

Corporate Social Responsibility And Islamic Business Organizations: A Proposed Model

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If this modest effort is successful, it is by Allah's grace and guidance and if it falls short of the readers' expectations, we can only pray and hope that Allah will forgive our imperfect judgment.

Abstract

*The issue of corporate social responsibility (CSR) has been of growing concern among business communities in recent years. Various corporate leaders maintain that business is considered to contribute fully to the society if it is efficient, profitable and socially responsible. Islam is considered as *ad-din* (a way of life), thus, providing comprehensive guidelines in every aspects of the believers' life. It is the aim of this paper to propose an Islamic model of corporate social responsibility based on human relationships with the God (*hablun min'Allah*); with other fellow human being (*hablun min'an-nas*) and with the environment.*

JEL Classification :M12, M14

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1. Preface

The idea of corporate social responsibility (CSR) began to take recognizable shape in the third decade of this century (Frederick, 1994). According to him, some social theorist claimed that the debate on the issue had possibly started as early as 1913. By the mid-1920s, the business community had acknowledged the need for the corporate directors to act a trustees for the interests, not only the stockholders, but other social claimants as well.

The fundamental idea embedded in CSR is that business corporations have an obligation to work for social betterment (Frederick, 1994; Davis and Blomstrom, 1996). One of the most powerful arguments for CSR is that public expectations for business have change (Anshen, 1980; Davis and Blomstrom, 1996). It is maintain that the business organization exist only because it satisfies valuable needs of society. Society bequest business its charter to exist and that charter can be rescinded at any time it fails

to live up to society's expectations. 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.

Over the years, this obligation is said to have arisen due to various reasons (Frederick, 1994). He cited the pressure of prevailing humanistic, religious and democratic values and attitudes as one of the important factors. In addition, Davis and Blomstrom (1996) argued that the idea of social responsibility exists in most religions and philosophies of the world, however there is a tendency to limit the concept in terms of person-to-person relationships. Islam is considered as *ad-din* (al-Attas, 1985) which encompasses all aspects of Muslims' life including matters pertaining to CSR. Therefore, it is the aim of this paper to propose a model of CSR from an Islamic perspective.

The paper is organized as follows. The first section discusses Islam as a complete (*shumul*) religion, the Islamic ethical value and Islamic business ethics. The second section describes the meaning of CSR from an Islamic perspective leading to the development of a proposed model. The final section offers conclusions and recommendations for future research in this area.

2. Islam: A *Shumul* Religion

Islam literally means commitment, submission, obedience and surrender (Kharofa, 1992; Ahmad, 1977). It is derived from the word „*aslama*“ meaning “to resign oneself” or “to give oneself up to God” (Mahmudunnasir, 1981). A Muslim is one who resigns himself to God and thereby professes the faith of Islam.

The first basic principle of Islam is belief in the existence of *Allah* (swt) and the Prophet hood of Muhammad (pbuh). This belief is realized by the *kalimah* (sentence) of *shahadah*; *La ilaha illa Allah, Muhammad ur-Rasullullah* “there is no God but *Allah*; Muhammad is His Prophet”. The word *Allah* is the essential personal name of God. According to Ajijola (1984), the *shahadah* means that there is absolutely no being worthy to be worshipped other than Allah in this whole universe, that it is only Him that heads should bow in submission and adoration, that He is the only Being possessing all powers, that we are all in need of His favor and that we are all obliged to seek His help. The belief in the Oneness of God (*Tawhid*) is the key of Islamic faith as described in the Holy *Qur'an*: “*Say: He is Allah, the One and Only; Allah, the Eternal, Absolute; He begetteth not, nor is He begotten; And there is none like unto Him*” (112:1-4).

The first sentence of *shahadah*; *La ilaha illa Allah* implies the concept of *Tawhid* (unity of God). *Tawhid* implies Allah (swt), the sole Creator of all beings, the owner of everything and the Absolute and the Ultimate as stated in the *Qur'an* (39:44): “*Say: To God belongs exclusively (the right to grant) intercession? To Him belongs the domination of the heavens and the earth: an in the end, unto Him you will all be brought back*”. Each of the creation has its own function and responsibility on the Earth. The concept of *Tawhid* implies that man has to maintain relationships not only with God (*hablun min'Allah*), but also with human beings (*hablun min'an-nas*) and its environment.

The Islamic concept of religion is unique in the broadest sense of the word (Abdallati, 1998). Islam is not a religion in the common, confining its scope to the private life of

man. It is indeed a complete way of life (or *ad-din*) (al-Attas, 1985), and its values are universal (*shumul*) in character, transgressing across geographical, racial and linguistic differences, catering for all the fields of human existence in all phase of life (Ahmad, 1977; Abod 2002). The unique feature of Islam is that it integrates man with *Allah*, awakens in him a new moral consciousness and incites him to deal with all problems of life – individual and social, material and moral, economic and political, legal and cultural, national and international – in accord with his commitment to *Allah*. In fact, Islam totally espouses this concept of religion as explained in the Holy *Qur'an*, “*Seek what is good in the hereafter and to guard oneself from the eternal fire; not to forsake your portion of this world*” (28:77). Thus, the Islamic concept of religion maintains that religion is not only a spiritual and intellectual necessity but also social and universal needs which are bounded by the Islamic ethical values.

Islamic Ethical Value

The word „ethics” originated from the Greek words „ethos”. Beauchamp and Norman (2003) define ethics as a systematic attempt, through the used of reason to make sense of our individual social and moral experiences, in such a way as to determine the role that ought to govern human conduct and the values worth pursuing in life. Ethics is normally used synonymously with morality (Hanafy and Sallam, 2001). Its main purpose is to provide a systematic and logical reason or justification for what is right and virtuous and what is wrong and bad. It is argued that Islamic ethical value governs all aspects of Muslims’ life (Beekun, 1997; Jamal Uddin, 2003). Islam regards ethical value very highly in humans’ life, based on divine commands and guidelines (Ahmad, 2001). Prophet Muhammad (pbuh) said: “*I have been sent only for the purpose of perfecting good morals*”. Within an Islamic concept, the term ethics is closely related to the word *akhlaq* as stated in the *Qur'an* (68:4): “*And thou (standest) on an exalted standard of character*”. *Akhlaq* is defined as the individual personality reflected in an individual’s behavior towards *Allah* and other human beings accordance with the rules of *Allah (swt)* and the guidance of the Prophet Muhammad (pbuh). Thus, *Akhlaq* in Islam is related to *aqidah* and *shari'ah* (Husnin, 1986).

The foundation of Islamic ethical value is derived from two principles – revelation from *Allah (swt)* and human nature (Izzi Deen, 1990). Muslims practice ethical value base on the teaching of the *Qur'an* and the *sunnah* (the model behavior of the Prophet Muhammad (pbuh)). The second principle is natural instinct (*fitrah*) (*Qur'an*, 91:7-8). Having natural instinct, the ordinary individual can, at least to some extent, distinguish not only between good and bad but also that which is neutral, neither good nor bad. However, natural conscience is limited because it can be affected by outside influences such as culture, custom, community environment and *satan (evil)*.

The basic element grounded in the Islamic ethical value system is the belief system itself. Since the belief system is the main factor influencing every aspect of human life, the Islamic ethical value system have to be completely governed by the dictates of *Shari'ah Islamiyyah*.⁵ In other words, *Shari'ah Islamiyyah* provides the framework within which the Islamic ethical value takes shape (Alhabshi, undated). According to

him, this conceptualization has at least three distinct implications. First, the Islamic ethical value cannot change with time or space because of the unchanging nature of the *Shari'ah Islamiyyah* and thus, is applicable to all Islamic society for all ages. Secondly, Islamic ethical value is based on absolute truth for the benefit of entire human kind. As such, is acceptable to entire society and therefore has universal applicability. Thirdly, since man is by nature religious even if he perceives that he is secular, the Islamic ethical value somehow has to be similar to those other systems of values originating from other world religions. It is indeed implausible that the positive values from Islamic viewpoint can be considered negative in other society. This is because every religion advocates good deeds. Specifically, one of the basic elements⁶ of the Islamic religion is *Akhlaq* (moral and values) providing a framework that shapes the moral and ethical behavior of Muslims in the conduct of all aspects of their life (Ismail, 1990 and Saeed *et al.*, 2001). The basic principle grounded in the Islamic ethical value is *ta'muruna bi al ma'ruf, wa tanhauna 'an al-munkar* (practice/advice a good deeds and avoid evils/others).

Islamic Business Ethics

In Islam, the business activities fall under the jurisdiction of Islamic *Muamalat* (man-to-man relationships). Trade⁷ (*al-tijarah*) is strongly encouraged and businessmen are highly praised in Islam. As such trade and commerce have been very common among Muslims since the earliest day (Islahi, 1988). God explicitly says in the *Quran*, “*Oh you who believe! ... let there be amongst you traffic and trade by mutual goodwill*” (4:33). The Prophet (pbuh) himself and most of his companions were merchants. The famous saying of the Prophet regarding the honest traders, “*The truthful, honest merchant is with the prophets and the truthful ones and martyrs in the hereafter*” (Tirmidhi 12:4). The Prophet (pbuh) also strongly encouraged his followers to be involved in business as stated in one of his sayings, “*You ought to be engaged in commerce because ninety-nine per cent of the bounties of God are contained therein*” (Mansor, 1984). He also said: “*A person who imports goods and provides them is favored in his livelihood while a person who hoards goods is wrongdoer and a cursed one*” (reported in Ibn Majah, Sunan, Vol. 2, cited in Islahi, 1988).

Islam requires all commercial activities to be undertaken in accordance with principles laid down in the *shariah*⁸ in order to obtain *barakah*⁹ (God’s blessing) for the sake of achieving *Al-falah*¹⁰, 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 (Abeng, 1997; Ismail, 2001; Selvaraj and Muhamad, 2004).

The *shariah*’s prescription includes amongst others allowable traded goods and services and the moral conduct of business to be followed by traders. Muslims are prohibited to trade goods and services that are deemed unlawful for Muslim to have contact with in everyday affairs (such as pork, liquor or wine, gambling to name some). The Prophet (pbuh) said: “*When God prohibits a thing, He prohibits (giving and receiving) the price of it as well*” (Al-Qaradawi, 1995). 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 (Al-Qaradawi, 1995). 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 have (Mannan, 1986).

According to Gambling and Karim (1991), the fundamental principles of Islamic business are *khilafah* and *shura*. The principle of *khilafah* outline that all Muslims are personally responsible¹¹ for what is done with the resources entrusted to them. While the second principle requires them to listen to the advice and grievances of those affected by what is done in their name.

Hanafy and Sallam (2001) has classified six major ethical principles of Islam namely truthfulness (*siddiq*), trust (*amanah*), sincerity (*ikhlas*), brotherhood (*ukhuwwah*), science and knowledge and justice (*adl*). According to (Naqvi, 2001), there are another four axioms of Islamic ethics namely Unity, equilibrium, free will and responsibility. These ethical values are closely connected and associated to the concept of social responsibility in Islam.

CSR from Islamic Perspective

Business organizations have vital role in the economic and social life of peoples throughout the ages (Abeng, 1997). In Islam, business activities are considered as religious obligation (al-Shaibani, 1997). Social responsibility refers to obligations that organization has to protect and contribute to the society in which it function (Beekun, 1997). The concept of brotherhood and social justice give rise to social responsibility (Naqvi, 1981) by sharing prosperity for society's progress (Hassan, 2002). Therefore, CSR is considered crucial for Islamic business organizations.

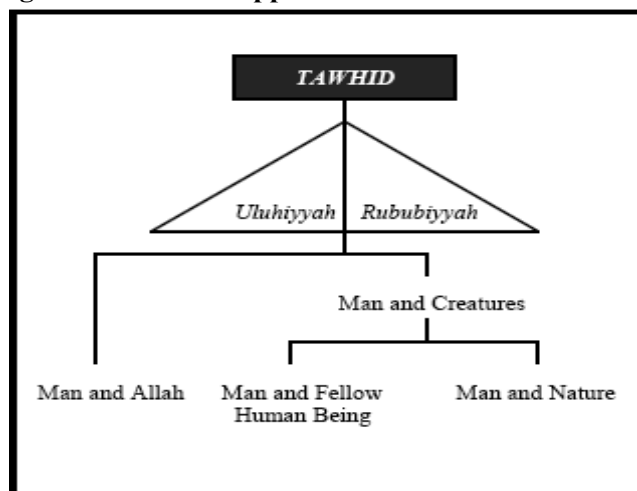
The principle of social justice is the bedrock of Islam, which deters Muslims from doing harm (Yusoff, 2002). *Allah (swt)* reveals: "*Allah commands justice, the doing of good and liberality to kith and kin, and He forbids all shameful deeds, and injustice and rebellion...*" (16:90). In addition, the concept of brotherhood makes Muslims responsible to each other (Alhabshi, 1994). These two concepts require the Muslim society to take care of the basic needs of the poor (Naqvi, 1981) as advocated in the *hadith* "*A Muslim is a brother of another Muslim: he neither wrongs him, nor leaves him without help, nor humiliates him*" (Muslim).

Allah (swt) creates man in the best forms (*khaira ummah*) (Nanji, 1991) to worship and serve him and entrusted him a special duty as a *khilafah* (vicegerent) on this earth. *Allah (swt)* reveals: "*We have indeed created man in the best of moulds*" (95:4). *Khilafah* defines man's status and role and specifies his responsibilities (Bashir, 1998). The concept of *taklif* demonstrates that every individual is responsible for his own deed as stated in the *Qur'an* "*Thus have We made of you on ummah justly balanced, that ye might be witnessed over the nations, and the Messenger a witness over your selves...*" (2:143).

According to Hassan (1992) man has dual function as servant of *Allah (swt)* and as *khalifah* on earth. As a servant of God, man has to worship God, seeks God’s pleasure, obey God’s laws, doing good deeds and to refrain from doing *al-fasad*. On the other hand, as a *khalifah* on earth, man needs to enforce the *Shari`ah Islamiyyah* in his life, maintain the harmony and peace, protect the environment, and to fulfill the roles of *al-sifah al-mahmudah* (good manner) such as *tabligh* (advisor), *amanah* (trust), *siddiq* (truthfulness) and *fatamah* (wise).

As a *khalifah*, business leaders should practice CSR essentially arises from the principle of *Tawhid*¹². All possessions, wealth, expertise, abilities, positions and power belong to *Allah (swt)* and man is only a trustee and thus, is responsible to manage these *amanah* for the benefit of the *ummah* (community) (Bardai, 2001). In Islam, business performance are appraise base on how well the resources are manage to improve the society. The concept of *ummah* demonstrates that society has a right and stake in whatever a Muslim owns. In Islam, business organizations are considered as human institution (Hashim, 1998), which is part of the *ummah Islamiyyah* (Islamic Community). Thus, Islamic business organizations should adopt a broader view of CSR (Sopiee and Ali, 2001) derives from the axiom of *Tawhid*, which signifies three relationships namely relationship with Allah (*hablun min Allah*), relationship with man (*hablun min annas*) as well as environment or the nature as depicted in Figure 1.

Figure 1: Tawhidic Approach of Human Relationship.



The Muslim’s relationship with *Allah (swt)* is one of love and obedience, complete trust and thoughtfulness, peace and appreciation, steadfastness and active service (Abdallati, 1998). *Allah (swt)* the all-knowing knows what is being concealed or exposed by human being as revealed in the following verse: “*He knows what is in the heavens and on earth; And He knows what ye conceal and what ye reveal: yea Allah knows well the (secrets) of (all) hearts*” (64:4). Thus, ensuring Muslims to be aware that every single action is being closely watched and hence should serve as a reminder for every Muslim to closely abide the *shariah* law to seek *barakah* and ultimately achieving

al-falah. “For those who have Faith and work righteousness. They are companion of the Garden: therein shall they abide (for ever)” (2:82).

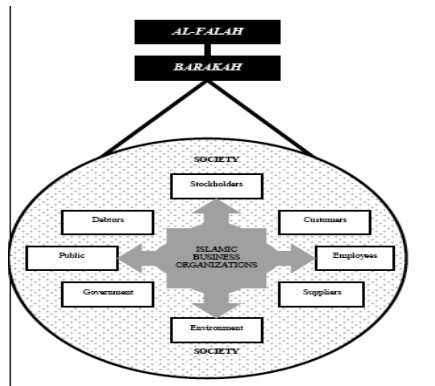
Man’s relationship with other fellow human beings should be inspired by Islamic ethical value such as trust, truthfulness, firmness, fairness, respect of the law, kindness and tolerance. Every Muslim should be socially conscious, provides for his dependents with generosity without extravagance and fulfill their legitimate needs (Abdallati, 1998). In terms of business organizations the management should respect the legitimate *haq* (right) of all parties involved, such as shareholders, employees, suppliers as well as the environment. Muslim action towards others must be in the form *amal salih* (good deeds), which is the key to the attainment of *al-falah* (Hassan, 2001).

God has created this world and other creations for human’s life (see for examples 16:14; 16:114; 35:12) and human are encourage in seeking God’s bounty even during the pilgrimage (2:198). However, human are warned not to do mischief in this world (7:56; 7:85). From the Islamic perspective the deployment and utilization of natural resources for business purpose should be ensured that no damage is done to the environment (Ahmad, 2001). As a *khalifah*, Muslim businessmen are expected to preserve and protect the environment (Izzi Deen, 1990; Beekun, 1997). Haniffa (2001) pointed that there are about 500 verses in the *Qur’an* giving guidance on matters related to the environment and how to deal with it, which indicate Islam have high regards in matters pertaining to the environment preservation and protection.

3. CSR Model: An Islamic Perspective

It can be concluded that from the preceding discussion the main objective of CSR in Islam to promote social justice as well as for the attainment of *al-falah*. Based on the nature of human relationships derived from the concept of *Tawhid* as pointed earlier Islamic business organizations are socially responsible to the society, the environment and ultimately to *Allah (swt)*. The members of society include stockholders, employees, customers, suppliers, government, the community and debtors. The model of CSR for Islamic business organizations is summarized in Figure 2.

Figure 2: CSR Model – An Islamic Perspective.



Stockholders are providers of funds and thus, the legal owners of business organizations (Davis and Blomstrom, 1996). Business organizations are entrusted to manage their fund and therefore, they have the right to know how it is been administered. From the Islamic perspective, business organizations are trustees, and thus, are responsible towards the owners of funds under the concept of *amanah*. According to Yusoff (2002) 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 *syura*, "...who (conduct) their affairs by mutual consultation..." (*Qur'an*, 42:38); matters related to *akhlaq*/ethics in managing the business should be closely observed; should be transparent and accountable with regards to profit and lost 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.

Islam has provided a broad guideline on responsibilities of business organizations arising from employer-employee relationship (see for examples, Alhabshi *et al.*, 1998; Sadeq, 2001; Yusoff, 2002). Business organizations should treat it 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). Business organizations should promote cooperation among the members of the organization in *birr* (good deeds). Recruitment and promotion of employees is done based on merit as advised by the Prophet "*If you give a job to someone who is not knowledgeable, just wait for the destruction*" (Abu Hurairah). Task and scope of works assign to employees should commensurate with their capabilities and qualification as put forward in the *hadith* "*Do not tax the laborer with work which is beyond his power*" (Bukhari). *Syura*, as pointed out earlier is one of the fundamental principles of Islamic business, thus, employees should feel free to voice out opinions and suggestions for the betterment of the organization. Business organizations should observe the principle of *ihsan* (benevolence) in providing benefits to employees such as health, retirement benefit and opportunity to fulfill their spiritual obligation. Employees should be provided with training and development opportunities because Islam encourages seeking of knowledge.

Islam dictates a wider scope of responsibility by business organizations towards customers (Beekun, 1997; Yusoff 2002; Haniffa and Hudaib, 2004). 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). Products or services offered must be *halal*, free from *riba* and should obtain approval from the *Shari'ah* Advisory Board.¹³ Customers have the rights to be assured of efficient and reliable after sale services, full knowledge of details description of products or services to be transacted, to get accurate measures and weight as commanded in the *Qur'an* "*Give just measure and cause no loss (to others by*

fraud). And weight with scales true and upright. And withhold not things justly to men” (26:181-183). More importantly, customers should willingly undertake the transaction.

Islam has provided a clear guideline to be followed in terms of responsibilities arising from business organizations-suppliers relationship (Yusoff, 2002; Beekun, 1997). 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. *Allah (swt)* says: “*O ye who believe! When ye deal with each other in transaction involving future obligations in a fix period of time, reduce them to writing let a scribe write down faithfully as between the parties; let no the scribe refuse to write: as Allah has taught him, so let him write...*” (2:282). Islam strongly commanded that all loans and credits extended to business organizations must be settled as agreed. The Prophet (pbuh) warned a grave punishment for the failure to do so as decreed in his sayings “*One who has debts will be chained in his grave and will not be free until his debts have been settled*” (al-Dailami).

Government plays an important role in setting and establishing policies and incentives for the economic development and progress. Therefore, business organizations are socially responsible towards the government (Davis *et al.*, 1980; Buang, 2000; Yusoff, 2002; Maali *et al.*, 2003). 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. Moreover, business operations and activities are to be carried out in accordance with the stated rules and regulations. Business organization should actively involved in social activities and be supportive of the government’s policies in promoting socially responsible community for the betterment of the society as enjoin in the *Qur’an*: “*O ye who believe! Obey Allah, and obey the Messenger, and those charged with authority among you...*” (4:59).

Islam enjoins the removal of hardship so as to improve the standards of living of the community. Thus, business organizations are expected to contribute towards achieving this objective (Yusoff, 2002; Haniffa and Hudaib, 2004). Among potential contributions of business organizations towards the community include 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 *waqf*.

The concept of brotherhood substantiates that Muslims to be considerate (*ihsan*) to other fellow brothers in facing financial difficulty. Thus, Islam enjoins business organizations to be lenient with debtors facing difficulty in paying their debts (Haniffa, 2002) and is encouraged to write off the debts as charity. *Allah (swt)* says: “*If the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by the way of charity, this is best for you if ye only knew*” (2:280).

Business organizations have to take necessary actions to ensure the environment is preserved and that they do not contribute to the environmental illness (Ibrahim, undated). Islam prohibits utilization of resources that would cause damage or inconvenience to

the environment and society (Ahmad, 2001). 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). Therefore, business organizations should avoid wasteful (*israf*) of resources, facilitate in reducing pollution and assisting in preserving the flora and fauna (Choudhury, 1990; Hamid, 1997; Rahman, 1997; Sopiee and Ali, 2001).

4. Conclusion

Islam is the universal true religion for mankind as revealed in the Holy *Qur'an* (3:19) “*The true religion with Allah is Islam*” and is a complete way of life (*ad-din*) and not a form of private consolation (al-Omar, 1980). Thus, Islam does not recognize the separation of worldly and spiritual matters. Islam meant submission to Allah, master of all worlds. The earth and all its inhabitants were created and are subjugated by Allah. Therefore, Muslims have special relationship with these creations, hence giving rise to CSR as describe in the preceding section.

It should be emphasized that in Islam, business operation is consider to be a social useful function (Rice, 1999). 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) (Ahmad, 2001).

In future empirical study could be conducted to examine the perception of the Muslim managers on the CSR issues raised in the discussion.

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