

Scope of CSR in Islamic Economics and Finance

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Abstract

The purpose of this paper is to explain the scope of Corporate Social Responsibility (CSR) and the Islamic understanding of what responsibility means. The paper aims to reflect on the originality of the idea in the Islamic economic tradition and analyze CSR factors special to Islamic economic institutions. An extensive analysis of existing literature is undertaken to present findings that support the idea of CSR being original in Islamic economics. Within this wide scholarly debate and research on CSR, the views of essential scholars are presented. Finally, an analysis of different drivers for a corporation's engagement in CSR is presented alongside some drivers unique to Islamic financial institutions. Findings: CSR as a research idea is an ongoing debate, especially concerning the definition and operation margins. However, this is a healthy sign showcasing flexibility facing changing community and social needs and the corporation's capabilities and interests. Furthermore, indirect CSR, such as fighting corruption and sensitivity to sharia-compliant operations, needs to be addressed more in light of CSR. The paper finds that the lack of anti-corruption measures and sharia compliance is socially irresponsible and may cost more than corporations might spend directly under CSR. The value of this research is that it shows a need for more CSR engagement from corporations as well as better understanding from the engaged public on the goals and limits of different corporations; one that stands out is Islamic banks and what people expect.

Key Words: CSR, Social Responsibility, Islamic Financial Institutions

Abstrak

Tujuan dari makalah ini adalah untuk menjelaskan ruang lingkup Corporate Social Responsibility (CSR) dan pemahaman Islam tentang apa yang dimaksud dengan tanggung jawab. Makalah ini bertujuan untuk merefleksikan orisinalitas ide dalam tradisi ekonomi Islam dan menganalisis faktor CSR khusus untuk lembaga ekonomi Islam. Analisis ekstensif dari literatur yang ada dilakukan untuk menyajikan temuan yang mendukung gagasan CSR yang orisinal dalam ekonomi Islam. Dalam perdebatan ilmiah yang luas dan penelitian tentang CSR, pandangan para sarjana penting disajikan. Akhirnya, analisis berbagai pendorong untuk keterlibatan korporasi dalam CSR disajikan bersama beberapa pendorong yang unik untuk lembaga keuangan Islam. Temuan: CSR sebagai ide penelitian adalah perdebatan yang sedang berlangsung, terutama mengenai definisi dan margin operasi. Namun, ini adalah tanda sehat yang menunjukkan fleksibilitas menghadapi perubahan kebutuhan masyarakat dan sosial serta kemampuan dan kepentingan korporasi. Lebih jauh lagi, CSR tidak langsung, seperti memerangi korupsi dan kepekaan terhadap operasi yang sesuai dengan syariah, perlu ditangani lebih lanjut dalam kaitannya dengan CSR. Makalah ini menemukan bahwa kurangnya langkah-langkah anti-korupsi dan kepatuhan syariah secara sosial tidak bertanggung jawab dan mungkin menghabiskan biaya lebih dari yang mungkin dikeluarkan perusahaan secara langsung di bawah CSR. Nilai dari

penelitian ini adalah menunjukkan perlunya lebih banyak keterlibatan CSR dari perusahaan serta pemahaman yang lebih baik dari publik yang terlibat tentang tujuan dan batasan perusahaan yang berbeda; salah satu yang menonjol adalah bank syariah dan apa yang diharapkan masyarakat.

Kata Kunci: CSR, Tanggung Jawab Sosial, Lembaga Keuangan Syariah

Introduction

Responsibility cannot be entirely legislated, it starts with responsibility for ones well-being, dependents, and society. As long as equilibrium is maintained, social responsibility leads to social prosperity. From this understanding, individual-level responsibility could be addressed as the baseline for academic discussion on responsibility in general and the corporation's responsibility. Since the term Corporate Social Responsibility (CSR) popularized, it has been widely used and rarely absent from corporations' managerial and financial reporting (Chaffee, 2017). Corporations and institutions labeled 'Islamic' are not much different; they also always showcase their CSR activities in their annual reports.

There is more to social responsibility than is commonly known and generally acknowledged. CSR usually relates to charity and giving. Corporations sometimes take out two or three percent, on average, from their annual profit to be spent on different social projects or to help a group of people or other NGOs. Such acts are publicized and put on front pages of reports, and websites especially if that percentage is a sizable amount of money. As such, publicity and reflecting a good image for the corporation is one reason corporations spend on CSR. That is not necessarily a wrongful act, but it would be questionable if it were the only reason because it would be showing a beautified picture for what could otherwise be harmful corporate practices or production.

Other variables could also be addressed in connection to CSR, such as the level of corruption and CSR size. For example, one research concludes that more CSR goals are likely to be achieved if corruption risk is mitigated ¹. Other research shows that the discloser of Anti-Corruption Practices (ACP) is still in its infancy stages in developing economies such as Malaysia and Indonesia.² ACP disclosure is an essential CSR practice that goes beyond giving charity.

While scholars continually debate new CSR matters, the margins of CSR remain even wider. Isn't accumulating profit a corporate responsibility towards investors and stakeholders at large? Isn't the corporation's success and expiation socially responsible since it means more job opportunities and economic development? Aren't corporations responsible entities because they pay government taxes that are in return used for some social ends? Similarly, when a corporation focuses its production on socially demanded products and services,

¹ Jintao Lu et al., "Corporate Social Responsibility and Corruption: Implications for the Sustainable Energy Sector," *Sustainability (Switzerland)* 11, no. 15 (2019).

² Corina Joseph et al., "A Comparative Study of Anti-Corruption Practice Disclosure among Malaysian and Indonesian Corporate Social Responsibility (CSR) Best Practice Companies," *Journal of Cleaner Production* 112 (2016): 2896–2906.

that is CSR. Finally, when corporations are not directly engaged in philanthropic acts, it would not necessarily mean they are socially irresponsible.

As the introduction stated at the beginning, individual responsibility is the first building block to discussion on CSR. However, despite the importance of the individuals' morality and ethics represented in a personal capacity or a juridic capacity, the law remains of the essence because many people are negatively incentivized to do the right thing. In Islam, the Islamic Sharia (Law) addresses responsibility at all levels and describes regulating laws, in some cases, in detail to make sure rights are preserved. What are we missing!

Many researchers studying Islamic Economics expect more social financing, socially responsible investment, and more CSR from IFI, mainly Islamic banks, since they represent a large percentage of the Islamic financial industry. However, many fail to understand the reasons why Islamic banks particularly have "limited"³ social participation, which is generally understood by the involved public to be 'phonographic' giving. This failure to understand institutions implicitly-given roles is also associated with the failure to recognize the bigger picture, and what could be recognized as social responsibility if we decide to move beyond philanthropy.

Currently, some junior researchers and some involved members of the society equate IFI's with non-Islamic institutions, making the judgment that, for example, 'Islamic banks only care about making profit' and do not care about the well-being of their customers or community members. Additionally, some equate trade profit with loan interest, and that sometimes the IFI's charged profit is higher than interest percentages. Indeed, from an Islamic perspective, IFI's have a responsibility to prioritize trade transactions, additionally, when lending, to preferably make it a "Qard-Hassan" or minimally charge a profit. In all cases, it is a responsibility to share risks associated with transactions justly and never to engage in any production or transactions that would harm the community or one that involves 'interest' or anything impermissible (*haram*).

While the responsibility of IFI's is relatively clear, the reflected image of some IFI's is not well perceived. This public and sometimes scholarly perception could be either correct or incorrect. Reasons could relate to institutional failure to showcase their CSR holistically or to misunderstanding from the public. Institutional failure or public misunderstanding is a problem because public opinion towards institutions capable of making economic change is influenced by different variables, which could harm the industry. If the public recognizes IFI's as socially or Islamically irresponsible, there might be a reluctance to deal with such institutions, which might weaken the industry.

This paper attempts to show the margins of social responsibility and provide a wider framework through which IFI's responsibility ought to be understood, analyzed, and judged. The paper starts with how CSR is generally covered in literature, the development of the concept, and how different authors

³ Although the word "limited" is used to describe the nature of the participation, it remains rather debatable what it refers to or what the threshold of the limit would be.

or groups define CSR. Then the social responsibility of corporations in Islam, followed by discussing the originality of social responsibility in Islam. The paper concluded by analyzing different drivers of CSR to help the reader understand the depth through which scholars should be looking at this matter.

Literatur Review

Social Responsibility literature

Human responsibility has always existed where individuals would react responsibly toward certain matters or groups that they care for. With more development and industrialization, and with the appearance of more organized entities that included the organization of knowledge and spread of information within and beyond academic and educational institutions, what naturally existed among individuals and entities in different communities was described and organized in a written format and in documents that last for future generations to learn from. This documentation strengthened the development of this discipline.

The development and definition of CSR

Nijim ⁴ summarized the development of social responsibility in managerial sciences and distributed its development into three phases. The first phase was maximizing profit (1920-1800), where the responsibility of corporations was to maximize profit. The second phase focused on maximizing stakeholders' interests (1920-1060) where the stakeholders' well-being was seen as superior to mere profit maximization. However, the third phase (1960 – today) looked deeper into the well-being of society as a whole. Carroll ⁵ explained how the "period up to the 1950s was the 'philanthropic' era ... and the period 1953 – 67 was classified as the 'awareness' era ... and the period 1968 – 73 was termed the 'issue' era ... and finally, the 'responsiveness' era, 1974 – 8."

Based on this development, changing expectations lead to changing descriptive terminologies. There is not a specific definition of what social responsibility is or what CSR is. However, authors who addressed this matter can agree that CSR is the corporation's responsibility toward certain stakeholders or a group of stakeholders. Authors who specified a definition of CSR, despite being particular, didn't intend to neglect the importance of other stakeholders. Primarily based on Wan-Jan's ⁶ categorization, the following is a list of authors who describe CSR similarly:

- Looking after the environment ⁷

⁴ Nijim Abood Nijim, *Management Ethics in a Changing World*, 2nd ed., 2015.

⁵ Archie B. Carroll, "A History of Corporate Social Responsibility: Concepts and Practices," in *The Oxford Handbook of Corporate Social Responsibility*, 2009.

⁶ Wan Saiful Wan-Jan, "Defining Corporate Social Responsibility," *Journal of Public Affairs*, 2006.

⁷ Stephen Brammer and Andrew Millington, "The Development of Corporate Charitable Contributions in the UK: A Stakeholder Analysis," *Journal of Management Studies*, 2004; Barry H. Spicer, "Investors, Corporate Social Performance and Information Disclosure: An Empirical Study," *The Accounting*, 1978.

- Investing in the community ⁸
- Making a charitable contribution ⁹
- Good employee relations ¹⁰
- Maintain/increasing profitability ¹¹

Looking back at the development of CSR, contemporary (Nijim, 2015) authors have focused their definitions of CSR on aspects that exist before the 1800s. Carroll ¹² who separated the development of CSR into eras that start with philanthropic, awareness, issue, and responsiveness eras is also subject to the same argument. Philanthropic CSR is present today. Furthermore, it can be said that while sometimes corporations focus on certain issues other times they are responsive to occurring situations in need of immediate attention. As such, the separation and the limitation of what CSR is could continually be argued.

The sphere of social responsibility

CSR could span to include the corporation's responsibility towards its owners, employees, customers, suppliers, the government, the environment, and other lobby groups. On the other hand, dimensions of CSR include economics, legal, ethical, discretionary, and philanthropic. Wan-Jan ¹³ explains how Carroll ¹⁴ improved his 'Social Responsibility Categories' that included (economics, legal, ethical, and discretionary) in the ¹⁵ to the Pyramid of CSR that included (Economic, Legal, Ethical, and Philanthropic) dimensions in the mentioned order. Based on that, in both his modules, Carroll prioritized the economic and legal dimensions. Thus, firms should not engage in the philanthropic dimension if the prior dimensions were not satisfied.

Schwartz & Carroll ¹⁶ later built on both the 'Social Responsibility Categories' and the Pyramid of CSR to present the Three Domain Model for CSR. They argue that the best strategy for corporations is to act where the three

⁸ Brammer and Millington, "The Development of Corporate Charitable Contributions in the UK: A Stakeholder Analysis"; Stewart Lewis, "Reputation and Corporate Responsibility," *Journal of Communication Management*, 2003; Lance Moir, "What Do We Mean by Corporate Social Responsibility?," *Corporate Governance: The International Journal of Business in Society*, 2001; A.M. Migdad, "CSR Practices of Palestinian Islamic Banks: Contribution to Socio-Economic Development," *ISRA International Journal of Islamic Finance* 9, no. 2 (2017).

⁹ Brammer and Millington, "The Development of Corporate Charitable Contributions in the UK: A Stakeholder Analysis."

¹⁰ Lewis, "Reputation and Corporate Responsibility"; Moir, "What Do We Mean by Corporate Social Responsibility?"

¹¹ Migdad, "CSR Practices of Palestinian Islamic Banks: Contribution to Socio-Economic Development."

¹² Carroll, "A History of Corporate Social Responsibility: Concepts and Practices."

¹³ Wan-Jan, "Defining Corporate Social Responsibility."

¹⁴ Archie B Carroll, "A Three-Dimensional Conceptual Model of Social Performance A Three-Dimensional Conceptual Model of Corporate Performance," *The Academy of Management Review*, 1979.

¹⁵ Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons*, 1991.

¹⁶ Mark S. Schwartz and Archie B. Carroll, "Corporate Social Responsibility: A Three-Domain Approach," *Business Ethics Quarterly*, 2003.

domains overlap, or where the ethical and economic domain overlap as long as the transaction or operation is legal.

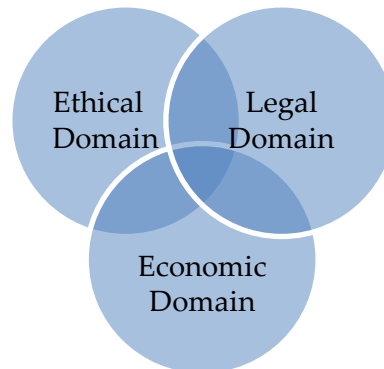


Figure1: Schwartz & Carroll's Three Domain Model for CSR

Social responsibility for corporations in Islam

In Islam, spirituality and the faith (*ieman*) of individuals help guide towards responsible behavior and responsibility towards others and the community. Additionally, "justice – social and economic – is at the foundation of the Islamic economic system."¹⁷ The authors also explain that the Quran uses two words for justice:

“*Qist* and *ádl*”. The first is the chief characteristic of appropriate human relations and of human relations toward the rest of creation. It is a human phenomenon; it is not a divine trait. *Ádl*, however, is a feature of the Creator's actions that manifests itself in the perfect balance of the cosmos; it characterizes His action to place everything in its rightful place.

After faith and justice, integration is fundamental where individuals within a community complement each other. This is why in Islam, justice is necessary for transactions, support is given to those in debt by allowing more time, wealth possession is regulated and redistribution is required. This justice and integration extend even to non-Muslims. Muslims, in their individual capacity or even as legal representatives of their corporations, with such background and moral conduct based on their faith will deliver preferable social results that may not bring the absolute best economic returns, but the best socioeconomic-environmental return. Moghul¹⁸ explains that:

“The behavior of collectives depends upon the character and ethics of their constituent individuals, the relationships they build, and the systems they design. For the financial institutions or businesses that seek to comply with the Shari'ah, it is through applications of faith and spirituality that they may demonstrate honesty, empathy, and benevolence toward Earth and its diverse

¹⁷ HOSSEIN ASKARI, ZAMIR IQBAL, and ABBAS MIRAKHOR, *Introduction to Islamic Economics - Theory and Application*, Singapore: John Wiley & Sons, 2015.

¹⁸ Umar F. Moghul, *A Socially Responsible Islamic Finance (Character and the Common Good)*, 2017.

inhabitants and construct participatory governance in observations of others' rights".

In recent literature, many academic papers could be found talking about CSR of IFI and from an Islamic perspective.¹⁹ In Islam, the idea of responsibility starts from the individual member being responsible for their well-being and that of those around them' dependents.' Furthermore, the responsibility of the society towards each other and the state responsibility towards the individual and the society are also essential to the idea of responsibility in Islam.

"Ibn 'Umar reported that the Prophet, may Allah bless him and grant him peace, "All of you are shepherds and each of you is responsible for his flock. A man is the shepherd of the people of his house and he is responsible. A woman is the shepherd of the house of her husband and she is responsible. Each of you is a shepherd and each is responsible for his flock".²⁰

Ground rules

In the holy book, the Quran, many verses incentivize the believers to do good, share, and give for the sake of Allah. (Quran: 2,184; 2,177; 5, 3; 51, 19; 99, 7) Many other verses from the Quran also direct the believers to be positive in their communities. When dealing with money, the Quran orders for transactions to be just, fair, and transparent. (Quran: 2,188) In the same verse, the order continues with forbidding bribery to 'rulers' hoping to receive benefits and extra facilities. In another verse, the Quran forbids taking an interest. Furthermore, when a maturity date for loan approaches and the person is not able to deliver, they need to be given more time, not charged more money. (Q: 3,130) Additionally, the Quran guides those managing orphans' money to be responsible for the well-being of those they were entrusted to serve. (Quran: 4,2; 4,6; 4,10)

On the matter of wealth redistribution, '*Zakat*,' Islamic teachings were clear in the *Quran* and were further explained in the books of *hadith*. The matter of *zakat*, a universal Muslim social responsibility at the individual and the corporate level, is recognized as the largest amount of charitable money collected every year that serves the well-being of individuals. *Zakat* is connected to a Muslim's faith and one of the ground rules for Islam (Quran:2,43; 2,83; 2,110; 2,177; 2,177; 5,12; ...). Due to the importance of *zakat*, the *Quran* (2,177) provided detailed guidance for *zakat* distribution and those entitled and provided details on *zakat* collection.

In the Hadith of Prophet Muhammed (puh) there is another set of inclusive ground rules in Islam that serve the empowerment of social responsibility. On

¹⁹ Migdad, "CSR Practices of Palestinian Islamic Banks: Contribution to Socio-Economic Development"; Lu et al., "Corporate Social Responsibility and Corruption: Implications for the Sustainable Energy Sector"; Joseph Joseph et al., "A Comparative Study of Anti-Corruption Practice Disclosure among Malaysian and Indonesian Corporate Social Responsibility (CSR) Best Practice Companies"; Nijim, *Management Ethics in a Changing World*; Abdalrahman MIGDAD, "Managing Zakat Through Institutions: Case of Malaysia," *International Journal of Islamic Economics and Finance Studies*, 2019.

²⁰ Al-Albani, "No Title Al-Adab Al-Mufrad » Book of Responsibility," n.d., Hadith 212.

the authority of Abu Sa'eed al-Khudree, that the Messenger of Allah *puh* said: "There should be neither harming (*darar*) nor reciprocating harm (*dirar*)." ²¹ In another Hadith, the Messenger of Allah *Saya's* "The best person is the one who benefits all human beings" ²². In the hadith narrated by Ibn Umar mentioned earlier lies another fundamental Islamic teaching concerning social responsibility at all levels. Ibn Umar also narrated:

"The Messenger of Allah (ﷺ) said: "The Muslim is the brother of the Muslim, he doesn't oppress him and doesn't put him into ruin, and whoever is concerned for the needs of his brother, Allah is concerned for his needs, and whoever relieves a Muslim of a burden, Allah will relieve him of a burden from the burdens of the Day of Judgement and whoever covers (the faults²³ of) a Muslim, Allah will cover (his faults) on the Day of Judgement."²⁴

At this point, it was established that social responsibility is fundamental in Islam. Furthermore, based on evidence from the Quran and Sunnah, brotherhood and social justice are two ways to achieve social responsibility. Additionally, the notion of '*Istikhlaaf*' or succession is another foundational principle for social responsibility; wealth belongs to Allah. Duties are also identified based on the individual's place in the community and the authority they assume. As a result, in Islam, authority, and all the responsibility that comes with it is a burden, not a privilege, because it must be associated with commitment to all Islamic teachings, not one's desire. Another Islamic fundamental discussed here is '*Tawheed*', the Oneness of Allah. This means to worship Allah alone and obey His commandments that were revealed to us in the *Quran* and told to us by the Prophet *puh*. In Islam, the human is the center of all things, not the state, and not large corporations with large capital. From here, we can realize the importance of the individual's commitment at the beginning for the cycle of social responsibility to be realized eventually.

Harmony between public and private interests

Social responsibility is the result of harmony between public and private interests. Islam calls for the alignment between public and private interests. The private interest comes before provided that they do not affect three necessities: water, pasture, and fire, commons between people. Hence, the private interest that doesn't conflict with the public interest is a sacred necessity for a person and one of his rights without prejudicing the public interest or diminishing the rights of others ²⁵.

²¹ 40 *Hadith Nawawi* 32, n.d.

²² Ali ibn Abd-al-Malik Al-Hindi, "Kanz Ul 'Ummal," in *Kitab Ul Ma'eeshati Wal A'adaat*, n.d., Hadith No. 43065.

²³ "Faults" the word does not necessarily imply covering up for wrongdoings, rather 'not revealing others secrets and private matters'

²⁴ At-Tirmidhi, "Jami` At-Tirmidhi," in *The Book on Legal Punishments (Al-Hudud)*, Vol. 3, Bo, n.d., Hadith 1426.

²⁵ Weheba Muqadem, "Corporate Social Responsibility from an Islamic Perspective" (Ghardaia, 2011).

This explains the balance Islam represents. Whereas capitalist societies are based on the premise that the individual is a sacred being and society is not allowed to violate his freedom of possession to property, and communist societies place ownership in the hands of the state and deprive individuals of it, Islam managed to balance. Islam balances between the two, the individual and the collective, as it parallels the interests of each individual and other individuals, and therefore the economics of Islam represent a moderate balance that falls between capitalism and communism where it permits individual property rights in principle, but it sets for it the limits by which harm is not permitted and allows society to restore, modify or limit this property right whenever this modification achieves the interest of society.

The obligation of the corporation towards social responsibility

In Islam, there are permissible and prohibited acts one may engage in, and there is lots of ambiguity in between. Of the permissible actions are likable or preferable acts to be done voluntarily. Organizations being part of societies are subject to the same expectations; to commit to the Islamic teachings and do good beyond what is in the margin of their obligation, if not, at least not to engage in harmful acts. The obligation of corporations to engage in social responsibility cannot be fixed, and the socially responsible engagement of corporations cannot be set. It is the nature of good voluntary engagement to meet the requirement and needs of society; those needs are ever-changing and so should CSR.

Scholars have attempted to explain CSR in light of Islamic jurisprudence and concluded that CSR could be explained and understood from different angles of Islamic jurisprudence. Some scholars ²⁶ explained how CSR could be perceived from the perspective of Islamic jurisprudence. This same logic is also present in writings for scholars such as ²⁷, among others. Shuja'Aldin explained that CSR could be subject to several Islamic Juristic conditionings that include:

- Social responsibility is a form of cooperation for good (*Al-bir*) (Q:5,2).
- Social responsibility is a form of social solidarity.
- Social responsibility is a form of enjoining good and forbidding evil.
- Social responsibility is a form of spending for the sake of *Allah*.
- Social responsibility falls within the framework of 'prohibiting what may lead to sinning' (*Sad Altharae'*): this is the prohibition of every act, even if permissible if it leads to a prohibited act.
- CSR and the rule "to ward off evil is prioritized over bringing blessings" (*Dara' Almafasiid Awlaa min Jalb Almanafi'*).

²⁶ Abdulmoumin Shuja'Aldin, "Corporate Social Responsibility Between Law and Fqih," 2010.

²⁷ Yousuf Al-Qaradawi, *How Islam Solved the Problem of Poverty*, 1985th ed. (Beirut: Alrisalah Institute, 1966); ASKARI, IQBAL, and MIRAKHOR, *Introduction to Islamic Economics - Theory and Application*; Moghul, *A Socially Responsible Islamic Finance (Character and the Common Good)*.

- Social responsibility and the rule of "harm is prevented as much as possible": This rule expresses the obligation to prevent the damage before it occurs by all means ²⁸; similarly this rule applies to the preventive measures that companies take to prevent harm, whether environmental or harm that takes other forms.

- Social responsibility and the rule of "harm is removed": that is, the obligation to erase the damage after it occurs.

- Social responsibility and the "rule of bearing private harm or risk to pay off public harm or risk". This rule means that the scope of private damage is narrow and does not exceed a group of people or companies, and therefore these companies have to bear this damage if it is to payoff general and wider damage.

- Social responsibility and the rule 'no reward without bearing risk/ or, its risk' (*Alghunmu bilghurm*): It means that whoever reaps the profits from an activity, must bear compensation for the damages that occur as a result of that behavior, and not to forget the virtue of the society that was the reason for earning it.

Social responsibility is a form of cooperation and sharing that is usually done willingly; this is a common understanding. However, when the later rules are discussed, 'externalities,' which are usually studied as part of public policy, require law enforcement. When talking about negative externalities, this is not usually a topic discussed under CSR. However, when looking at the last rule mentioned in the list above, corporations, in the capitalist-dominated world economic system, would be happy, would actively seek to avoid responsibility for harm associated with their actions or business engagements. This is why part of social responsibility is to obey 'the rule of law²⁹,' (Q:4,59) that ensures the public good is maintained superior to the private interest that in many cases ruins public resources and the environment.

Stakeholders of CSR

It has been established that social responsibility in general and CSR, in particular, cannot be easily put into generally acceptable and inclusive margins. However, certain stakeholders of CSR can be identified. Figure (1) highlights the main stakeholders' corporations must consider as part of their CSR strategy.

²⁸ 40 Hadith Nawawi 32.

²⁹ This is usually said to be the 'ruler,' but in Islam, according to my understanding, it also means governing authorities that act towards the good of the public to the best of their knowledge and ability. This is important because today's (rulers) are authoritarians and dictators, in the west and the east, and the verse in the Quran (4,59), as further explained in the hadith and the bibliography of the companions tells the believers to 'obey' the rulers as long as they obey Allah commandments.

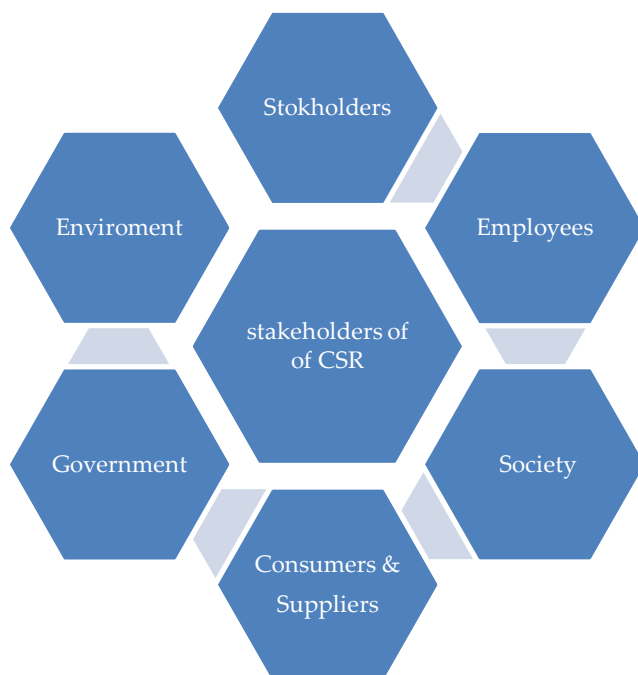


Figure 1: Stakeholders of CSR

The first responsibility of the corporation is to preserve the assets, the principal, or the foundation of the corporation. By doing so, there is CSR towards stockholders. To understand what preservation means, Imam Al-Shatibi³⁰ clearly explains (page-18, margin-3) that maintaining the existing is only one part of the "the act of preservation", the second and more important part of preservation is the continues development according to time and place, and according to local needs. As such, public services need to be constantly maintained and continuously developed. This act of preservation is a state responsibility.³¹ In short, CSR towards stockholders is to develop and expand the corporation bringing in more benefit to its owners without harming public interest, or that of other stakeholders.

CSR towards employees is fundamental in Islam and is highly regulated. First, it is the employees' right to take fare salary; in the Quran, we read, "...So give just weight and measure and diminish not to men their things...." (Q:7,85) It is also part of the corporation's responsibility not to delay employee payments; the hadith of the Prophet is translated as "give the employee his wages before his sweat dries up." (Narrated by Bukhari) Furthermore, employers ought to give benefits, allow the performance of religious obligations, and not overburden employees with tasks. (Q:28,27)

³⁰ Ibrahim Bin-Mussa ibn-Muhammad Al-Shatibi, "Book Two," in *Almuwafaqat* (Dar-Ibn Affan, n.d.).

³¹ Abdalrahman Migdad, "Human Security: An Islamic Worldview," *Journal of Human Security Studies* 7, no. 1 (2018): 18–36.

The more common CSR is towards the society which is part of the term itself. Indeed, responsibility towards the society is fundamental and the Prophets hadith informs; "the best among you are these best to their families or people." (narrated by AlTirmithi) In Islam, among the most important CSR is to pay the due *zakat* which is a direct social empowerment mechanism and a fundamental wealth redistribution tool that ensures the well-being of the needy members of society. Furthermore, Islam prevents the abuse of private rights and limits freedoms in favor of protecting public rights. Part of the limitations is to refrain from commercial transactions that negatively affect society and to stay away from what Islam prohibited, such as usury, monopoly, fraud, outrageous profit, and hoarding. The Islamic economy is an economy of conviction, and in that, corporations are urged to plan and optimally use resources to avoid economic problems and spare resources for future development. Finally, when talking about CSR towards society, it is necessary to remind that voluntary work, as well as charity giving, is complementary to more fundamental corporate responsibilities and not the primary CSR.

Corporations' responsibility towards customers is also essential. Business transactions and exchanges were regulated in Islam to protect the rights of the parties, and the larger responsibility lies on the seller's side to disclose information and be transparent with weight (Q:7,85) and description. To this end, the Prophet says: "Whoever cheats us is not part of us," (narrated by Muslim) and in another hadith, about quality, He informs those that perform a task to master it. (narrated by *Al-Tabarani*) Unfortunately, corporations are not trusted to protect the public good willingly. Thus, the state is fundamental in governing, legislating laws and enforcing them, and protecting the public interest. As such, corporations operating within a state are responsible to pay taxes that the state uses to undue negative externalities caused by corporations' whether directly or indirectly. For example, pollution is one of the indirect negative externalities caused by corporations. Islamic teachings on environmental protection are endless. The environment should not be ruined, not polluted, not over consumed, and certainly should be protected.

The originality of social responsibility in Islam

Talking about CSR, it's helpful to remind that a Capitalist economy is 'capital' centered and a Socialist economy is state-centered. The first prioritizes the well-being of large corporations and the latter prioritizes that of the state while Islamic economics is human-centered and it prioritized the well-being of the individual. Those differences are essential and help understand the originality of social responsibility in Islam. Some researchers explain how the idea of CSR is designed to give a better corporate outlook, and in other cases to hide shortcomings.³² The author continues by pointing to the profit maximization incentive corporations have. Indeed, the relative and changing

³² Mohamed Flaaq, *المسؤولية الاجتماعية لمنظمات الاعمال CSR* (Yazouri Group for Publication and Distribution, 2019).

thinking of corporations in this capitalist world economy can be empirically observed and it explains the materialistic view that surpassed moral responsibility.

Despite the use of words and terminology, CSR is not new to the Islamic literature and certainly not new to Islamic economics like it is to capitalism, and not an only alternative like in socialism that ignores private ownership.³³ This Islamic originality is based on Allah's ownership of everything; man is a trustee. As such, the guidance of the owner becomes binding law for those entrusted. In surah Al-Nour, Allah gives the order "...and give them from the wealth of Allah which He has given you ..." (Q:24,33) and evidence that commitment to such social responsibility is a commitment to Allah's commandments is present in the Quran where Allah says: "Do they not know that it is Allah who accepts repentance from His servants and receives charities and that it is Allah who is the Accepting of repentance, the Merciful?" (Q:9,104) This is obligatory³⁴. The voluntary act of social responsibility is based on mercy, compassion, and cooperation to achieve society's good (Q:5,2).

Why corporations engage in CSR differs. Profit maximization may not be the only reason to engage in CSR. Other reasons include attracting investors with ethical considerations, and the same goes for attracting customers with ethical considerations³⁵. Other drivers for CSR include maintaining quality employees who prefer socially reputable corporations, reducing the national cost of negative externalities, building the brand name, tax benefits, and investor relations³⁶.

From an Islamic perspective corporation's responsibility is a commitment to binding or voluntary Islamic rules that first include zakat and obligatory duties towards neighbors and close relatives, and a group of voluntary responsible acts that include waqf and charity. However, it must be stated that corporations owned or operated by Muslim individuals will most likely be driven by most of the factors mentioned above to engage in or expand their CSR activities. Engaging in most of those CSR drivers should not necessarily be perceived negatively, however, how far a corporation is willing to go; engaging in CSR drivers for pure private interest while neglecting public interest will make the difference. Furthermore, the presence of the Islamic teachings will not mean full commitment, those teachings will be a constant reminder and commitment will be relative. This relativity is based on individual spirituality and religious commitment; relativity cannot be measured but can indeed be observed.

³³ Muqadem, "Corporate Social Responsibility from an Islamic Perspective."

³⁴ Flaaq, *المسؤولية الاجتماعية لمنظمات الاعمال*, CSR; Ahmed Saqer, *المسؤولية المجتمعية في العالم العربي*, مقارنة بين الفكرين الاسلامي والوضعي مع عرض تجارب عالمية لبعض الدول والشركات (دار التعليم الجامعي, ٢٠١٩).

³⁵ Charlotte Österman, "Why Companies Engage in CSR" (Lund University, 2014); Saqer, *المسؤولية المجتمعية في العالم العربي والعالمي دراسة تحليلية: مقارنة بين الفكرين الاسلامي والوضعي مع عرض تجارب عالمية لبعض الدول والشركات*; Flaaq, *المسؤولية الاجتماعية لمنظمات الاعمال*.

³⁶ UK Essays, "Corporate Social Responsibility – Why Do Companies Engage in CSR?," 2018.

Social responsibility is a pillar of social development, the Prophet's hadith mentioned earlier explains how everyone is responsible for their dependents, from the household to the state leadership. This pillar is interconnected with cultural, economic, and political dimensions that collectively serve the purpose of development (*Iamaar*) that humans are entrusted to fulfill. Social responsibility at every level is not just requested and preferred, the Islamic law regulated and explained mechanisms of implementation while distinguishing between compulsory and voluntary acts. Work, zakat, and dependent responsibilities are all clearly regulated. Waqf and voluntary charity are also widely explained. Such laws and regulations ensure fair wealth redistribution and a healthy, sustainable social and economic development undertaken by the commitment to social responsibilities at the individual, corporate, and state levels.

Analysis and Findings

Analyzing different drivers of CSR

The dissonance between what the public expects firms to do and what they think the firms are doing is worrying.³⁷ However, Lewis³⁸ and Porter, in his interview³⁹ argued that companies have new bases to regain public trust – through exercising their CSR. They believe that CSR can be a competitive edge competency for corporations that can exploit it properly. This is a widely common belief among business strategists to gain public trust. Losing this trust for corporations that have an Islamic tag is easier because such corporations must be Sharia compliant and market competitive at the same time. This shouldn't appear to be difficult it should be a driver for more success and better competitiveness in the market, especially markets where major Muslim populations exist.

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One driver of CSR is reputation, and one danger for reputation is corruption. It is becoming increasingly important for businesses to address corruption as it is a social responsibility that must not be ignored. Otherwise, "it

³⁷ Wan-Jan, "Defining Corporate Social Responsibility."

³⁸ Lewis, "Reputation and Corporate Responsibility."

³⁹ Mette Morsing, "CSR: A Religion with Too Many Priests? Interview with Michael Porter," *European Business Forum*, 2003.

cheats disadvantaged populations by diverting resources for critical services like education, clean water, and health care into the pockets of dishonest government officials" ⁴⁰. Corruption is a practice that goes against social responsibility in principle. In Islamic banks, different faces of corruption could be addressed. Based on observation, in some cases, the selection process of Islamic banks' sharia board members could fall into the margins of corruption. Because the industry is still developing, professionals' know-how is rather conventional in operating banks. Strict sharia board members could cause a slowdown in banking operations, especially regarding newly introduced transactions.

Preferable sharia board members are those likely to accept most of the administration's demands that are said to be 'best for business.' As a result, in some Malaysian Islamic banks, Sharia board member turnover is noticeably high; the unreported reason is that Sharia board members leave because they disapprove of some bank operations that the administration continues with implementing anyway. In such situations, if the bank administration has a role in that turnover, it would be a compounded act of corruption cheating the customers that have their trust in reliable Sharia board members.

Risk sharing is another important Islamic bank responsibility that some Islamic banks try to minimize on themselves, putting more burden on their customers. There have been instances where Islamic banks put 100% of the risk on the customers and charge for damages if customers default, but such acts were immediately addressed by authorities, especially where there is room for Islamic banking legislation in central banks. Here, the law is necessary to organize transactions that require risk sharing between banks and customers, and indeed, such laws exist. Despite the presence of laws that regulate risk sharing based on Islamic economic jurisprudence of transactions, Islamic bank's risk-sharing and profit charges remain to be debated with concern among the financially involved public. This is something that affects the bank's reputation, and it is also something that, in some cases, maybe considered as corruption from an Islamic perspective.

CSR as a business strategy is not necessarily evil. Although many authors have argued that businesses should engage in CSR without expecting returns or be rewarded, others have argued that no business should do anything without the intention of benefiting from their action. ⁴¹ Furthermore, a study shows that the perception of CSR that shapes the corporation's image is more important than the CSR activities undertaken by the corporation. ⁴² Based on these views, an important question to ask is: Do Islamic banks also care about publicity? Indeed, they do and that should not be accounted against them because CSR is inclusive to many actors that include the right of the employees to work in a socially

⁴⁰ Adeeb Mahmud Greg Hills, Leigh Fiske, "Anti-Corruption as Strategic CSR: A Call to Action for Corporations," 2009.

⁴¹ Wan-Jan, "Defining Corporate Social Responsibility."

⁴² Magdalena Stefańska and Tomasz Wanat, "Is It Worth to Invest in CSR? The Relationship between CSR and Store Image in Retailing," *SSRN Electronic Journal*, 2013, <https://doi.org/10.2139/ssrn.2206470>.

reputable workplace, the right of owners to profit, and the right of the society to a healthy environment and much more.

Conclusion

While specialized studies on CSR and direct effects or correlation with specific variables or in specific places are useful and important, a holistic view always needs to be presented. Specialized studies show how CSR for IFI's is more human-centered, just like Islam itself. At the same time, a holistic view is necessary to put such specialized studies in their context and to showcase the wider margins of CSR. This presentation helps the involved public to properly understand the specific roles of different institutions and the possible margins of their CSR involvement. In return, the gap between what corporations present and what society expects could be brought closer.

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