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**Title:**

**What Does Islam Say About Corporate Social Responsibility (CSR)?**

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## What Does Islam Say About Corporate Social Responsibility (CSR)

### Abstract

*The escalating social and economic problems brought about by globalization have raised new questions as well as expectations about governance, ethical and social responsibilities. Consequently Corporate Social Responsibility (CSR) has emerged and developed rapidly as a field of study. Many Western theoreticians attempt to provide theoretical, moral and ethical groundings for CSR initiatives. Nevertheless such endeavors have received wide criticisms for problems relating to justification, conceptual clarity and possible inconsistency. The endeavors also fail to give adequate ethical guidance to business executives who must decide which courses to pursue and how much commitment to give. The main objective of this paper is to study the concept of CSR, which has gained popularity and wide acceptance amongst Western business community today from an Islamic perspective. This paper provides discussion on the Islamic alternative views on the various theories underpinning the construct of CSR. This view, which prevailed within the ambit of Shari`ah, is very influential in dominating the thinking and behaviour of approximately 1.6 billion Muslims across the globe*

Keywords: *Shari`ah, globalisation, taqwa paradigm, stakeholder, social contract, legitimacy, instrumental.*

### Introduction

Corporate Social Responsibility (hereafter CSR) is now an industry in its own right. In the Western countries today, consultancies firms have sprung up to advise corporations on how to implement CSR and how to let the public know they are doing it. The big auditing and general-practice consulting firms offer clients CSR advice. Most multinational companies also have a senior executive explicitly charged with developing and coordinating the CSR function (The Economist 2005).

Perhaps, the most striking attempt has been the effort by HSBC Holdings which has produced its first CSR Report 2003, disclosing its CSR worldwide commitments and pledging its support to various community and philanthropic sponsorships, focusing mainly on education and the environment, heritage and the arts (Cama 2004, HSBC 2003). In general, CSR is taken to denote corporate activities, beyond profit making, which include protecting the environment, caring for employees, being ethical in trading, and getting involved in the local community. Some of the main issues are: promoting

human rights, community involvement, human resource management, socially responsible investing and social reporting (CSR-Europe 2001).

The emergence of CSR in the West today requires an instructive examination from an Islamic perspective. The concern over social responsibility is also relevant to Islamic enterprise, which regards ethics and social responsibility as enduring principles (Wilson 2001). This paper, therefore aims to delineate the concept of CSR in the light of Islamic perspectives. In doing so, this paper examines the concept of CSR which has been extensively discussed and debated amongst the Western theoreticians and business communities alike. Some of the most commonly discussed theoretical groundings underpinning the practice of CSR in the West are uncovered.

Numerous theoretical and empirical studies have investigated the phenomenon of CSR in the West. Notwithstanding the progress made to date to illuminate the importance of CSR, no serious attempt has been made to study CSR from an Islamic perspective. This study attempts to fill this gap by providing insights into Islamic position on the CSR doctrine.

The paper is arranged as follow: The following section provides an overview of CSR doctrine and answers to why CSR has become such a key issue in contemporary world. Section three reviews various theories underpinning CSR construct, as widely discussed in the Western literature. The Islamic alternative views to the Western theoretical constructs of CSR are further elaborated in section four. While the implications of the Islamic worldview on CSR are offered in section five, the conclusion is presented in the final section.

### **The Emergence of CSR**

CSR is constantly evolving and incorporates different approaches depending on circumstances and needs. The increased interest in CSR doctrine partly reflects a continued discontentment amongst business communities with regards to the restrictive and sometimes misleading worldview entrenched in the self-interest, and secularist and

hedonistic individualism underlying the Western economic worldview (Al-Attas 1991, 1995, 1996, Haneef 1997, Sardar 2003, Steidlmeier 1992). This discontentment is in part exacerbated by increasing business scandals (e.g. frauds, breach of trusts, misrepresentations and other unethical behaviours) involving large corporations such as Barings, Enron, Arthur Anderson, WorldCom and a number of others (Snider, et al. 2003).

Moreover, the CSR started to figure prominently in public debate in the wake of increasing social problems such as poverty, unemployment, race, gender and religious discrimination, and pollution (Boatright 1993). These social problems are natural outcomes of continuous transformation in the market due to economic globalisation, technological revolution as well as demographic and political change (Dunning 2003). In the European markets for example, the socio-economic impact of these changes has not been universally positive, giving rise to stark disparities both within the European countries and between them. In almost every European country, it is possible to find examples of world-class social services and competitive economic activity, alongside growing evidence of social exclusion and environmental deterioration (Rogaly 1999).

The subsequent financial exclusion which is part of the experience of poverty and social exclusion has emerged as a common phenomenon in Western countries. In Britain for example, the causes of financial exclusion lie in the changing market strategies of some private 'profit-oriented' commercial banks, which have withdrawn branches from areas identified with low income and large numbers of people receiving social-security benefits (Rogaly, et al. 1999). The behaviour of commercial banks in cutting their operational costs (e.g. branch closures) in order to preserve their profits has also been prompted by rapid changing structure of the financial services industry characterized by highly competitive markets, driven by deregulation, technological advances and financial globalization (French 2000, Rogaly 1999).

Obviously the disadvantaged neighbourhoods and the poor are suffering more severely from bank-branch closures. Due to changes in the market-driven strategy transpired by

profit-motivated banks, increasing numbers of people are excluded from the financial services. The inability to access credit, savings, money advice, bill-payment facilities and financial literacy further exacerbate poverty and social exclusion amongst the rural and disadvantaged urban households

### ***Drivers behind the Emergence of CSR***

The escalating social and economic problems brought about by globalisation have raised new questions as well as expectations about governance and social responsibilities. Perhaps, the upshot of growth in multinational companies, especially in developing countries, is a shift in the balance of power and responsibility between corporations and the state. With the extensive resources possessed by the giant companies, governments are increasingly looking at companies to address social and economic problems. Multinational companies are seen as the key to development, through the provision of jobs, payment of taxes, transfer of technology and through charitable contributions to education and health care (Lunt 2001). Likewise, more and more companies of all sizes and sectors are recognising the importance of their role in society and the real ‘bottom line’ benefits of adopting proactive approaches to CSR (United Nation 2000). In fact, CSR has taken its stronghold in developed countries, especially amongst many of the United States and European corporations of all sizes across business sectors (O’Brien 2001, Snider, et al. 2003).

CSR literature identifies several driving forces behind the growing trend towards CSR initiatives (CSR Europe 2000, 2002, 2001, Davies 2003, European Union 2001, Johnson 2003, Porter and Kramer 2002, Snider, et al. 2003, Vuontisjarvi 2004). First, there is a growing market pressure whereby customers, employees, or capital markets exert some form of preference, pressure or signal. Social and ethical issues have received increasing public attention or as market signals apart from the traditional price and brand preferences<sup>1</sup>. The growth of the ethical investment industry is another indication of how

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<sup>1</sup> Research carried out in 1998 by MORI showed that in the last 12 months, 17% of those questioned had boycotted a company’s product on ethical grounds, while 19% had chosen a product or service because of a company’s reputation. Again in 1998, 71% of the general public questioned felt that industry and commerce do not pay enough attention to their social responsibilities (see in (Lunt 2001)).

much emphasis people are now apparently placing on the social and ethical behaviour of companies.(EIRIS 2001)

Second, there has been an increasing regulatory pressure ranging from reporting requirements to government regulations that introduce compulsory business standards upon which companies of all sizes have to abide. (Davies 2003) Third, increased power of communications (e.g., internet, electronic media, and others) have driven consumers and pressure groups like social activists, non-governmental organisations (NGOs) and trade unions to scrutinise the activities of companies more effectively and develop strategies that may influence companies to act in a socially responsible way. Fourth, there is a competitive advantage that companies believe they can reap by being socially responsible. They foresee that by communicating effectively about their social, environmental and economic contributions, they can strengthen their brand, enhance their corporate reputation with customers and suppliers, and attract and retain a committed and skilled workforce. Indeed, extant literature asserts that, the commitment towards CSR will in turn lead to better performance in terms of profitability, competitiveness and risk management (Brinkman 2003, Johnson 2003, O'Brien 2001, Porter and Kramer 2002, Snider, et al. 2003, Waddock and Graves 1997).

## **Theories Underpinning CSR**

The discussion so far describes the emergence of CSR that serves as a framework for the role of business in society, setting standards of behaviour to which a company must subscribe to impact society in a positive and a productive manner. The increasing demands of CSR require companies to show their concerns beyond the purely financial, but also to demonstrate an interest and actively participate in initiatives that contribute to society and the natural environment. The sections to follow synthesise some of the major theories that ground and underpin the practice of CSR

### ***The Classical View of CSR***

The most prominent defender of the classical creed regarding business's role in society is Milton Friedman. In Friedman's 1967 book *Capitalism and Freedom* as well as in his

1996 seminal contribution, *The Social Responsibility of Business to Increase Its Profits*, he argues that the view of having corporate officials to extend their social responsibilities that go beyond serving the interests of their stockholders is fundamentally a misconception of the character and nature of a free economy. In such an economy, “*there is one and only one social responsibility of business – to use its resources and to engage in activities designed to increase its profit so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud*” (Friedman 1967).

Indeed, Friedman’s argument reflects the prevailing worldview of neoclassical economics which has long been entrenched in the notion of self-interested economic man. Friedman recognises that many supposedly socially responsible actions are really disguised forms of self-interest (Friedman 1967). Unless the activities which are regarded as ‘socially responsible’, such as donations to the poor, contributions to schools, local charities and the like are compatible to the neoclassical view insofar as corporations receive indirect benefits from the activities, such activities are deemed unacceptable. In other words, according to Friedman, the corporations recognise ‘socially responsible’ activities, if and only if, such activities can be used as an effective means for generating profit and not simply voluntarily philanthropic activities.

Having mentioned this, the proponents of the CSR doctrine depart from the classical theory by essentially broadening the restrictive classical framework of a firm’s social responsibility which will be discussed in the following sections in the light of various theories namely; the social contract, the strategic/instrumental, the legitimacy, and the stakeholder theories. These theories are commonly used to analyse and explain the nature and purpose of CSR as well as to provide answers to the question of ‘what’ and ‘how’ the concept of CSR came about. These theories are imperative to construe a firm’s duties in society as well as to justify the need for the firms in discharging and fulfilling their CSR.

### ***Social Contract Theory***

The central idea of the social contract theory is how to relate a corporation to society. According to this theory, business must act in a responsible manner not only because it is in its commercial interest to do so, but because it is part of how society implicitly expect business to operate (Moir 2001). Furthermore according to social contract paradigm, a business is regarded as a social institution and should join with other social structures like the family, educational system and religious institutions, to help enhance life and meet needs. In other words the corporate social contract theory holds that business and society are equal partners, each enjoying a set of rights and having reciprocal responsibilities. There is a direct and indirect mutual need between business corporations and society. While the former requires continuous support from the latter in terms of resources and sales, the latter might expect the former to operate in a socially responsible manner since the corporations control tremendous amount of economic and productive resources such as technology, finances and labour power which directly or indirectly may affect the society in which it operates (Lantos 2001).

### ***Instrumental Theory***

In an attempt to further legitimise the role of corporations in society, an instrumental theory has developed CSR as a strategic tool to achieve economic objectives. The proponents of this theory assert that the business may choose to support some social programmes for reasons of good image, public relations ploy, firm's competitive advantage or other strategic reasons without jeopardising the interests of their primary stakeholders namely the shareholders. Some of the prominent proponents of strategic CSR theory are Burke and Logsdon (1996); Fombrum, Gardberg et al. (2000) Quester and Thompson (2001); Windsor (2001); Lantos (2001 and 2002); Johnson (2003); Husted (2003); Greenfield (2004); Garriga and Melé (2004) and others, further argue that maintenance of a good corporate reputation through CSR initiatives may add to "*reputational capital*", by which companies may be profitable in the long run since market forces provide financial incentives for perceived socially responsible behaviour



### ***Legitimacy theory***

Legitimacy theory on the other hand states that CSR is a response to the environmental pressures involving social, political and economic forces. According to the theory, organisations look for a balance between their actions and how they are perceived by outsiders and what is thought by society to be appropriate (Deegan 2002, Suchman 1995, Tomer 1994). The perceptions of society towards the organisations are crucial which may affect the survival of the business if the organisation has breached its 'social contract' as discussed before. In the event that society is not satisfied that the business firm is operating in an acceptable, or legitimate manner, then society will effectively revoke the organisation's 'contract' to continue its operations (Davies 1997).

### ***Stakeholder Theory***

A different approach in defining and developing CSR construct is provided by stakeholder theory. Stakeholder theory has in fact become one of the most important theories which are frequently quoted in the CSR literature. According to this approach, paying attention to the needs and rights of all the stakeholders of a business is a useful way of developing socially responsible behaviour by managers (Maignan and Ferrell 2004). A socially responsible organisation is seen as one in which obligations to stakeholders figure prominently in the decision-making of managers within the organisation (Clarkson 1995, Donaldson and Preston 1995, Gibson 2000, Weiss 2003). Stakeholder theory is also an attempt to broaden the perception that there is one dominant interest – that of the shareholder – in public companies.

From the above discussion, there is much overlapping between the theories used to explain CSR and justify it in the business operation. These integrated theories, thereby serve as main justifications for CSR practices in the West. In sum, firms engage in CSR to secure their 'license to operate' (legitimacy), whereby the firms are required to meet the interest and demand of the multiple stakeholder groups and honour both the explicit and implicit contracts with various constituents. As a result of honouring contracts, a company develops a reputation which in turn secures a competitive advantage in the market and ultimately gains long-term profitability and viability of the firm.

### ***Criticism towards Western View of CSR***

As the discussion demonstrates, CSR is an attempt to soften the corporation's image by presenting it as a humane, benevolent and socially responsible. For some this is somehow perceived as a disguise form of untrammelled pursuit of profit and power (The Economist 2005). CSR in a way is merely a means to those ends, a way to ingratiate capitalism to rightly suspecting public. That is why the idea of CSR is relative depending on specific interest and needs of certain groups and circumstances. The reasons are quite obvious especially when most of the theories underpinning the construct of CSR in the West, as discussed earlier, confine themselves to physical reality and human rational argument. These theoretical constructs have their roots in the Western secularist worldview that is based on rational enquiry and philosophical argument (Al-Attas 1993, Hasan 2002, Lutz 2002). Consequently, the Western worldview is relative and everchanging, as it is rooted in empirical observation and theoretical constructs based on it. Following this approach, the Western view on CSR is in general more aligned with the materialistic philosophy than ethical concerns.

For example, according to the theories of CSR based on the social contract, the 'social contract' between businesses and society needs renegotiating as society's preferences change (Donaldson and Dunfee 1994, Tomer 1994). This confirms the relative and transitional nature of CSR in the business sense. Since legitimacy of corporations rests upon the public's perception alone, the corporations inevitable need to alter their behaviour according to how society expects them to behave (Boatright 1993, Humber 2002, Sethi 1979). According to Davies (2003), some companies even argue that they should 'respect' local values even if this means a greater tolerance of low standards and corruption. Thus, science and philosophical arguments which are perceptible by human senses and rational faculty cannot really describe, analyse or even predict human behaviour accurately since human beings do not always behave in a standard manner. They lack concrete and solid normative judgements that may resolve various potential conflicts (Argandona 1998, Phillips 1997, Wijnberg 2000).

This creates a dilemma on the part of business corporations since there is no absolute guiding principle of ethical or moral conduct to social responsibility. Frustrated by this, Humber (2002) even bluntly argues that “*we should abandon the quest to develop a special moral theory for use in business and we should not attempt to impose the use of any moral theory upon business, but rather should allow corporations to determine their moral responsibilities in any way they see fit*” (p.215). Such a statement is rather delusory and tends to exacerbate confusion and moral dilemma to businesses. For example, consider a firm operating in a low standard or corrupted society where bribery is part of the custom. Does that necessitate firms or individuals to condone bribery? Therefore, the firms committed to exercising social responsibility need more specific moral rules or principles to give them reasons for acting in one way rather than another.

Notwithstanding the many attempts to provide theoretical, moral and ethical groundings for CSR, such endeavours have received wide criticisms for problems relating to justification, conceptual clarity and possible inconsistency (Goodpaster 2001, Humber 2002). The endeavours also fail to give adequate ethical guidance to business executives who must decide which courses to pursue and how much commitment to give. This problem is especially acute in view of the fact that all choices involve tradeoffs. For example, a programme to increase minority employment might reduce efficiency, thereby preventing the corporation from fulfilling obligations to shareholders and perhaps its other employees, while raising prices for consumers. Or such a programme might be adopted at the expense of achieving a greater reduction in the amount of pollution, which creates a conflict with another demand that is made on the corporation in the name of social responsibility.

### **Islamic Perspectives on CSR**

In contrast to the Western humanistic theories, the Islamic view of CSR takes a rather holistic approach. It offers an integralistic spiritual view based on the teachings of the *Quran* and the *Sunnah* (saying and practices of the Prophet Muhammad peace be upon him), providing a better alternative philosophical framework for man’s interaction with nature as well as his fellow men (Ahmad 2002). In fact, the moral and ethical principles

derived from divine revelations are more enduring, eternal, and absolute (Ahmad 2002, Ahmad 2003b), thus may serve as better guidelines for corporations when exercising their business and social responsibilities simultaneously.

According to Al-Shātibi (as quoted in Nyazee, 2000), the determination of what is beneficial and what is harmful cannot be left to human reasoning alone (as most of Western theorists had advocated, e.g. the social contract theory and the normative stakeholder theory)<sup>2</sup>. Human reasoning plays a role only in a framework guided by Shari`ah (Nyazee 2000). Islam recognises the role of reason and experience in theorising economic behaviour and business activities only in a manner that embraces the transcendental aspect of human existence. This is because, the inherent limitations of human beings posit a strong reason which requires Divine guidance especially to ascertain what is right and what is wrong<sup>3</sup>. Hence, according to Ahmad (2003), the rational faculties can and should only be used to complement, support and strengthen ethics and morality defined by Shari`ah.

Given the prime importance of Shari`ah in Islamic paradigm, a religious bond assumes a more vital role than the social contract. The religious bond requires man to submit to Shari`ah by committing himself to the contractual obligation and leading life in accordance with high virtue and moral consciousness as stipulated by Shari`ah. The religious bond implies a commitment to moral standards as well as social norms based on Shari`ah. For example, while an individuals' rights in acquiring properties (property rights) are protected, these rights are governed by rules and ethical codes designed to protect the rights of society (Iqbal and Mirakhor 2003). As such, a man is not expected to conduct his economic, social and other worldly activities as a self-centred utility maximiser economic agent, as idealised in neoclassical economics; rather he is expected to balance between the rights and responsibilities of individual and that of society (Chapra 1992). Thus the notion of social responsibility is firmly inscribed in the religious bond.

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<sup>2</sup> His argument is supported by a number of Qur`ānic verses. One of which is Qur`ān 23:71.

<sup>3</sup> For a detailed discussion on the meaning of human existence in Islam, refer to (Ahmad 2003b, Al-Attas 1995, 1996, Hasan 2002).

### ***Shari`ah: Basis for Understanding CSR in Islam***

Islam, as a way of life, incorporates both permanent features and mechanisms for adapting to change. While the fundamentals of Islam such as *aqidah* (belief and faith), *ibadah* (worship) and *akhlaq* (morality and ethics) are not subject to change, their manifestation in secondary areas like economics, business and other worldly activities would require flexibility and development according to time and space (Kamali 1989a). This is embodied in Islamic Shari`ah which is central to the worldview of Islam.

Normally, the Shari`ah is described as 'Islamic Law'. But the boundaries of Shari`ah extend beyond the limited horizons of law (Sardar 2003). Shari`ah is a set of norms, values and laws that go to make up the Islamic way of life (Ahmad 2003). According to one observer, the Shari`ah is the "*epitome of Islamic thought, the most typical manifestation of the Islamic way of life, the core and kernel of Islam itself*" (See in (Schacht 1964)). The main components of Shari`ah are: *aqidah* or belief and faith which is also a foundation of Shari`ah, *akhlaq* or morality and ethics, and *Fiqh* or legal rulings governing the acts of human beings. While the last aspects may change and vary according to time and spaces, the aspects of *aqidah* and *akhlaq* are fixed and eternal for all time and societies. The elements and characteristics of both *aqidah* and *akhlaq* anchor the Islamic way of life on a permanent set of values and principles which make Islam resilient and universal. At the same time, Islamic jurisprudence methodology and frameworks provide mechanisms enabling Islam to adjust to the local, cultural, technological, economic, societal changes taking place in time and space. This makes Islamic Shari`ah flexible, dynamic and relevant in the context of changing times.

### ***Taqwa Paradigm***

Central to the understanding of Shari`ah is *Taqwa*, which literally means God-consciousness. It implies making a deliberate effort to achieve the objectives of Shari`ah in the ways prescribed by Shari`ah itself. It guarantees the social fabric because people then become voluntarily committed to achieving the central goals of human welfare or *falāh*. Furthermore, it plays a unifying role, binding community together and constitutes its source of equality, solidarity and freedom (Kamali 1989b).

A person with a *taqwa*-paradigm is imbued with a strong understanding that their role in this world is to manage and develop the world in accordance with the Shari`ah. This means harmonising and integrating material well-being with moral-spiritual values<sup>4</sup>, which in turn determines their fate in this world and in the Hereafter (Hasan 2002). This paradigm is comprehensive in its essence and implications. It provides a number of values for shaping social life and clarifies the status of human beings and their position in relation to the rest of creation. Furthermore, it defines the nature of human relationship with Allah, with each other and also with the natural environment.

Four important points emerge from this framework:

(1) Human dignity

A human being is not merely supposed to survive at the lowest level of biological ebb, but to enjoy the ‘dignity’, ‘universality’ and ‘good life’ conferred upon them by Shari`ah and to develop all their human potential, spiritually and morally, psychologically and intellectually as well as physically (Osman 2001)<sup>5</sup>. Therefore, since human beings have been created with an exalted and noble nature, they have to utilise their potentials by shouldering responsibility of maintaining and developing the universe (Parvez 2000)<sup>6</sup>. This spiritual acceptance of man’s responsibilities is of fundamental importance in an Islamic economic vision and business philosophy as it implies that human welfare cannot be satisfied by just concentrating on material needs alone.

(2) Free will

Humans have been endowed with intellectual or rational faculties to choose either to be righteous or otherwise (Mawdudi 1989). Naqvi (2003) asserts that the vicegerency role allows free will for human being<sup>7</sup>. The relativity of the freedom that a person

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<sup>4</sup> Al-Qur`ān verses corresponding to this argument are: (51:56); (95:4); (17:70); (6:165); (27:62); (35:39); (2:30)

<sup>5</sup> In the Qur`ān, Islam teaches that Allah breathed His Spirit into human beings: Refer to the Qur`ān 15:28-29)

<sup>6</sup> Refer to Qur`ān (11:61)

<sup>7</sup> In contrast to the Islamic relative free-will, the Western firmly propounds its philosophical justification on absolute freedom as propagated by Immanuel Kant 1724-1804 (whose works had influenced metaphysical

enjoys in Islam means that they will not voluntarily transgress the social limits of individual freedom. The purpose of imposing constraints is not to take away human freedom, rather to prevent humankind from arbitrary self-interested social behaviour. This has a great implication on how human beings conduct their affairs. They can choose either to be selfish or socially responsible; they have the capacity to be good or bad, moral or immoral and each individual's ultimate destiny in the Hereafter is dependent upon how they choose to live (Naqvi 2003).

### (3) Equality and Rights

The concept of vicegerency implies that human beings are equal except on the basis of piety and good character. Hence, human interactions should be based on trust, equity and justice (Parvez 2000). They should not attempt to dominate or wrong each other; instead cooperate and support each other towards fulfilling their role of vicegerency (Omar 1996). Therefore, the right attitude towards human beings is not 'might is right' struggle to serve only one's own 'self-interest', or 'survival of the fittest' but the mutual sacrifice and cooperation to fulfil the basic needs of all, to develop the entire human potential and to enrich human life. In an economic sense, competition is to be encouraged insofar as it is healthy, raises efficiency and helps promote human well-being, the overall objectives of Islam. Sharī'ah guarantees basic property rights to individuals, but these rights must always conform to Sharī'ah rules and ethics as well as to preserve and protect the interest of society's well-being (Iqbal and Mirakhor 2003).

### (4) Trust and responsibility

Many scholars including Mawdudi (1977), Kamali (1989a; 1993), Chapra (2000a), Parvez (2000) and Naqvi (2003), posit that the vicegerency entails a broader understanding of the concept of trust and responsibility of human being. The concept

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thinking in Europe). Kant's argument on absolute freedom and free-will was merely based on the realm of pure reason. He even rejected the idea of religion as an origin of morality. Instead, the realm of pure reason, in which dwells the moral imperative – freedom – was considered to be the medium for understanding religion and the existence of God. In his essay "Natural religion", he wrote that:

*"A clear exposition of morality itself leads to the belief in God. Belief in this philosophic connection means not trust in a revelation, but trust arising from the use of the reason, which springs from the principle of practical morality"* (Choudhury 1997).

of trust, in Islam, is inseparably linked with responsibility, implying that the wealth that is entrusted upon a human being is indeed a responsibility that he will be accounted for in the Hereafter. Thus, an individual's responsibility to discharge his 'trust' by spending his wealth in several limited ways. These include by spending in accordance with the Divine wishes; by not engaging in illegitimate activities such as hoarding which is prohibited especially when there are urgent social needs to be met, by helping the poor which is not a matter of charity but as a matter of acknowledging his responsibility and the poor's right over his wealth, and by spending moderately because prodigality is both a social waste and a cardinal sin (Kamali 1993, 1989a, Kamali 1989b, Mawdudi 1977, Naqvi 2003, Parvez 2000).

In sum, Shari`ah is a system of ethics and values which covers all aspects of human life: personal, social, political, economic and intellectual with its unchanging bearings as well as its major means of adjusting to change (Sardar 2003). It is therefore not possible to separate or isolate Shari`ah from religion, or from the basic beliefs, values and objectives of Islam (Kamali 1989b). It reflects the holistic view of Islam which has to be looked at as a whole and not in parts as Islam is a complete and integrated code of life and its goal encompasses the whole of life, individual and society, in this world and the Hereafter. For instance, the economic or political aspects cannot be studied in isolation from the moral and spiritual aspects and vice versa

### ***Implications of Shari`ah on CSR***

In the light of the preceding discussion of the *Shari`ah*, CSR notion assumes a broader and more holistic significance to the Muslim workers, managers, corporations, customers and society as a whole. Obviously, the concept of CSR in Islam is not merely perceived as a strategic or instrumental initiative which the corporations undertake merely for the sake of enhancing goodwill or boosting long-term financial performance as advocated by Burke and Logsdon (1996); Quester and Thompson (2001); Windsor (2001); Lantos (2001 and 2002); Johnson (2003); Husted (2003); Greenfield (2004); Garriga and Melé (2004); and others.



It is also not just an act to legitimise the existence of corporations in society as advocated by Tomer, 1994; Suchman, 1995, Deegan, 2002, and others within the framework of the legitimacy theory and the social contract theory respectively. Instead, the concept of CSR in Islam encompasses a broader meaning embracing the *taqwa* dimension (God-consciousness) by which corporations as groups of individuals, assume the roles and responsibilities as servants and vicegerents in all situations. By assuming such roles, they are ultimately responsible to God, the Owner of their very selves and the resources they are utilising and managing. This responsibility to God is, in fact, a function of the intrinsic quality of the Muslims' lives as a trust from God (Al-Attas 1996).

A person's relationship with his God should, by right, determine the mode of relationship with his fellow servants and not vice versa (Ahmad 2003b, Hasan 2002). The relationship and responsibility between man and his Master is in fact an actual and real contract stipulated by the so-called Divine contract, not a fictitious or presumed one like the social contract of John Locke (d.1704) or Jean-Jacques Rousseau (d.1778)(Osman 2001). This philosophical foundation of the Islamic society will avoid conflicting interests among members of the society, since everyone has a unity of purpose in his life, that is to serve Allah (Ahmad 2003b). This will inevitably lead to a society whereby every member will cooperate with each other rather than compete, as success in life is to obtain the ultimate happiness (*falāh*).

Furthermore, guided by the proper relationship with God, the person's daily interactions and transactions would be inspired by the values of truthfulness, firmness, fairness, respect for the law, kindness, forbearance, tolerance and uprightness, instead of deceit, haughtiness, class consciousness, ostentation, insubordination, envy, jealousy, backbiting and self-aggrandisement (Hasan 2002). This should naturally be manifested in individuals' involvement in business activities and operations as well as their relationships with all their respective stakeholders. Hence, to fence off social responsibility and declare it to be off-limits to Muslim life would be a shocking violation of the principle of *taqwa* or God-consciousness paradigm, which are the cardinal Islamic

virtues. It would be tantamount to a denial of God himself with all the attending consequences in this world and in the Hereafter.

For a devout Muslim, concern for others and the environment he lives in, is deeply inscribed in the pillars of Islam, binding on every Muslim. Each Muslim is, in fact, considered as a social being who cannot isolate or ignore his role and responsibility to the society or any of his fellow human being such that he is discouraged to isolate himself even for the purpose of worshipping God (Majallah-al-Ahkam 2001).

Therefore, CSR is a moral and religious initiative based on the belief that a company should be “good” regardless of its financial consequences, be it positive or negative. This is not to suggest that Islam is against profit-making. Rather, it is seen as a necessary condition, though not the sole purpose, of their existence (Hasan 1983). The invocation of Shari`ah and the reflection of *taqwa*-paradigm in business imply that the entrepreneur is no longer driven by the principle of profit maximisation alone, but by the pursuit of the ultimate happiness in this life and the Hereafter, whereby he acknowledged his social and moral responsibility for the well-being of his fellowmen (e.g. consumers, employees, shareholders and local communities).

Furthermore, Islamic guidance enshrined by its principle of justice brings about a balance between the rights of individuals and their duties and responsibilities towards others (Parvez 2000), and between self-interest and altruistic values (Naqvi 2003). Islam recognises self-interest as a natural motivating force in all human life. But self-interest has to be linked to the overall concept of goodness and justice<sup>8</sup>. Islam, in fact, lays down a moral framework for effort, spelling out values and disvalues, what is desirable and what is reprehensible from a moral, spiritual and social perspective (Ahmad 2003a, Chapra 2000a). The concept of reward is also broadened by incorporating within it, reward in this world and reward in the Hereafter. This provides a strong and self-

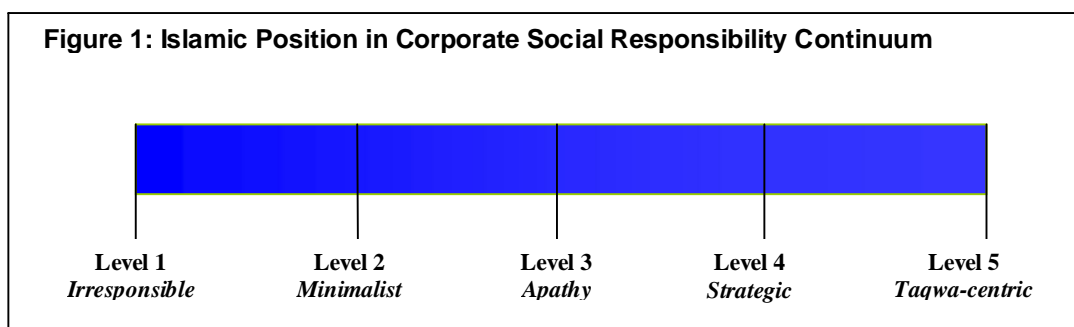
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<sup>8</sup> Individuals, imbued with a sense of justice, are not expected to abandon their individual interests altogether. In other words, altruism will not push a business organisation beyond justice. However, Islam attempts to create a culture that binds individuals and families into a community so that a natural infrastructure for providing support and help to those in need is developed. For details, refer to (Naqvi 2003).

propelling motivation for good and just behaviour, without denying the natural instincts for personal gain (Ahmad 2003a).

Hence, moderation and concern for the needs of others, along with ones own, become an integral part of the Islamic perspective of CSR. Social responsibility is thus, not solely a duty of the government as Friedman, 1967, 1996, Marshall 1993, Humber 2002 and others would have us believe, but of all members of the community including business corporations, particularly the better-off ones. Thus, individuals and corporations are encouraged to sacrifice, give up, and spend their wealth on the poor and the needy of society while expecting reward only from Allah. It is in this sense of duty, responsibility and spirit of sacrifice which Islam nurtures that actually helps in removing self-centredness and covetousness and promotes compassion, caring, co-operation and harmony between people.

To depict the position of Islam with regard to the concept of CSR, it is useful to consider CSR as a continuum ranging from irresponsible attitudes and self-centred to the religious or taqwa-centric. This continuum illustrated in Figure 1, has five fairly distinct levels: irresponsible, minimalist, apathy, strategic and taqwa-centric. The corresponding Table 1 provides brief descriptions for each level in the CSR continuum.



**Table 1: Description of Corporate Social Responsibility Continuum**

<b>Level</b>	<b>Descriptions</b>
<u>Level 1:</u> <b>Irresponsible</b>	This is an extreme situation depicting a firm's behaviour which is irresponsible and even breaches the minimum moral standards required by law. Such actions vary from fraud, misrepresenting accounting statements, false advertising, dumping toxic waste in residential areas, violating employees' protection laws and rights such as health, safety, pay, work hours and other employment issues to damaging environment and abusing other human rights. Many recent scandals and fiascos illustrate this point well, e.g. Enron, World Com, Xerox Corp., Arthur Anderson etc.
<u>Level 2:</u> <b>Minimalist</b>	Firms in this category are complying with the minimum requirement of legislation i.e. discharging its legal responsibility and playing by the ' <i>rules of the games</i> ' as advocated by Friedman (1967, 1996). Beyond the legal compliance, they engage in few or no activities that might be labelled voluntary CSR or more specifically those activities which are considered altruistic or philanthropic by Carroll (1979 and 1991). The only primary objective of such companies is to maximise profits or shareholders' wealth.
<u>Level 3:</u> <b>Apathy</b>	Companies at this level operate within the ambit of the law, at the same time are committed with the mandatory ethical responsibilities i.e. conduct business morally, doing what is right, just and fair, and avoiding harm (Lantos 2002). Their participation in other social responsibility activities like being altruistic and philanthropic is usually minimal, piecemeal, and of mixed motives. In some cases the motive may be profit oriented such as adding employees benefits to attract and retain highly skilled employees; in other cases, it may be personal, such as contributing to an owner's favourite charity (Johnson 2003). Hence, we could label such behaviour as apathy or indifference in the sense that there is no strategic effort on the part of the firm to engage in the CSR activities.
<u>Level 4:</u> <b>Strategic</b>	Companies in this category fulfil their social responsibilities, including the philanthropic or altruistic responsibilities such as making voluntary contributions to society, giving time and money to good work which they perceive can give benefits to the firm in the long run, through positive publicity and goodwill, hence enhancing the companies' reputation and eventually securing its long-term profits. This corresponds to the strategic/instrumental CSR doctrine as advocated by Burke and Logsdon (1996); Quester and Thompson (2001); Windsor (2001); Lantos (2001 and 2002); Johnson (2003); Husted (2003); Greenfield (2004); Garriga and Melé (2004); and others.
<u>Level 5:</u> <b>Taqwa-centric</b>	Companies at this level manifest their social responsibilities based on the belief that a company should be socially responsible regardless the financial consequences, positive or negative. This belief is enshrined in the Islamic worldview, guided by Shar'ah. Their commitment to societies is the manifestation of taqwa-paradigm or God-consciousness, which also reflects their comprehension of the Islamic principles such as vicegerency or trusteeship and justice. This is the highest order moral position representing the Islamic view of CSR.

In sum, based on the figure and table above, the difference between the Islamic and Western approach of CSR lies within the range of level 2 (minimalist) and level 5 (taqwa-centric). Also, within this range, it provides another way of envisioning the spectrum of Western opinions regarding the CSR doctrine. At one end (level 2 – minimalist) are those who assert a firm's only social responsibility is to maximise profit while obeying the law and the 'rules of the game' (Friedman 1967, 1996). As the continuum departs from level-2, the CSR doctrine emerges in varying degrees.

On the one hand there are some who simply want corporations to be more sensitive to the societal impact of their decisions; along virtually any line they wish (level 3 - apathy) (Goodpaster 2001, Humber 2002). There are also people who view CSR as a business strategic engagement, boosting reputation and goodwill which in turn leads to enhanced financial performance (Burke and Logsdon 1996, Garriga and Melé 2004, Greenfield 2004, Husted and Allen 2000). On the other end of the spectrum, are those who view corporations as social institutions playing a social advocacy role by using their vast resources for social benefits. According to this view, firms must actively involve in programmes that can ameliorate various social ills, such as by providing employment opportunities for everyone, improving the environment, and promoting worldwide justice, even if it costs the shareholders' money. This is also known as the altruistic view of CSR (Lantos 2002).

However this altruistic view of CSR fails to give adequate ethical guidance to managers who must decide which causes to pursue and how much to commit to them. For example, providing financial services to the rural areas means increasing the level of financial inclusion of one segment of society; however, a dilemma may arise when financial firms need to close some branches (e.g. in the rural areas) to secure profits and remain sustainable in the business.

Alternatively, the Islamic position rests at the extreme right of the CSR continuum depicting the level of God-consciousness or taqwa paradigm which relates to the belief that God created men to be vicegerents and hence provides a radically different view of business. The Islamic vicegerent principle requires businesses and wealthy individuals to see themselves as stewards or caretakers, not just of shareholders' financial resources, but also of society's economic resources, holding their property in trust for the benefit of society as a whole and ultimately attaining the blessing from God (Who is the ultimate Owner of all the resources)<sup>9</sup>. Thus, it is not enough to look at the bottom line of financial statements to determine how well a company is doing. The firm must look beyond the

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<sup>9</sup> For Quranic verses corresponding to these arguments, refer to Qur'ān, 2:254, 2:3; 3:180; 16:53; 24:33; 57:7.

bottom line and the traditional standard of business performance measurement and look at other factors, such as how the firm treats its employees, whether or not it uses its resources in an environmentally sound way, and whether or not its products really make life better for those who use them. The firm must always operate in a good and socially responsible manner regardless of the financial consequences. By so doing the firm will be blessed by God and will achieve the ultimate happiness in this world as well as in the hereafter<sup>10</sup>. Otherwise, the firm's action is considered as a deviation from the principles of Sharī'ah which is tantamount to God's punishment in the hereafter.

## **Conclusion**

This paper provides Islamic alternative views to the Western theoretical constructs of CSR. The Islamic worldview stands in stark contrast to many Western philosophical constructs and other theoretical justifications of CSR since it takes social responsibility in a holistic view that ultimately grounds Muslim moral and ethical judgements to Islamic principles of Shari`ah. The Islamic worldview as discussed within the context of the God-consciousness (*Taqwa*) paradigm serves as a foundation for understanding the position of Islam on CSR.

To conclude, the concept of CSR is not a subject alien to Islam, as it is deeply inscribed in Shari`ah. Islam, via the concept of vicegerency (*khalifah*) envisages business firms as stewards or caretakers, not just of shareholders' financial resources, but also of society's economic resources, holding their property in trust for the benefit of society as a whole and ultimately attaining the blessing from God. This implies an ineluctable need for firms to instil good CSR practices in their business conducts embracing issues such as environmental practices, occupational safety, philanthropic contributions, and socially beneficial and harmless activities and initiatives. Put differently, God-consciousness paradigm inspires a firm to always operate in a good and socially responsible manner

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<sup>10</sup> Al-Mawdudi (1989) argues that if a man who has in view success and failure in this world alone, will only be concerned with immediate benefits and ills. He will not be prepared to undertake any good act if he has no hope of gaining thereby some worldly interest, nor he will be keen to avoid any wrong act if it is not injurious to his interests in this world (Mawdudi 1989).

regardless the financial consequences. Failure to do so tantamount to betrayal to God's will, with all the attending consequences in this world and in the hereafter.

Therefore, any firm that claims to base its operation on Shari`ah principles should naturally practise CSR as it enshrines the true spirit of Islam. Indeed, Islamic enterprise should endeavour to be the epicentre in the business galaxy of promoting good social responsibility practices. In this respect, an assimilation of social responsibility and other Islamic ideals in fulfilling customers' expectations deserves utmost consideration as it represents a unique and fundamental difference between Islamic and conventional firms, and potentially able to propel Islamic corporations to greater heights in securing customers' recognition and acceptance.

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