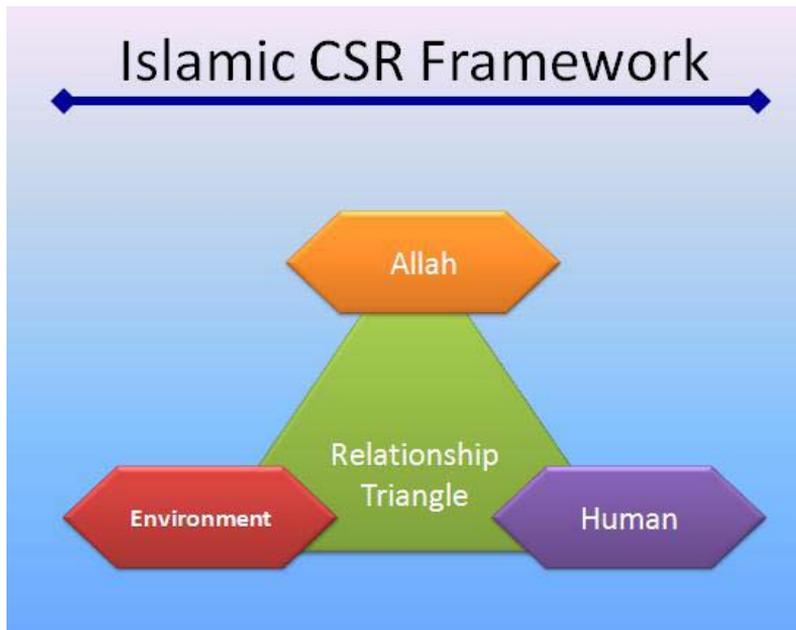
From an Islamic perspective, social responsibility exercised by a business organization is seen as a benefit rather than a cost. It is also not just a matter of legal obligations and material rights of stakeholders. It is a moral obligation and is a matter of survival of both business organizations and society, as they are both dependent on each other. Any social irresponsibility exercised towards each other would create problems for both, although these may unfold over a longer time span. Prophet Muhammad (PBUH) said: “*By spending in charity, the wealth does not decrease...* (Muslim, vol. 4, no: 6264).” From this hadith, and applying it to CSR, it can be inferred that it is guaranteed that any benefits that are pushed onto society will come back as greater benefits for business organizations over time (Parvez & Ahmed, 2004).

Accordingly, in Islam, business performance is appraised base on how well the resources are managed to improve the society. The concept of *ummah* demonstrates that society has a right and stake in whatever a Muslim owns. Business organizations are considered as human institution, which is part of the

Islamic Community. Hence, moderation and concern for the needs of others, along with one's own, become an integral part of the Islamic perspective of CSR. Individuals and corporations are encouraged to sacrifice, give up, and spend their wealth on the poor and the needy while expecting their reward only from God. This sense of duty, responsibility, and spirit of sacrifice, which Islam nurtures, actually helps remove self-centeredness and covetousness and promotes compassion, caring, cooperation, and harmony among the Ummah (Dusuki & Abdullah, 2007).

## 5. ISLAMIC CORPORATE SOCIAL RESPONSIBILITY FRAMEWORK

Islamic business organizations should adopt a broader view of CSR derives from the axiom of *Tawhid*, which signifies three relationships namely relationship with *Allah*, relationship with man as well as environment or the nature (Muhamad, 2007). These three dimensions can be considered the framework that governs the Islamic business practices and eventually the corporate social responsibility. Fulfilling the Islamic requirements with these three types of corporate relationships would guarantee a healthy, justice and sustainable social as well as economic development.



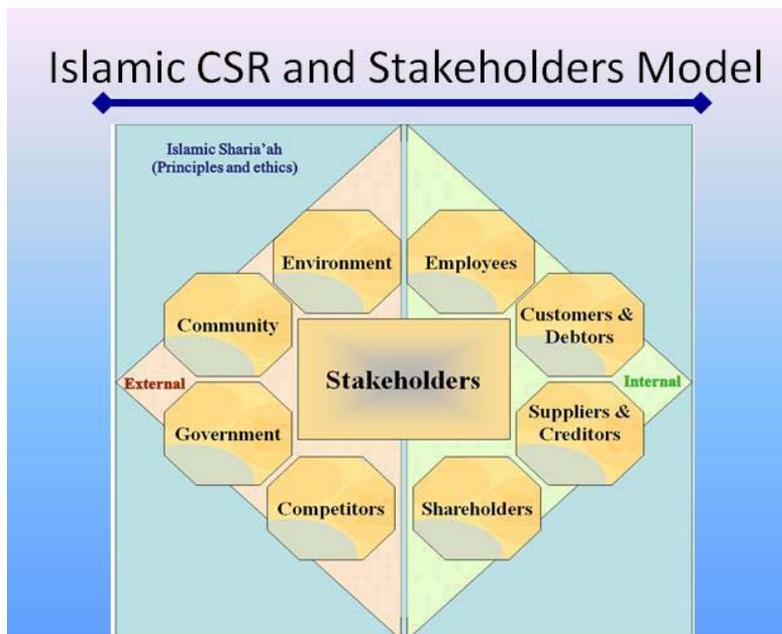
## 5.1 Corporate Relationship with Allah

Corporate relationship with Allah (SWT) is defined as invoking the Shari'ah and employing a *taqwa*-based business paradigm, in which the corporation as a group of individuals, assuming the roles and responsibility as servants and representatives of Allah on earth and are the trustees on the resources they possess to utilize for the development of the people, society and the Islamic Ummah according to the Shari'ah rules. This means that lawful (*halal*) and unlawful (*haram*) in different aspects of commercial activities that are stated in the Quran and Sunnah need to be closely observed. Moreover, the obligation of *zakat* which is a compulsory charity has to be implemented on yearly bases.

## 5.2 Corporate Relationship with Human

Corporations deal with many different parties to facilitate their business transactions. These parties are known to be the stakeholders, those who have direct or indirect interest in the corporation and are affected by its activities and decisions. These stakeholders include shareholders, employees, customers, suppliers, government, competitors and the whole community.

The Islamic perspective concerning the corporate relationship with these stakeholders can be extracted from the Islamic business code of ethics that is related of the 5 axioms governing the relationship with humans based on preserving individuals and parties their rights. These axioms are justice, truthfulness, benevolence, sincerity and trust (Muhammad, Ilias, Ghazali, 2008).



### **5.2.1 Justice ('Adl)**

Justice or `Adl means to treat people equally is a pre-requisite of fairness and justice. Discrimination and exploitation by any mean and under any base is prohibited in Islam. Allah says,

*“Allah commands justice, the doing of good and liberality to kith and kin. He forbids all shameful deeds and injustice and rebellion; he instructs you, that ye may receive administration.” (16:90).*

For example, organizations should treat employees fairly and do not manipulate them for personal gain as clearly stated in the Prophet's saying: *“Those who work for you are your brothers. Allah has made them your assistance”* (al-Bukhari and Muslim).

### **5.2.2 Truthfulness (Sidqun)**

Truthfulness is a basic ethical value of Islam. Allah speaks truth, and commands all Muslims to be straight forward and truthful in their dealings and utterances. Allah says, *“Oh believers! Fear Allah, and say the right thing.” (33:70)*

This value has philosophical implications for the conduct of business. Managers have to be honest, truthful and clear-cut while conducting a business. There is no scope for cheating, swearing too much, speaking lies and false advertising in Islamic framework of business. For example, Islam enjoin provision of good quality products as warned in the *hadith* *“Restrain from (false) declarations in business because doing so will (initially) lead to better sales, but will later result in losses”* (Muslim) (Muhamad, 2007).

### **5.2.3 Benevolence (Ihsan)**

Along with the concept of justice, the concept of benevolence is also frequently repeated in the *Qur'an* and the *Hadith*. It means the desire to help and do good to others. Allah says, *“Those who spend in ease and adversity, those who control their wrath and are forgiving toward mankind; God loves such doers of ihsan.” (3:134)*

Besides justice, which is the minimum requirement of others' rights, the relationship between managers and workers should be on the basis of benevolence, extended beyond expectation. The practices of offering children education sponsorship, family assistance programs, human development courses and paid holidays or vacations by some companies today provide good examples of ihsan. In addition, Ihsan also applies in situations when other fellow brothers in facing financial difficulty. Thus, Islam enjoins business organizations to be lenient with debtors facing difficulty in paying their debts and is encouraged to

write off the debts as charity (Muhamad, 2007). From the above examples, it appears that, benevolence is the essential elements to establish corporate culture that emphasize on achieving physical and spiritual need for employees (Muhammad, Ilias, Ghazali, 2008).

#### **5.2.4 Sincerity (*Ikhlas*)**

Sincerity is generally understood to be truth in word and act. Therefore, Islam attaches great importance to the sincerity of intentions and actions in every walk of life. The performance of duties requires that all individuals in companies work with sincerity and fidelity. Two benefits can be produced by instilling the sincerity in the business deals. First, it helps to improve the workers' efficiency of job implementation. Second, workers are able to contribute to the high rate of productivity by speeding up the productions. In addition, such ethical code also discourages manipulation or exploitation of others for personal reasons. For that reason, a sincere businessman is not expected to deceive, arm and take advantage of others intentionally (Muhammad, Ilias, Ghazali, 2008).

#### **5.2.5 Trust (*Amanah/I'timan*)**

The essence of the trust is the sense of accountability which implies the sense of having to appear before Allah and to account for ones actions. Indeed, trust greatly emphasized in the *Qur'an* and *Hadith*. The Prophet (PBUH) mentioned the importance of trust in this public administration as allows: *"Any ruler who has been entrusted with the affairs of a group of Muslims and who dies as a dishonest ruler, to him paradise is forbidden by Allah."* (Muhammad, Ilias, Ghazali, 2008)

For example, Islam requires business organizations to have a proper written account/contract when dealing with suppliers and wherever possible, should make available reliable witnesses so as to avoid future misunderstanding (Muhamad, 2007). Allah said in the Holy Quran:

*"O you who believe! When you deal with each other in transactions involving future obligations in a fixed period of time, reduce them to writing. Let him who incurs the liability dictate, but let him fear his Lord God, and not diminish aught of what he owes" (2:282)*

Another example related to government, Islamic business organizations are obliged to pay *zakah* and in some countries the collection of *zakah* is administered by government religious agencies such as in Malaysia. In addition, business organizations are obliged to comply and pay whatever taxes levied on them (Muhamad, 2007).

The above five axioms apply for the corporate relationship with all stakeholders. However, we would like to add one more specifically for governing corporate relationship with the community it operates within. This axiom is the *maslahah* or public goodwill.

### **5.2.6 Maslahah (The Public Good)**

*Maslahah* is a juristic device used in Islamic legal theory to promote the public good and prevent social evil or corruption. It means “welfare, interest, or benefit” and defined as seeking benefit and repelling harm.

Islam stresses the importance of considering public interests rather than merely individual interests. It provides a framework for making decisions and a mechanism for adapting to change and guidelines for moral judgment on the part of managers and other stakeholders. The *maslahah* implies the need for corporations to engage in and manage their businesses and CSR activities according to priorities that have evolved from a deep understanding of the Shari`ah’s objectives such that preserving the *maslahah* is done in a way that is in accord with the different levels of importance and the severity of consequences. It entails understanding the Islamic principle of preventing harm, which states that a corporation cannot harm or cause grief to others while engaging in its economic and business activities. In general terms, two major Shari`ah axioms are imbued in this principle: removing hardship (*raf` al-haraj*) and preventing harm (*daf` al-darar*). Therefore, corporations must consider social responsibilities and avoid business practices that harm the well-being of society at large (Dusuki & Abdullah, 2007). For example, the manager need to take into consideration the interests of the majority of his subjects even if in protecting the community’s resources he has to take decisions that may be considered as a violation of individual rights (not authorizing building on agricultural lands) (The Islamic World, 2002).

Not only that, but also business organizations are expected to contribute towards achieving this objective of social welfare by many other means including creating job opportunities; cooperating in enhancing economic development; organizing and giving full support to activities that are beneficial to the society; and involvement in charity such as *sadaqah* and *waqqf* (Muhamad, 2007).

### **5.3 Corporate Relationship with Environment**

Business organizations have to take necessary actions to ensure the environment is preserved and that they do not contribute to the environmental illness. Islam prohibits utilization of resources that would cause damage or inconvenience to the environment and society. The Prophet (pbuh) has said: “*There is no scope for causing damage in Islam neither in the case of an independent action nor as a reaction*” (Kitab al-Kharaj) (Muhamad, 2007). Since natural resources are the

common heritage of all humanity, the teachings of Islam should be observed in developing them and protecting them from harm and deterioration.

Islam calls for moderation in the development of natural resources: “Thus, have We made of you an Ummat justly balanced, that ye might be witnesses over the nations” (2:124). A nation of moderation exercises the latter in its perception and beliefs, in organization, and in the relationship of the individual to the community and to the environment. For example, Islam warns in the Holy Quran against excess and over extension of natural resources. The Prophet in many of his hadiths (The Islamic World, 2002) also warned against abuse and excessive use.

## **6. RECENT INITIATIVES BY ISLAMIC ORGANIZATIONS**

No one denies the importance of CSR for the development of the society. In fact, its tangible benefits can be traced at three levels: individual, corporate and community levels as follow:

- This sense of duty, responsibility, and spirit of sacrifice, which Islam nurtures, actually helps promotes compassion, caring, cooperation, and harmony among the Ummah.
- It makes corporations better citizens that solve big socio-economic problems such as poverty, illiteracy, unemployment and fraud.
- It contributes to the advancement of the economy and therefore the sustainability of Ummah development

Being aware of these positive outcomes that CSR can achieve, many Islamic-based business organizations tried recently to implement CSR enlightened by the Islamic framework of CSR with the goal of contributing to the Ummah and its members.

For example, in the 1990s, a number of Islamic banks have been established with objectives of linking the banking product to the community initiative or charity brand with the overt intent of mutual benefit. Their activities are directed towards social equality, eradication of usury as well as distribution profit out of their banking business. A public statement issued by International Association of Islamic Banks (IAIB) (1990) clearly outlined: “The Islamic banking systems involves a social implication which is necessarily connected with the Islamic order itself, and represents a special characteristic that distinguishes Islamic banks from other banks based on other philosophies. In exercising all its banking or development activities, the Islamic bank takes into prime consideration about social implications that may be brought about any decision or action taken by bank. Profitability – despite its importance and priority – is not therefore sole criterion or the prime element in evaluating the performance of Islamic banks,

since they have to match both between the material and the social objectives that would serve the interests of the community as a whole and help achieve their role in the sphere of social mutual guarantee. Social goals are understood to form an inseparable element of the Islamic banking system that cannot be dispensed with or neglected” (Abul Hassan & Abdul Latiff, 2009).

Moreover, in 2008, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was developing a governance standard on corporate social responsibility (CSR) for Islamic financial institutions that will highlight the importance of CSR from an Islamic perspective and give guidance to Islamic financial institutions in carrying out its CSR functions. "With substantive provisions on CSR conduct and disclosure, this standard will open the way for Islamic financial institutions to be recognized for their positive ethical and social activities and further differentiate them from other financial organizations as direct contributors to society," Centre for Islamic Finance R&D manager Sayd Farook said. "This standard is to ensure a standard application of social responsibility and to show the way forward to all new Islamic financial institutions, based on an Islamic perspective derived from divine sources", he also added. AIOIFI's standards are adopted in leading Islamic financial centres across the world including Bahrain, Dubai Islamic Financial Centre, Qatar, Qatar Financial Centre, Sudan, and Syria as well as by the Islamic Development Bank Group (Watchdog is Developing, 2008).

Another example is the Dubai Centre for Corporate Values (DCCV) which was formed by the Dubai Technology and Media Free Zone (TECOM) Authority, the Dubai Financial Services Authority (DFSA) and Dubai Airport Free Zone Authority (DAFZA) in June 2006, with an aim to spread corporate social responsibility (CSR) practices in Dubai and the region with a local perspective. The scope of DCCV's work spans the entire gamut of social, environmental, cultural, ethical and legal issues. It will also incorporate corporate governance practices. The DCCV will actively cooperate with government bodies like the Dubai Government Excellence Program to build a pool of CSR resources that can eventually benefit not just companies in Dubai but across the region. Najeeb Mohammed Al-Ali, Executive Director said: "The teachings of Islam dictate that corporate social responsibility is an integral component of life whereby giving back to the community is of the utmost importance. While we are faced with a backdrop of global challenges including multicultural diversity, companies need to incorporate religion for best CSR practice." (International Corporate Social..., 2007)

The following distinguished examples of CSR activities undertaken by Islamic Bank Bangladesh Ltd illustrate how social improvement relates to a company's business and the overall economic benefits of the umaah as well. In establishing a Networking Academy, for example, the Islamic Bank Bangladesh Ltd has focused not on the educational system overall, but on the training needed to

produce young competent persons – a particular kind of education that made the most difference to competitive context of Islamic Bank Bangladesh Ltd. Furthermore, it has established Islamic Bank Foundation which established a number of schools of International standard in the different places in Bangladesh. The Ibn Sinha Group of the Islamic Bank Bangladesh Ltd established specialized as well as general hospitals which are providing healthcare service to the poor with nominal fees. In 1995, the bank has initiated rural poverty elevation programme under its Rural Development Scheme (RDS). To handle this scheme, Islamic Bank Bangladesh Ltd has introduced Islamic microfinance program through its rural branches to bring all the villages of Bangladesh under the coverage of this scheme. By year 2004, all most 4,700 villages have been covered under the Islamic microfinance program. The bank invested to the tune £727,000,000 in income generating activities such as poultry, goat and milk cow rearing, vegetable cultivation, etc. based on either *maharaja* or *musharakh* mode of finance. Islamic microfinance program runs on homogeneous group basis. About 350,000 group members were benefited with this scheme (Abul Hassan & Abdul Latiff, 2009).

These examples of integrating the idea of CSR from Islamic perspective to be an integral part of the business daily activities as well as its strategic directions toward more effective social commitment provide inspiring business models for other Islamic business organizations. All these successful initiatives indicate that in the long-run, social and economic goals are not inherently conflicting but integrally connected and the prosperity on one lead to the prosperity of the other. However, these outcomes need lots of strategic planning and long term commitment of corporations. To achieve that, the following part discusses a model to achieve the maximum results of the CSR.

### **How to Optimize CSR beyond the Corporation (Community and Environment Level)**

Basically, the following model on how to optimize the CSR spending is a modified version of the model of how to optimize Islamic Charity presented by Abul Hassan & Abdul Latiff in 2009. The difference here is that CSR is an ongoing commitment rather than seasonal commitment. In addition, CSR requires full involvement of the corporation and long-term commitment of its resources rather than delegation of execution to other grantee or agents. Social (community and environment) development here is part of the strategic directions of the Islamic corporation. Understanding the link between corporations' role as trustees on resources and the competitive context of business will be helpful to identify where they should focus their corporate giving. This understanding may also help to find the ways in which Islamic CSR creates value and how they can achieve the greatest social and economic impact through their contributions. Here are four dimensions to be considered.

### ***1- Selection of CSR Specialized Social Partner***

Majority of the CSR activities by corporations involve giving part of profit to other organizations that are specialized in delivering the social benefits such as academic institutions. Impressive results may be achieved by a corporation, largely to be determined by the effectiveness of the recipient. Selecting a more effective, visionary partner organization will lead to a more social impact. Extensive and disciplined research is usually required to select those recipients that will achieve the greatest social impact. A good example of such corporate practices can be found in Dubai Islamic Bank which assembles team of employees with diverse management and financial skills to examine the inner-city economic development organizations that its foundation supports. The teams visit each non-profit, interview management, review policies and procedures, and report to the Dubai Islamic Bank Charity Foundation on whether support should be continued and, if so, where it should be directed.

### ***2- Signaling other Corporate Partners for Strategic Projects***

To share commitment in big strategic social and environmental projects and to attract greater funding for these projects, the leading corporation can involve their corporate partners such as suppliers and customers in collective projects. Collective social investment by participants in a cluster can improve the context for all players. It would reduce the cost borne by each one. By leveraging its relationships and brand identity to initiate social projects that are funded by others, a corporation improves the cost-benefit ratio. By tapping each company's distinctive expertise, collective social investment can be far more effective than a donation by any one company.

### ***3- Investment to Improve Social Partner's performance***

Because the corporations typically make long-term commitments to the communities in which they operate, they can work closely with their CSR partner over the extended period of time needed for meaningful organizational improvement through sharing experience and resources. It would be for the betterment of both, the corporation and the partner as well as the whole society to invest to improve the partner's capabilities, resources and strategies to achieve sustainable, well planned and value adding investments.

### ***4- Advancing knowledge and practice***

The most powerful way to create social value, therefore, is by developing new means to address social problems and putting them into widespread practice. The expertise, research capacity and research unit of corporate sector can help social partners in creating new solutions that they could never afford to develop on their own. The expertise, research capacity know-how of corporate leaders, their clout

and connections, and their presence in communities create powerful networks for the dissemination of new ideas for addressing social problems. By adopting CSR to its business and strategy, a corporation can create even greater social value by involving its resources and expertise that are with different (i.e. for profit) orientation. These differences in the way of viewing value added investments can derive sustainable and continuous flow of fund to CSR projects.

In short, by adopting a strategic view and partnerships for conducting CSR, corporations create value for society that increases the social impact. While selecting the right grantee improves society's return on a single corporate contribution, signaling other partners improve the return on multiple contributions. Investing in social partner performance can also increase the return on partner's total budget. Finally, corporations have to acknowledge the need to be fully involved in CSR while cooperation with social partners is also needed to build on the non-profit infrastructure to achieve their objectives more collectively and cost-effectively.

## 7. CONCLUSION

The concept of CSR is not alien to Islam, for it is deeply inscribed in the Shari'ah. Therefore, any corporation that claims to follow Shari'ah-based principles should naturally practice CSR. Islamic business organizations are socially responsible to the society, the environment and ultimately to *Allah (swt)*. It should be emphasized that in Islam, business operation is consider to be a social useful function. For this reason, social responsibility is regarded as an important element in Islamic business ethics. The most important objective of CSR in Islam is to achieve happiness and successfulness in this world and the hereafter (*al-falah*). Therefore, business activities should be operated within the *shariah* prescriptions of *muamalat* and would be considered as *'ibadah* (worship) (Muhamad, 2007).

There is no inherent contradiction between improving competitive context of business and making a sincere commitment to bettering society. Indeed, as we discussed that if a company's charitable work is linked to its competitive context, the greater the company's contribution to society will be. It needs to be systematically pursued in such a way that CRS will optimize the value, which can offer corporate sector a new set of competitive tools that will justify the investment of resources. At the same time, it can unlock a vastly more powerful way to make the world a better place (Abul Hassan & Abdul Latiff, 2009). However a weakening of the sense of corporate social responsibility may exist due to numerous social, economic and cultural pressures. These pressures are linked and have emerged from the dominant and deeply rooted materialistic secular worldview in society. In contrast, by being more socially responsible and actively striving to balance the rights of all stakeholders based on fairness, justice

and dignity, and ensuring a just distribution of wealth, will actually benefit a business organization in the long-term. The benefits can be seen as being more socially responsible would raise satisfaction, create a healthy and conducive working atmosphere, reduce stress, improve morale, increase productivity, and also increase the circulation of wealth in society (Parvez & Ahmed, 2004).

To effectively practice Islamic CRS, the following strategies can be recommended:

1. Corporations need to evaluate their relationship with Allah, man, and environment. As corporations revisit their vision, mission and strategic directions from while to while, similarly, to be socially responsible, they need to revisit their current CSR directions given the Islamic framework of CSR as a tool for assessment, evaluation and control. Without such comprehensive assessment, CSR would turn to be one of west-based management practices rather than an Islamic-based corporate model;
2. Total support of top management and individuals is needed to achieve Islamic concept of corporate social responsibility and only then we can achieve quality, sustainability and corporate social responsibility;
3. A collective, organized approach of CSR through other business partners as well as social partners such as *awqaf* foundations rather than individual corporation based approach would increase the flow of corporate resources into the social sector;
4. Corporation should develop close, long-term partnerships that would better apply the expertise and some profit to achieve social objectives;
5. Islamic Financial Institutions can motivate their corporate clients and exercise considerable influence in respect of CSR. Islamic banks can impose a variety of conditions relating to CSR, through conditions and covenants on lending (Abul Hassan & Abdul Latiff, 2009). They can achieve this by:
  - a. Using CSR track record as a criteria of assessments
  - b. Including criteria of quality management and employer-employee relationship as part of corporation credit worthiness assessment
  - c. Support Islamic financial products, green products and companies which contribute to the environment, such as energy efficiency loans or leasing of environmental technology through partnerships, incentives and attractive financial packages.

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