

# **Corporate Social Responsibility in Islam**



**Jawed Akhtar Mohammed**  
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# **Corporate Social Responsibility in Islam**

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**Jawed Akhtar Mohammed**  
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Faculty of Business  
New Zealand

In the name of Allah – Most Gracious, Most Merciful



“My Lord! Increase me in knowledge”  
[Qur'an Sura Ta Ha-20: 114]

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## ABBREVIATIONS

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CSR	Corporate Social Responsibility.
PBUH	Peace and Blessings be upon him – generally mentioned along with the holy Prophet Mohammed’s name.
TME	The Most Exalted – generally mentioned with Allah’s name.

### **Attestation of Authorship**

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I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree or diploma of a university or other institution of higher learning, except where due acknowledgement is made in the acknowledgements.

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Jawed Akhtar Mohammed

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## Abstract

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Notions of corporate social responsibility (CSR) have been suggested to be consistent with an Islamic view of society. Indeed, values and principles that have been central to Islam since the time of the holy Prophet Mohammed (Peace and Blessings be upon him) may serve as a foundation for notions of corporate social responsibility (CSR) similar to those in the West.

Much contemporary discussion of CSR, however, has not recognized this. These discussions have largely been based on a Western orientation informed by Western religious values. Moreover, CSR has evolved literally in response to particular issues or problems that are specific to businesses in a Western context. This led to a lack of a comprehensive global context within which a wider perspective of CSR should be positioned. On the other hand, the notion of social responsibility and justice has been an integral part of Islamic society for nearly 14 centuries. However, the Islamic literature remains scattered, fragmented and lacks a coherent framework that would allow such a concept in Islam to be systematized. While Islamic philosophy is rich in precepts pertinent to CSR, these precepts have not yet been formally synthesized to present a systematic model with an explicit notion of CSR in Islam.

Thus, there exists a gap in both the Western and Islamic literature. This was fruitfully exploited in this study to advance the understanding of the concept of CSR in a wider cultural and religious setting. This study explored this new territory and presented a conceptual framework of CSR in Islam based on *Shariah* (the Islamic legal and social system) derived from the holy *Qur'an* and *Hadith*. It provided both, a counterpart and a comparable base in the study of various issues relevant to CSR and international business from a much wider global perspective. It also provided significant insights into Islamic jurisprudence (*Fiqh*) regarding business practice.

The consistency of the conceptual framework of CSR in Islam with contemporary business practices was explored using a survey of Islamic banks located in different parts of the world. The survey revealed that many current practices of Islamic banks mirror the expected behaviours or practices generated in the Islamic framework. In fact, it was possible to discern that the organizations surveyed implement the Islamic code of conduct rather extensively. Against this background, a consistency with the framework of CSR in Islam presented in this study was identified. Such consistency, however, was driven by legal requirements in adherence to *Shariah* rather than an explicit understanding or pursuit of CSR. The lack of a systematic framework with explicit notions of CSR from an Islamic perspective caused hindrance in implementing CSR practices in Islamic organizations. It follows that this study was a modest step towards filling this lacuna by presenting a systematic and coherent framework of CSR in Islam.

## Chapter 1 Introduction

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Corporate social responsibility (CSR) is an increasingly important part of the international business environment. The past thirty years have seen a radical change in the relationship between business and society. Key drivers of this change have been the globalization of trade, the increased size and influence of corporations, the repositioning of governments and the rise in strategic importance of stakeholder relationships, knowledge and brand reputation.

Much contemporary discussion of corporate social responsibility, however, has largely been based on a Western orientation focused on European and American cultures that are informed by Western value system. What has remained unexplored is the possibility of other cultural and religious contexts, giving rise to similar notions of CSR in practice. The lack of consideration of alternative conceptions of CSR in other cultural and religious settings creates a gap in the literature. The absence of any opportunity for comparative studies of the issues pertinent to CSR further exacerbates this gap.

This study seeks to explore this territory by focusing on a major world religion - Islam, and how it influences business and socio-economic life in a way similar to the conventional understanding of CSR. Notions of corporate social responsibility will be suggested to be consistent with an Islamic view of society in this thesis. Indeed, values and principles that have been central to Islam since the time of the holy Prophet Mohammed (PBUH) 14 centuries ago may serve as a foundation for notions of corporate social responsibility similar to the West. For example, the holy *Qur'an* has enjoined that the economic success of business will flourish if it is underpinned by morality and businesses are reminded to “... *give full measure when you measure, and weigh with a balance that is true...*” (Qur'an, Sura Al Israa-17: 35). Thus, the convergence between Islam's focus on morality and the economic orientation of business is very apparent.

The concept of social responsibility and justice has been the foundation of an Islamic society since its advent in the seventh century. The holy Prophet Mohammed (PBUH) exemplified the principles of social responsibility and justice embedded in the holy *Qur'an* through his practices (*Sunnah*) to establish a social system that was just and harmonious. These principles that permeate every aspect of a Muslim's life, also governs Islamic business and commercial practices and has been present for the last fourteen centuries.

However, a large part of Islamic literature is either theologically oriented or superficial and inadequate in its assessment of Islamic business principles and remains to date, fragmented and spread over a variety of sources. These existing literatures on Islamic economics fail to provide a systematic model or framework of business practice similar to the notion of CSR despite the existence of a rich vein of the concept of social responsibility and justice in Islam. This study seeks to fill these gaps.

### **1.1 Background of this Study**

The field of corporate social responsibility (CSR) has grown exponentially in the last decade. More companies than ever before are engaged in serious efforts to define and integrate CSR into all aspects of their business, with their experiences being bolstered by a growing body of evidence that CSR has a positive impact on business economic performance. All of this is taking place against the backdrop of an ever more complex global economy with continuing economic, social and environmental inequities.

Today, many corporations are revising quite dramatically the conception of their social responsibilities. The emerging global market, decentralized management responsibilities, moral disasters, scandals, and global value systems are some of the factors driving these changes in the corporate world.

Globalization has further, brought the need to work across value systems shaped by very different cultures and faith traditions. As a consequence, common understandings of the social responsibilities and rights of employees, whether management or labour, as well as the ethical contours of relations with suppliers, clients, owners and shareholders and other corporate shareholders, can no longer be taken for granted in business. Hence, this study will also address such weaknesses in the discussion of CSR.

The current interest of corporations in CSR issues grows out of these changes. Increasingly both the general public and corporate leaders are debating the social responsibilities of corporations and their employees. Building and maintaining an ethical corporate culture is increasingly recognized to be a central responsibility of corporate governance. The impact of commerce on society nowadays is very big besides its impact on economic growth and development of a country. Therefore, there is an increasing demand by society for businesses to be more responsible and contribute to the betterment of society everywhere they operate.

Thus, many studies and discussions about corporate social responsibility (CSR) have been conducted in the past few decades. Many courses also have been organized in order to create awareness among the corporations about their responsibility towards society in which they operate.

However, the very extensive literature in the theory and practice of CSR that has been growing over the past few years is still, for the most part, heavily focused on European and American cultures that are influenced and informed by Western cultural values and precepts (see Birch, 2003; Moon, 2002; Ragelbrugge, 1999; Singh-Sengupta, 2003). Thus, much of the discussion of CSR so far has been from a Western perspective (for instance, Beauchamp & Bowie, 1997; Bowen, 1953; Carroll, 1979, 1991, 1993, 1999, 2004; Davis, 1960, 1973; Donaldson & Dunfee, 1994; Donaldson & Preston, 1995;

Drucker, 1984; Freeman, 1984; Post, Lawrence & Weber, 2002; Waddock & Smith, 2000; Wartick & Cochran, 1985; Wood, 1991, to name a few).

Birch and Moon (2004) further note that in the 90 papers published in the first 12 volumes of *The Journal of Corporate Citizenship*, for example, only seven (7) are directly focused on an Asian country (Cone, 2003; Chakraborty, 2001; Iu and Batten, 2001; Kimberly and Raghunath, 2001; Mohan, 2001; Sutherland Rahman, 2002; and Utting, 2003). The remainder are written from a European and American perspective.

In surfing the waves of international business, one has to face cultural differences as a powerful force. These affect attitudes and behaviours towards social legitimacy and ethics. There is no single formula or template for CSR worldwide, and programmes and policies in CSR can differ considerably for company-specific and culture-specific reasons. It is important to recognize that considerable differences exist between different countries and that stakeholder expectations and demands are culturally specific and require CSR solutions that reflect that difference and cultural specificity.

Some of the main thinking in CSR that has taken place worldwide in recent years has been developed in Europe and America (Welford, 2005) and more so, CSR has moved to a prominent place in both the business and policy agenda in these regions. The public policy sphere where CSR is now being discussed and debated has catalyzed a great deal of this activity and national governments have also been active. For instance, the UK has a Minister for Corporate Social Responsibility (in the Department of Trade and Industry), while requirements for social and environmental reporting have been established in France and are being considered in the UK, and Denmark has made efforts to promote cross-sectoral collaboration. The Third Summit of Americas in Quebec City in 2001 also included a plan of action, calling

governments and private enterprise to foster corporate social responsibility (Cragg, 2001).

The European Commission has placed CSR at the core of Europe's competition strategy and 2005 had been designated the European year of CSR. The EU has also issued a Green paper on the subject and a subsequent communication outlining the Commission's definition of CSR and steps that companies, governments and civil society can undertake to refine their commitments to CSR. This has led to the creation of a European Multi-stakeholder Forum on CSR that will recommend to the Commission how to more fully embed CSR in policy and practice. European companies have also increased their commitment to CSR, and have participated prominently in the World Summit on Sustainable Development and the UN Global Compact that is bringing together companies and UN agencies to address CSR.

The Interfaith Center on Corporate Responsibility (ICCR) has published "Principles for Global Corporate Responsibility", which is not a standard but a collective distillation of the issues of concern to religious-oriented institutional investors developed by groups in the US, Canada, and the UK. The ICCR is comprised of more than 275 religious institutions that use their investments to promote social change. These religious groups are mainly from Judeo-Christian background and do not include other religions of the world.

Motivated by the recent attention given to CSR, various organizations have proposed and formulated international CSR standards, norms, corporate codes of conduct and guidelines. Some of the major international standards and norms on CSR include, for example, the Green Paper 366: Promoting a European framework for corporate social responsibility by the European Commission; the Caux Round Table Principles for Business, an international group of business leaders from Europe, the United States and Japan that meets once in a year at Caux, near Lake Lemman, Switzerland to exchange opinions

on corporate ethics and behaviour from a global perspective; the OECD Guidelines for Multinational Enterprises and Guidelines of the Global Reporting Initiative (GRI), which is further complemented by Accountability-AA1000 and Social Accountability 8000. All these however are based upon Western principles and values.

Increased interest in CSR has been paralleled by substantial growth in the number of external standards produced for business by governmental, non-governmental, advocacy and other types of organizations. These various standards and norms are designed to support, measure, assist in implementation, and enhance accountability for corporate performance on CSR issues. The majority of CSR-related standards produced in recent years ask companies to voluntarily develop and implement policies and practices and commit to specific performance standards on various CSR issues based on social, environmental and economic performance.

The following table that lists some of the most well-known international business principles pertaining to corporate social responsibility suggest that all of them have their origin either in Europe or in America. The code of conduct prescribed by those principles are obviously motivated and influenced by the European and American cultural values both in their business and society. This is further reflected by the origin of most of the multinational (MNCs) and transnational corporations (TNCs) in the Western world, for which these principles are mainly developed. Although the characteristics of the principles on CSR appear to be Western oriented, they are significant and useful for the purpose of the welfare of the society.



Table 1. Most well-known international business principles pertaining to CSR

<b>Governmental and Intergovernmental Initiatives</b>	<b>Place &amp; Date</b>	<b>Main Issues</b>
Ethical Trading Initiative, UK Govt. and NGOs	London, September 1998	Labour practices essentially on trade links
EU Principles	Brussels, 2001; revised 2002	Multi-stakeholder
ILO Tripartite Declaration on TNCs	Geneva, 1977; revised 2000	Employment
OECD Guidelines	Paris, 1976; revised 2000	Multi-stakeholder including triple bottom line and employment
UN Global Compact	New York; July 2000	Human rights, labour and environment
UNEP Financial Statement	Paris, 1992; revised 1997	Environment
US Model Business Practices	Washington DC, 1996	Health and safety, labour, environment, corruption, community, and law.
Voluntary Principles on Security and Human Rights, US & UK Govt.	Washington DC and London, December 2000	Security and human rights for extractive and energy industries
<b>Company - led Initiatives</b>	<b>Place &amp; Date</b>	<b>Main Issues</b>
Caux Principles	Minnesota, 1994	Multi-stakeholder
Fair labour Association (FLA), US	California, November 1998	Labour practices
Global Sullivan Principles	USA, November 1999	Mainly external stakeholders
ICC Business Charter for Sus. Dev.	Brussels, 1991	Environment, health and safety
World Economic Forum	Davos/Geneva, 2002	Corporate governance and socio-economic
<b>NGO - led Initiatives</b>	<b>Place &amp; Date</b>	<b>Main Issues</b>
Accountability-AA1000	London, 1999; revised 2002	Social and ethical, stakeholder model
Amnesty International HR guide	London, September 1998	Human rights and security
CERES Principles	USA, 1989	Environmental ethical standards
Global Reporting Initiative (GRI)	Boston, 1997; revised 2002	Multi-stakeholder, triple bottom line
ICFTU Code of Labour Practice	Brussels/Geneva, 1997	Labour and trade union issues
Interfaith Center Global Codes	New York, 1995	Collective issues of CSR on religious basis
Q-Res Codes of Ethics	Italy, 1999	Multi-stakeholder
Social Accountability 8000	London, 1998; revised 2002	Says CSR, but mainly labour
Sigma Sustainability Principles	London, 1999	Multi-stakeholder biased on environment
Social Venture Network Standards	Brussels, 1999	CSR multi-stakeholder, corporate govern.
<b>Governance Initiatives</b>	<b>Place</b>	<b>Main Issues</b>
Bosch report	Australia	Management
General Motors Board Guidelines	Detroit	Management
King Report, Commonwealth	London	Management and ethics
Merged Code Recommendations	Belgium/Brussels	Management
OECD Principles/Millstein Report	Paris	Management
Turnbull Report	London, UK	Management
World Bank Corporate Governance Forum	Washington DC	Management and finance

Source: Hopkins, M (2004). Corporate Social Responsibility: an issues paper, Working Paper No. 27, Annex III, World Commission on Social Dimensions of Globalization, International Labour Office (ILO), Geneva.

The preceding table illustrates that almost all the most well-known international business principles pertaining to CSR have been developed in either Europe or America, influenced by their cultural value system. Criticism is heard to the effect that certain standards are universally applied to corporate behaviour even though cultural and social background and level of economic development differ from one country to another. In many cases, Western cultural and religious values exert a strong influence over existing international standards and norms.

This presupposes that there is no notion of CSR in other societies apart from the West. The characteristics and prescription of the principles on CSR in the current discussion that is Western centred concept, has precluded or ignored the possibility of CSR arising on the basis of other cultural and religious values. So, that gives rise to a “clash of cultures”. But maybe other societies do have a notion of CSR arising from different cultural bases. If the MNCs and TNCs care for the society they operate in, it would be appropriate to consider and include their perspectives and value system in doing business in those societies. Criteria and standards on corporate behaviour cannot be defined uniquely in Western cultural terms.

The question arises as to whether the principles of CSR in the current discussion include the views, concepts and perspectives of societies in other parts of the world other than Europe and America. For instance, Middle East, South Asia (the Indian subcontinent), Greater China-including Hong Kong and Taiwan and South East Asia has diverse cultural and religious background in which these Western based MNCs and TNCs operate (e.g. Islam, Buddhism, Hinduism, Confucianism, Taoism, etc). The principles of CSR developed in the western society will not reap fruitful outcome when imposed on these regions with very different cultural and religious background.

Given this blind spot, the possibility of existence of a similar notion of CSR arising from different value system must be very interesting and worthwhile issue to explore. This study aims to pursue this exploration with reference to a major world religion – Islam, using the study of Islamic ethical system and Islamic commerce, particularly Islamic banking.

Through this study, theological and philosophical discussions of the relation between Islam and business will be taken a step further. This is important due to the rapid expansion of commercial life in Islamic countries today. Worldwide, the development of finance and investments based on Islamic principles is gaining growing acceptance, not only among Muslims, but also amongst non-Muslims, for the principles of justice and equity propagated by Islam are universally applicable to all humankind (Greenlees, 2005).

Islam is the most rapidly growing religion in the world. With over one and a half billion Muslims, placing it second only to Christianity in the number of followers, interest in Islam in the West has been steadily increasing as has the number of Muslims. A combination of political, economic and demographic factors, including and not limited to the impact of the Iranian revolution, a growing Muslim middle class, the rise of the Asian Tigers, increased deregulation and the oil shocks of the 1970s have stimulated the development of Islamic commerce. All of these factors underscore the significance of this study explaining the many aspects of this universal religion.

Although Islamic commerce is as old as the religion itself, modern Islamic commerce began in the early 1970s at the intersection of two important developments in the Muslim world: the rise of pan-Islamism and the oil boom. The 1967 Six Day war marked the end of the secular pan-Arab Nasserite movement and the start of the regional dominance of Saudi Arabia under a pan-Islamic banner (Mortimer, 1982). With the start of the Organization of the Islamic Countries (OIC) movement in 1970, the idea of updating traditional

Islamic commerce, particularly Islamic banking soon became part of the agenda. It was something that had preoccupied Islamic scholars for years.

Islamic financial institutions began to emerge and spread throughout the Muslim world. In 1974 the OIC summit in Lahore voted, after oil prices quadrupled, to create the inter-governmental Islamic Development Bank (IDB). Based in Jeddah, this became the cornerstone of a new banking system inspired by Islamic religious principles. In 1975 Dubai Islamic Bank – the first modern, non-governmental Islamic bank was opened. In 1979 Pakistan became the first country to embark on a full Islamization of its banking sector; Sudan and Iran followed suit in 1983 (Warde, 2000).

Islamic finance is now a confident part of the new global world of venture capital, ethical investment and profit and loss sharing. The assets of Islamic financial institutions worldwide stand at over \$260 billion US dollars, which is more than a 40-fold increase since 1983, while the number of Islamic Banks have increased from 176 in 1997 to 267 in 2004 operating in 75 countries throughout the world (Bahrain Monetary Agency, 2004).

Islamic financing increasingly is a market segment of interest of Western banks too. For instance, in October 1996 Citibank initiated the Citi Islamic Investment Bank, Bahrain a wholly owned subsidiary of Citicorp (Suleiman, 2000). Most of the large Western financial institutions, following the example of Citibank, have their own Islamic subsidiaries or at the very least, Islamic windows or products aimed at their Islamic clientele. As proof of the number of companies now operating within the Islamic fold – and not just from the Muslim world – there is now even a Dow Jones Islamic Market Index in USA.

Few people would probably question the statement that the Islamic faith is one of the least understood religions in the West. This lack of understanding may be attributed to two main reasons. First, the miniscule amount of accurate,

reliable and comprehensive information, which exists concerning Islam in the West. Apart from basic information about Islam in some specialized monographs and textbooks not readily accessible to the average reader, most of the information available is either too elementary or fragmentary. What is usually missing from the picture is information that presents Islam as a humane and compassionate religion, a religion encompassing the entirety of life and rightfully described as a full and complete way of life.

Second, is the existence of a tremendous amount of distorted and biased information about Islam to which the English-speaking person is constantly and persistently exposed. The current politicization of Islam in a negative manner in the media has unfairly overshadowed the great emphasis the religion places on human relations, kindness and harmony among members of the human race, which has resonance with the current notion of CSR.

Some of the drastic and unfair generalizations and labels due to this politicisation of Islam have had the negative effect of prejudicing the average individual who might otherwise approach the religion with an open mind. They have also, unfortunately, overshadowed and obscured many of the obvious truths about Islam, its essence and message. Anyone who manages to lay aside these stereotypes and approach Islam with a sense of fairness and open-mindedness would see the true essence and spirit of this religion. It would then become evident that the message of Islam provides a reasonable and viable solution for the problems that appear to afflict humanity, including social responsibilities of corporations.

While Islamic philosophy is rich in precepts pertinent to corporate social responsibility, these precepts have not yet been synthesized in a formal way to present a systematic model with an explicit notion of CSR in Islam. Further, despite the existence of this rich philosophical foundation, previous studies on

business practices in Islam have remained superficial and inadequate, and have not addressed the issue of corporate social responsibility in Islam.

There have been numerous studies on Islamic business practices and behaviour in Islamic markets. These studies however, fail to grasp the rich vein of material showing features similar to the concept of social responsibility in the West. On the contrary, these studies superficially focus on the general ethical and some legal and financial issues and thus, lack in-depth study of the Islamic philosophy of socio-economic norms. These studies are neither adequate nor specific in describing the Islamic philosophy in business, which champions the cause of social responsibility and justice.

The need to advance discussions further is also important in the light of the weak nature of previous studies examining business and economy in Islamic societies. For even though some studies exist in the West, introducing the reader to certain aspects of the Islamic faith, there are very few studies that present a detailed description of Islamic business practices. In recent decades, a number of scholars and economists have completed some academic research on the politico-economic aspects of Islam. Today these publications are the only sources in this field, but are neither adequate nor specific enough. A large portion of the writing in this field includes only the historical, theological, and cultural issues with an emphasis on the ritual and moral aspects of Muslim life during the past centuries.

It is difficult, and some might suggest inappropriate, to generalize about business practices across the ethnically diverse countries of the Islamic world which are at very different stages of development. The oil exporting states of the Arabian Peninsula, for example, are amongst the worlds richest in terms of per capita gross domestic product, with the figures for Kuwait, the United Arab Emirates and Qatar of \$23,350, \$22,470, and \$15,140 respectively. States such as Malaysia and Turkey are classified as newly industrializing

countries, with a wide range of modern manufacturing industries, and per capita incomes of \$3,160 and \$2,120 respectively. At the other end of the spectrum are some of the poorest countries in the world such as Bangladesh, Somalia and Afghanistan, with primarily subsistence economies based on traditional agriculture and per capita GDP figures of \$220 and below (World Bank, 2003:18-19). To assume that a homogenous set of Islamic business practices prevails in such differing environments is clearly questionable.

Yet there are some similarities in business practices that must owe to Islam, especially given the strength of religious belief, and the widespread familiarity with the teaching of the *Qur'an* and the *Shariah* religious law. On the basis of such commonalities, a variety of studies have been conducted around various aspects of commercial life in Islamic countries. The following will review some of the prominent studies by scholars on Islamic business practices and highlight their shortcomings.

The most notable study of Islamic business practice to date is by Trevor Gambling and Rifaat Karim (1991). Their book – *Business and Accounting Ethics in Islam* provides an Islamic perspective of Western accounting theory and develops an Islamic theory of financial management focusing on issues such as business risk. They emphasize on the risk factors of the market and how Islamic investors may find it prudent to diversify by building a portfolio of at least seven or more stocks, so that they minimize the possibility of substantial losses given their family and social responsibilities (pp.123-124).

Although Gambling and Karim (1991) mention the fundamental principles of Islamic business to be '*Khilafah*' and '*Shura*', the first being the personal responsibility on all Muslims for the resources entrusted to them, and the second being the obligation on resource owners to hear the grievances of those affected by what is done in their name (pp.68-69), which is essentially part of the social responsibility issues, they do not address them adequately or more

in-depth. Instead, they turn the attention towards management decision-making and how investors should take an active interest in the businesses where they have placed funds. Gambling and Karim (1991) in their work on Islamic business practice have focused on the financial and legal aspects of Islamic business entities, e.g. partnership liabilities and duties and the responsibility of investors from an accounting perspective, which are absolutely legitimate issues but fail to advance the discussion on Islamic morality or more specifically social responsibility and justice in Islam.

Trade appears to take on particular forms through the Islamic World, the 'souk' or 'bazaar' (marketplace) mentality prevails in business. There have been a number of detailed anthropological studies of 'bazaar' economies, most notably the study by Clifford Geertz (1978) of markets in Morocco. Geertz found that 'bazaars' could be efficient, especially when goods were heterogeneous and there were high search costs. In such circumstances, the ritual of bargaining could result in buyers and sellers establishing close relations, and building up trust in each other. Although both had different interests, the seller to extract as high a price as possible, and the buyer to pay as little as possible, the human contact of the bargaining process created a mutual bond of trust, which was essential for the transaction to be carried out (Geertz, 1978). The study looks at the traditional business practices in Islamic society but fails to capture the principles such as the element of trust derived from the *Shariah* motivating such behaviours and thus further elaborate on the system based on the moral values according to the *Qur'an* and *Hadith*.

The study of market behaviour of Islamic businesses was advanced by Wilson (1985) where he observed that loyalty seems especially valued in Muslim business circles, which extends to relationships between the business and its clients, dealings with other businesses, and relationships between employer and employee. In retail markets, Muslim customers seldom shop around but frequent the same establishment and get to know the people they are dealing



with well. At the wholesale level, retailers stay loyal to their customary suppliers, and do not try to take over their function. There is a much greater respect for different specializations, which is why vertically integrated businesses are rare in the Islamic World.

Wilson (1985) further contends that the lack of cutthroat competition means there are few take-overs or mergers in Muslim countries, but this may also explain why most business remain small scale. As many businesses are family concerns, they are handed down from generation to generation; most of the relatively small number of new business starts being the result of family splits or divisions. There are few business failures, not only reflecting the small number of new starts, but also the fact that banks are reluctant to instigate bankruptcy proceedings given the prohibition of '*riba*' or interest under the *Shariah*. Wilson (1985) correctly notes these Islamic business practices but does not study them in-depth to understand the foundation for such behaviour. Had he looked further in details, he would have found the principles of loyalty and social cohesion well embedded in the Islamic precepts commanded by the holy *Qur'an*.

In another work on Arab executives, Farid (1980) found that employers tend to have a paternalistic attitude towards their employees in Muslim societies, and there is much less willingness to delegate or work as part of a team. Despite the authoritarian structures in many Muslim businesses, employees are usually much more secure than their Western counterparts, as there is less of hire-and-fire attitude. In times of recession, employees are willing to accept wage cuts, enabling the company to maintain its work force. There is solidarity not only amongst employees, but also with the head of the business, whose word will be trusted. When wage cuts occur, the employees know that the head of the business will also be getting less and is sharing the burden. Levels of remuneration, of course, vary, and indeed inequalities can often be greater than in the West, but there is a feeling that the employees and the

employer of the Muslim business are all equal in a more fundamental sense, as disparities in possessions make no difference when they all pray together at the mosque and submit themselves to one and only Allah (TME). Again, this study superficially touches upon the social responsibility of Muslim towards each other in a business environment, as both an employer and an employee. The concept of 'Unity' (in prayers) is mentioned but stops short of advancing the philosophy of Unity from an Islamic perspective, which enjoins the twin responsibility of trusteeship and social justice.

S.N.H. Naqvi (1981) elaborates the concept of 'Unity' in his influential investigation of the basic principles of Islamic economic and social philosophy according to the *Qur'an* and *Hadith*. Naqvi (1981) outlines the integrated, balanced and realistic view of humans' nature and their social role exclusive to an Islamic society. He also identifies the four ethical axioms that are considered by many Muslims to be key pointers to the unique perspective of Islam in all matters of human life. The four axioms: *Unity, Equilibrium, Free Will and Responsibility* together form a logical system that serve as a point of departure for making logical deductions with respect to Islamic rules of social and economic behaviour. However, his work is very theologically oriented and strictly in a religious context. He does not interpret the philosophies in a wider socio-economic environment and thus, leaves a gap in its implications for Islamic businesses.

Beekun (1997) advances the work by Naqvi (1981) on the four ethical axioms he identified as the basic philosophy of Islamic social structure. Beekun's (1997) work on "*Islamic Business Ethics*" is commendable and takes the discussion on social issues further in his study. The majority of his work involves the ethical issues and theories of business. He discusses the factors influencing ethical behaviour in Islam. In doing so, he considers the legal, organizational and individual factors. He further gets inclined in his work towards the alternative ethical systems to Islam, discussing relativism,

utilitarianism, and universalism. Although he discusses the application of the four ethical axioms identified by Naqvi (1981) in an Islamic business environment, they are very elementary and lack in-depth analysis and discussion of the issues involved pertinent to social responsibility and justice in Islam. His work leaves scope to further extend the discussion and contribute further to the knowledge on CSR.

There are number of other studies on Islamic business practices interpreting the *Shariah* and discussing various moral and ethical philosophies in an Islamic perspective (e.g. Ahmad, 1991; Al Ghazzali, n.d.; Al Kaysi, 1989; Al-Qaradawi, 2002; Badawi, 2000; Ibn Taymiyah, 1992; Jabir al'Alwani, 1995; Khan, 1992; Kotb, 1980; Majid, 1991; Maudoodi, 1977; Umaruddin, 1991; Zarqa, 1976, etc.). All of these however, deal with the issues from a religious perspective within a theological context and fail to adapt and promulgate their application in a wider socio-economic environment.

It must be mentioned here, moreover, that the great majority of authentic and primary works by Muslim scholars are written in Arabic and Urdu. Efforts to present those primary works to the English reader through the process of translation have been rather slow. It is, therefore, felt that more authentic and primary works need to be made accessible to the English reader. This will have the advantage of making it possible to trace the information available about Islam to its primary sources, i.e. the holy *Qur'an* and the *Hadith*.

Furthermore, this study will have the added advantage of enabling English-speaking readers interested in Islam to become more knowledgeable on the more complex areas of the religion, particularly Islamic jurisprudence in regards to business activities (*Fiqh ul Muamalaat*). This, in turn, may help counteract and refute the inaccuracies and distortions that exist in relation to Islam in the West. This study will consequently further advance discussions of

this practice-related literature on Islamic societies, adding to the knowledge of Islamic business practices.

The current CSR discussion is as significant for what it does not include as for what it does. However, similar notions of CSR in other parts of the world with varied cultural and religious backgrounds are not part of the CSR mainstream. Most significantly for the theme of this thesis, CSR has not explicitly dealt with the religious and cultural impacts of business activities in non-Western countries, for instance, influence of religion like Islam on businesses in the Middle East or South-East Asia with predominantly Muslim populations.

In recognition of this lacuna, this study seeks to take a step towards redressing the current imbalance of attention and bringing some greater focus to the CSR discussion from a wider cultural and religious perspective with reference to a major world religion – Islam and its influence on the socio-economic life of the Muslim world.

## **1.2 Aim of this Study**

The aim of this study is to explore notions of Islamic philosophy pertaining to social responsibility and justice, which may give rise to a conceptual framework of corporate social responsibility (CSR) that has resonance with the prevailing notion of CSR. This study will be based on Islamic religious values and beliefs according to *Shariah*, which is the sacred law of Islam derived from the holy *Qur'an* (divine book of Islam), *Hadith* (sayings and deeds of the holy Prophet Mohammed [PBUH]), *Ijma* (consensus), *Qiyas* (reasoning by analogy), and *Maslaha* (public interest).

It is expected that the elaboration of an Islamic conceptual framework will address some of the shortcomings in both the Western as well as Islamic literature. As pointed out before, the current discussion of CSR is strongly Western oriented and informed by Western social, religious and cultural values and lacks consideration of other religious and cultural perspectives in the wider global context.

Further, the existing literatures on Islamic business practices are highly superficial and inadequate in addressing the issues of social responsibility and justice in Islam. The majority of Islamic literature is moreover theologically oriented overlooking the application of Islamic principles of social responsibility and justice in an international business context.

The Islamic conceptual framework will further be explored to ascertain the extent to which this notion of CSR is implemented in practice through the study of Islamic banks situated around the world. This study will contribute to knowledge base on the contemporary international business environment. It will further create a counterpart to the prevailing notion of CSR and thus, provide a wider perspective of discussion in the field.

### **1.3 Structure of this Thesis**

This thesis is structured into seven chapters. The first chapter introduces the study with a background to this thesis outlining the gaps in both the Western as well as Islamic literature on corporate social responsibility. This section of the introductory chapter discusses the emergence of CSR and its characteristics that are western oriented ignoring the possibility of similar notions of CSR existing in other cultural or religious value systems. The emergence of Islamic commerce and the gap in the Islamic literature on business practices is further discussed. The aim of the thesis is also contained in this chapter.

The second chapter reviews the concept of corporate social responsibility in its current context and demonstrates that the current discussion of CSR is very much a Western concept, based on Western value systems. The current discussion precludes, ignores or at the very least, discounts the possibility of CSR existing or arising from other cultural or religious value systems around the world. Given this blind spot, the possibility of the existence of a similar notion of CSR in a different cultural or religious value system must be a very interesting issue to explore.

The third chapter begins this task by exploring the concept of social responsibility and justice from an Islamic perspective and also the principles of business ethics in Islam that show several elements within Islam that are consistent with the Western notion of CSR. However, these elements remain scattered, incoherent and unsystematic and thus, this thesis explores the Islamic philosophy pertaining to CSR that will elaborate a higher-order framework to organize and systemize these elements, thereby constructing a more coherent statement of social responsibility that may be considered as a counterpart to the prevailing notion of CSR, which is Western oriented.

The fourth chapter carries this discussion of a framework of CSR in Islam. The four axioms that form the core values of an Islamic philosophy are introduced and discussed in this chapter. These axiomatic principles form the basis of the conceptual framework of Islamic perspective of CSR and will be discussed in detail outlining the propositions and expectations from businesses arising out of them.

The extent to which the Islamic framework of CSR is implemented in practice will be explored in the following chapters using a study of Islamic banks situated around the world. Before considering this in great detail, the fifth chapter will give some background of Islamic banking and the survey procedure of the study conducted.

The sixth chapter illustrates CSR in Islam through a detailed discussion of the results of a survey. The extent to which Islamic banks implement the Islamic principles pertaining to CSR is explored using the Islamic framework generated in chapter four. Although an explicit framework of CSR does not exist for Islamic organizations, nonetheless, the results indicate that Islamic banks, in adherence to the *Shariah* principles, are naturally bound to be socially responsible. Notions of CSR bearing resonance with the Western concept are present as an undercurrent in the operations of all Islamic banks.

The seventh and final chapter concludes the study by revisiting the origins of the study, its principal aims and objectives and major findings. The scope for future research direction is outlined.

## **Chapter 2     Corporate Social Responsibility: A Review of the Concept**

### **2.1     Introduction**

The preceding chapter introduced this study with some background on the current notions of corporate social responsibility. This, it was suggested, remains a Western oriented concept informed by a Western value system and lacks a wider perspective from other cultural and religious settings. The main international business principles pertaining to CSR have been developed in Europe and America reflecting their cultural background.

This chapter will further substantiate this contention by reviewing some of the key theoretical concepts in the current discussion of CSR, which reflect Western paradigm. The review suggests that CSR has evolved literally in response to particular issues or problems that are specific to businesses in a Western context. Therefore, quite apart from being a concept that has a Western value system as a base, CSR, in practice, has also evolved in response to issues that have arisen in the West. Hence, there are actually two aspects to its Western specificity. One is based on values and another is based on its application or practice.

Before reviewing the key theoretical concepts, the definition of CSR in the current literature will be discussed in the context of this study. The evolution of CSR movement since its dawn in the early twentieth century until the current debate will be discussed to elaborate the historical context of CSR. This will be followed by the discussion of some key theoretical issues.



## **2.2 Definition of Corporate Social Responsibility**

The concept of corporate social responsibility is an elusive one; it is abstract and may mean a number of different things. Over the past 50 years, business ethicists and management theorists have devoted much effort to thinking through the business-society relationship (for example, Beauchamp and Bowie, 1997; Bowen, 1953; Carroll and Buchholtz, 2000; Carroll, 1979, 1991, 1993; Davis, 1960, 1973; Donaldson and Dunfee, 1994; Donaldson and Preston, 1995; Drucker, 1984; Freeman, 1984; Waddock and Smith, 2000; Wartick and Cochran, 1985; Wood, 1991). These ethicists developed models that could be modified or compromised to suit evolving social interests.

In general there are six major ethical models that now dominate ethical thinking leading to the concept of corporate social responsibility. These can be summarized as following:

1. **Relativism** – Ethical decisions are made on the basis of self-interest and needs, excluding any interaction with or input from the outside.
2. **Utilitarianism** – Ethical decisions are made on the basis of calculating costs and benefits. Utilitarianism is generally considered outcome oriented. Whatever is good for majority is considered ethical.
3. **Universalism** – Ethical decisions stress on the intention of the decision or action (duty). Everyone under similar circumstances should reach similar decisions.
4. **Rights** – Ethical decisions stress a single value - liberty, and are based on individual rights (individual entitlement) ensuring freedom of choice.

5. **Distributive Justice** – Ethical decisions revolve around a single value – justice. To be considered ethical, decisions and actions should ensure an equitable distribution of wealth and benefits (fairness and equality).
6. **Eternal Law** – Ethical decisions are made on the basis of eternal law, which is revealed in scripture.

These ethical models provide a background to the concept of corporate social responsibility. There have been efforts to conceptualise ethical behaviour in terms of business practices of corporations in society. Much of this work has specifically focused on theorizing what responsibility corporations have to society and what the consequences of related actions or inactions are.

This work, however, has not led to a consensus in thinking about corporate social responsibility; in fact, large differences exist among business scholars with regard to whom corporations have responsibilities to and what these responsibilities are. Some have argued that a corporation has no responsibility beyond legally making a profit for the shareholders or owners (Friedman, 1970). Yet others have argued that a corporation has numerous responsibilities to all those who have a stake in a corporation and that these responsibilities derive from ethical principles and moral values (e.g. Carroll, 1993, 1999; Donaldson and Preston, 1995; Freeman, 1984).

Standing between these extremes is Frederick (1986), who lists some normative expectations that can be placed on a commercial activity in whatever social context – those of corporate responsibility, responsiveness to social expectations and fiscal rectitude – these providing a matrix of the expectations that can be seen to bear on a firm's relationship with its social context. One of the most notable scholars of current CSR literature Archie B. Carroll (1979) introduced the four characteristics in the definition of CSR:

- (i) Economic responsibility, indicating that a corporation has a responsibility to maximize profit;
- (ii) Legal responsibility suggests that corporations must remain within the law;
- (iii) Ethical responsibility, beholding corporations to behave in an ethical way, even though it is not required by law; and
- (iv) Discretionary responsibility, focusing on the corporations' activities of donations to community – this fourth responsibility was modified by Carroll (2004) and renamed 'Philanthropy'.

These definitions recognize that an action by one party, in this case, the corporation, does have an impact on others. A corporation is not detached from society. Instead, it is a mechanism to provide for societal wants and needs (United Nations Industrial Development Organization, 2002).

Moreover, running through most definitions of the concept is the idea that a corporation must be mindful of its role within society and the social effects of its business practices. For example, Eels and Walton (1974), focusing on the very broad social effects of corporations, defined the social responsibility of corporations in the following way:

*“In its broadest sense, corporate social responsibility represents a concern with the needs and goals of society, which goes beyond the merely economic. Insofar as the business system as it exists today can only survive in an effectively functioning free society, the corporate social responsibility movement represents a broad concern with the business's role in supporting and improving that social order”* (Eels and Walton, 1974:247).

Eilbert and Parket (1973) defined the term using an analogy that makes salient the more tangible social effects of a corporation:

*“Perhaps the best way to understand social responsibility is to think of it as ‘good neighbourliness.’ The concept involves two phases. On one hand, it means not doing things that spoil the neighbourhood. On the other, it may be expressed as the voluntary assumption of the obligation to help solve neighbourhood problems” (Eilbert and Paret, 1973:7).*

A number of other scholars have also included in their definition of corporate responsibility the obligation of corporations to be profitable (e.g. Carroll, 1979, 1999; Drucker, 1984; Goodpaster, 1991). For example, in 1971 the Committee for Economic Development explored corporations’ relationship to society and identified three levels of social responsibility.

The first level included the clear-cut basic responsibilities for the efficient execution of the economic function – products, jobs and economic growth. The second level encompasses responsibility to exercise this economic function with a sensitive awareness of changing social values and priorities: for example, with respect to environmental conservation; hiring and relations with employees; and more rigorous expectations of customers for information, fair treatment and protection from injury. The final and third level outlines newly emerging and still amorphous responsibilities that business should assume to become more broadly involved in actively improving the social environment (Committee for Economic Development, 1971:15).

In reviewing the many works on corporate social responsibility, it is clear that the concept presumes that corporations are social institutions that are tightly integrated into the social fabric. That is, the concept is founded on the understanding that corporations are socially, economically and politically interconnected with many other social institutions and groups of people, such that the business practices and activities of corporations are perceived to directly or indirectly affect the well-being of many others, and ultimately, the viability of the culture.

A concept that reflects an understanding of corporations being an integral part of larger society and helped to define more clearly the social responsibilities of corporations was Freeman's (1984) *stakeholder theory*. Stakeholder theory is both a paradigm for understanding the business-society relationship and a business management strategy that stresses the importance of corporate social responsibility. Stakeholder theory posits that a corporation is composed of stakeholders or "*persons or groups that have, or claim ownership, rights or interests in a corporation and its activities, past, present and future*" (Clarkson, 1995: 106). That is, it acknowledges that a corporation's business practices may affect the well-being of many groups of people. The most often noted stakeholders include employees, customers, shareholders, suppliers, local communities and the general public, but many other specific groups and institutions can be identified (Beauchamp and Bowie, 1997; Carroll, 1993).

Starting from this acknowledgement of the various stakeholders associated with a corporation, many stakeholder theorists argue that a corporation has an ethical responsibility not to harm and even improve the well-being of its stakeholders. Most often, the principles of utilitarianism, human rights, Kant's categorical imperative, or principles of justice are invoked to make this argument (e.g. Donaldson and Preston, 1995; Freeman, 1984, 1997; and Goodpaster, 1991).

Defining CSR to reflect the presence of multiple corporate stakeholders, Post, Lawrence and Weber (2002: 58) state:

*"A corporation should be held accountable for any of its action that affects people, their communities, and their environment".*

Carroll and Buchholtz (2000: 28) rely on a definition that echoes the Post, Lawrence and Weber (2002) definition: "*CSR is seriously considering the impact of the company's actions on society*".

Another related definition explains that:

*“The idea of social responsibility requires the individual to consider his (or her) acts in terms of a whole social system, and holds him (or her) responsible for the effects of his (or her) acts anywhere in that system”*

(Carroll and Buchholtz, 2000: 28).

To summarize: the concept of corporate social responsibility abstractly refers to the expectations that society has of business not to harm, and also to contribute positively to the well being of others. Some of the main scholarly sources and thinkers of the last fifty years or so, who have been influential in the corporate social responsibility discussion, have emerged from Western countries. These definitions largely form the basis of current discussions in the field (see Maignan, Ferrel and Hult, 2001; and David, Kline and Dai, 2005) and have distinct moral values based on the foundations of Western society. This becomes clearer if one traces the historical origins of the concept of CSR.

### **2.3 Historical Context of Corporate Social Responsibility**

Corporate social responsibility (CSR) is not a new issue. Cone (2003) in his study of corporate citizenship, contends that CSR has been the subject of debate for centuries, from well before Mandeville's (1705) free-market treatise *“The Fable of the Bees”* and Adam Smith's (1776) *“Wealth of Nations”* up to the 20<sup>th</sup> century's various ideologies, from Communism, Fascism, to the advocates of free markets. Within what could be called mainstream economics, two significant schools of thought are represented by Keynes (1926) and Friedman (1970); the current literature also includes work by Vinten (1994) and Henderson (2001). However, the social responsibility of business was not widely considered a significant problem from Adam Smith's time to the Great Depression of 1930s in the United States.

The view that a business can have obligations that extend beyond economic roles is not new in many respects. Throughout the recorded history the roles of organizations producing goods and services for the marketplace were frequently linked with and include political, social and/or military roles. For example, throughout the early revolutionary stages of company development in England, organizations such as the Hudson Bay Company and the East India Company received broad mandates. There was a public policy understanding that corporations were to help achieve societal objectives such as the exploration of colonial territory, setting up settlements, providing transportation services, developing bank and financial services, etc. (Hopkins, 2004).

During the nineteenth century, the corporation as a business form of organization evolved rapidly in the US. It took on a commercial form that spelled out responsibilities of the board of directors and management to shareholders (i.e. fiduciary duty). In this later evolutionary form, public policy frequently addressed specific social domains such as health and safety for workers, consumer protection, labour practices, environmental protection, etc. (Jenkins, 2005).

Thus, corporations responded to social responsibilities because they were obligated to comply with the law and public policy. They also responded voluntarily to market demands that reflected consumer moral values and social tastes. CSR emerged and continues to be a key business management, marketing and accounting concern in the US, Europe, Canada and other nations. By the mid-point of the twentieth century, corporate social responsibility was being discussed in the US and Europe by business management experts and being considered in business literature.

### **2.3.1 Dawn of the CSR Movement**

Scholars generally view the 1920s as the dawn of corporate social responsibility (Walton 1967; Heald 1970; Mitchell 1989; and Post, Lawrence and Weber 2002). Hay and Gray (1977) however, move the origin of CSR to the nineteenth and early twentieth century, viewing CSR in three phases. Profit maximization was the first among the three phases and the corporation's social responsibility was to increase wealth. Reflecting the attitudes and needs of American society at the time, "*economic growth and accumulation of wealth were primary national goals*" (Hay and Gray, 1977:9). This view of CSR is echoed by Milton Friedman (1970) in his now classic work, "*The Social Responsibility of Business is to increase its Profits*".

During the 1920s business leaders in America began to involve their companies in reaching out to the community and providing benefits to employees. During this era, business owners saw the problems of society and the problems of labour as something they should use their company's power and wealth to correct. For example, unemployment had been viewed simply as a factor of changes in supply and demand and was corrected automatically by the 'invisible hand'. In the 1920s, however, many business leaders believed that they had a responsibility to provide workers with sufficient wages and security. This urge of social responsibility by business leaders was strongly influenced by their religious beliefs, well embedded in American society.

Post, Lawrence and Weber (2002) suggest the concept of corporate social responsibility evolved from the actions of wealthy American business leaders like Andrew Carnegie, John Rockefeller and Henry Ford who were guided by the twin ideas of charity and stewardship. As an act of charity, wealthier members of society should care for less fortunate members of society through philanthropic giving. As stewards, business executives with control over vast resources should direct a company's activities for public benefit. These moral



values were again largely derived from the religious background of American society at the time.

Carnegie demonstrated his understanding of corporate social responsibility through his benefactions to libraries and universities through his Foundation. Rockefeller, for example, endowed the University of Chicago in 1896 and later gave \$53,000,000 to help in education of Southern Negroes (Walton, 1967: 42). In 1914, Ford directly influenced the lives of his employees by raising their wages from \$2.34 to \$5.00 per day and in 1919 began a profit-sharing system by selling investment certificates to workers. Instead of treating workers as a cost factor in production, Ford viewed social responsibility as embracing workers in a way that no comparable large industrialist had done up to that point (Walton, 1967: 44).

By the 1930s, businessmen established pension plans, employee stock ownership and life insurance schemes, unemployment funds, limitations on hours, and high wages. They built houses, churches, schools and libraries, provided medical and legal services, and gave charity (Mitchell, 1989: 3). These notions of social responsibility must have its roots somewhere. The strong influence of religion on American society at the time followed by the practices of religious moral values and philosophy by individuals prompted these notions of social responsibility within the corporate sector.

Kuhn and Shriver (1991) point out that during the early twentieth century calls for corporate social responsibility also came from outside the corporation in the form of unions. Although employees are now viewed as internal voices of the corporation, at that time, managers and courts treated unions as third-party outsiders who endangered corporate property (Kuhn and Shriver, 1991: 41). Describing unions as “early models of corporate constituencies”, Kuhn and Shriver (1991) describe union efforts of railroad and mining employees to

criticize and change corporate policy. Even in its earliest form CSR had the dual character of originating both from inside and outside the corporation.

Hay and Gray (1977) describe this time in the development of CSR as trusteeship when the corporation recognized that multiple groups such as employees, customers, stockowners and creditors held competing claims. A manager became a trustee for more than just the owner's concerns when making decisions for the corporation. Diffusion of corporate ownership through stock contributed to this situation as no single owner or even small group of owners controlled the corporation. Multiple stakeholders such as unions and government had an impact on corporations and influenced the corporation to address demands of multiple groups. This was partly influenced by the Christian notion of brotherhood in society.

Mitchell (1989) however, argues that corporate social responsibility is an outgrowth of the modern corporation's need for legitimacy in society. In a political analysis of economic power, Mitchell (1989) promotes the idea that CSR by managers is a hedge grown to keep big government out of big business. If corporations provide some measure of social benefits, it keeps government from stepping forward to protect the public from business practices viewed as self-serving and having a negative impact on society. In essence, he argues that CSR is the way corporations have defended their power in twentieth-century America (Mitchell, 1989:154).

The current wave of interest in CSR dates from the early 1990s (Henderson, 2001). In many ways it is only the latest manifestation of a longstanding debate over the relationship between business and society. Since the rise of the corporation in its modern form in the late nineteenth century, this debate has ebbed and flowed, through periods when corporations extend their control and periods in which society attempts to regulate the growth of corporate power

and corporations attempt to re-establish their legitimacy in the face of public criticism.

The consolidation of large corporations in the United States in the late nineteenth century led to the anti-trust movement and the regulation of utilities (Richter, 2001). Demands that corporate power be reined in led major US companies to emphasize corporate responsibility as they 'sought to demonstrate that corporations could be good without the coercive push of governments and unions' (Bakan, 2004: 18).

The Great Depression of the 1930s contributed to a second wave of regulation, exemplified by Roosevelt's New Deal in the United States and the nationalizations and regulations of the post-war Labour government in the United Kingdom. At the international level, the proposed International Trade Organization's draft charter, signed at Havana in 1948, included measures that addressed international investment, employment standards and restrictive business practices; but it was never ratified by the United States (Richter, 2001).

### **2.3.2 CSR Movement from 1960s onward**

A third period of increased efforts to regulate corporate activity occurred from the mid-1960s to the late 1970s. Within the United States the main focus was on consumer and environmental protection. The activities of US corporations abroad also came under scrutiny with the ITT scandal in Chile in the early 1970s, when it was revealed that the US Company had been involved in attempting to overthrow the democratically elected Popular Unity government led by Salvador Allende. A number of bribery cases also resulted in the US Congress passing the Foreign Corrupt Practices Act in 1977 (Richter, 2001).

Until the 1970s, despite regulation and legislation, business continued largely along an autonomous path, ignoring its critics and listening only to shareholders, to whom it felt somewhat responsible. But the decade of the 1960s was to be a period of enlightenment for many. The Korean War had ended indecisively and the new conflicts in South-East Asia seemed destined to follow the same pattern. Citizens were distrustful of government, business and the undefined 'establishment'. Consumers had grown suspicious of adulterants in their food and dangerous defects in the products they bought. People were becoming aware of the fragile nature of the earth's ecology while simultaneously becoming more cognizant of human rights (Jenkins, 2005).

In the developing world, the late 1960s and 1970s saw increased efforts to regulate the activities of foreign investors. For the first time regulation of corporate activity became an international issue, with numerous attempts within the UN to establish codes of conduct for the activity of transnational corporations (TNCs). These international codes were seen as supporting the efforts of developing-country governments to regulate TNCs at the national level. They emerged from a perception that the growth of giant international companies posed a threat to the sovereignty of small, poor states and represented an attempt to redress the balance between the growing power of TNCs and the vulnerable nation-state, particularly in the southern hemisphere. Corporations and governments in the northern hemisphere (Europe and America) resisted global attempts at mandatory regulation of TNC activities, proposing self-regulation as an alternative (Jenkins, 2001).

The International Chamber of Commerce, representing major TNCs, launched its Guidelines for International Investment in 1972, and a number of large US companies also adopted codes of conduct, with a particular emphasis on curtailing questionable payments, during the 1970s (Jenkins, 1999).

Thus, since the 1930s, and increasingly since the 1960s, social responsibility has become an important issue not only for business but also in the theory and practice of law, politics and economics. Merrick Dodd of Harvard Law School and Adolf Berle of Columbia Law School debated the issue of corporate trusteeship in the early 1930s, where Dodd argued that corporations served a social service, as well as a profit making function, a view repudiated by Berle (Hopkins, 2004). This debate simmered for the next 50 years before it once again sprang into prominence in the 1980s in the wake of the frenzy atmosphere of numerous hostile takeovers.

### **2.3.3 CSR Movement from 1980s to date**

The 1980s saw a significant shift away from state intervention in both developed and developing countries. The increased mobility of capital enabled TNCs to exploit regulatory differences between states by relocating (or threatening to relocate) their production facilities in countries with more favourable regimes, a phenomenon that has been referred to as ‘regulatory arbitrage’ (Dicken, 2004: 277). These trends were reflected in developing country policies towards TNCs, which shifted dramatically from regulation of their activities to intense competition to attract foreign direct investment.

By the early 1980s, trade between the 350 largest TNCs contributed about 40 per cent of global trade. In the early 2000s, TNCs account for 70 per cent of the world’s trade. Foreign direct investment from TNCs doubled between the early 1980s and the early 1990s, from US \$910 billion to US \$1.7 trillion (Hopkins, 2004: 4). Because of their often immense size, decisions about the location of investments, production and technology by TNCs not only influence the distribution of factor endowments, notably of capital, skilled labour and knowledge between the countries in which they run their activities, but also assume crucial importance for their political and social consequences.

By the 1990s, the heyday of neo-liberal policies had passed in the northern hemisphere, and corporations started to attract criticism for their global environmental and labour practices. The growth of global 'value chains', in which buyers from northern hemisphere control a web of suppliers in the South, led to calls for them to take responsibility not only for aspects such as quality and delivery dates but also for working conditions and environmental impacts. At the same time the increased significance of brands and corporate reputation made leading companies particularly vulnerable to bad publicity. The developments in global communications that have enabled corporations to control production activities on an ever-widening scale have also facilitated the international transmission of information about working conditions in their overseas suppliers, contributing to increased public awareness and facilitating campaigning activities (Spar, 1998).

Once more, companies responded to bad publicity surrounding their activities by espousing corporate social responsibility. Many American and European firms sourcing consumer goods from developing countries adopted supplier codes of conduct following scandals about corporate practices. Levi Strauss was one of the first companies to do so, adopting its Business Partner Terms of Engagement in 1992 after its overseas contractors were accused of treating their workers as indentured slaves. The mid-1990s saw further revelations concerning the use of sweatshops and child labour by leading US brands such as Gap, Kathie Lee Gifford, Nike, Disney and others. Activists' campaigns on these issues, highlighting the practices of market leaders, led to the year 1995/6 being described as 'the Year of the Sweatshop' in the United States. Similarly, in the extractive industries Shell became a CSR leader following the controversies over Brent Spar and its operations in Nigeria (Klein, 2000).

The efforts at state regulation of TNCs in the 1970s and the international codes of conduct designed to support these efforts emanated for the most part from the southern hemisphere, and particularly from southern governments.

However, in the 1990s most southern governments were still following neo-liberal policies, and so, in contrast to the 1970s, the 1990s saw CSR initiatives coming largely from the North (Europe and America). Here international trade unions, development NGOs, human rights organizations and environmental groups have all contributed to the demand for greater social responsibility (Bendall, 2004).

The fact that NGOs, trade unions, consumers and shareholders in the Western countries today have largely driven CSR has important implications for the issues, which have taken centre stage. The concerns of such groups tend to be environmental impacts, working conditions and human rights from a Western perspective only and lack consideration of other perspectives. Companies are concerned largely with the potential damage to their reputations that may accrue as a result of media exposure of corporate malpractice. Together, these priorities lead to a tendency to see CSR in negative terms, in other words, with an emphasis on things that companies should not do, such as employing children or violating human rights, rather than on seeking positive development outcomes, such as helping to eradicate poverty.

This concern for the social responsibility of business has even accelerated since the fall of the Berlin Wall, which symbolized the collapse of communism and more importantly the onset of turbo-charged globalization. Further acceleration has occurred in the past few years. Global concerns have been given an additional edge by the awful events of September 11, 2001 and consequent wars in Afghanistan and Iraq causing social disharmony around the world as well as affecting the global economy.

The historical context of CSR clearly traces its root to Europe and America in the current discussion by the scholars and lacks a broader vision into other parts of the world that may have aspect of CSR similar to the Western one. A further dig into some of the key theoretical issues and concepts of CSR in the current discussion will point to its Western orientation.

## **2.4 Some Key Theoretical Issues and Concepts of CSR**

Corporations across the globe have enormous power. Their decisions directly or indirectly shape the social fabric of the country and society they operate in – politically, economically and socially. But with such power, come social responsibilities. Davis (1960), an early thinker on modern business and society relationships, clearly articulated the relationship between social power and social responsibility. Davis reasoned that corporations with greater social power have more social responsibilities, and those corporations that do not meet their social responsibilities risk losing the power, a principle referred to as the '*Iron Law of Responsibility*' (Rawls, 1971).

In the early part of this 21<sup>st</sup> century, the world witnessed a surprising number of corporations losing a great deal of power for not heeding the assertion Davis made over 40 years ago. The energy provider-Enron, accounting firm-Arthur Anderson, the stock market broker – Merrill Lynch, communications provider-WorldCom and lifestyle advisor-Martha Stewart, have all fallen recently due to allegations of social irresponsibility.

The last thirty years have seen a radical change in the private sector's relationship both with the state and civil society. Globalization, deregulation, privatisation and a redrawing of the lines between state and market have changed the basis on which private enterprise is expected to contribute to the public good. Meanwhile, the relationship between companies and civil society has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society.

Globalization and associated growth in competition; increased size and influence of companies; retrenchment or repositioning of government and its roles; war of talent; companies competing for expertise; growth of global civil society activism and increased importance of intangible assets has been some



of the reasons why corporate social responsibility is becoming so important (Boston College Centre for Corporate Community Relations, 2000).

These dynamics combined with the macro changes have led to the emergence of a new approach to corporate social responsibility (CSR), with companies recognizing that improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term success. Increasingly, high profile companies are implementing CSR processes such as a public commitment to standards, community investment, continuous improvement, stakeholder engagement and corporate reporting on social and environmental performance.

There are increased calls upon corporations to be environmentally and socially responsible; to be accountable and transparent; to be inclusive; to be ethical and stable and to be more equitable and sustainable. This is evidenced by the increasing calls by government, civil society, business groups and global agencies and some businesses themselves upon the corporate sector (discussed in chapter-1, sec-1.1, also see Table.1). Some companies, throughout history, particularly those that have survived long-term have always engaged with these issues, in one way or another, but many, especially given the excesses of business behaviour in the 1980s, have not.

As George Soros (2000) says in his book *Open Society: Reforming Global Capitalism*, the main failing of global capitalism is that it is too one-sided: it puts too much emphasis on the pursuit of profit and economic success and neglects social and political considerations (Soros, 2000:179). Thurow (1966) suggested a solution for capitalism to shift from a 'consumption ideology to a builder's ideology' (Thurow, 1966:315). Increasingly, a significant part of that building ideology is to widen the definition of capitalism from being economic-specific, to include the social and environmental, in order to build a sustainable society. In business terms, a move needs to be made beyond a

concentration on a single, economic bottom line, to a multiple bottom lines, including, in particular, the social and environmental, which is now often called '*The Triple Bottom Line*' (Birch, 2003).

John Elkington (1997), in his *Cannibals with Forks: The Triple Bottom Line of Twentieth Century Business*, develops the concept of triple bottom line in terms of economic prosperity, environmental quality and social justice. He argues that the key to establishing the triple bottom line is stakeholder consultation. The reason for wanting to do that is to secure a sustainable future. Birch (2003) further posits that sustainable capitalism, to use Elkington's term, as a building ideology therefore requires cultural change. For example, shareholders (particularly the big pension and mutual funds) are so distant, so diversified and so amorphous that none of them can get any enjoyment out of creating or building. They only see dividends. As a result, capitalism is going to be asked to do what it does least well – invest in the distant future and make deliberate adjustments in its institutional structure to encourage individuals, firms and governments to make long-term decisions (Thurow, 1966: 309; see also Chomsky, 1999).

That cultural change in investing in the long-term future, and in building a sustainable society as part of it, is at the core of the corporate social responsibility discussions over the last fifty years or so. To that end, corporate social responsibility is not only about the survival of capitalism, as Birch (2003) points out, it is about the creation of sustainable capitalism. In that respect, it is in every businessperson's interest, as well as in every citizen's interest in every society. As Thurow (1966) makes it clear that if capitalism is to work in the long run, it must make investments that are not in any particular individual's immediate self interest but are in the human communities' long run self interest. Henderson (2001) and Kennedy (2000) however, repudiate Thurow's view and deny a seminal social role for business and the responsibilities that go along with it. Business, they argue, has nothing or very

little to do with the social system, but this is not the view of an ever growing set of people. There are an increasing number of people, particularly civil society groups and more enlightened managers in the business, e.g. visionary CEOs and Chairs of boards, who are conscious of the need to better position business-society relations.

The debates around capitalism and business-society relations, as they have developed in the last few years, disparate and diverse though they may have been, are building a momentum now. This encouraged discussion in the area of CSR worldwide. A rapid consensus has been formed that business, and its reliance on an old economics, which has marginalized social, environmental and cultural capital, must change.

One of the key lessons of the work done by James Collins and Jerry Porras (1994) in their book *Built to Last –Successful Habits of Visionary Companies*, is that a visionary company depends on a timeless set of core values and an enduring purpose beyond just making money (Collins and Porras, 1994). This is a key principle of the corporate social responsibility discussions. The company needs to change in response to a changing world, while simultaneously preserving its core values and purpose. Business, they say, needs mechanisms of forward progress, experimentation and entrepreneurship, or continuous self-improvement. It needs to create consistent alignment to preserve core values and purpose and stimulate progress. Above all, it needs resiliency and an ability to bounce back from adversity (Collins & Porras, 1994:4; see also Chamberlain, 1982; Cavanagh, 1984; Wood, 1991; and Zadek and Tuppen, 2000). These are the issues at the very heart of the corporate citizenship, sustainability and corporate social responsibility debates today.

John Kenneth Galbraith, in a 1972 article '*The Emerging Public Corporation*', argued that there is a deeply embedded view in American society which maintains that a modern corporation should be free from all interference and is

thought to be kept honest by competition, with the market, not the state, as the ultimate regulatory force. This disguises, he says, the public character of a corporation, with phrases like *'private enterprise'*. This has led to a view that a corporation has private affairs that should be protected from public scrutiny. There is no natural right of the corporation to be left alone (Galbraith, 1972 reprinted in Steiner and Steiner, 1977: 533). This last comment is a central tenet of the corporate social responsibility discussions as they developed in the 1970s. Leading sociologist Daniel Bell, writing in 1974 said, *"to think of the business corporation simply as an economic instrument is to fail totally to understand the meaning of the social changes of the last half century"* (Bell, 1974 cited in Beesley and Evans, 1978: 16). More than thirty years on many people are saying similar things within the corporate social responsibility debates (see Birch and Glazebrook, 1998 and 2000; Zadek, 2001).

Peter F Drucker (1946) had already said much of this many years before in his now classic book, *The Concept of the Corporation*. Management has *"become a major leadership group in industrial society and as such have great responsibilities to their own profession, to the enterprise and to the people they manage, and to their economy and society"* (Drucker, 1946: 247). This view is now central to corporate social responsibility discussions (see Arthur, 2001; Birch, 2002; WBCSD, 2002 and WEF, 2002; and Zadek et al, 2001).

Using the phrase *'industrial citizenship'*, Drucker argued in 1946, that the major challenge for business, especially in mass production, in relation to its workers, is not mechanical or technical, but social, because the worker has not enough relation to his work to find satisfaction in it. He does not produce a product. Often he has no idea what he is doing or why. There is no meaning in his work, only a pay cheque. The worker in his work does not obtain the satisfaction of citizenship because he does not have citizenship. For as very old wisdom has it, a man who works only for a living and not for the sake of

the work and it's meaning, is not and cannot be a citizen (Drucker, 1946:135; see also Casey, 1995; de Geuss, 1997; Goyder, 1998; and Senge, 1994).

By better linking the concept of citizenship to business-society relations, as has been increasingly done in the most recent corporate citizenship debates occurring worldwide, the diversity of views on business as a private, closed, enterprise, concerned only with maximizing profit and shareholder return, is changing. The term '*corporate citizenship*' may not survive the very disparate debates that have taken place in this area in recent years, but the importance of it as a mechanism to put the company as a social and more public enterprise will. Thus, the notion of corporate citizenship is crucially important.

Peter Schwartz, and Blair Gibb (1999) argue in their book *When Good Companies Do Bad Things - Responsibility and Risk in an Age of Globalization*, that many more people today consider themselves to be stakeholders in a company (Schwartz & Gibb, 1999). They argue that it is essential for companies to recognize this by identifying and acting on opportunities to improve the societies in which they operate (Schwartz and Gibb, 1999; see also Logan et al, 1997). The public, they suggest, is seeking a proper balance (Schwartz and Gibb, 1999: 6). A company's goal therefore has to be in the end, not discovery of a model of social responsibility, but development of a process that will create its own living understanding of its place in the wider world (Schwartz and Gibb, 1999: 82). Corporate responsibility, they argue, should be derived from its stakeholder responsibilities because 'a group whose members trust each other can achieve more economically than a non-trusting group.' (Schwartz and Gibb, 1999:187).

Probably one of the most incisive analyses of the American corporation in this area in the early 1970s is Neil A Jacoby's, *Corporate Power and Social Responsibility* (1973). He developed a social environment model to explain corporate behaviour as a response to both market and non-market forces that

influences costs, revenues and profits. Jacoby (1973) sought to make boards more socially sensitive by including on them sophisticated and articulate shareowners especially those in the trust and investment companies and pension funds, in order to ensure that the total performance of the management will receive a searching audit. He sees this as a solution to the negative perceptions of business as insensitive to social issues (Jacoby, 1973:267).

Peter A French, Jeffrey Nesteruk and David T Risser with John Abbarno (1992) in their book *Corporations in the Moral Community*, see corporations as moral agents (French et al, 1992: 50). They see business providing the environment where individuals, themselves as moral agents, 'make choices and take actions.' This business environment, however, is not neutral, disinterested, ground. It conditions many of the choices that are made there. As such, business has a responsibility 'for the kinds of environments they develop and maintain' (French et al, 1992: 51). Furthermore, business needs to monitor these environments and change them if necessary. Care for this environment therefore needs to be a major priority for business. As such, care for the business culture and environment needs to be a significant tenet of corporate social responsibility and citizenship (see Marsden and Andriof, 1998; and Khoury et al, 1999).

What emerges therefore from this debate so far is a growing concern with business as both a social and public culture needing to demonstrate its institutional 'citizenship', and the responsibilities that go with that, in much the same way as individual citizens are expected to. No matter how diverse the views may have been so far in these discussions, one thing has become very clear – business can no longer function as if it is somehow separate from the social and cultural values of those communities in which it seeks a license to operate.

To a large extent, Archie B. Carroll, as one of the leading lights in the discussions in the 1970s, and still highly influential today, recognized that

management theory needed to take on board some of these difficult issues, particularly as a means of wresting the arguments away from the alienating lobbying tactics of single issue interest groups, and getting those important arguments and issues into the board rooms. Inspired by two early papers, Michael Mazis and Robert Green's (1971) *'Implementing Social Responsibility'*, and the now seminal 1972 paper by George Steiner, *'Social Policies for Business'*, Carroll brought together some of the leading thinkers and writers in the area in a collection of essays entitled *'Managing Corporate Social Responsibility'*, published in 1977 (see also Carroll, 1998 & 1999).

Some other scholars, e.g. Anshen (1980); Block (1993); Cannon (1994); Dahl (1972); Danley (1994); Davis (2001); Engel (1979); Fombrun (1997); Glasman (1996); Handy (1997); Hirsch (1976); Hutton (1995 and 1999); Johnson (1979); Kortein (1995); Linowes (1974); McIntosh, Leipziger, Jones and Coleman (1998); Miles (1987); Polyani (1957); Tichy, Andrew, McGill and St. Clair (1997); Ulrich (1995); Weiser and Zadek (2000); Welford (1995); and Zadek (2001) to name a few have also put forward various elements in the discussion of corporate social responsibility.

The lessons of the very disparate, diverse and not always connected discussion on corporate social responsibility of recent years, outlined in the preceding discussion, has shown that this debate has highlighted a number of key issues. Some issues which businesses, in various ways, around the world are beginning to take seriously include, sustainability, Triple Bottom Line performance, accountability, better governance, increased stakeholder engagement, ethics and the morality of business, citizenship responsibility and the benefits for a sustainable society and future.

The contributions of several scholars to the current discussion of CSR, that raises the issue of social welfare along with economic success of businesses in the society they operate in, are commendable and useful. However, some of

the key issues and concepts discussed in the current literature of CSR demonstrate that it is a very Western oriented concept, based on a particular set of values. The majority of scholars contributing to the debate of CSR originate from the Western countries and their perception of CSR is based on the theories and practices of corporations in Western society. That is why most of the international standards of code of conduct for corporations are also Western based, as discussed in previous chapter, lacking a comprehensive global context. Somehow, a wider perspective of CSR from diverse socio-cultural and religious background from different parts of the world, other than the West, is missing in the current discussion, creating a gap in the field.

## **2.5 Conclusion**

The review of the concept of corporate social responsibility indicates that CSR is derived or influenced by Western values. In terms of its historical evolution, it is a concept that has sought to address or has emerged in response to issues and practices that are specific to the conduct of business in a Western context.

The current discussion of CSR precludes, ignores, or at the very least discounts the possibility of CSR arising based on other value systems from different parts of the world. Given this blind spot, the possibility of a similar notion of CSR arising from a different set of values must be a very interesting issue to explore. As mentioned earlier (see chapter-1, sec.1.2), this study seeks to enter this unexplored territory by looking at Islam and how its basic principles governing commercial life may give rise to a notion of CSR similar to the West and thus, be considered as a counterpart in the field.

The next chapter will begin this task where the concept of social responsibility and justice from an Islamic perspective and its implications for business ethics, which are consistent with the concept of social welfare and may have resonance similar to the Western notion of CSR, will be explored.



## **Chapter 3     The Concept of Social Responsibility and Justice in Islam: Implications for Business Practice**

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### **3.1     Introduction**

The preceding two chapters set the background of this study outlining the gaps in the discussion of corporate social responsibility (CSR) due to lack of consideration of other cultural and religious perspectives. The extensive literature and international norms and standards on CSR have largely been Western centred, as discussed in the previous two chapters, arising from a Western set of values and principles. The possibility of similar notions of CSR arising from other values and principles must be a very interesting issue to explore. This chapter will begin this task by looking at Islam and the basic principles of this religion governing commercial life.

This chapter will focus on Islamic religious values and beliefs according to *Shariah*, the sacred law of Islam derived from the holy *Qur'an* (book of divine revelation), *Hadith* (sayings and deeds of the holy Prophet Mohammed [PBUH]), *Ijma* (consensus), *Qiyas* (reasoning by analogy), and *Maslaha* (public interest). The purpose of the Islamic system (*maqasid al Shariah*) is material as well as spiritual. The goal of an Islamic social system is based on *falah* (human well-being) and *hayat tayyibah* (good life), both of which stress brotherhood and socio-economic justice, as well as a balance between the material and spiritual requirements of all human being that is necessary to preserve and enrich faith, life intellect, posterity and wealth.

The concept of social responsibility and justice in Islam is discussed in light of the holy *Qur'an* and *Hadith* in this chapter. This is followed by the discussion of Islamic ethical system and its implications for business practices. An Islamic perspective of corporate social responsibility is also discussed briefly. This chapter will highlight the presence of a rich vein of values and principles in Islamic jurisprudence (*fiqh*) similar to the prevailing notion of CSR.

### **3.2 Social Responsibility and Justice in Islam**

The primary task of an Islamic social system is to set up a right relationship with God, and this begins with the individual. The individuals who make up the society are the primary focus of attention. Nevertheless, their religious well-being demands that they accept some measure of social responsibility. For example, the holy Prophet Mohammed (PBUH) said, “*A person who marries achieves one-half of his religion*” (Hadith), this is because the family is the fundamental building block of society. If the family can be kept healthy – and this depends on the spiritual well-being of its members – then society can be kept healthy. A healthy society can only exist when its members have high moral values.

Islam places the highest emphasis on moral values in human life. In a way, Islam is basically a moral code of conduct for human life. The holy Prophet Mohammed (PBUH) said:

*“I have been sent only for the purpose of perfecting good morals”*

(Hadith – Sahih Bukhari, 1.56).

Moral codes and ethical norms discernible from the verses of the holy *Qur’an* and the teachings of the Prophet (PBUH) are numerous, far reaching and comprehensive. Islamic teachings strongly stress the observance of moral principles and ethical codes in human behaviour. They are repeatedly stressed throughout the holy *Qur’an* that says:

*“You are the best nation that has been raised up for mankind; you enjoin right conduct, forbid evil and believe in Allah”*

(Qur’an, Sura Al-i-Imran-3: 110).

The above verse implies (1) faith, (2) doing right, being an example to others to do right and having the power to see that the right prevails, (3) eschewing

wrong, being an example to others to eschew wrong, and having the power to see that wrong and injustice are defeated. Islam therefore lives, not for itself, but for humanity and lays out a clear guideline for Muslims to be righteous and thus, socially responsible through their actions in life (Commentary in the Qur'an - interpreting the above verse, pg.173).

Islam has laid down some universal fundamental rights for humanity as a whole, which are to be observed and respected under all circumstances. To achieve these rights Islam provides not only legal safeguards but also a very effective moral system. Thus, whatever leads to welfare of the individual or society is morally good in Islam and whatever is injurious is morally bad. Islam attaches so much importance to the love of God and love of man that it warns against too much of formalism. The holy *Qur'an* states:

*"It is not righteousness that you turn your faces towards East or West; but it is righteousness - to believe in Allah and the Last Day and the Angels, and the Book, and the Messengers; to spend of your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask; and for the freeing of captives; to be steadfast in prayer, and practice regular charity; to fulfil the contracts which you made; and to be firm and patient in pain (or suffering) and adversity and throughout all periods of panic. Such are the people of truth, the God-conscious"*

(Qur'an, Sura Al Baqarah-2: 177).

A clear description of the righteous and God-conscious man in this verse is given. He should obey salutary regulations, but he should fix his gaze on the love of Allah (TME) and the love of his fellow men. A comprehensible characteristic of social responsibility is reflected in the above verse. Those who deny their social responsibility are abhorred by the divine commandment as the *Qur'an* testify:

*“Seest thou one who denies the Judgment (to come)? Then such is the one who repulses the orphan, and encourages not the feeding of the indigent. So woe to the worshippers – who are neglectful of their prayers, those who (want but) to be seen, but refuse (to supply) neighbourly needs”*

(Qur'an, Sura Ma'un-107: 1-7).

These verses clearly detest those men who deny their social responsibility by treating the helpless with contempt and lead arrogant selfish lives. The virtue of charity or love for fellow living beings have been extolled throughout the holy *Qur'an*, as in these verses that implies that feeding the indigent at the expense of self is a noble form of virtue, which is beyond the reach of men who are so callous as even to discourage or forbid or look down upon the virtue of charity or kindness in others. It also clearly mentions that true worship does not consist in mere form of prayer, without the heart and mind being earnestly applied to seek the realization of the presence of Allah (TME) and to understand and do according to His will, which is to be helpful to others and fulfil neighbourly needs – an important aspect of social responsibility.

One of the *Hadith* of the holy Prophet Mohammed (PBUH) further complements these divine commandments. According to Abu Hurayrah, one of the companions of the holy Prophet Mohammed (PBUH):

*“Allah’s Apostle (PBUH) said, “Do you know who is poor?” They (the companions of the holy Prophet) said, “A poor man amongst us is one who has neither Dirham with him nor wealth.” He (the holy Prophet) said, “ The poor of my Ummah would be he who would come on the Day of Resurrection with prayers and fasts and zakat but he would find himself bankrupt on that day as he would have exhausted his funds of virtue since he hurled abuses upon others, brought calumny against others and unlawfully consumed the wealth of others and shed the blood of others and beat others, and his virtues would be credited to the account of one who suffered at his hands. And if his*

*good deeds fall short to clear the account, then his sins would be entered in his account and he would be thrown in the Hell-Fire”*

(Hadith - Sahih Muslim, No.6251).

This clearly demonstrates the emphasis Islam places on the maintenance of social responsibility and justice in society.

Islam has clearly defined responsibilities for the individual, the corporation, and the nation-state. In Islam, features of social responsibility and justice are deeply rooted in the *Qur'an* and *Hadith* – exemplifying the *Sunnah* of the holy Prophet Mohammed (PBUH). As an example, one only needs to read the final sermon of the holy Prophet Mohammed (PBUH), which deals mostly with social responsibility and justice. He said in his sermon:

*“Verily, you will meet your Lord and He will ask you about your actions. You will neither commit injustice nor will you be wronged. No Muslim is allowed from his brother’s property except what he gives away with good heart; so do not wrong each other. The most honourable of you with Allah is that believer who has morality”*

(Haykal, 1976:486-7).

The holy Prophet Mohammed’s (PBUH) final sermon was also a warning for individuals not to act immorally just because of the external pressures of circumstances or on the fact that everybody in the society is behaving immorally. Every individual bears the ultimate responsibility of his own actions. The *Qur'an* authenticates this and states:

*“Every soul will be (held) in pledge for its deeds”*

(Qur'an, Sura Al Muddaththir-74: 38).

Man cannot shift his responsibility to vicarious saviours or saints. His redemption depends upon the grace of Allah (TME), for which he should constantly and whole-heartedly strive by means of right conduct. If he does so, he will be redeemed and will join the companions of the righteous.

In the individual domain, the sanctity of human life and honour occupy the highest place. This sanctity of life is underscored in the verses of the *Qur'an* where the taking of one life is equated with taking the life of all humankind, and likewise the saving of one life is equated to the saving of all humankind (Qur'an, Sura Al-Maidah-5: 32). Thus, garnering a harmonious society, in which everyone lives freely in peace, is responsibility of every individual Muslim.

The primary objective of *Shariah*, which dictates the moral code of conduct in Islam, is to establish justice, as without justice there can be no peace or freedom. Accordingly, the primary message of the holy *Qur'an* is establishment of justice. Allah (TME) says in the *Qur'an*:

*“O ye who believe, stand out firmly for justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be against rich or poor, for Allah can best protect both”*

(Qur'an, Sura An Nisaa-4: 135).

A detailed commentary on the above verse of the holy *Qur'an* (p.259) suggest that justice is Allah's (TME) attribute and to stand firm for justice is to be witness to Allah (TME), even if it is detrimental to one's own interests (as conceived) or in the interests of those who are near and dear ones. Islamic justice is something higher than the formal justice system of any human law. It is penetrative and searches out the innermost motives, because humans are to act as in the presence of Allah (TME), who is knower of the invisible (*aalim ul ghayb*), knows all things, acts and motives.

The *Qur'an* specifically points out to the virtue of justice in the following verse:

*“Allah forbids you not, with regard to those who fight you not for (your) faith nor drive you out of homes, from dealing kindly and justly with them: For Allah loves those who are just”*  
(Qur'an, Sura Al Mumtahana-60: 8).

Another verse in the holy *Qur'an* states:

*“Allah commands you to render back your trusts to those whom they are due; and when you judge between man and man, that you judge with justice”*  
(Qur'an, Sura An Nisaa-4: 58).

Islam promotes justice and equal treatment of all living beings. To illustrate this further, discrimination, in any form is strictly prohibited in Islam. This is consistent with Allah's (TME) purpose for creating humankind:

*“O mankind! Lo! We have created you male and female, and have made you nations and tribes, that you may know one another”*  
(Qur'an, Sura Al Hujurat-49: 13).

Islam has always championed the cause of justice. According to the *Qur'an*, the role of the messages from Allah (TME) delivered to mankind through all of His Prophets (PBUT) has been to establish justice. The holy *Qur'an* states:

*“Indeed, (even aforetime) did we send forth Our apostles with all evidence of this truth-the Book; and through them We bestowed revelation from the high, and (thus gave you) a balance (whereupon to weigh right and wrong), so that men may stand forth in justice...”*  
(Qur'an, Sura Al Hadid-57: 25).

Three things are mentioned as gifts of Allah (TME) in the preceding verse. In concrete terms they are the Book (the holy *Qur'an*), the Balance and Iron, which stands as emblem of three things which hold society together, viz. *revelation*, which commands good and forbids evil; *justice*, which gives to each person his due; and the strong arm of the *law*, which maintains sanctions for evil-doers and *balance*, in this case is rendered as *revelation*, an instrument placed by Allah (TME) in mankind's hand, by which one can weigh all moral issues, all questions of right and wrong in conduct. One must do so constantly. The *balance* may also refer to the God given faculty by which man can judge between right and wrong (Commentary in the *Qur'an* - interpreting the verse in details, pg.1479 and 1697).

A number of commandments in the holy *Qur'an* and the tradition of the holy Prophet Mohammed (PBUH) reported in *Hadith* stipulate what must be done in order to establish socio-economic justice and therefore be socially responsible, as discussed earlier. Some examples of these are obligatory payment out of income and wealth (*Zakat*), philanthropic trusts (*Waqf*), alms and charity (*Sadaqah*), interest free loans (*Qard al Hassan*), etc.

Islam commands its followers to adhere to the same unified code of behaviour whether in the mosque, earning a living or acting out other aspects of life. Every action of mankind is for Allah (TME), it is only Allah (TME) to be feared, and thus morality follows automatically. The *Qur'an* point this:

*“Say: Lo! My worship and my sacrifice and my living and my dying are all for  
Allah, Lord of the Worlds”*  
(*Qur'an*, Sura Al An'am-6: 162).

Because of this philosophy, one becomes selfless and conscious about social responsibility and justice. Although the principles mentioned in the preceding section guide a Muslim in day-to-day behaviour, they are more descriptive of



the moral philosophy of Islam. The *Qur'anic* verses and *Hadith* of the holy Prophet (PBUH) illustrate the significance of the concept of social responsibility and justice that is connected with righteousness in Islam.

The preceding discussion suggests that Islamic values and traditions have a very strong resonance with the idea of social responsibility. Specifically, the Islamic tradition places great importance on brotherhood; fellowship; hospitality; sharing one's wealth; tolerance, protection of the weak and minorities; and respects learning and ethics. Sustainable development sits comfortably within this culture, which believes in stewardship and putting back into society more than has been taken out.

Morality that reflects social responsibility and justice is the foundation of an Islamic society. The Islamic morality or ethical system is unique in its concepts due to it being based on divine commandment. It must be borne in mind that Islam is not a religion founded by the holy Prophet Mohammed (PBUH), as is the common perception. Rather, it is a divine religion created by the Creator - Allah (TME) Himself. As such, all the Prophets from Adam to Mohammed, including Noah, Abraham, Moses and Jesus (Peace be upon them) were Muslims and mere Messengers of the divine commandments. The holy Prophet Mohammed (PBUH), unlike other Prophets (PBUT), however, lived to set up a social system based on these divine commandments and exemplified the code of conduct through his practices in life as the last Prophet of God. An Islamic social system was created and followed during his lifetime and he (PBUH) lived to see the divine law becoming embedded in the socio-economic and perhaps, in every aspect of a Muslim society.

Thus, the ethical system prescribed in Islam is eternally divine and forms the foundation of Islamic society, placing great emphasis on social responsibility and justice. Given the comprehensive nature of Islamic morality and the principles governing it, it would be beyond the capacity of one study to fully

discuss the subject. In the following pages, the effort will be to confine the discussion to some specific principles of ethics in Islam that relate to the concept of social responsibility and justice.

### **3.3 The Islamic Ethical System**

Ethics is an age-old discipline that has been considered as one of the four branches of philosophy, along with logic, metaphysics and epistemology. Defining ethics in general terms is relatively simple. Ethics may be defined as a set of principles of right conduct or a theory or system of moral values. It may also be defined as the study of the general nature of morals and of specific moral choices to be made by a person (moral philosophy), or as the rules or standards governing the conduct of a person or the members of a profession, for instance, medical ethics (Beauchamp and Bowie, 1997; Cadbury, 1991; De George, 1986; Goodpaster, 1991; Kung, 1993, 1998).

From an Islamic point of view, there is no direct translation or meaning of ethics or ethical behaviour. The term most closely related to ethics in the holy *Qur'an* is '*Khuluq*'. Depending on the translation this could be interpreted as 'character' (Abdullah Yusuf Ali – English translator of the holy *Qur'an*). The *Qur'an* mentions *khuluq* in Sura Al-Qalam:

*“...and thou (standest) on an exalted standard of character...”*

(Qur'an, Sura Al Qalam-68: 4).

Mohammed Asad (1980) rendered the same *Qur'anic* verse as:

*“...for, behold, thou keepest indeed to a sublime way of life...”*

Asad (1980) states that the term *Khuluq* as rendered as “way of life”, describes a person’s ‘character’, ‘innate disposition’ or ‘nature’ in the widest sense of concepts, as well as ‘habitual behaviour’. Identification of *Khuluq* with “way of life” is based on the explanation of the above verse by Abd Allah ibn Abbas (as quoted by Tabari in *Hadith*), stating that this term is here synonymous with ‘*din*’ and one must remember that one of the primary significances of the later term is “a way or manner of behaviour” or “of acting”. Moreover, there are several well-authenticated traditions in the *Hadith*, according to which the widow of the holy Prophet – Aisha (May Allah be Pleased with her) speaking of the Prophet Mohammed (PBUH) many years after his death, repeatedly stressed that Mohammed’s (PBUH) “way of life (*Khuluq*) was the *Qur’an*...” (Asad, 1980).

However, the *Qur’an* uses many terms to describe the concept of goodness or good behaviour all of which contribute to the formation of character: *Khayr* (goodness), *birr* (righteousness), *qist* (equity), *adl* (equilibrium and justice), *haqq* (truth and right), *ma’roof* (known and approved) and *taqwa* (piety). Allah (TME) describes people who attain felicity or success in life as those:

“...inviting to all that is good, enjoining what is right, and forbidding what is wrong...” (Qur’an, Sura Al-i-Imran-3: 104).

This verse suggest Allah (TME) enjoins all Muslims to learn the difference between right and wrong, good and bad, righteousness and loathsomeness and to do good works through the life. Allah (TME) also warns:

“O you who have attained to faith! Do not devour one another’s possessions wrongfully in vanities – but let there be amongst you traffic and trade based on mutual agreement – and do not destroy (or kill) one another: for behold, God is indeed a dispenser of grace unto thee! And as for him who does this

*with malicious intent and a will to do wrong – him shall We, in time, cause to endure (suffering through) fire: for this is indeed easy for God”*

(Qur'an, Sura An Nisaa-4: 29-30).

Interpreting the preceding verse reveals profound meaning pertaining to social responsibility and justice. It asserts that all the property or wealth one possesses is in trust, whether it is in one's own name or belongs to the community, or to people over whom one has control. To waste it is wrong. This verse also cautions against greed. It encourages one to increase property or wealth by economic use (traffic and trade), recalling Christ's parable of the Talents (Matt.xxv. 14-30), where the servants who had increased their master's wealth were promoted and the servants who had hoarded was cast into darkness. This verse also warns that violence leads to self-destruction (“do not destroy or kill one another...”). One must be careful of theirs as well as other people's lives. Violence is strongly abhorred. Violence is preposterous as Allah (TME) has loved and showered His mercies on all His creatures (Commentary in the Qur'an-interpreting the verse in details, pg.217).

It must be stressed that ethical behaviour in management of a household, corporate enterprise or nation comes from the examples set at the top. As Muslims, one only has to look to the example set by the holy Prophet Mohammed (PBUH) as the means and method to garner respect and don the robes of leadership. He led by example and his people followed out of respect for the man, first and foremost, and respect for the message he was chosen to deliver. Without that respect, he surely would have had difficulty convincing his fellow Arabs to follow. He was respected for many qualities but most importantly for his integrity and honesty. Integrity and honesty is the cornerstone of ethical behaviour. For in this state, one stands in the “exalted standard of character” – the exalted character of Mohammed; may Allah (TME) deliver His blessings upon him.

Many writers believed that by studying either the scripture or nature, man would become ethically aware. Islam takes a different approach. The Islamic ethical model places its emphasis on the Creator of the Worlds – Allah (TME), because Allah (TME) is perfect and omniscient. Muslims have a code that is neither time-bound nor biased by human intervention. Basing himself on the *Qur'anic* verses 96:1-5; 68:1-2; and 55:1-3, Jabir Al 'Alwani (1995) concludes that humankind has been enjoined by Allah (TME) to perform two different kinds of readings simultaneously: a reading of Allah's (TME) revelation (the holy *Qur'an*) and a reading of the natural universe. Those who undertake only the first become ascetics. Sometimes, such a reading makes them imbalanced and incapable of independent thinking. Those who stress only the second reading are powerless to answer the 'ultimate' questions and generally dismiss everything beyond their abilities to perceive by means of the senses as supernatural. Thus, the knowledge from both types of readings must be complementary rather than contradictory.

There is a general consensus among different societies about certain fundamental ethical values. However, as a result of the knowledge from both divine and natural sources, the Islamic ethical system substantially differs from those of others. Islam does not advocate withdrawal from the world by stressing piety and meditation, but stresses active participation in the world through the struggle of this life. While participating in this life, a Muslim must remember to be consistent both in acts of worship and in his daily life. Observing the five pillars of Islam (*Imaan*-faith in one God; *Salat*-obligatory prayers; *Zakat*-Islamic tax; *Saum*-fasting in the month of *Ramadhan*; and *Haji*-pilgrimage to Makkah) is not enough for Muslims; one also needs to conform to the Islamic code of ethics in daily life, which stresses on the social responsibility and justice to be maintained under all circumstances.

According to the Islamic ethics, Muslims have to zealously guard their behaviour, deeds, words, thoughts, feelings and intentions. Islam asks its

believers to observe certain norms and moral codes in their family affairs; in dealings with relatives, with neighbours and friends; in their business transactions; in their social affairs, and in private and public life.

The unique feature of the Islamic ethical system is that it permeates all spheres and fields of human life. Adherence to ethical behaviour is a part of *Imaan* (faith) itself and as such, social responsibility and justice is considered as an offshoot of a Muslim belief system. It provides a strong internal sanctioning and enforcing authority for observing social standards. The concept of morality in Islam is not utilitarian and relative; rather its principles are eternal and absolute. This moral code of conduct also applies equally to the commercial aspects of human life.

### **3.4 Islamic Ethics: Implications for Business Practices**

There is almost a general consensus among human beings about certain fundamental ethical and moral values. However, the main problem is how to operationalize and implement them and to decide what kind of force could be used for promulgating them. Islam offers its own solution to this problem. It prescribes certain specific guidelines for governing businesses based on the legality of transactions, as per Islamic jurisprudence (*fiqh*) of lawful (*halal*) and unlawful (*haram*) activities. It identifies ethically desirable forms of business, specifies the undesirable modes of transactions and enumerates the general moral and ethical rules of business conduct.

Much of the business ethics movement, however, draws on a humanist tradition, concerned with respect for the dignity of man, and writing in the field of moral philosophy more generally rather than religion. Those involved with moral and ethical issues in Muslim countries cannot ignore the contributions of the Islamic traditions. Laura Nash (1989) has described good

business behaviour as “ethics without the sermon” (pp.243-257), but perhaps there is a case for including the sermon.

Islam, through the example of the holy Prophet (PBUH) and the rightly guided Caliphs, acknowledges the importance of trade or business. The holy Prophet (PBUH) himself was a merchant involved in international trade prior to his divine duty. The first three rightly guided Caliphs-Abu Bakr (May Allah be pleased with him) ran a cloth business, Umar (May Allah be pleased with him) had a corn trading business, and Uthman (May Allah be pleased with him) also ran a cloth business. The Ansars (people of Yathrib, now Madina al Munawwara, who gave shelter to Prophet (PBUH) and his companions and were among the first community to accept and convert to Islam) engaged in farming. In fact, except for trades that have been prohibited, Islam encourages Muslims to get involved in all sorts of business and commerce.

Islam fully recognizes the desirability of engagement in business activities. It is a religion that is pro-business. The *Qur'an* states:

*“Allah has made business lawful for you”*  
(Qur'an, Sura Al Baqarah-2: 275).

It does not denounce business or other worldly activities as such. According to Islam, there is nothing wrong in fair trade and commerce. In fact, a businessperson who performs his business operations with honesty and in accordance with the commands of Allah (TME) deserves to be rewarded by Allah (TME) in the life hereafter (*Akhirah*). Business activities can become a part of worship and obedience (*Ibadah*) of Allah (TME) if the same are performed in accordance with the commands of Allah (TME) in line with the Islamic code of conduct. One can even engage in business during the pilgrimage (*Hajj*), which is the highest form of worship in Islam. Thus, there is no inherent conflict between fair business and Islam. Islam declares that the

search for one's livelihood through fair business is like the pursuit of the blessing of Allah (TME).

Islam has its own distinctive value-based ethical system for business dealings. It prescribes certain specific guidelines governing business ethics. It

- (i) enumerates the general ethical rules of business conduct,
- (ii) identifies ethically desirable forms of business, and,
- (iii) specifies the undesirable modes of transactions.

These guidelines are dictated primarily by the notion of *halal* (lawful or permitted) and *haram* (unlawful or prohibited). Material pertaining to this subject (of *halal* and *haram*) can be found scattered throughout various chapters in several books of Islamic jurisprudence (*fiqh*), and between the lines in the commentaries on the *Qur'an* and *Hadith*. A brief discussion of the concept of the lawful (*halal*) and unlawful (*haram*) behaviour in Islam that is the foundation of any business transaction according to *Shariah* will follow as a precursor to an examination of the precepts of business transactions in Islam, to be discussed later in this chapter.

#### **3.4.1 The Lawful (*Halal*) and Unlawful (*Haram*) Behaviour in Islam**

The *halal* and *haram* are significant parts of the total legal system in Islam-*Shariah*, a system whose primary objective is the good of humankind. Its principles are designed to protect man from evil and to benefit him in all aspects of life. They are also designed to benefit everyone in the community and the wider society in every period of time throughout the succeeding generations. Thus, morality in Islam is authorized by divine decree.



In describing the moral code of Islam, it is important to understand that actions can be categorized according to their degree of lawfulness (*halal*) and unlawfulness (*haram*). The basic philosophy is that the things, which Allah (TME) has created and the benefits derived from them are essentially for man's use, and hence are permissible (*halal*). Nothing is prohibited (*haram*) except what is prohibited by a sound and explicit verse of the *Qur'an* or a clear and authentic *Sunnah* (practice or saying) of the Prophet Mohammed (PBUH). In Islamic jurisprudence (*fiqh*), five such classes are identified:

1. ***Fardh*** (required) – represents the class of actions that are mandatory on every person claiming to be a Muslim, such as *salat* (prayers), *sawm* (fasting during the month of Ramadhan) and *zakat* (Islamic tax).
2. ***Mustahabb*** (recommended) – describes the class of actions that are not obligatory but highly recommended of Muslims, such as supererogatory fasting beyond Ramadhan, praying nawafil, etc.
3. ***Muhab*** (indifferent) – these actions are neither mandatory nor forbidden, such as having personal preference for one type of *halal* (permissible) food over another, or a Muslim may like to garden.
4. ***Makruh*** (reprehensible) – these actions are not absolutely forbidden, but are detested. The *makruh* is less in degree than *haram* (prohibited), and the punishment for *makruh* is less than for those acts which are *haram*, except when done in excess. For example, smoking is not expressly forbidden (like drinking alcohol), though it is in itself an action that is *makruh*. It should be noted, however, that there are many *Ulemas* (religious scholars) that regard smoking as *haram*.
5. ***Haram*** (prohibited) – actions are unlawful and prohibited and committing them is a major sin, such as murder, adultery, drinking alcohol, etc.

The boundaries between the five mentioned categories are not absolute. For example, what is *haram* (prohibited) under one set of circumstances may

become *halal* (permissible) under others. For example, a Muslim is not allowed to eat pork. However, should he fear death from starvation, and nothing but pork is available, he is allowed to eat pork in that specific situation. In Islam, the sphere of prohibited items is very small, while that of the permissible is extremely vast. There are only a small number of sound and explicit texts concerning prohibitions, while whatever is mentioned in the *Qur'an* and *Hadith* as being lawful or unlawful falls under the general principle of the permissibility of things and within the domain of Allah's (TME) favour (Al-Qaradawi, 2002).

Based upon this categorization and principles, a first rule to be observed is, that which is lawful (*halal*), is wholesome and pure and what is unlawful (*haram*) is harmful or can hurt. For example, Islam has long discouraged Muslims from drinking alcohol. It is only recently that childbirth studies have revealed that any amount of alcohol consumed during pregnancy may harm the unborn fetus. The most severe of these is *fetal alcohol syndrome* (FAS), a combination of physical and mental birth defects (Institute of Medicine, 1996; Kesmodel, 2002). Implicitly, what is lawful is also moral, and what is unlawful is immoral. As such, adultery is both unlawful and immoral. A second rule is that what leads to an unlawful action is also unlawful. Hence, pornography is unlawful and immoral because it may lead to adultery.

Further more Allah (TME) gives a clear warning in the *Qur'an*:

*“Say: The things that my Lord hath indeed forbidden are: shameful deeds whether open or secret; sins and trespasses against truth or reason...”*

(Qur'an, Sura Al A'raf-7: 33).

The forbidden things mentioned in the above verse can be interpreted (as per the detailed commentary in the holy *Qur'an*, p.405) in four categories:

- (1) what is shameful or unbecoming; the sort of things which have also legal and social sanctions, not of a local but of universal kind, may be called offences against society;
- (2) sins against self and trespasses or excesses of every sort; these are against truth and reason which include indiscipline, failure in doing intangible duties not clearly defined by law and being selfish and self-aggrandized, which may be condoned by custom and not punished by law, etc;
- (3) erecting fetishes or false Gods; this is treason against the true God; and
- (4) corrupting religion by superstitions, etc.

In mapping out one's ethical behaviour, it is important for Muslims both to avoid *haram* (unlawful) and avoid making *haram* (unlawful) as *halal* (lawful) and vice versa. Allah (TME) Himself says in the holy *Qur'an*:

*“Say: Have you ever considered all the means of sustenance which God has bestowed upon you from on high – and which you thereupon divide into ‘things forbidden’ and ‘things lawful’? Say: Has God given you leave (to do this) – or do you, perchance, attribute your own guesswork to God?”*

(Qur'an, Sura Yunus-10: 59).

Muslims should not make unlawful what Allah (TME) has labelled lawful. For example, a buffalo may be an endangered species. One may stop hunting it in order to allow its herds to grow back, but one cannot say it is forbidden to eat buffalo meat or to trade in buffalo skins. The holy *Qur'an* states in this regard:

*“O ye who believe! Forbid not the good things, which Allah hath made lawful for you, and transgress not. Lo! Allah loveth not transgressors”*

(Qur'an, Sura Al Maidah-5: 87).

To elaborate on the above verse from the *Qur'an*, in the pleasures that are good and lawful, the crime is excess. There is no merit merely in abstention or

ascetism, though the humility or unselfishness that may go with ascetism may have its value. In verse 82 of the 5<sup>th</sup> chapter of the *Qur'an* (Sura Al-Maidah), Christian monks are praised for their particular virtue, though here and elsewhere monasticism is disapproved. Allah (TME) encourages mankind to use His (TME) gifts of all kinds with gratitude, but Allah (TME) does not approve of excess as evident from the above verse of the holy *Qur'an*.

Allah (TME) has set the boundaries (*Hudood*) very clearly in the holy *Qur'an*. Everything that is *haram* (prohibited) is clearly stated and everything else is *halal* (permissible), except in matters of worship. It has defined all aspects of human life in great detail, leaving no aspect without guidelines.

Similarly, business practices in Islam are based on this concept of the lawful (*halal*) and unlawful (*haram*). The ethical system in Islam, which is essentially a reflection of the divine commandments and guideline for the right and wrong, permeate every aspect of a Muslim's life, including business and commerce and guide them to be socially responsible and deal with justice.

Accordingly, business dealings in Islam must be carried out in adherence to the Islamic legal system – *Shariah*. The motive of a Muslim businessperson should not be only profit, but also to be useful to the environment he/she operates in by being socially responsible in all aspects of society. This is well embedded in the ethical system of Islam as demonstrated throughout this chapter. The concept of *halal* (permissible) and *haram* (prohibited) must be strictly adhered to in all business transactions.

To elaborate further, the following section will highlight some of the tenets concerning business transactions in Islam, which may also be regarded as a guideline for business in Islamic society.

### **3.4.2 Islamic Tenets Concerning Business Transactions**

Islam demands a certain type of behaviour from economic agents – the consumers and the producers. The behaviour prescribed for the economic units of the society are so devised as to lead to a happy state of affairs, which is the ultimate goal of Islam. An Islamic market is characterized by certain norms that take care of the interests of both the buyer and the seller. There are a number of rules of ethical discipline in Islamic commercial transactions without which business contracts would be regarded as lacking perfection in the light of the code of good manners, decency and ethical excellence. They are all pursuant to the concept of lawful (*halal*) and unlawful (*haram*) and reflect features of social responsibility in every aspect of the transactions.

Although there are numerous rulings, a number of them are listed below in the context of this study. A brief discussion of each will follow.

Table 2. Islamic Tenets of Business Transactions

<b><i>Halal</i> Business Transactions</b>	<b><i>Haram</i> Business Transactions</b>
Keenness to earn Legitimate ( <i>Halal</i> ) Earnings	Interest ( <i>Riba</i> )
Trade through Mutual Consent	Dealing in Prohibited ( <i>Haram</i> ) Items
Truthfulness	Sale of <i>Al-Gharar</i> (Uncertainty, Risks, Speculation)
Generosity and Leniency	Arbitrarily Fixing the Prices
Trustworthiness	Hoarding of Foodstuff
Honouring and fulfilling Obligations ( <i>Uqud</i> )	Exploitation of one's Ignorance of Market Conditions
Fair Treatment of Workers	Cheating and Fraud

### **Keenness to Earn Legitimate (Halal) Earnings**

Islam places great emphasis on the code of lawful (*halal*) and unlawful (*haram*) in business transactions. The holy Prophet Mohammed (PBUH) endorsed the importance of legitimate ways of earning in the following words:

*“Asked what form of gain is the best? The Prophet (PBUH) said, a man’s work with his hands, and every legitimate business transaction”*  
(Hadith – Rafi ibn Khadij, Mishkat al Masabih, No. 2783).

From the above statement, it is clear that a Muslim trader must be determined to earn only through legitimate means. He should not only avoid illegitimate means in earning his provisions and livelihood but also distance himself from matters dubious and doubtful. The Prophet (PBUH) is also reported to have said:

*“Leave what makes you doubt for things that do not make you doubt”*  
(Hadith - Tirmidhi, No. 2442).

Things legitimate and illegitimate are clearly defined in Islam (as discussed earlier) and, in between them, are doubtful things, which should be avoided. A true Muslim businessman should be wary of the doubtful things in order to keep himself clear in regard to his faith and his honour because one who falls into doubtful matters is sure to fall into that which is unlawful (*Haram*). A tradition of the Prophet (PBUH) states:

*“A time will come upon the people when one will not care as to how he gets his money whether legally or illegally”*  
(Hadith – Sahih Bukhari, No. 1941).

Therefore, earning money through *halal* trade is vastly preferred in an Islamic society. Begging is strongly abhorred in Islam. This principle is emphasized in the following Hadith:

A man of the Ansar came to the Prophet (PBUH) and begged from him. The prophet asked, *“Have you nothing in your house?”* He replied, *“Yes, a piece of cloth, a part of which we wear and a part of which we spread (on the ground), and a wooden bowl from which we drink”*. The Prophet (PBUH) said, *“Bring them to me”*. He then brought these articles to him and the Prophet (PBUH) took them in his hands and asked, *“Who will buy these?”* A man said, *“I shall buy them for one Dirham”*. He (PBUH) said twice or thrice, *“Who will offer more than one dirham?”* A man said *“I shall buy them for two Dirhams”*.

He (PBUH) gave these to him and took two Dirhams and giving them to the Ansari, the Prophet (PBUH) said, *“Buy food with one dirham and hand it to your family, and buy an axe and bring it to me”*. He then did and asked for. The Apostle of Allah (PBUH) fixed a handle on it with his own hands and said, *“Go and gather firewood and sell it, and do not let me see you for a fortnight”*. The man went away and gathered firewood and sold it. When he had earned ten Dirhams, he came to the Prophet (PBUH) and bought a garment with some of them and food with others.

The Apostle of Allah (PBUH) then said, *“This is better for you than that begging should come as a spot on your face on the Day of Judgment. Begging is only for three kind of people: one who is in grinding poverty; one who is seriously in debt; and one who is responsible for compensation and finds it difficult to pay”* (Hadith – Anas ibn Malik, Abu Dawud, No. 1637).

Agriculture and farming has always been regarded as legitimate (halal) forms of work. Allah (TME) describes in the *Qur'an* (55:10-13), the process

underlying agriculture and farming – how He (TME) sends rain down and how it flows throughout the earth making it fertile and ready for cultivation and how the winds play a role in scattering seeds, and how crops grow. This *Qur’anic* verse and many others (7:19-20; 80:24-8; 15:19-22) provide motivation for agricultural work. Besides agriculture, Muslims are encouraged to develop proficiency in industries, crafts and professions that are instrumental to the survival and betterment of the community. In fact, development of these skills represents *Fardh Kifaya* (responsibility). Imam al Ghazzali, a renowned Islamic philosopher stresses this point:

*“Sciences whose knowledge is deemed Fardh Kifayah comprise every area which is indispensable for the welfare of the world”*

(Hadith – Anas ibn Malik, Sahih Bukhari, No. 3.513).

Many professions that are ordinarily looked down upon have been given dignity in Islam. For example, the Prophets of Allah - Moses (PBUH) worked as a hired hand for eight years to gain the hand of his future wife and Jesus (PBUH) and Mohammed (PBUH) also worked as a shepherd for several years.

In general, Islam looks on work, which fills a legitimate (*halal*) need in a society as good provided that the person performs it in a legitimate (*halal*) manner conforming to the norms of Islamic way of earning.

### **Trade through Mutual Consent**

Mutual consent between the parties is a necessary condition for the validity of a business transaction. It, therefore, follows that a sale under coercion is not acceptable in Islam. A sale transaction is to be regarded as legal only if it is made through the mutual consent of the parties concerned. Taking advantage



of someone's plight and charging high prices is also a form of pecuniary exploitation and as such forbidden in Islam. The Holy *Qur'an* says:

*“O you who believe! Eat not up your property among yourselves in vanities: but let there be amongst you traffic and trade by mutual goodwill: nor kill [or destroy] yourselves: for verily Allah has been to you Most Merciful”*

(Qur'an, Sura An Nisaa-4: 29).

Thus, two key elements of the general theory of contract are endorsed emphatically in these verses: mutual consent and gainful exchange. One can also find the importance of mutual consent for the legality of a business deal. The Prophet (PBUH) is reported to have said:

*“A sale is a sale only if it is made through mutual consent”*

(Hadith - Ibn Majah, No. 2176).

Further, in order to avoid any future misunderstanding, Allah (TME) has enjoined them to put contractual obligations in writing:

*“O you who believe! When you deal with each other in transactions involving future obligations in a fixed period of time, reduce them to writing. [...] Let him who incurs the liability dictate, but let him fear his Lord Allah, and not diminish aught of what he owes”*

(Qur'an, Sura Al Baqarah-2: 282).

Commercial morality is here on the highest plane and yet in the most practical manner, both as regards the bargains to be made, the evidence to be provided, the doubts to be avoided, and the duties and rights of scribes and witnesses. Probity even in worldly matters is to be not a mere matter of convenience or policy, but a matter of conscience and religious duty. Even everyday transactions are to be carried out as in the presence of Allah (TME).

## **Truthfulness in Business Transactions**

Honesty and truthfulness are qualities, which a Muslim businessperson should develop and practice. Truth for example, has a self-reinforcing effect. The holy Prophet Mohammed (PBUH) said:

*“Truthfulness leads to righteousness, and righteousness leads to Paradise. A man continues to tell the truth until he becomes a truthful person. Falsehood leads to al fujuwr (i.e. wickedness, evil-doing), and al fujuwr (wickedness) leads to the fire of Hell”.*

(Hadith – Bukhari, No: 8.116)

The holy Prophet (PBUH) has also exhorted the believers to strictly adhere to truthfulness in business transactions. He (PBUH) said:

*“The seller and the buyer have the right to keep or return the goods as long as they have not parted or till they part; and if both the parties spoke the truth and described the defects and qualities (of the goods), then they would be blessed in their transaction, and if they told lies or hid something, then the blessings of their transaction would be lost”*

(Hadith - Bukhari, No: 1937).

Islam encourages truthfulness in business transactions and raises the status of a truthful merchant so much so that he will be at par with the holy warriors and martyrs, in the Hereafter. The Prophet (PBUH) is reported to have said:

*“The truthful merchant (is rewarded by being ranked) on the Day of Resurrection with prophets, veracious souls, martyrs and pious people”*

(Hadith - Tirmidhi, No. 1130).

The tradition implies that Allah (TME) blesses business dealings if both the buyer and the seller are true to each other. Telling lies and hiding facts will result in the loss of divine blessing.

### **Trustworthiness in Business Transactions**

Trustworthiness is one of the most important principles of ethical discipline in commercial transactions. Trust is a moral virtue and duty incumbent on a Muslim in the performance of his affairs. It demands sincerity in work and purity of intention from every believer. A true Muslim trader will not, therefore, barter his *Akhirah* (hereafter) for worldly gains. He will avoid fraud, deception, and other dubious means in selling his merchandise. The sense of mutual trust demands that the pros and cons of commodity be revealed to the buyer so that he purchases the commodity in full satisfaction. The holy *Qur'an* states in this regard:

*“O you believers! Do not betray the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you”*

(Qur'an, Sura Al Anfal-8: 27).

A detailed commentary of the above verse in the *Qur'an* (pg.476-7) suggests that trust may be of various kinds: for instance, property, goods, credit, etc.; plans, confidences, secrets, etc.; knowledge, talents, opportunities, etc., which are expected to be used for one's fellowmen. Men may betray the trust of Allah (TME) and His Prophet (PBUH) by misusing property or abusing the confidence reposed in them, or the knowledge or talents given to them. On that special occasion, when the plans for the protection of Allah's (TME) worshippers against annihilation were of special importance, the holy Prophet Mohammed's (PBUH) trust and confidence had to be guarded with special care. Occasions for scrupulously respecting the trust and confidence of one's fellow men occur everyday in one's life, and few can claim perfection in this respect. Hence, the special distinction of the Prophet of Allah (PBUH), who earned the title *Al-Amin* (trustworthy), the one who was true to every trust reposed in him.

### **Generosity and Leniency in Business Transactions**

One should be lenient and generous in business transactions. For instance, whoever demands his debt back from the debtor should do so in a decent manner. The Prophet (PBUH) invokes Allah's (TME) mercy thus:

*“May Allah’s mercy be on him who is lenient in his buying, selling, and in demanding back his money (or debts)”*

(Hadith - Bukhari, No. 1934)

The Prophet's exhortation to Muslims means that a creditor should be lenient and generous in demanding back his money. The debtor, in turn, should also give back the debt to the creditor on time with due thanks and politeness. The Prophet (PBUH) was the best of all people in repaying the debts.

*Abu Rafi* reports that the Prophet (PBUH) took a young camel on loan. When camels came to him in charity, he asked *Abu Rafi* to give the creditor a young female camel. *Abu Rafi* pointed out that there was no young camel except for a four-year old camel of a very good quality. The Prophet (PBUH) said:

*“Give him the best one, for the best amongst you is he who repays the rights of others handsomely”*

(Hadith - Muslim, No: 3002).

### **Honouring and fulfilling Business Obligations (Uqud)**

Islam attaches great importance to the fulfilment of contracts and promises. Islamic teachings require a Muslim trader to maintain his trusts, promises, and contracts. The basic principles of truth, honesty, integrity, and trust are involved in all business dealings. The Holy *Qur'an* emphasizes the moral obligation to fulfil one's contracts and undertakings. A verse thus states:

*“O you who believe! Fulfil (your) obligations”*

(Qur'an, Sura Al Maidah-5: 1).

A tradition of the Prophet (PBUH) states:

*“The Muslims are bound by their stipulations”*

(Hadith - Abu Da'ud, No. 3120).

Another tradition condemns promise breaking as the hallmark or trait of a hypocrite:

*“If he makes a promise, he breaks it, and if he makes a compact, he acts treacherously”*

(Hadith – Sahih Bukhari, No. 32)

In order to safeguard the interest of both the buyer and the seller it is desirable, according to the Islamic teachings, to clearly define all the necessary details concerning the business deal. Each business contract should clearly specify the quality, the quantity, and the price of the commodity in question. Thus, in a business contract the offer and acceptance should be made between the parties concerned on a commodity which is with the buyer and, which he is able to deliver. Any commodity, which is non-existent or not deliverable, is not allowed to be transacted. A contract must be explicit with regard to the rights and obligations of the parties concerned so that it does not lead to disputes and disagreements between them.

## **Fair Treatment of Workers**

Islam puts certain conditions and restrictions to obviate the chances of bitterness between the employer and employees. Islam encourages and promotes the spirit of love and brotherhood between them. According to the Islamic teachings, it is the religious and moral responsibility of the employer to take care of the overall welfare and betterment of his employees. Fair wages, good working conditions, suitable work and brotherly treatment should be provided to the workers. The last Prophet (PBUH) of Allah (TME) has explained this principle in the following words:

*“Allah has placed them (workers) under you. Those are your brothers. So, if anyone of you has someone under him, he should feed him out of what he himself eats, clothe him like what he himself puts on, and if that be the case, let him not put so much burden that he is not able to bear, then lend your help to him”*

(Hadith – Bukhari, No. 2359).

The holy Prophet (PBUH) also said:

*“I will be foe to three persons on the Day of Judgement, one of them being the one who does not give him his due when he employs a person who has accomplished his duty”*

(Hadith – Bukhari, No. 2109)

The holy Prophet (PBUH) is also reported to have said:

*“The wages of the labourers must be paid to him before the sweat dries upon his body”*

(Hadith - Ibn Majah, No. 2434).

Thus, all of these quotations from the *Hadith* provide an example of Islam's emphasis on the type of treatment of employees that is a significant part of the social responsibility and justice in Islam.

### **Prohibited (*Haram*) Matters in Business Transactions**

So far one aspect of the business ethics has been focused on guidelines prescribed by Islam for conducting lawful (*halal*) business transactions. Another aspect of business transactions according to Islam is the various forms of unlawful (*haram*) business practices Muslim businesspersons must avoid. Discussion of some of these prohibited and undesirable business practices follow.

#### **Interest (*Riba*)**

Foremost among the unacceptable business practices strongly condemned in Islam is interest earned on money (*riba*). *Riba* by definition is the extra sum the moneylender charges from the borrower for deferred payment. While earlier there was a debate as to whether *riba* relates to interest or usury, there now appears to be consensus of opinion among Islamic scholars (*Ulemas*) that the term extends to all forms of interest (Al Qaradawi, 2002; and Ibn Taymiyah, 1992). Islam has forbidden all forms of interest (*riba*) since it involves both oppression and exploitation violating the norms of social responsibility and justice. Islam strictly forbids this form of tyrannical dealings and condemns it in severe terms. The holy *Qur'an* says:

“...Allah has permitted trading and forbidden *riba*...”

(Qur'an, Sura Al Baqarah-2: 275).

It further states:

*“O you who believe! Fear Allah and give up what remains of your demand for usury if you are indeed believers . If you do it not, take notice of war from Allah and his Messenger: but if you turn back you shall have your capital sums; deal not unjustly and you shall not be dealt with unjustly”*  
(Qur’an, Sura Al Baqarah-2: 278).

A detailed commentary of the above verse clarify that the threat of war in the above verse is not war for opinions. It is an ultimatum of war for the liberation of debtors unjustly dealt with and oppressed (Commentary in the Qur’an, pg. 128). In another verse of the holy *Qur’an*, Allah (TME) commands:

*“O ye who believe! Devour not riba doubled and multiplied...”*  
(Qur’an, Sura Al-i-Imran-3: 130).

The *Sunnah* is equally emphatic in denouncing *riba*. The holy Prophet (PBUH) is reported to have said:

*“May Allah send down His curse on the one who devours riba and the one who pays it and on the two witnesses and on the person writing it”*  
(Hadith - Ahmad, No. 624).

These and many other verses of the *Qur’an* and traditions of the Prophet (PBUH) clearly demonstrate that all those business transactions, which involve interest in one form or other, are unlawful (*haram*) in the sight of Islam. According to the *Qur’anic* teachings there is a clear distinction between genuine business profits and interest; while the former is recommended and desirable, the latter is hated and undesirable.

In banning interest (*riba*), Islam seeks to establish a society based upon fairness and justice. A loan provides the lender with a fixed return irrespective of the outcome of the borrower’s venture. It is much fairer to have a sharing of



the profits and losses. Fairness in this context provides the supplier of capital a right to reward, but this reward should be commensurate with the risk and effort involved and thus is governed by the return on the individual project for which funds are supplied. Hence, what is forbidden in Islam is a predetermined return. The sharing of profit is legitimate and that practice has provided the foundation for Islamic banking.

### **Dealing in Prohibited (*Haram*) Items**

Dealing in unlawful items such as carrion (dead meat), pigs, intoxicants and idols are strongly prohibited in Islam. Dead meat would mean the flesh of any bird or animal dead from natural causes, without being properly slaughtered in an Islamic way. A Muslim, therefore, will not eat the flesh of such an animal or bird. Flesh of an electrocuted animal, or of an animal killed by the blow of a blunt weapon, and of the strangled one is also proscribed in Islam. Also forbidden is the flesh of the animal that has been killed or slaughtered in ways other than Islamic. A verse of the holy *Qur'an* says:

*“...Forbidden to you (for food) are: dead meat, the blood, the flesh of swine and that on which name of other than Allah has been mentioned”*

(Qur'an, Sura Al-Maidah-5: 3).

The scholars of Islamic jurisprudence (*fiqh*) work out the details of the above verse with great elaboration. However, the purpose here is to present general principles and not technical details. Carrion or dead meat and blood as articles of food would obviously cause disgust to any refined person. So would swine's flesh where the swine live on offal. Where swine are fed artificially on clean food, the objections remain: (1) that they are filthy animals in other respects, and the flesh of filthy animals taken as food affects the eater; (2) that swine's flesh has more fat than muscle-building material; and (3) that it is

more liable to disease than other kinds of meat, e.g. trichinosis, characterised by hair-like worms in the muscular tissue. As to food dedicated to idols or false Gods, it is obviously unseemly for the Children of Unity to partake of it (Commentary in the holy Qur'an, pg.69).

It is, therefore, not permissible for a Muslim to trade in dead meat. Likewise, trading in pork or intoxicants (e.g. alcohol) and sale of idols and statues is not permitted in Islam. The Holy *Qur'an* also says:

*“O you who believe! Intoxicants and gambling (dedication of) stones and (divination by) arrows are an abomination of Satan’s handiwork: so avoid it in order that you may prosper”*  
(Qur'an, Sura Al Maidah-5: 90).

The Prophet (PBUH) is reported to have said:

*“Allah and His Messenger made illegal the trade of alcoholic liquors, dead animals, pigs and idols”*  
(Hadith – Sahih Al Bukhari, No. 2082)

The Prophet (PBUH) also said:

*“If Allah makes something unlawful, he makes its price also unlawful”*  
(Hadith – Ahmad, No: 2546).

Thus, incomes from the sale of such illegitimate transactions are also unlawful (*haram*) and must not be part of a Muslim’s earning or business transactions.

### **Sale of *Al-Gharar* (Uncertainty, Risks, Speculation)**

In Islamic terminology, this refers to the sale of a commodity or good which is not present at hand; or the sale of an article or good, the consequences or outcome of which is not yet known; or a sale involving risks or hazards where one does not know whether at all the commodity will later come into existence. Such a sale is strictly prohibited in Islam because the quality, whether good or bad, is not known to the buyer at the time of the deal and there is every possibility that the contract may give rise to disputes and disagreements between the concerned parties.

The Prophet (PBUH), therefore, prohibited the sale of what is still in the loins of the male; or sale of whatever is in the womb of a female camel; or sale of birds in the air; or the sale of fish in the water, and any transaction that involves *Gharar*. (i.e. anything that involves deception). He also forbade the sale of fruits before they look healthy and also the sale of crops until the grain hardens. Nevertheless, such advance sales would be acceptable if the element of *Gharar* does not exist and the quality and the quantity of the goods are well known and predictable.

In contemporary financial transactions, the two areas where *Gharar* most profoundly affects common practice are insurance and financial derivatives (El Gamal, 2000). Jurists often argue against the financial insurance contract, where premium are paid regularly to the insurance company, and the insured receives compensation for any insured losses in the event of a loss. In this case, the jurists argue that the insured may collect a large sum of money after paying only one monthly premium. On the other hand, the insured may also make many monthly payments without ever collecting any money from the insurance company. Since 'insurance' or 'security' itself cannot be considered an object of sale, this contract is rendered invalid because of the forbidden *Gharar*. Conventional insurance also suffers from prohibition due to *riba*

since insurance companies tend to invest significant portions of their funds in government bonds, which earn them *riba* (Siddiqui, 1981).

### **Arbitrarily Fixing the Prices**

Islam grants absolute freedom to traders provided they adhere to the code of lawfulness. It does not, therefore, encourage the practice of price-fixing and leaves the traders to earn the profits from each other within the lawful limits. As a matter of principle public authorities are not allowed to fix the prices of commodities by force. This is because rise and fall in the prices are linked to various factors other than the greediness of the traders and fixing the prices may endanger both public and private interests.

It is reported that on one occasion prices increased dramatically during the period of the holy Prophet (PBUH). The people asked the Prophet (PBUH) to fix the price for them. Thereupon the Messenger of Allah (PBUH) said:

*“Allah is the One Who fixes prices, withholds, gives lavishly, and provides, and I hope that when I meet Allah, none of you will have any claim on me for an injustice regarding blood or property”*

(Hadith - Tirmidhi, No. 1235).

However, the role of public authorities comes into play if it becomes absolutely essential, especially in order to prevent exploitation and other unjust practices in the market. Thus, if a trader adopts unfair means, charges unjust prices and indulges in undercutting with a view to doing harm to the smaller traders, public authorities have the right to intervene in the market. They can and should take steps to fix or control the prices so as to eliminate injustice from the market and allow the trader to earn reasonable profits and the buyer to pay a just and equitable price.

### **Hoarding of Foodstuff**

The Arabic word for hoarding is *Ihtikar*. It means storing foodstuffs or withholding them in expectation of a rise in their prices. Sometimes, a handful of traders operating in the market may buy the entire quantity of an item, rice for example, and store it up with the object of selling it later at a time of scarcity to draw maximum profit. The consumers are left with no choice but to purchase the article concerned from the one who hoards, as he is the only one in the market who holds it. At other times, a trader may collude with suppliers who will only sell their merchandise to him. As a result, he holds the entire stock of the essential items that other traders do not possess. He is, therefore, in a position to dictate his terms in the market and sell them at an exorbitantly high price to the needy people. This is an unjust practice and a clear case of exploitation and deservedly condemned by Islam. The Prophet (PBUH) is reported to have condemned the hoarders when he said:

*“No one hoards but the traitors (i.e. the sinners)”*

(Hadith - Abu Da’ud, No. 2990).

The Messenger of Allah (PBUH) also said:

*“The importer (of an essential commodity) into the town will be fed (by Allah), and the hoarders will have (Allah’s) curse upon him”*

(Hadith - Ibn Majah, No. 2144).

### **Exploitation of one’s Ignorance of Market Conditions**

One of the most common unethical practices in modern business is to exploit one’s ignorance of market conditions. Sometimes it may happen that a buyer arrives in a town with objects of prime and general necessity. A local trader may persuade the newcomer to transfer all of the goods to him so that he will

sell them on his behalf in the market. He obtains the commodities on a price that is lower than market price and then sells them at a high or exorbitant price. Islam condemns this act of intermediary intervention, which involves exploitation of one's ignorance of market conditions. The practice was prevalent in pre-Islamic society. The Prophet (PBUH) has prohibited this practice through a number of instructions. A tradition reads:

*“A town dweller should not sell the goods of a desert dweller”*

(Hadith - Bukhari, No. 2006).

### **Cheating and Fraud in Business Transactions - Trickery (*Al-Najsh*)**

The traders and businessmen generally have a tendency to induce customers by adopting fraudulent business practices. Islam strongly condemns all such practices in business transactions. The Messenger of Allah (PBUH) has commanded the believers not to indulge in cheating and fraudulent practices in business transactions. The term *Al-Najsh* means an action in which a person offers a high price for something, without intending to buy it, but just to cheat or defraud another person who really means to buy it. The person practising it may collaborate with the seller to offer high prices merely as a means to cheat other buyers. This type of fraudulent transaction is totally prohibited in Islam. The holy Prophet (PBUH) is reported to have said:

*“Do not harbour envy against one another; do not outbid one another (with a view to raising the price); do not bear aversion against one another; do not bear enmity against one another; one of you should not enter into a transaction when the other has already entered into it; and be fellow brothers and true servants of Allah”*

(Hadith – Muslim, No: 4650).

It is clear from the preceding *Hadith* that Islam also forbids the practice of sale over sale and purchase over purchase. This means that it forbids someone to offer a higher price for a commodity after the deal has been accomplished between the parties. Obviously he is offering a higher price in order to spoil the agreement reached between the parties. As a result of this offer the buyer may feel tempted to cancel his contract to sell it at a higher price. It may give rise to disputes and disagreements between brothers. Hence it is strictly prohibited in Islam.

Similarly, dubious and vague transactions, manipulating the prices, selling the items belonging to a desert dweller by a townsman, false eulogy and concealment of defects are all examples of cheating and fraud (*Al-Ghashsh*). The Prophet (PBUH) has strongly condemned all such practices in a number of traditions and instructed the faithful to abstain from them. The Prophet (PBUH) is reported to have said:

*“The seller and the buyer have the right to keep the goods or return them as long as they have not parted. He also said that if both the parties have spoken the truth and described the defects as well as the merits thereof (the goods), they would be blessed in their deal. If they have told lies or concealed something, then blessings of their transaction would be lost”*

(Hadith – Bukhari, No: 1937).

Another form of deceit is to manipulate weights and measures. It refers to the act of taking full measures from others and giving them short measures in your turn. Giving short measures was a common malaise plaguing the pre-Islamic days. The community of the Prophet *Shu‘ayb* (PBUH) was known for practising it with impunity. Consequently, they were destroyed for their persistence in deceit and disbelief in Allah (TME) and His Messenger (PBUH). Allah (TME) - the almighty has repeatedly commanded exactitude in weights and measures. One of the verses in the holy *Qur’an* says:

*“And give full measure when you measure, and weigh with a just balance.*

*That is good and better in the end”*

(Qur'an, Sura Al Israa-17: 35).

As can be seen in the above verse of the holy *Qur'an*, a balanced transaction is also equitable and just. *Qur'an* uses the term '*adl*' (equilibrium) in this sense. Giving just measure and weight is not only right in itself but is ultimately to the best advantage of the person who gives it as he fulfils his social responsibility according to the will of Allah (TME).

### **3.5 An Islamic Perspective of Corporate Social Responsibility**

The discussion of the concept of social responsibility and justice in Islam in this chapter in light of the holy *Qur'an* and *Hadith* suggests that there seems to be a congruence between the ideals of social responsibility and justice and business transactions in Islam that has a resonance with prevailing notions of corporate social responsibility. This perspective on social responsibility lays the foundation for the study of Islamic understandings and practice of corporate social responsibility. From this viewpoint, within Islam, as it is practiced amongst Muslims, the relationship between commercial activity and civil society is taken as natural and the rules of practice are embedded in the Islamic precepts.

In a corporate setting, Islam has always measured the corporation against two goals: financial goals and social goals. A for-profit institution that meets only the financial goal is regarded as a failing institution. In recent times, means of making profit often comes at the expense of the social good. Therefore the financial and social goals seem contradictory from time to time. However,



within the framework provided by Islam, there is a harmonious zone of sustainability, similar to the common notion of CSR, which is to be achieved.

The prevailing concept of corporate social responsibility refers to the expectations that society has of business not to harm, and also to contribute positively to the well being of others. Corporations have numerous responsibilities to all those who have a stake in it and these responsibilities derive from ethical principles and moral values. Similar values with features consistent with CSR also exist in Islamic values and moral philosophy as elaborated in this chapter through the concepts of social responsibility and justice in general, which are also applicable in a business context.

The concept of corporate social responsibility in Islam emerges from the social contract that necessarily relates to the congruency of the value system of the organization to the larger value system of an Islamic society. In Islam, organizations are similarly, if not more so, responsible to society as are individuals. As Lewis (2001) elaborates, the implications for business enterprises is that ‘both managers and providers of capital are accountable for their actions both inside and outside their firms; accountability in this context means accountability to the community to establish socio-economic justice within their own capacity’ (2001: 113).

Islam considers issues pertinent to CSR to be very significant moral aspects of the social order. The holy Prophet Mohammed (PBUH) emphasized these points with great conviction. The holy *Qur’an* and *Sunnah* of the holy Prophet Mohammed (PBUH) complement these philosophies by specifying the degree of lawfulness of key types of behaviours for Muslim businessmen as discussed in the preceding section of this chapter.

Islam’s strong emphasis on the responsibility of the businesses towards society is further seen in a letter from one of the four rightly guided Caliphs of Islam.

The fourth Caliph of Islam, Ali Ibn Abu Talib (may Allah be pleased with him) in a letter to Malik bin Al-Haris Al-Ashtar upon the latter's appointment as the Governor of Egypt summarized the concept of social responsibility from an Islamic perspective concerning trade and industry. He wrote:

*“You are advised to treat well businessmen and artisans and direct others to do likewise. Some of them live in towns and some of them from place to place with their ware and tools and earn their living by manual labour. They are the real source of profit to the state and provider of consumer goods.*

*While the general public are not inclined to bear the strain, those engaged in these professions take the trouble to collect commodities from far and near, from land and from across the sea, and from mountains and forests and naturally derive benefits.*

*It is this class of peace-loving people from whom no disturbance needs to be feared. They love peace and order. Indeed they are transacting business at your place or in other towns. But bear in mind that a good many of them are intensely greedy and are not immune to bad dealings. They hoard grain and try to sell it at a high price and this is most harmful to the public. It is a blot on the name of the ruler not to fight this evil. Prevent them from hoarding; for the prophet of God had prohibited it. See to it that trade is carried on with the utmost ease, that the scales are evenly held and that prices are so fixed that neither the seller nor the buyer is put to a loss. And if, in spite of your warning, should anyone go against your commands and commit the crime of hoarding, then inflict upon him a severe punishment”*

(Alhabshi, n.d.).

The rightly guided fourth Caliph of Islam is very well known for his knowledge and wisdom. One can discern from this excerpt, in the present day context, that the business or the corporate sector provides numerous pertinent services to society. It brings goods and services of all types within society's

reach. The corporate sector contributes substantially to the country's income and wealth and parts some portion to the government in the form of taxes. It generates a major proportion of the nation's employment and provides an important impetus to the growth and expansion of the economy apart from drawing in foreign investments and much needed foreign exchange. It plays a significant role in determining the quality of life through impacts on the physical and social environment. As the fourth Caliph has rightly pointed out, all these activities are actually motivated essentially by profits, which they deserve to make for all the hard work they do, and the risks they bear.

The fourth Caliph of Islam also reminded followers that a good many of those in business are intensely greedy. It is this greed that encourages businesses to resort to unethical and immoral behaviours in pursuit of their objectives (Drucker, 1984). Consistent with this philosophy, Islam prohibits hoarding of wealth avariciously. The concept of '*amanah*' or trust is of critical importance because any worldly merit is transient, and must be used wisely. Accordingly a Muslim must not be solely guided by profits and seek to accumulate wealth at any cost. The holy *Qur'an* states in this regard that:

*“Wealth and sons are allurements of the life of this world; but things that endure – good deeds – are best in the sight of your Lord, as rewards, and best as (the foundation for) hopes”*  
(Qur'an, Al Kahf-18: 46).

Interpreting the above verse (Commentary in the Qur'an, pg.833), every other thing is fleeting, but good deeds have a lasting value in the sight of Allah (TME). They become the foundation of hopes for the highest reward in the hereafter. On the Day of Judgment, none of the landmarks achieved by individuals will remain, including wealth and offspring. Everyone will stand as they were created, with none of the possessions that were collected during

one's lifetime, which would all have vanished. Consequently, a Muslim's actions must be motivated to please Allah (TME) alone.

Overall, Islam does not aim to create a society of martyr-like merchants, doing business for purely philanthropic reasons. Instead, Islam wants to curb man's propensity for covetousness and his love for possessions. As a result, miserliness and a spendthrift mode of conduct have both been condemned in the *Qur'an* and in the *Hadith*.

Islam goes beyond the more common issues associated with CSR and adds another significant moral virtue in social responsibility, i.e. benevolence. In general, Islam encourages benevolence. For example, if any debtor is in financial trouble, Allah (TME) encourages kindness, as stated in the *Qur'an*:

*"If the debtor is in a difficulty, grant him time till it is easy for him to repay. But if you remit it by way of charity, that is best for you if you only knew"*  
(Qur'an, Sura Al Baqarah-2: 280).

In fact, a *Hadith* of the holy Prophet Mohammed (PBUH) reaffirms the importance of magnanimity on the part of the lender. The holy Prophet (PBUH) said:

*"Before your time the angels received the soul of a man and asked him, 'did you do any good deeds (in your life)?' He replied, 'I used to order my employees to grant time to the rich person to pay his debts at his convenience and excuse (the one in hard circumstances).' So Allah said to the angels, 'Excuse him'"*  
(Hadith - Sahih Bukhari, No. 3.291).

As part of their social responsibility, Muslim businesspersons also need to watch over the welfare of weak and destitute members of society. The *Qur'an* clearly states in this regard:

*“And why should you not fight in the cause of Allah and of those who, being weak, are ill treated (and oppressed)? - men, women and children, [...]”*  
(Qur'an, Sura An Nisaa-4: 75).

The reward for taking care of the destitute and the weak is further stressed in this *Hadith*, as the holy Prophet Mohammed (PBUH) said:

*“The one who looks after and works for a widow and for a poor person, is like a warrior fighting for Allah's cause or like a person who fasts during the day and prays all night”*  
(Hadith - Sahih Bukhari, No. 8.35).

### **3.6 Conclusion**

These examples from the *Hadith* exemplifying the holy Prophet Mohammed's (PBUH) preaching and practice of social responsibility and justice and the *Qur'anic* commandments provide enough evidence that a concept similar to that of the prevailing notion of CSR has been an integral part of Islamic society for nearly 14 centuries, since its advent in the Seventh century. The guidelines in the *Shariah* specifically address issues concerning the general well being of both businesses and society and are further detailed in Islamic jurisprudence concerning every day activities (*fiqh ul muamalaat*). The holy Prophet Mohammed (PBUH) and his four rightly guided Caliphs promulgated and practiced social responsibility and justice in their society scrupulously.

While extensive, these elements remain scattered, incoherent, and unsystematic. This feature is replicated in the literature from an Islamic perspective, which is fragmented and tends to focus on particular aspects of commercial practice or remains too theologically oriented. Beyond identifying such elements, the task therefore remains to elaborate a higher-order framework to organize and systematize these elements, thereby constructing a more coherent statement of social responsibility that may be considered more properly as a counterpart to the prevailing notion of CSR that is informed by the Western value system.

The next chapter takes up this task of elaborating a higher-order framework of corporate social responsibility from an Islamic perspective, where a set of axioms will be introduced to summarize and systematize much of the previous discussion on the issue of social responsibility and justice in Islam.

## Chapter 4    Towards a Framework of Corporate Social Responsibility in Islam

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### **4.1    Introduction**

The effort in the preceding chapter has been to present the Islamic perspective concerning social responsibility and justice and its implications on business practices. The fundamental codes of moral behaviour, e.g. truthfulness, trustworthiness, generosity and leniency, adherence to business commitments and contracts, fair treatment of workers and avoidance of evil practices such as, interest (*riba*), fraud, cheating, deceit, hoarding of food stuff, exploitations, giving short measures, etc. in accordance to the Islamic jurisprudence (*fiqh*) concerning the lawful (*halal*) and unlawful (*haram*) are essential elements of social responsibility and justice in Islam and are part of the overall Islamic faith. Observing them will not only lead to a happy state of affairs in this world but also holds the promise of manifold returns in the hereafter (*Akhirah*).

Islamic morality or ethical codes thus create a sense of responsibility and accountability in the mind of the believers. This is consistent with the purpose of the Islamic system – *maqasid al Shariah*, which is based on *falah* (human well-being) and *hayat tayyibah* (good life). The discussion in the preceding chapter demonstrates that there are many elements within Islam that have a resonance with the prevailing notions of corporate social responsibility (CSR). However, these elements remain scattered, incoherent and unsystematic. The task therefore is to elaborate a higher-order framework to organize and systematize these elements, thereby constructing a more coherent statement of social responsibility in Islam that may be considered more properly as a counterpart to the prevailing notion of CSR.

This chapter will introduce a set of axioms that will systematize and summarize the concept of social responsibility and justice in Islam. The fundamental ethical axioms of *unity*, *equilibrium*, *free will* and *responsibility* will be discussed in detail in light of the holy *Qur'an* and *Hadith*. Propositions

and business expectations/applications based on the ethical axioms will be presented to elaborate a possible conceptual framework of CSR in Islam.

#### **4.2 Fundamental Ethical Axioms in Islam**

The Islamic ethical system as illustrated in the preceding chapter is multi-dimensional, far-reaching, comprehensive and all encompassing. Islam encourages humankind to experience *tazkiyah* (spirituality/morality) through active participation in this life. By behaving ethically in the midst of the tests of this world, Muslims prove their worth to Allah (TME). Ethics or morality is repeatedly stressed throughout the holy *Qur'an* and *Hadith* as a guideline in all spheres of life including business and financial dealings.

Much of the Islamic ethical behaviour is concerned with elements of social responsibility and justice. In order to determine the efficacy of these elements and systematize them in a coherent framework, it is important to first establish the foundational elements. This foundation will form the basis of the conceptual framework of CSR in Islam that will address not only the nature of the elements of social responsibility and justice but also the rationale behind them.

The Islamic view of life processes is unique not only for its predominant emphasis on ethical norms, but also due to it being 'complete'. In addition, since this view is internally consistent, it can form the basis of scientific generalizations about an Islamic economy. However, to turn it into an operational tool of scientific analysis, an ethical philosophy must be reduced to a set of axioms, which can then serve as a point of departure for making logical deductions with respect to valid rules of social and economic behaviour according to Islamic precepts.

Thus, an axiom system that reflects the Islamic view of ethics needs to be constructed as an essential first step in determining the rules of social and



economic behaviour in an Islamic society. Syed Nawab Haider Naqvi (1981), in his book *Ethics and Economics: An Islamic Synthesis*, tendered a theory of Islamic economics in which he addresses the need for an Islamic economic system and how it can be generated from the ethical statements in the *Qur'an* and *Hadith*. He presents the four ethical axioms - *Unity*, *Equilibrium*, *Free Will* and *Responsibility* that together form such a logical system and argues that from these four axioms, all statements regarding Islamic society and economics can be generated.

Naqvi (1981) however, lacks clarity or content related to the social responsibility and justice in Islam in his theory of the axiomatic principles that is intended to represent the socio-economic behaviour of an Islamic society. His axioms are informative statements and theologically oriented whose truth has been established without recourse to empirical evidence. Granted that it is difficult to compartmentalize any ethical system into a series of discreet concepts, Naqvi is unsuccessful in satisfying the implications of these axioms for business practices that has not been experientially proven. Furthermore, expectations arising out of the axioms and its application in contemporary business have not been elaborated to present a systematic framework that encompasses the concept of social responsibility and justice in Islam.

Nonetheless, as Naqvi is one of the few scholars who address the foundational issue of theory building in Islamic economics, this study will use his axiomatic principles, along with some other scholars' work to elaborate the conceptual framework of CSR in Islam. Based on the description of each of the ethical axioms, propositions will be developed and expectations/applications in business practice arising out of them will be discussed in this chapter to present a coherent ethical foundation representing a potential framework of corporate social responsibility in Islam. The conceptual framework presented in this chapter will further be illustrated through the study of Islamic banks to provide empirical evidence to ascertain the extent to which these axiomatic

principles, constituting the foundation of an Islamic socio-economic behaviour, may be practiced and implemented in Islamic organizations around the world.

Table 3. Axioms of Islamic Ethical Philosophy (Naqvi, 1981)

Axiom	Definition
Unity ( <i>Tawhid</i> )	Related to the concept of <i>tawhid</i> . The political, economic, social, and religious aspects of man's life form a homogeneous whole, which is consistent from within, as well as integrated with the vast universe without. This is the vertical dimension of Islam.
Equilibrium ( <i>Al 'Adl</i> )	Related to the concept of <i>al 'adl</i> . A sense of balance among the various aspects of a man's life mentioned above in order to produce the best social order. This sense of balance is achieved through conscience purpose. This is the horizontal dimension of Islam.
Free Will ( <i>Ikhtiyar</i> )	Man's ability to act without external coercion within the parameters of Allah's (TME) creation and as Allah's trustee on earth.
Responsibility ( <i>Fardh</i> )	Man's need to be accountable for his actions.

Naqvi (1981), in his investigation of the basic principles of Islamic economic and social life, identified four fundamental elements to be key pointers to the unique perspective of Islam - *Unity*, *Equilibrium*, *Free Will* and *Responsibility*, as presented in the above table. He explains that the concept of *Unity* is derived from the belief in one God. *Equilibrium* represents social ideals and justice. *Free Will* is individual freedom, and *responsibility* is the obligation each individual has towards God, oneself and the wider society. These axioms are meant to be the basis of all Islamic ethical concepts, forming the foundation of any socio-economic theory in Islam.

#### **4.2.1 Unity (*Tawhid*)**

The source of all Islamic ethical notions comes from the faith in the Unity (*Tawhid*) of God – Allah (TME). All other axioms of Islamic ethics and principles of theology, according to Naqvi (1981) originate from this concept of Unity (*tawhid*).

Islam's ethical system, which encompasses man's life on Earth in its entirety, resides eternally prefigured in the concept of Unity, which, in an absolute sense, relates only to Allah (TME). The fundamental belief that '*there is no God but Allah (TME) and none is worth worship except Him*' is the foundation of Islam and the essence of '*the divine message*' sent to mankind through various Prophets of God from Adam, Noah, Moses, and Jesus to Mohammed (peace be upon all of them). In accordance to this belief, a Muslim surrenders unconditionally to the Will of Allah (TME):

*"...the decision rests with Allah only, Who hath commanded you that ye  
worship none save Him"*

(Qur'an, Sura Yusuf-12: 40).

The foundation of Islamic faith is belief in one God – Allah (TME), which is in line with the divine commandment mentioned above. Everything else follows from this belief. This will become a crucial point because if the entire system of Islamic socio-economics should rest on the concept of unity (*tawhid*) as a fundamental principle, then one needs to see how faith in one God – Allah (TME) entail the principles that follow from it.

Faith in only one, the almighty God is at the top of the goal of *Shariah*, for in Islam, faith is crucial for human well-being (*falah*). Faith in God provides a proper basis for relations with others, allowing human beings to act in a respectful and caring manner. Faith in God also provides a moral filter,

necessary for the allocation and distribution of resources based on brotherhood and socio-economic justice. Further, faith in Islam is a motivation for equitable need fulfilment and wealth distribution (Chapra, 1992).

On the plane of human existence, this concept also provides a powerful integration principle, for all mankind is united in submission to Him. The unity of Allah (TME) not only reiterates His qualities of being all-powerful and all-knowing but also reflects man's submissive relation to Allah (TME):

*“Say: Truly, my prayer and my service of sacrifice, my life and my death are all for Allah, the Cherisher of the Worlds”*

(Qur'an, Sura Al An'am-6: 162).

Mankind has been united not only in submission and the knowledge of Allah (TME), but also in man's knowledge of one another. Indeed, the two modes of knowledge are facets of the common pursuit of the ultimate truth:

*“O mankind! We have created you from a single (pair) of male and female, and have made you into nations and tribes, that ye may know one another...”*

(Qur'an, Sura Al Hujurat-49: 13).

This above verse in the *Qur'an* is addressed to all mankind and not only to the Muslim brotherhood, though it is understood that in a perfect world (in an Islamic vision) the two would be synonymous. As it is, mankind is descended from one pair of parents – (Adam and Eve). Their tribes, races, and nations are convenient labels by which one may know certain differing characteristics. Before Allah (TME) they are all one, and he gets most honour who is most righteous. This is further stressed in the holy Prophet Mohammed's (PBUH) last sermon during his farewell pilgrimage (*Hajj*) where he declared:

*“All mankind is from Adam and Eve, an Arab has no superiority over a non-Arab, nor does a non-Arab have any superiority over an Arab. Also a white has no superiority over a black nor does a black have any superiority over a white – except by piety and good actions”*

(Haykal, 1976: 486-7).

The holy Prophet (PBUH) set an example of this message by giving the most honourable job of calling people to pray (*Adhan*), for the first time in the newly established mosque (*Masjid-e-Nabawwi*) in Madinah to a black person - Bilal (may Allah be pleased with him) who used to be a slave in the immediate past. This was an exemplary example of social justice in society, as during those days, black slaves were looked down upon in a derogatory manner in Arab society. This implies that Islam considers all human beings to be equal, except in righteousness in the eyes of God. These features of unity strongly reflect the concept of social responsibility and justice in Islam.

The concept of Unity has been well portrayed by Iqbal [1909](1981) in his most famous work in Urdu, '*Shikwa and Jawab-i-Shikwa*' translated by Khushwant Singh in 1981. The excerpt from this work illustrates the unity of God and unity of mankind in God's worship (Urdu poem – English transliteration followed by translation):

*Aa gaya ain larhai mein agar waqt-e-namaz  
Qibla- ruh ho ke zamin-bos hui qaum-I-Hijaz  
Ek hi saf mein kharhe ho gaye Mahmud o ayyaz  
Na koi banda raha, aur na koi banda nawaz  
Banda-o-sahib-o-muhtaj-o-ghani ek huey  
Teri sarkar mein jo pahunche toh sabhi ek huey.*

**Translation:**

In the midst of raging battle if the time came to pray,  
Hajazis turned to Makkah, kissed the earth and ceased from fray.  
Sultan and slave in single file stood side by side,  
Then no servant was nor master, nothing did them divide.  
Between serf and lord, needy and rich, difference there was none.  
When they appeared in Your (God) court, they came as equals and one.

Worshipping one God by Muslims in congregational prayer during *salat* (prayers) five times daily exemplifies the concept of unity. Through this unison in worship, Muslims demonstrate that Islam rejects all manner of prejudices, oppression and discrimination, instead championing the cause of social responsibility and justice in accordance to the divine will. This concept lays the foundation of universal brotherhood in Islam. An example of the concept of universal brotherhood is demonstrated at the time of the annual pilgrimage (*Hajj*) in Makkah – Saudi Arabia, where nationality, race, colour, wealth or status, etc. play no role – whatsoever. All mankind is submissive in unison before Allah (TME) exemplifying universal brotherhood.

In a deeper sense, the concept of unity constitutes the vertical dimension of Islam. It integrates, along a vertical line, the political, economic, social and religious aspects of man's life into a homogeneous whole, which is consistent from within as well as integrated with the vast universe without. Within the compass of one immaculate, divinely revealed Vision, unity shows the inter-relatedness of all that exists. The relationship between the Creator and the created is based on this concept. Allah (TME) has put humankind at the helm of everything He created. Accordingly, man occupies the central place in the Universe. He is not just one element in the vast expanse of God's creation but provides the *raison d'être* for all that exists. The holy *Qur'an* states:

*“See ye not how Allah hath made serviceable unto you whatsoever is in the skies and whatsoever is on the Earth...”*

(Qur'an, Sura Luqman-31: 20).

Interpreting the above verse (commentary in the holy Qur'an, pg.1216), everything created by Allah (TME) has a purpose. Allah's (TME) creation is independent of man. But Allah (TME), in his infinite mercy, has given man the faculty to subdue the forces of nature and to penetrate through high mysteries with his powers of reason and insight. But this is not merely a question of power. For in His universal plan, all are safeguarded. But man's destiny is noble to the highest degree of being responsible towards others. It is this purpose, which gives meaning and significance to the existence of the universe. Allah (TME) further assigns mankind with the task of being his vicegerent (*Khalifah*) on earth and to use the resources provided responsibly:

*“It is He (Allah) Who hath made you inheritors of the earth...”*

(Qur'an, Sura Al An'am-6: 165)

Inheritors in the above verse imply vicegerency (*Khilafah*) of Allah's (TME) resources on earth. This element in Islamic ethics establishes a connection between the infinite and perfect being (Allah-TME) and the finite (mankind) and imperfect world. By uniting man's social, political and economic aspects, his life becomes consistent and it contributes to a universal brotherhood.

Chapra (1992) points out that universal brotherhood is a direct result of the fact that everyone is a *Khalifah* (vicegerent) of Allah (TME). He maintains that the principle of *Khilafah* (vicegerency) follows directly from the concept of unity (*tawhid*) in that it describes man's purpose and behaviour of maintaining social responsibility and justice as an essential part of faith. The model of interaction is that of mutual sacrifice and co-operation to fulfil the

basic needs of all, to develop the entire human potential and to enrich human life. This is distributive justice in Islam as discussed in the previous chapter.

Chapra (1992) further posits that all the resources provided by Allah (TME) are a 'trust' to mankind and man should utilize them equitably, in the spirit of the purpose of the Islamic social system (*maqasid al Shariah*) that is based on *falah* (human well-being) and *hayat tayyibah* (good life), both of which stress universal brotherhood and socio-economic justice. The notion of *Khilafah* introduces meaning and mission to mankind. The meaning is provided by the conviction that mankind has not been created in vain, but rather to fulfil a mission. The mission is to act in accordance with divine tenets commanded by Allah (TME). This is what is implied by worship (*ibadah*) in the Islamic sense (Qur'an, Sura Az Zariyat-51: 56) - an invariable imperative of which is fulfilling one's obligations/responsibility towards other human beings (*huquq al ibad*), to promote their well-being and to actualize the *maqasid al Shariah*.

A second corollary of *Khilafah* is that man is the trustee (*al 'amin*) of Allah's (TME) resources. Chapra (1992) explains that this trusteeship does not entail the negation of private property. However, it does alter the relations that individuals have with each other and with property. The holy Qur'an authenticates this and states:

“...to Allah belongeth the dominion of the heavens and the earth...”

(Qur'an, Sura Al-I-Imran-3: 180 and Sura Al Maidah-5: 17)

The above verse suggests that mankind only owns material wealth or property temporarily during their short life here on earth. So all gifts of Allah (TME) to mankind are in trust only (*amanah*). They ultimately revert to Allah (TME), to Whom belongs all that is in the heavens and on earth (Commentary in the Qur'an - interpreting the above verse, pg.197).



Chapra (1992:207) further outlines the following implications of trusteeship:

- (1) resources should be utilized and allocated equitably, as they are for everyone's benefit, not just the benefit of a few individuals who have more 'rights' about the property;
- (2) resources must be acquired honestly, in the manner indicated by the *Qur'an* and *Sunnah* (the lawful - *halal* earnings);
- (3) resources must not be destroyed.

The third corollary of *Khilafah* is the humble lifestyle. One's lifestyle should not reflect arrogance, pomp and grandeur or moral laxity because it unnecessarily drains resources and promotes inequality.

The fourth implication of *Khilafah* is human freedom. Although Allah (TME) is the owner, humans still have freedom and it is up to them to decide how to exercise it. However, this freedom is qualified by the rules of the *Shariah*. Humans are thus free only within the bounds of *Shariah*. Therefore, any economic system that either subjugates human beings to a situation of serfdom or slavery, or allows excessive rights that contradict the limits imposed by the *Shariah*, cannot contribute to the social system in Islam. Thus, *Khilafah* is a direct implication of Unity, which results in human freedom and the trusteeship status of man. Humans are considered as trustee of Allah's (TME) wealth on earth and should use it accordingly fulfilling their moral and social obligation towards fellow creatures. Thus, the concern for ethical fulfilment results in the individual raising one's level of consciousness to a higher plane.

In summary: the axiom of unity forms the foundation of Islamic faith. Belief in one and only Allah (TME) and submitting to His will is the essence of the Islamic belief system. This creates a relationship between the Creator and the creation where Allah (TME) through His mercy, provides everything on earth for the benefit of mankind and assigns them as His vicegerent (*Khalifah*) on

earth. However, mankind holds these resources in trust (*amanah*) and are obliged to utilize them responsibly in accordance to Allah's (TME) will.

### **Proposition**

Based on the axiom of unity, there is only one God – Allah (TME) and everything in the heavens and on earth belong to Him. Man is considered to be the vicegerent (*Khalifah*) of Allah (TME) on earth and thus trustee (*al 'amin*) of Allah's (TME) resources as everything bestowed upon mankind by the Almighty is held in trust (*amanah*).

### **Expectation / Application in Business of the axiom of Unity**

The expectation here is that a faithful will be trustworthy and truthful; will not hoard his wealth avariciously; and will not discriminate in any form. These expectations in business relate with the tenets of Islamic business practice discussed in the previous chapter, section-3.4.2 (also see Table 2). This is consistent with Allah's purpose for creating mankind. As Islam prescribes a unified code of behaviour – both individually and collectively, this code is equally applicable to corporations adhering to Islamic business precepts.

A Muslim businessperson will not be coerced into unethical practices, since he has only Allah (TME) to fear and love. He follows the same, unified code of behaviour whether he is in the mosque, earning a living or acting out other aspects of one's life. He will be content in his submission to Allah's will:

*“Say: Lo! My worship and my sacrifice and my living and my dying  
are all for Allah, Lord of the Worlds”  
(Qur'an, Sura Al An'am-6: 163).*

Accordingly, a Muslim businessperson will not discriminate among his employees, suppliers, buyers, or any other stakeholder on the basis of race, colour, sex, or religion. This is consistent with Allah's (TME) purpose for creating mankind mentioned earlier in this chapter:

*“O mankind! Lo! We have created you male and female, and have made you nations and tribes, that you may know one another”*

(Qur'an, Sura Al Hujurat-49: 13).

Beekun (1997) contends that the general principle of unity (*tawhid*) applies to all aspects of relationship between a firm and its employees. Muslim businessmen should not treat their employees as though Islam is inconsequential during business hours. For example, Muslim employees should be given time off for prayers, should not be coerced into acting against the Islamic moral code, should be given respite if they are sick and cannot perform, and should not be harassed sexually or otherwise. This principle is reflected in the fair treatment of workers discussed in the previous chapter-3, section-3.4.2.

Similarly, many ethical issues characterize the relationship of the employee to the firm, especially with respect to honesty, secrecy, and conflicts of interest. Thus, an employee must neither embezzle the funds of the company, nor reveal company secrets to outsiders. Another unethical practice occurs when managers add false charges for meals and other services to their company expense accounts. Some of them cheat because they feel underpaid, and wish to restore equity. At other times, it is pure greed. For example, Albert Miano who embezzled \$1 million from his employer admitted that his primary motivation was greed (Fortune, April 25, 1988 cited in Beekun, 1997). For Muslim employees, Allah (TME) gives them a clear warning in the *Qur'an*:

*“Say: The things that my Lord hath indeed forbidden are: shameful deeds  
whether open or secret; sins and trespasses against truth or reason”*

(Qur'an, Sura Al A'raf-7: 33).

This is again, consistent with the tenets of trustworthiness and truthfulness concerning business transactions discussed in the previous chapter, section-3.4.2. Muslim employees, cognizant of the above verse in the *Qur'an*, should never intentionally act in unethical manner as it is clearly prohibited (*haram*) to be dishonest according to Islamic jurisprudence (*fiqh*).

Similarly, the faithful Muslim will not hoard his wealth avariciously consistent with the principle of hoarding discussed in the previous chapter, section-3.4.2. The concept of '*amanah*' or trust is of critical importance because any worldly merit is transient, and must be used wisely. A Muslim is not solely guided by profits, and is not seeking to accumulate wealth at any cost. He realizes, in accordance to the commandments of Allah (TME) that:

*“Wealth and sons are allurements of the life of this world; but things  
that endure – good deeds – are best in the sight of your Lord, as  
rewards, and best as (the foundation for) hopes”*

(Qur'an, Sura Al Kahf-18: 46).

Al Qaradawi (2002) further points out that the market system is free in Islam and is allowed to respond to supply and demand (pp.255-7). However, Islam does not tolerate interference in the market system by hoarding or other forms of price manipulation. Allah's (TME) Messenger Mohammed (PBUH) said:

*“He who hoards is a sinner”*

(Hadith - Sahih Muslim, No. 3910).

In cases where businessmen are engaging in hoarding and other forms of price manipulation, Islam allows price control in order to meet the needs of the society and to provide protection against greed. However, if a commodity is being sold without any hoarding and its price rises because of natural shortages or scarcity or an increase in demand, then this circumstance is due to Allah (TME). Businessmen cannot then be compelled to sell at a fixed price.

Buyers, on the other hand, should expect to receive goods that are in working conditions and priced fairly. They should also be notified of any deficiencies. Islam prohibits any kind of fraudulent transaction (Chapter-3, sec.3.4.2) whether during a purchase or a sale. The Muslim businessman must be truthful and trustworthy at all times. The following *Hadith* exemplifies how the Islamic moral code views deceptive business practices:

*“The Messenger of Allah (PBUH) happened to pass by a heap of eatables (corn). He thrust his hand in that heap and his fingers were moistened. He said to the owner of the heap of eatables (corn), ‘What is this?’ Messenger of Allah (PBUH), these have been drenched by rainfall.’ The Holy Prophet (PBUH) remarked, ‘Why did you not place this (the drenched part of the heap) over other eatables so that the people could see it? He who deceives is not of me (is not my follower)’”*

(Hadith - Sahih Muslim, No. 0183).

A similar situation took place when the second Caliph of Islam, Umar ibn al Khattab (may Allah be pleased with him) punished a man who was selling milk diluted with water. Umar spilled the man’s milk not because it was unfit for consumption, but rather because the buyer would not know the relative quantities of milk and water (Ibn Taymiyah, 1992:65). Hence Islam encourages Muslim businessmen to be forthright, and reveal any defects prior to the sale. Should either party then decide that they do not wish to participate in the contract, they may do so.

In summary: the axiomatic concept of unity (*tawhid*) creates a sense of social responsibility and justice in mankind due to its vicegerency (*Khilafah*) of Allah's resources on earth. This makes them trustee (*al 'amin*) of all the resources which he holds in trust (*amanah*). This concept, thus, raises certain expectations/applications in business practice – trustworthiness, truthfulness and avoidance of hoarding and other dishonest means in business. Adherence to these principles of business practice will fulfil the purpose of the Islamic social system (*maqasid al Shariah*), which is to create a harmonious society by means of maintaining social responsibility and justice. The next axiom of equilibrium will further discuss the ways in which this harmony can be achieved in line with the divine commandments.

#### **4.2.2 Equilibrium (Al 'Adl)**

The axiom of equilibrium (*al'adl*) corresponds to the axiomatic concept of unity. In addition to the vertical dimension of the axiom of unity (*tawhid*), equilibrium (*al'adl*), which in a deeper sense denotes a balance of forces, constitutes the horizontal dimension of Islam. This dimensional characterization of Islam is briefly noted, but in a different context by Frithjof (1975 & 1976). He notes that 'it is the aim of Islam to combine the sense of the absolute with the quality of equilibrium' (Frithjof, 1976:23).

At the absolute level, equilibrium is the supreme attribute of Allah (TME). In fact, its denial constitutes a denial of God Himself. It follows that, at the relative level, the quality of equilibrium must also characterize all its creation, which must reflect all His qualities. Accordingly, the Islamic view of life is derived from a divine perception of an all-pervading harmony in the Universe:

*“He who created the seven Heavens, one above another: No want of proportion wilt thou see in the creation of the most Gracious. So turn thy*

*vision again: Seest thou any flaw? Again turn thy vision a second time: (thy)  
vision will come back to thee dull and discomfited, in a state worn out”*  
(Qur'an, Sura Al Mulk-67: 3-4).

The implication of the above verse is that Allah (TME) has created everything impeccably with a balance. All this is possible because Allah (TME) is almighty and can perfectly carry out His will and purpose, which are love, mercy and goodness to His creatures. As a vicegerent (*Khalifah*) of Allah (TME), man must replicate these qualities and fulfil his obligation through social responsibility and justice in order to maintain equilibrium in the society. Indeed, divine perfection, reflected in the quality of equilibrium, exists in the very order of the Universe that hangs together in a delicate balance, as the holy *Qur'an* states:

*“It is not for the sun to overtake the moon, nor doth the night outstrip the day.  
They float each in an orbit”*  
(Qur'an, Sura Ya-Sin-36: 40).

From an Islamic perspective, various elements of life must be equilibrated to produce the best social order:

*“...He hath created everything, and hath meted out for it a measure”*  
(Qur'an, Sura Al Furqan-25: 2); and also

*“Lo! We have created everything by measure”*  
(Qur'an, Sura Al Qamar-54: 49).

Various *Qur'anic* commandments suggest that Allah (TME) has created the universe with a balance to maintain equilibrium in nature. Mankind, as vicegerent (*Khalifah*) of Allah (TME) on earth should be conscious of this

balance and act accordingly. The concept of equilibrium is at the heart of the following *Qur'anic* verse:

*“And thus have We willed you to be a community of the middle way, so that (with your lives) you might bear witness to the truth before all mankind, and that the Apostle might bear witness to it before you”*

(Qur'an, Sura Al Baqarah-2: 143).

Interpreting the above verse as per the commentary in the *Qur'an* (pg.57), 'community of the middle way' can also be interpreted as 'middlemost community', i.e. a community that keeps an equitable balance between extremes and is realistic in its appreciation of man's nature and possibilities, rejecting both licentiousness and exaggerated ascetism. This balanced attitude, peculiar to Islam, flows directly from the concept of God's oneness and hence, of the unity of purpose underlying his creation.

To avoid confusion, it should carefully be noted that the word 'equilibrium' has been used in this context in a very special sense denoted by *al'adl*. It is interesting that another meaning of *al'adl* is justice and equity (Umar-ud-din, 1991:241). To the possible objection that *al'adl* means 'justice' and not 'equilibrium', there is a simple answer: if justice is introduced everywhere, which is what Islam would insist upon, then a delicate balance that is equilibrium – will hold throughout such a society.

Social equilibrium (*al'adl*) is a crucial element of an Islamic system, as one cannot conceive a Muslim society where justice does not prevail. Furthermore, it is justice that gives the notion of brotherhood its meaning. The holy *Qur'an* addresses the role of justice and the elimination of all forms of injustice as the primary mission of all God's Messengers (Qur'an, Sura Al Hadid-57: 25).



Thus, equilibrium represents a social ideal of the virtues of legal, political and economic institutions in Islam. This must be based on the principles of social justice in accordance to the will of Allah (TME). The holy *Qur'an* states:

*“Verily, God has enjoined justice and kindness”*

(Quran, Sura An Nahl-16: 90).

In the economic sphere, the concept demands that the configuration of production, consumption and distribution activities be based on social equilibrium, in particular, with the clear understanding that the needs of all the least privileged members in society constitute the first charge on the real resources of society (Naqvi, 1994). Thus, social equilibrium could be defined as being concerned with both improving the economic lives of the least privileged members of the community and them being worthy of all of the resources of the society. In order to further understand this concept, the meaning of the antonym of *al 'adl*, which is *zulum* need to be examined. Naqvi (1994) explains *zulum* to denote a social disequilibrium in the sense that the resources of the society flow from the poor to the rich. This is not permitted in Islam because of the following verse in the holy *Qur'an*:

*“...so that it (i.e. wealth) does not concentrate in the hands of those who are rich among you...”*

(Qur'an, Sura Al Hashr-59: 7).

This verse combined with the earlier one from *Sura An Nahl* (16:90) demands that in a state of disequilibria, it is societal responsibility to ensure that equilibrium is reached and maintained and wealth and income are distributed fairly. Thus, the concept of equilibrium includes both the goal of equilibrium and the process, the reordering of production, consumption and distribution of wealth and income so that the basic requirements of the least privileged are

met. Although moral discussions often take an air of absolutism, the proper application of equilibrium requires an awareness of the actual circumstances.

Four elements of the Islamic system pertaining to equilibrium, Chapra (1992) suggests, are relevant for this discussion:

- (1) need fulfilment;
- (2) respectable source of earning;
- (3) equitable distribution of income and wealth; and
- (4) growth and stability.

Chapra (1992) holds that from the importance of brotherhood and the trustee nature of ownership, it follows that resources must be utilized for the needs of all members of society and provides a standard of living that is humane and respectable. The Islamic notion of need fulfilment is not based on a Western economic concept. Rather, it has a place in Islamic jurisprudence (*fiqh*) and as jurists maintained, it was a collective duty (*fardh kifayah*) for the Muslim society to provide the minimum needs of the poor. This point has been accepted unanimously by modern Muslim scholars (Al Qaradawi, 2002).

Furthermore, there is a personal obligation (*fardh al ayn*) for each individual to provide for himself and his family. Without this he cannot fulfil his devotional duties. Therefore, there is a collective obligation on a Muslim society to provide equal opportunities to earn an honest living in keeping with members' ability and effort. If individuals cannot support themselves due to being handicapped or any other inability, there is a collective obligation to fulfil their needs. The responsibility goes first to a family and friends or altruistic organizations. The State comes in as a last resort. This is consistent with the Islamic tenet of keenness to earn legitimate (*halal*) earnings discussed in chapter-3, section-3.4.2.

Chapra (1992) explains that inequalities are permitted in an Islamic society, as long as they are the result of differences in skill, initiative, effort and risk. However, this can be criticized in a contemporary context. For instance, considering the following situation where at time –  $t=0$ , an Islamic economy has been successfully generated and the only inequalities that exist are due to differences in skill, initiative, etc. What happens after several generations at time –  $t=150$ ? Clearly in most societies today, if one's parents suffered economic inequality due to one or more of the above circumstances, then it is often passed on to the children through deficiencies in accommodation, nourishment and education.

In an Islamic economic system, this cannot be allowed for two reasons: first, the inequalities experienced by the children are not due to the lack of certain qualities, instead, they would be due to the hardships of the parents; second, the basic needs of the poor must always be provided (Chapra, 1992). In order to combat this, an Islamic system requires a continuous process of redistribution in order to avoid the problem of inequalities being passed from one generation to the next. Thus, although economic inequalities resulting from skill and initiative may exist, an Islamic social system would still bring all individuals to a minimum standard of living.

Chapra (1992) further contends that gross inequalities in wealth will lead to the destruction of brotherhood. It is the general opinion of Muslim scholars (*Ulemas*) that if the social behaviour pattern and economy are restructured in accordance with Islamic precepts, there cannot be extreme inequalities of income and wealth in a Muslim society. It is crucial to notice that what Chapra (1992) is talking about to maintain equilibrium in a society is a restructuring of the economy and behaviour.

In order to achieve the objectives of the Islamic economy, a high level of efficiency and a high rate of growth are needed. Economic stability would

reduce the inequalities of distribution that is normally brought about by recession and inflation. The realization of an optimum rate of economic growth and minimization of economic instability would be necessary to fulfil the implications of *Khilafah* (vicegerency) and *al'adl* (social justice).

In summary: the axiom of equilibrium is the horizontal dimension of Islam. It can be a sense of balance among the various aspects of a man's life to produce the best social order. God has created everything in the universe with a balance to maintain the equilibrium. As a vicegerent of God on earth, mankind is supposed to reflect His qualities and thus, maintain equilibrium in society through social responsibility and justice to produce the best social order. A middle path must be maintained in all the socio-economic affairs of a Muslim society. Accordingly, none should discriminate socially and must avoid miserliness and spendthriftness economically, as all are condemned in Islam. Adherence to this principle will create social harmony, which is consistent with the purpose of an Islamic social system (*maqasid al Shariah*) that emphasizes human well-being (*falah*) and good life (*hayat tayyibah*).

### **Proposition**

Based on the ethical axiom of equilibrium, in an Islamic society, various elements of life must be equilibrated to produce the best social order, which is an aggregation of natural and social forces creating social harmony.

### **Expectation / Application in Business of the axiom of Equilibrium**

The foregoing suggests a faithful must practice distributive justice within the socio-economic environment, as discussed in the previous chapter, sec-3.4. Equilibrium in business as per the Islamic precept must be practiced by means

of fair competition in an open market; treating others fairly and maintaining fairness in wage distribution.

The principle of equilibrium or balance applies both figuratively and literally to business. For example, Allah (TME) admonishes Muslim businessmen to:

*“Give full measure when you measure and weigh with a balance that is straight: that is the most fitting and the most advantageous in the final determination”* (Qur’an, Sura Al Israa-17: 35).

As can be seen in the above verses of the *Qur’an*, a balanced transaction is also equitable and just. The *Qur’an* uses the term *al’adl* in this sense. Overall, Islam does not aim to create a society of martyr-like merchants, doing business for purely philanthropic reasons. Instead, Islam wants to curb man’s propensity for covetousness and his love for possessions. As a result, miserliness and a spendthrift mode of conduct have both been condemned in the *Qur’an* and *Hadith*.

Beekun (1997) notes that Islam promotes equal treatment of all living beings. For example, in hiring, promoting or any other decision where a manager is evaluating one person’s performance against another’s in an organizational setting, fairness and justice are a must. Allah (TME) directs to do so:

*“Allah commands you to render back your trusts to those whom they are due; and when you judge between man and man that you judge with justice...”*  
(Qur’an, Sura An Nisaa-4: 58).

Furthermore, in relation to the privacy of an employee, Beekun (1997) suggests that as per Islamic principles, if an employee has a physical problem, which prevents him or her from performing certain tasks, or if an employee has committed a blunder in the past, the employer must not publicize it. This

would breach the privacy of the employee. The holy Qur'an further authenticates this:

*“Whether you publish a good deed or conceal it or cover evil with pardon verily Allah doth blot out (sins) and hath power (in the judgment of values)”*

(Qur'an, Sura An Nisaa-4: 149).

Ibn Taymiyah (1992) further suggests that an employer is under obligation to pay a fair remuneration to his employees. Some employers may take advantage of a worker and underpay him or her because of their need for profit. Islam is against such exploitation. If the wage level is too low, the individual may not feel motivated to put in an adequate amount of effort. Similarly, if the wage level is too high, the employer may not be able to make a profit and keep the business going. In an Islamic organization, wages must be set in an equitable manner both with respect to employees and the employer. Although both the employer and employee can wilfully cheat each other behind each other's back, they are both accountable for their actions in front of Allah (TME). For example, the holy Prophet Mohammed (PBUH) never used to withhold the wages of any person (Hadith - Anas ibn Malik, Sahih Bukhari: 3.480).

On the Day of Judgement, the holy Prophet Mohammed (PBUH) said that:

*“He will be a witness against one who employs a labourer and gets the full work done by him but does not pay him his wages”*

(Hadith - Abu Hurayrah, Sahih Bukhari, No.3.430).

The emphasis on wage equity, Beekun (1997) suggests, has permeated Islamic history for centuries. During the time of the four rightly guided Caliphs and until the advent of Western colonialism, the institution of the '*Hisbah*' was developed to uphold the public law and order and oversee the relationship

between buyers and sellers in the market. The mission of the '*Hisbah*' was to safeguard right conduct and guard against dishonesty. The '*Hisbah*' was under the guidance of the '*Muhtasib*' who was responsible for the maintenance of public morality and economic ethics (Ahmad, 1992). One of the duties of the '*Muhtasib*' was to arbitrate in disputes over wages. In such cases, the '*Muhtasib*' would often propose the '*ujrat al mithl*' (wage acceptable for a similar work by others) as an equitable wage (Khan, 1992). This is an example of the principle of equity or justice at work again in an Islamic society. All the above examples demonstrate the notion of social responsibility and justice in Islam elaborated in the previous chapter.

Another example of a just and equitable Islamic society is the prohibition of '*riba*' or interest (see table 2 and sec-3.4.2 in chapter-3 for details). Islam encourages businesspersons to augment their capital through trade; it explicitly prohibits them from capital expansion through lending on interest. The size of the rate of interest charged is inconsequential; '*riba*' or interest is absolutely prohibited. The lender is making money without any fear of loss. Further, since the lender is likely to be wealthy and the borrower poor, '*riba*' or interest simply increases the gap between the rich and the poor, causing disequilibria in society. However, Islam encourages the circulation of wealth through trade. The holy *Qur'an* states:

*“Those who devour usury will not stand except as stands one whom the Evil one by his touch has driven to madness. That is because they say: ‘Trade is like usury,’ but Allah has permitted trade and forbidden usury...”*

(Qur'an, Sura Al Baqarah-2: 275).

Benevolence (*al'ihسان*) is another quality of Allah (TME), which man as His vicegerent (*Khalifah*) is expected to mirror in his every day life so that he is just and equitable. This has been elaborated in detail in the preceding chapter. The principle of benevolence (*al 'ihسان*) should permeate the relationship

between business and employee. At times, the business may not be doing well, and the employee may have to endure a temporary reduction in his wages for the same amount of work hours. This is authorized in the *Qur'an*:

*“...Help you one another in righteousness and piety, but help you not one another in sin and rancour...”*

(Qur'an, Sura Al Maidah-5: 2).

At the same time, Islam encourages debtors themselves not to procrastinate in repaying their debts. This is especially true in the case of wealthy debtors. The holy Prophet (PBUH) has proclaimed the procrastination (delay) in paying debts by a wealthy man as an injustice. If the businessman himself has incurred some debt in financing his business, he needs to repay them. In Islam, repayment is so important that all the sins of a martyr are forgiven except for his unpaid debt (Hadith - Sahih Muslim, No. 4649).

Another aspect of benevolence is not to place undue pressure on employees to conform blindly to unethical business practices. For instance, a survey of 1,227 Harvard Business Review readers revealed that superiors often placed pressure on their subordinates to sign false documents, disregard superiors' mistakes, and conduct business with friends of their bosses. When faced with pressure from above, employees feel compelled to compromise their integrity (Beekun, 1997:41). This is not permitted in Islam.

To foster equity and balance and thus maintain equilibrium, non-Muslim employees' beliefs should also be similarly respected. The *Qur'an* specifically points out to the virtue of justice in the following verse:



*“Allah forbids you not, with regard to those who fight you not for (your) faith nor drive you out of homes, from dealing kindly and justly with them: For Allah loves those who are just”*

(Qur'an, Sura Al Mumtahana-60: 8).

Thus, the property of equilibrium is more than a characteristic of nature; it is a dynamic characteristic that each Muslim must strive for in his/her life. Allah (TME) stresses the need for balance and equilibrium when He labels the Muslim *Ummah* as *Ummatun Wasatun*. To maintain a sense of balance between those who have and those who have not, Allah (TME) stresses the importance of giving and condemns the practice of conspicuous consumption:

*“And spend of your substance in the cause of Allah, and let not your own hands throw you into destruction; but persevere in doing good: behold, Allah loves those who do good”*

(Qur'an, Sura Al Baqarah-2: 195).

In summary: the axiomatic principle of equilibrium admonishes selfishness and a Muslim society (ideally) must maintain a balance in every aspect of socio-economic behaviour and thus maintain social harmony. The next axiom of Free Will further elaborates on freedom of choice in Islam - either to act in accordance to the divine commandments or otherwise.

#### **4.2.3 Free Will (Ikhtiyar)**

One of the most original contributions of Islam to social philosophy is the concept of a ‘free’ man. Only God is absolutely free, but, within the limits of His scheme of creation, man is also relatively free. Being relative in no way diminishes the quality of human freedom. As Frithjof (1976) has profoundly pointed out, God alone has absolute freedom, but human freedom, despite its relativity, in the sense that it is relatively absolute, is nothing other than freedom any more than a feeble light is something other than light.

Free Will (*Ikhtiyar*) is an element that each individual has, and it provides humankind with the ability to make choices in situations where there may be opposing issues involved. Naqvi (1994) maintains that the individual’s freedom is ‘unrestricted and voluntary’; therefore, it is possible to make wrong choices, even though it is an individual’s best interest to make the right choice. The *Qur’an* states:

*“Say: O mankind! Now hath the truth from your Lord come unto you. So whosoever is guided is guided for the good of his soul, and whosoever is erreth, erreth only against it...”*  
(Qur’an, Sura Yunus-10: 108).

The *Qur’an* also states that:

*“...Verily God does not change the state of people till they change their innerselves...”*  
(Qur’an, Sura Ar Ra’d-13: 11).

Interpreting the above verses in detail highlights the free will of man within God’s scheme of freedom for humankind. Allah (TME) is not intent on punishment. He created man virtuous and pure; He gave him intelligence; surrounded him with all sorts of instruments of His grace and mercy. If, in

spite of all this, man distorts his own will and goes against Allah's (TME) will, yet Allah's (TME) forgiveness is open to him if he will take it. It is only when he has made his own sight blind and changed his own nature or soul away from the beautiful mould in which Allah (TME) formed it, that Allah's (TME) wrath will descend on him and the favourable position in which Allah (TME) placed him will be changed. Thus, an individual's blessings are conditional upon making the right choice. The basis of one's freedom is his/her ability to make the right choice (Commentary in the Qur'an, pg.675).

Islam teaches a person not to be the slave of his/her desire. A person has been endowed with a free will to make his/her own choices, thereby making his/her own way of achieving success in this life and salvation in the hereafter. These outcomes are not mutually exclusive. Islam teaches its followers to make such supplication to Allah (TME):

*“Our Lord! Give us in this world that which is good and in the Hereafter that which is good...”*

(Qur'an, Sura Al Baqarah-2: 201).

Naqvi (1994) further explains that very much related to one's ability to make the right choice is man's role as Allah's (TME) vicegerent (*Khalifah*) on earth. This vicegerency is more of virtuality than an actuality. However, it is an individual's goal to act in a manner such that this situation obtains.

Man in Islamic perspective is not chained to predestination in the literal sense. Having been given the faculty to choose, mankind has the freedom either to become God-like and thus His vicegerent (*Khalifah*) on earth, or deny God. This freedom to accept or reject whatever is on earth followed from man's acceptance, even before creation, of a burden, which no one else could endure. As the holy *Qur'an* states:

*Lo! We offered the trust unto the heavens and the earth the hills, but they refused to undertake it and were afraid of it: and man assumed it...*”

(Qur'an, Sura Al Ahzab-33: 72).

Interpreting the above verse (commentary in the Qur'an, pg.1268), trust is something given to a person, over which he has no power of disposition. He is expected to use it as directed or expected, but he has the power to use it otherwise. There is no trust if the trustee has no power, and the trust implies that the giver of the trust believes and expects that the trustee would use it according to the wish of the creator of the trust and not otherwise. Thus, God's omniscience encompasses all man's actions throughout his sojourn on earth, but man's freedom is also God-given.

By accepting to act as the receptacle of God's power of discretion, man has been assigned to the most distinguished niche in the Universe. The emphasis on the central importance of the individual, not only in the society but also in the Universe, is one of the hallmarks of the teachings of Islam, which makes it the most progressive religion of the world. Sir Mohammed Iqbal [1934](1960) has brought out this aspect of Islam in his book: *Reconstruction of Religious Thought in Islam*. His deductions are based on three *Qur'anic* propositions about the place of the individual in the universe:

- (i) that man is the chosen of God;
- (ii) that man, with all his faults, is meant to be the representative of God on earth;
- (iii) that man is the trustee of a free personality, which he accepted at his peril.

Syed Amir Ali (1922) also emphasized this aspect of man. He notes that the Arabian philosophy, nurtured afterwards in other cradles, drew its first breath in the school of Madina al Munawwara. The freedom of human will, based on

the doctrine that man would be judged by the use he had made of his reason, was inculcated in the teachings of the Master, along with an earnest belief in a supreme power ruling the universe.

It should be emphasized that human freedom applies both to the ‘individual’ and the ‘collective’ man, emphasizing a correct balance between the two. In a non-Islamic setting, the individual’s (almost unlimited) right to private property provides a set of institutions, which can make the maximum contribution to social good. However, Islam does not accord unqualified sanction to an individual’s right to private property, because all property belongs to Allah (TME) and man is only His trustee (*al’amin*) on earth. Hence, an individual does not have an exclusive ‘natural’ right to what he earns, and has even less to what he can inherit. Furthermore, the roots of human freedom, according to Islam, cannot be traced to an uncertainty about who knows best, but flows naturally and serenely from a perspective of certainty:

*“...Allah knoweth, ye know not”*  
(Qur’an, Sura Al Baqarah-2: 216).

According to Western social philosophy, individuals should be allowed the freedom to choose because no one individual has the exclusive right to reason, and hence what is best can be discovered only by a process of trial and error (Hayek, 1948).

In the classical economic model, this works out through the atomistic market behaviour of the individual, each significant, coupled with the institution of private property. The inadequacy of this argument can be shown by pointing out that what the system of free markets can at best achieve is to lead the competing individuals on to the ‘efficiency locus’, i.e. a configuration of a whole set of points which are consistent with the utility-maximizing behaviour of the freely acting individuals. However, not every point on this locus

coincides with the best social welfare. To discover the 'bliss' point, a social welfare function must be found, representing the preferences of 'who knows best' (Zarqa, 1976).

In the Islamic framework, valid deductions based on the *Qur'an* and the *Sunnah* condition the preferences of those who know best. Thus inevitably, by the sheer logic of Islamic reasoning, ethical constraints delimit the area of choice both for the 'individual man' and for the 'collective man'. This perspective is basically much more unified, and productive of better social results by comparison with the one which effects the marriage of unconstrained selfish interests of the atomistic market agents with those of 'who knows best'. It is for this reason that there is no warrant in the Islamic system for fears that conscious attempt to make people equal may lead to 'a new form of servitude'. For if human freedom is God-given, and individuals act in accordance with the ethics of this freedom, the element of coercion involved in reconciling private and social interests must be minimal. By the same token, it follows that if such a conflict between private and social interests does exist, then it must be removed to satisfy the preconditions of an Islamic society.

In summary: God's celestial character, combined with free will, sanctifies in the clearest possible terms the principle of human freedom, which is innate in human nature. The God-given freedom of man not only cannot be taken away from him, but must also be safeguarded through the creation of institutional safeguards that prevents its desecration by unnatural authoritarianism. Thus, no Magna Carta is required to confer on man his God-given freedom. By the same token, any such attempt to relieve man of the burdens of slavery becomes ennobled in the eyes of God, simply because it constitutes a fulfilment of the divine purpose. It also follows that to deprive man of his natural freedom is to degrade him below his God-given stature, producing disequilibria in society. Any such act is, therefore, a cardinal sin. Thus, in an

Islamic framework, although humans are free to choose, he/she is expected to abide by the commandments of Allah (TME) in order to gain his favour and blessings and avoid His wrath by disobeying him.

### **Proposition**

As a trustee (*al 'amin*) of Allah's (TME) resources on earth, humankind has been given the free will to steer his/her own life. Unlike other creatures in Allah's (TME) universe, humans can choose their behaviour to be either ethical or unethical. However, to achieve Allah's (TME) favour and blessings, every believing Muslim must manage his/her free will to act according to the moral code laid out by Allah (TME) in His divine commandments (*Qur'an*).

### **Expectation / Application in Business of the axiom of Free Will**

In view of the above, a faithful is expected to fulfil all obligations, contribute to the well-being of society; and most important – be benevolent (God-like) - watching over the welfare of weak and destitute members of society.

Based upon the axiom of free will, businesspersons have the freedom to make a contract and either honour or break it. Islamic tenets concerning business transactions relating to honouring and fulfilling Obligations (*Uqud*) have been discussed in detail in Chapter-3, sec-3.4.2. However, a Muslim businessperson, who has submitted to the will of Allah (TME), will honour all contracts in accordance to the divine commandment:

*“O you who believe! Fulfil (all) obligations”*  
(Qur'an, Sura Al Maidah-5: 1).

It is important to note that Allah (TME) is directing the preceding verse explicitly to Muslims. As Yusuf Ali (translator of the holy Qur'an) suggests, the word '*uqud*' (obligations) is a multidimensional construct. It implies (a) the divine obligations that spring from one's spiritual nature and his/her relation to Allah (TME); (b) one's social obligations such as a marriage contract; (c) one's political obligations such as a treaty; and (d) business obligations such as a formal contract to perform certain tasks or a tacit contract to treat the employees decently, etc., which every man of faith must discharge conscientiously. The man who deserts those who need him and goes to pray in the desert is a coward who disregards his obligations. All these obligations are interconnected. Truth and fidelity are parts of religion in all relations of life. A Muslim must curb his free will to act according to the moral code laid out by Allah (TME) (commentary in the Qur'an, pg.276).

From an economic standpoint, Islam rejects the principle of '*laissez faire*' and the Western reliance on the concept of the 'Invisible Hand' (Naqvi, 1981: 66-7). Since a key part of the make-up of man is the '*nafs ammarah*' (implying freedom), he is prone to abuse such a system. The examples of Ivan Boesky, Michael Milken and the junk bonds fiasco, the Savings and Loan scandal in the United States, the BCCI debacle, the corruptive practices of the government and the Mafia in Italy, the *baqshish* (tips) system in the Middle East, the stock market scandals in Japan, etc., all demonstrate the deficiencies in the capitalistic system (Beekun, 1997). *Homo Islamicus*, as presented by Zarqa (1976), guided by Allah's (TME) will consciously choose to be ethical.

When dealing with suppliers, Islamic business precepts suggests that one should negotiate a fair price, and not take advantage of one's larger size or clout. To avoid any future misunderstanding, Allah (TME) has enjoined to put contractual obligations in writing:



*“O you who believe! When you deal with each other in transactions involving future obligations in a fixed period of time, reduce them to writing. [...] Let him who incurs the liability dictate, but let him fear his Lord Allah, and not diminish aught of what he owes...”*  
(Qur'an, Sura Al Baqarah-2: 282).

According to Beekun (1997: 43), despite the permissibility of agency in general, merchants are prohibited from interfering with the free market system through a specific type of brokering. This type of brokering may lead to price inflation (discussed in Chapter-3, sec-3.4.2 concerning arbitrarily fixing the prices). An example would be that of a farmer going to the marketplace in a town to sell some of his goods. A townsman may approach the farmer, asking that the goods be left with him until the prices rise. If the farmer had sold the goods without the interference of the townsman, the public would have purchased them at the current lower price. Both the public and the farmer would have benefited. However, when the townsman stores the goods until prices increase and then sells them, the public has to pay more, and the broker makes excess profits. This type of brokering is forbidden in Islam.

Al Qaradawi (2002), however, points out that brokerage are generally permissible except when there is interference in the free market system – as in the case just cited. There is nothing wrong with brokers charging a fee for services. This fee may be a fixed amount or proportional to the volume of sales or whatever is agreed among the parties involved.

A businessperson also has a special obligation if he provides essential supplies to the public (Ibn Taymiyah, 1992). For example, the public has a need for farming produce, clothes, and dwellings. Since these are essential commodities, the businessman needs to price fairly. Islam is against the idea of price controls (Ibn Taymiyah, 1992 and Al Qaradawi, 2002). The scholars who rule out price control altogether base themselves on the following *Hadith*:

*“A man came and said, ‘Apostle of Allah, fix prices.’ He said, ‘No, but I shall pray.’ Again the man came and said, ‘Apostle of Allah, fix prices.’ He said, ‘It is but Allah Who makes the prices low and high. I hope that when I meet Allah, none of you has any claim on me for doing wrong regarding blood or property.’”*

(Hadith - Abu Hurayrah, Abu Dawud, No. 3443).

Ibn Taymiyah (1992) points out, however, that this *Hadith* does not discuss a situation where a merchant refuses to make a sale when under obligation to do so, or to perform an action legally required of him. He concludes that should the businessman refuse to sell his goods at a fair price, he may be coerced by the Imam (religious leader) to perform, and may also be punished for non-compliance.

Any business project which aims at benefiting the individual or society or which removes some evil is righteous, especially if the intention of the investor is righteous *a priori*. Al Qaradawi (2002) points out that such project is blessed by Islam and will receive Allah’s (TME) help, based on the following *Qur’anic* commandment:

*“... Help you one another in righteousness and piety, but help you not one another in sin and rancour...”*

(Qur’an, Sura Al Maidah-5: 2).

The Islamic code of ethics requires all partners to be fair and to avoid cheating one another. The Messenger of Allah (TME), Mohammed (PBUH) said:

*“Allah, most high and exalted, says, ‘I make a third with two partners as long as one of them does not cheat the other, but when he cheats him, I depart from them’”*

(Hadith - Abu Hurayrah, Abu Dawud, No. 3377).

Another key focus area is the concept of competition, which in Islam is quite distinct in comparison to the Western style of competition. Islam discourages cutthroat competition harming each other in the business world. Although the businesses are free to choose the way of practice according to the code of ethics in a Muslim society, they are also responsible for the well being of the consumers as well as the business community. A balance needs to be maintained to foster a congenial environment for the stakeholders both within and outside the firm.

Beekun (1997) points out that although the West claims to be in favour of market competition, a cursory reading of key business publications will reveal that businesses are constantly seeking to assert themselves over and eliminate their competitors. By eliminating their competitors, firms can then reap above average economic returns through hoarding and monopolistic pricing. As discussed earlier regarding hoarding, Islam strongly discourages monopoly in businesses. One of the four Islamic schools of Jurisprudence (the *Hanafi* School) further contends:

*“It is abominable to monopolize the necessities of life, and food for cattle, in a city where such monopoly is likely to prove detrimental”*

(Al Hidayah, Hanafi Manual, Vol. IV. 5857).

Besides behaving responsibly towards their stakeholders, Muslims and the organizations they work in are expected to care about the general welfare of the society they live in. As mentioned earlier, as part of the community, Muslim businessmen need to watch over the welfare of its weak and destitute members.

*“And why should you not fight in the cause of Allah and of those who, being weak, are ill treated (and oppressed)? - men, women and children...”*

(Qur'an, Sura An Nisaa-4: 75).

The reward for taking care of the destitute and the weak is stressed in this *Hadith*:

*“The Prophet (PBUH) said, ‘The one who looks after and works for a widow and for a poor person, is like a warrior fighting for Allah’s cause or like a person who fasts during the day and prays all night.’”*

(Hadith - Sahih Bukhari, No. 8.35).

On the other hand, if any person spends the night hungry, the community shares the blame because it did not attempt to take care of him (Kotb, 1970: 65 and Qutb, 1976). Thus, Islam strongly emphasizes the social responsibility of businessmen towards the needy in the society in which it operates. Islam encourages donating generously in showing the unity among the faithful and the responsibility towards a fellow human being. Very often, the needy approach a businessman and ask for ‘*Sadaqah*’ or charity. Beekun (1997) points out that sometimes, a businessman gives leftovers or spoiled goods that he would never consider using himself. Allah (TME) warns about this type of donation:

*“O you who believe! Give of the good things, which you have (honourably) earned. And of the fruits of the earth which We have produced for you, and do not even aim at getting anything which is bad, in order that out of it you may give away something, when you yourselves would not receive it...”*

(Qur’an, Sura Al Baqarah-2: 267).

Hence, Muslim businesses should give to the poor from what is wholesome and earned in a *halal* or righteous manner.

In summary: the axiomatic principle of free will gives mankind the freedom to choose between the right and the wrong, the knowledge of which is clearly provided in the divine commandments in the holy *Qur’an* and *Hadith*. As a

trustee (*al ‘amin*) of Allah’s (TME) resources on earth, mankind can utilize them in accordance to the divine commandments or misuse them as Allah (TME) has given them the freedom to choose. Although mankind is free to do whatever they wish, Islam provides this freedom to mankind with elements of discipline and dignity to reflect man’s vicegerency (*Khilafah*) of Allah (TME). A Muslim’s free will to choose is guided by the will of Allah (TME) and His divine commandments. Thus, in accordance to the divine law, a faithful is expected to fulfil all obligations; contribute to the well-being of society; and most important – be benevolent (God-like). These constitute an essential part of the faith contributing to the principles of social responsibility and justice in Islam.

The last of the four fundamental ethical axioms further elaborates this notion of freedom in Islam with the sense of responsibility in line with the fulfilment of their religious obligations.

#### **4.2.4 Responsibility (*Fardh*)**

Logically related to free will is the axiom of responsibility (*fardh*). Free will does not go freely, but with responsibility. This sets a limit to what man is free to do, since he is responsible for all that he does:

*“Whosoever interveneth in a good cause will have the reward thereof, and whosoever interveneth in an evil cause will bear the consequences thereof...”*  
(Qur’an, Sura An Nisaa-4: 85).

Naqvi (1994) states that the two axioms (*free will* and *responsibility*) come together as a pair balancing each other. Naqvi (1994) further maintains that the concept of responsibility has two elements, the first is the individual’s trustee (*al ‘amin*) status on earth, and the second is the voluntaristic aspect. The individual should strive to realize the position of being God’s vicegerent

(*Khalifah*) on earth. This clearly involves performing actions that improve the welfare of the least privileged in society. The holy *Qur'an* clearly states:

*“You will never come to piety unless you spend (freely) of things you love...”*  
(Qur'an, Sura Al-i-Imran-3: 92).

The test of charity is that does one give something that he/she values greatly. Sacrificing one's life in a good cause is the greatest gift. Personal efforts, talents, skill and learning come next in degree. Another means of charity is giving away from one's earnings, property, and possessions, for many people love them even more than other things. There are less tangible things, such as, position, reputation, the well-being of those one love, etc. It is unselfishness that Allah (TME) demands and there is no act of unselfishness, however small or intangible, but is well within the knowledge of Allah (TME) (Commentary in details of the preceding verse in the Qur'an, pg.168).

It is the responsibility of every individual to care for the needy in society. Denial of such responsibility is equivalent to denial of faith:

*“Have you seen him who denies the Day of Judgement? It is he who pushes the orphan away, and does not induce others to feed the needy”*  
(Qur'an, Sura Al Ma'un-107: 1-3).

By exercising one's responsibility to oneself, God and society, the individual is securing his/her freedom and exercising faith.

Many Islamic scholars have emphasized this aspect of Islamic ethics, i.e. responsibility. Sir Iqbal [1934](1960) derives the position of the individual in the Islamic framework from the consideration that man is the trustee of a free personality, which he accepted at his peril. However, Syed Amir Ali (1922) in his book *“The Spirit of Islam”* looks into the complete development of the

central importance of the doctrine of responsibility in the Islamic perspective. He contends that the cult of unethical, unbridled individualism is not allowed in Islam. Even pure logic should convince one that unlimited freedom is an absurdity; unlimited freedom implies unlimited responsibility (Syed, 1922). This is a contradiction because both these statements cannot be true at the same time. Freedom must be counter-balanced by responsibility if only to satisfy the dictates of nature's equilibrium. Man, having opted for the power to choose between good and evil, must endure its logical consequences, as stated in the *Qur'an*:

*“Every soul is a pledge for its own deeds”*  
(Qur'an, Sura Al Muddaththir-74: 38).

Once Allah (TME) has shown the way, the responsibility for going astray is wholly man's and he will have to suffer for his wayward behaviour:

*“Say: O mankind! Now hath the truth from your Lord come unto you. So whosoever is guided is guided only for (the good of) his soul, and whosoever erreth is only against it. And, I am not a warder over you”*  
(Qur'an, Sura Yunus-10: 108).

Interpreting the above verse (commentary in the Qur'an, pg.579), the criterion between right and wrong has been sent to mankind from Allah (TME) in the form of *Qur'an*. If one accept guidance through this divine book, it is not as if one confers favour on those who bring guidance (the holy Messengers of God). They (the Messengers) suffer unselfishly for the well-being of mankind that they may be guided for their own good. On the other hand, if one rejects the guidance, it is their own loss. Humankind, in Islam, has a certain amount of free will, and the responsibility is his or hers and cannot be shifted to anyone else.

Because of the universal quality of social justice (*al'adl*), every individual must be held responsible for his actions. No one can escape the consequences of his misdeeds just by pointing to a convenient scapegoat:

*“...Every soul earneth on its own account, nor doth any laden bear another’s load”*

(Qur'an, Sura Al An'am-6: 164).

The above verse reflects the doctrine of personal responsibility again. Every individual is fully responsible for their acts themselves and cannot transfer the consequences to someone else. Nor can anyone vicariously atone for others sins, and man can also be held responsible for the evil that goes around him. Accordingly, man has been forewarned in the *Qur'an*:

*“And guard yourselves against a chastisement which cannot fall exclusively on those of you who are wrongdoers...”*

(Qur'an, Sura Al Anfal-8: 25).

This warning against internal discord or tumult was necessary in the civil wars of early Islam, and is arguably even more necessary now. It is every individual's responsibility to stop evil in any form. Except for the sick, the children and women, the rest cannot escape Allah's (TME) retribution on the excuse that they were too weak to stop evil in society. If one cannot do anything about what goes wrong in a particular society, then he is commanded to migrate from that society. The holy *Qur'an* testifies:

*“Lo! As for those whom the angels take (in death) while they wrong themselves, (The angels) will ask: In what were ye engaged? They will say: We were oppressed in the land. (The angels) will say: Was not Allah's earth spacious that ye could have migrated therein? As for such, their habitation will be hell, an evil journey's end”*

(Qur'an, Sura An Nisaa-4: 97).



The doctrine of responsibility in fact constitutes a dynamic principle in relation to human behaviour. It is interesting to note at this point the difference between Muslim scholars (*Ulemas*) regarding the dynamic nature of an Islamic society. For instance, Sir Iqbal [1934](1960) singles out *Ijtihad* or ‘the principle of movement’ to be the primary dynamic force, as he calls it in the Islamic system. However, this is only a partial view. Naqvi (1981) contends that the dynamic force instead is the responsibility of the individual to maintain the quality of equilibrium in an Islamic society. *Ijtihad* is only one of the means to restore equilibrium on the intellectual plane; the other is *Jihad*, which does this on the social plane, the latter being more basic of the two. In a deeper sense, *Jihad* (literally: struggle) not only includes waging war against the infidels but also against the evil both within and without oneself. Indeed, the holy Prophet Mohammed (PBUH) declared that the fight against evil within one’s self is a higher form of *Jihad* (struggle).

Another important responsibility of every Muslim is acquiring knowledge so that they are aware and able to reason. It is incumbent upon every Muslim (male and female) to acquire knowledge and thus there is no room for ignorance. In fact, the first verse of *Qur’an* revealed to the holy Prophet Mohammed (PBUH) was:

*“Read! In the name of thy Lord and Cherisher, who created...”*

(Qur’an, Sura Iqraa or Al Alaq-96: 1).

In the above verse, one is commanded to read so that one comes out of darkness (illiteracy) to light (literacy). It is also important to note that it is mentioned to read in the name of God, because knowledge without divine morality could lead one astray, as Sutherland (1992) states:

*“Educate men without religion and all you make of them is clever devils”*

(Sutherland, 1992: 123).

Islam places great emphasis on systematic enquiry for the pursuit of knowledge. For knowledge is light and power for mankind and must be used for the benefit of all creation and social welfare. Science and technology should be used responsibly for moral ends and serve all legitimate needs of mankind (ISNA, 1998). Businesses should invest in educational projects in society so that individuals benefit from acquisition of knowledge and thus, reduce all evil of the society.

Thus, a free individual is not one who is insensitive to his environment but one who fulfils his responsibility by contributing to society by his presence. 'Each man on his own' is not how Islam looks at human freedom. Hence, there cannot be any contradiction, within the Islamic perspective, between individual freedom and collective freedom. The distance between the two is bridged by the sense of social consciousness and responsibility. Those who are socially conscious have been exalted in the eyes of Allah (TME) over all others who are not so motivated:

*"And there may spring from you a nation that invites to goodness, and enjoins right conduct and forbids indecency. Such are they who are successful"*

(Qur'an, Sura Al Baqarah-3: 104).

The ideal Muslim community is happy, untroubled by conflicts or doubts, sure of itself, strong, united and prosperous. This is because it invites to all that is good and enjoins the right; and forbids the wrong. It is incumbent upon every individual to fulfil this responsibility.

In summary, the ethical axiom of responsibility is logically related to free will. Freedom must be counter-balanced by responsibility and having opted for the power to choose between good and evil, man must endure its logical consequences. Since he is responsible for all that he does, man must be accountable for his actions.

### **Proposition**

Every individual is accountable and ultimately responsible for his own actions.

### **Expectation / Application in Business of the axiom of Responsibility**

This accountability ties in with the propositions arising from the other three ethical axioms – *unity*, *equilibrium* and *free will*; and holds one responsible for his/her own deeds. According to Islam, every soul is accountable to Allah (TME) and thus, a faithful's actions are motivated by achieving Allah's (TME) favour and blessings. Hence, a Muslim businessman acts responsibly and fulfils the expectations arising out of all the other three ethical axioms.

In an Islamic society it is the responsibility of an individual as well as businesses to earn a living in a permissible (*halal*) way. Muslim businessmen must be trustworthy and truthful in their transactions. It is their responsibility to trade through mutual consent and fulfil all their obligations. Businesses must treat their employees fairly and deal with generosity and leniency. It is also their responsibility to take care of basic needs of the poor and needy in the society. Furthermore, businesses must be cognizant of the prohibitions in their business dealings in adherence to business precepts of Islam. Accordingly, businessmen must act responsibly, e.g. avoid interest (*riba*) in their financial transactions; avoid dealing in prohibited items; must not hoard resources or wealth avariciously or fix prices; must not be involved in sale of *gharar* (uncertainty, risks and speculation); must not exploit market conditions and must avoid cheating and fraud in business transactions. It is incumbent upon every believing Muslim businessperson to adhere to these tenets of business in order to achieve Allah's (TME) favour and blessings.

All the above-mentioned responsibilities of Muslim businesspersons have been discussed in detail both throughout this and the previous chapter.

Furthermore, businesses are required to contribute to society by paying *Zakat* (Islamic social tax), which is one of the five pillars of Islam and is part of fulfilling social responsibility. The rich are required to spend their wealth for the benefits of the poor. Wealth, after all, does not belong to them, they are only the trustees – *al 'amin* (as discussed earlier). Redistribution of wealth is thus, an economic necessity as well as part of a spiritual journey, which a Muslim must fulfil responsibly (Naqvi, 1981).

*Zakat* is a proportionately fixed contribution collected from the wealth and earnings of the well to do (Qur'an – Sura Al Baqarah-2: 3, 43, 83). It is spent on the poor and needy and for the welfare of society. The meaning of the word *Zakat* is both 'purification' and 'growth' in a *Qur'anic* sense. The wealth is held in trust (*amanah*) with humankind from God. This wealth is purified by setting aside a portion and giving it to those who have less or no wealth. It is like the pruning of plants, the cutting back balances and encourages new growth. This payment is compulsory (*fardh*) – fulfilling certain conditions. The payment of *Zakat* creates in the mind of the giver the virtue of sharing wealth with others. It uplifts the giver from a life of material pursuits to a life endowed with moral purpose. The payer pays it as an act of worship while the destitute receive it as a matter of right.

This is how Islam integrates business and commerce with ethics. The holy Prophet Mohammed (PBUH) urged Muslims to be moderate in their lives:

*“Work for your worldly life as if you were going to live forever, but work for the life to come (Hereafter) as if you were going to die tomorrow”*

(Rice and Mahmoud, 1995: 75).

This balance in human endeavours is necessary to ensure social well being and continued development of human potential. Islam encourages individual initiative, drive, efficiency and enterprising attitudes along with a right to

make profits and own private properties and businesses; it condemns greed, unscrupulousness and an attitude of disregard for the rights and needs of others. The individual profit motive is not the chief propelling force (Siddiqui, 1981). Hence, an excessive personal gain in the form of profit without fulfilling the responsibility of social obligations is discouraged. Society is the primary institution in Islam. Society's interests need to come first. Societies would be better safeguarded if the individuals forming the society perform all their duties in accordance with the frameworks given by Islam.

Thus, the axiom of responsibility forms an essential core value of social responsibility and justice in Islam. This is demonstrated by its correlation with all the other three fundamental ethical axioms and its application in business.

### **Summary of the Four Fundamental Ethical Axioms**

The distinctive character of Islamic ethics rests largely on its conception of man in relation to God, his own self, the Universe and the society. Through the essential multidimensionality of an integrated personality, Islam points to a responsible man. He must be guided by a conscious purpose, exercising to the full his powers of discretion in a balanced way. In this perspective, human behaviour takes on a new character in that it has providentially freed from any sense of 'guilt'. By virtue of his distinctive qualities, mankind has been aligned with his environment, indeed with the Universe at large. As a consequence, within the panoramic Islamic vision, man can neither go adrift by aimlessness nor be alienated from his surroundings. At the same time, his unaltruistic behaviour is tempered because Islam requires man to be sensitive to his socio-economic environment, for the betterment of which he bears full responsibility. Furthermore, he is not allowed to be tradition-bound: he has no responsibility for the past in which he had no part to play. Thus, man, in an Islamic perspective, must be forward-looking and dynamic, a quality which

derives from his deep consciousness of the decisive nature of his actions and a sense of responsibility.

The four ethical axioms have been summarized in the table below to present a potential framework of corporate social responsibility in Islam.

Table 4. Summary of the Fundamental Ethical Axioms that constitute the Conceptual Framework of CSR in Islam

<b>Axioms</b>	<b>Qur'anic Injunction</b>	<b>Proposition</b>	<b>Expectation/Application in Business Practice</b>
<b>Unity</b> ( <i>Tawhid</i> )	"...to Allah belongeth the dominion of the heavens and the earth..." (3:180; 5:17)	There is only one God – Allah (TME) and everything in the heavens and on earth belongs to Him. Man is considered to be the vicegerent ( <i>Khalifah</i> ) of Allah (TME) on earth and thus trustee ( <i>al 'amin</i> ) of Allah's (TME) resources	A faithful will be trustworthy and truthful in business transactions; will not discriminate in any form; and will not hoard his wealth avariciously
<b>Equilibrium</b> ( <i>Al 'Adl</i> )	"Give full measure when you measure and weigh with a balance that is straight..." (17:35)	Various elements of life must be equilibrated to produce the best social order, which is a conglomeration of natural and social forces creating social harmony	Equilibrium must be practiced by means of fair competition in an open market; treating others fairly and maintaining fairness in wage distribution and avoid discrimination in all forms
<b>Free Will</b> ( <i>Ikhtiyar</i> )	"O you who believe! Fulfil (all) obligations" (5: 1).	As a trustee ( <i>al 'amin</i> ) of Allah's (TME) resources on earth, mankind has been given the free will to steer his/her own life. Unlike other creatures in Allah's (TME) universe, humans can choose their behaviour to be either ethical or unethical.	A faithful is expected to fulfil all obligations; contribute to the well being of the society; and most important – be benevolent (God-like) - need to watch over the welfare of weak and destitute members of the society.
<b>Responsibility</b> ( <i>Fardh</i> )	"Every soul is a pledge for its own deeds" (74: 38).	Every individual is accountable and ultimately responsible for his own actions	This accountability ties in with the expectations arising from all the above three ethical axioms and holds one responsible to fulfil them responsibly

The four ethical axioms, which are foundation of the Islamic framework, are based on *Qur'anic* injunctions and provide clear guidelines for a social system in Islam. These divine commandments lead to the proposition and further expectations/application of such injunctions in business practice.

The axiom of unity, as presented in the preceding table, is derived from the concept of trusteeship. Everything on earth and the heavens belong to Allah (TME). He has made mankind His vicegerent (*Khalifah*), entrusting them with His resources. Thus, the expectations of a faithful businessperson will be to act in accordance to the commandments of Allah (TME) – be trustworthy and truthful; not hoard wealth avariciously; and not discriminate in any form.

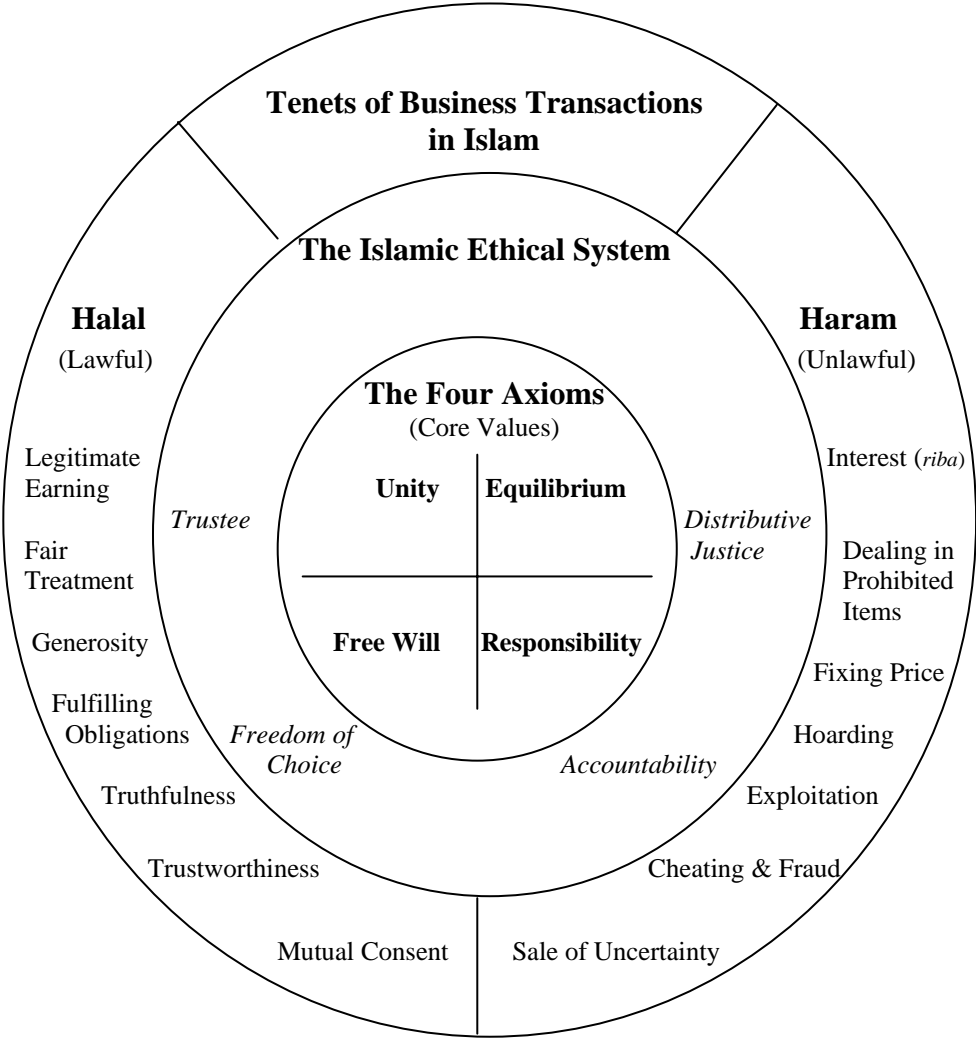
Similarly, the axiom of equilibrium entails creation of social harmony through aggregation of natural and social forces. This is again, based on *Qur'anic* injunctions. The expectations, therefore, are to be fair and non-discriminatory in business practices. A faithful will adhere to these principles sincerely.

The axiom of free will provides freedom to mankind. The freedom to choose, however, is conditional in Islam. Adherence to divine commandment will lead to Allah's (TME) favour and blessings. Violation of *Qur'anic* injunctions will draw Allah's (TME) curse and retribution. The expectation, therefore, is that a believing Muslim will fulfil all obligations, contribute to the well-being of society and look after the needy.

Finally, the axiom of responsibility holds every individual accountable and ultimately responsible for his/her own deeds. This again, is authorized by *Qur'anic* injunctions. The expectations arising out of this axiomatic concept of responsibility ties in with the other three axioms and their expectations/application in business practice. It is the responsibility of every believing Muslim to fulfil all their duties in accordance with Islamic principles to gain Allah's (TME) favour and blessings.

The fundamental ethical axioms that form the basis of the conceptual framework of CSR in Islam can also be presented diagrammatically as below:

**Fig.1 Diagram of the conceptual Framework of Corporate Social Responsibility in Islam**



The inner circle, in the above diagram, depicts the four ethical axioms, *unity*, *equilibrium*, *free will* and *responsibility*, which are the core values of an Islamic ethical system. These axioms are the foundation of any Islamic socio-economic system.



The second circle encompasses those elements of the Islamic ethical system that have evolved from the core values. For instance, the concept of trusteeship is derived from the axiom of unity. Similarly, distributive justice is derived from the axiom of equilibrium; freedom of choice from free will; and accountability derived from the axiom of responsibility. These are more descriptive of the core ethical values.

The outer circle represents the elements of business transactions in accordance with Islamic jurisprudence (*fiqh*). The concept of the lawful (*halal*) and forbidden (*haram*) provides a clear guideline for business transactions in Islamic economics. These are based upon the Islamic ethical system, which is derived from the core values (the four ethical axioms).

All elements of the three circles, presented in the preceding diagram, are interconnected to form a coherent framework of corporate social responsibility (CSR) in Islam. For instance, the concept of trusteeship entails trustworthiness and truthfulness in business transactions. Freedom of choice allows one to be ethical or unethical in business transactions. However, to gain Allah's (TME) favour, a faithful will fulfil all obligations, be generous and look after the needy. Similarly, prohibition of *riba* (interest) or hoarding is based upon the concept of distributive justice that enables socio-economic equilibrium in society. Accountability to Allah (TME) in the hereafter drives a Muslim to act in accordance with the divine commandments and adhere to ethical business practices, avoiding the forbidden (*haram*) and practicing the lawful (*halal*). These business tenets have been discussed in detail in chapter-3, sec-3.4.

The conceptual framework diagram illustrates the foundation of an Islamic socio-economic system that is all encompassing and comprehensive. Implementation of such principles, in adherence to divine commandments, will fulfil the purpose of Shariah (*maqasid al Shariah*) of achieving good life (*hayat tayyibah*) and well-being (*falah*) of society.

### **4.3 Conclusion**

Although the four axioms that are the core values and foundation of any Islamic business and society guide day-to-day behaviour, they are more descriptive of the ethical philosophy of Islam. The *Qur'an* and *Hadith* of the holy Prophet Mohammed (PBUH) complement these axioms by specifying the degree of lawfulness of key types of behaviours for Muslim businesspersons as discussed in this as well as the earlier chapter. All of these characteristics of a unique precept in business conduct prescribed by Islam form the foundation of an Islamic business and society and thus, a concept of corporate social responsibility in Islam. The conceptual framework of CSR in Islam presented in this chapter provides a systematic representation of what this might look like in an Islamic society.

Now that a conceptual framework of CSR in Islam has been systematized and presented in this chapter, it is worthwhile to pursue whether it is applicable in business practice in the contemporary international business environment. This is the task of the following chapters, where the extent to which such a framework of CSR in Islam is implemented in practice will be explored, using a survey of Islamic banks as an illustration.

Before considering this in greater detail, however, the following chapter will first provide some background on the characteristics of Islamic banking and the survey procedure that was employed.

## **Chapter 5     Islamic Banking: Key Features, Characteristics and An Overview of the Empirical Survey Process**

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### **5.1     Introduction**

The conceptual framework of corporate social responsibility in Islam presented in the preceding chapter provides a possible foundation governing the conduct of corporations adhering to the business precepts of Islam. As discussed in the previous two chapters, the ethical principles founded on the Islamic philosophy are both divine and pragmatic.

Now that a conceptual framework of CSR in Islam has been systematized and presented, consistency of such a framework in a contemporary international business environment needs to be explored. The following chapter will explore the extent to which such a framework of CSR in Islam is consistent with business practice, using a study of Islamic banking as an illustration.

But before considering this in greater detail, some background on the characteristics of Islamic banking and an overview of the survey process will be provided in this chapter. This chapter begins with the justification for choosing Islamic banks for the purpose of illustration of the conceptual framework of Islam presented in this study. A brief background description of the governance structures and principles of Islamic banking, which is based on Islamic jurisprudence (*fiqh*), follow.

An overview of the empirical survey process to explore the extent to which the conceptual framework of CSR in Islam is consistent with contemporary business, using a study of Islamic banks, is provided in later part of this chapter. The survey approach – selection and characteristics of the sample design, data handling – collection, analysis and integration process and reporting the results are discussed in detail.

## **5.2 Justification for Choosing Islamic Banks for this Study**

Islamic banks were chosen for the purpose of illustrating the conceptual framework of corporate social responsibility in Islam, as these banks constitute a highly prominent sector, already operating at a global level, with operations based on *Shariah*. At the beginning of the twenty-first century, many Western, Middle Eastern and Asian financial institutions recognize Islamic banking as an important new opportunity for growth and have adopted Islamic practices to serve the expanding market. Islamic banks deal in ways that do not conflict with the conscience or practical interests of believing Muslims. In this respect they are similar to socially responsible funds in the West. There are many who see Islamic banking as a possible way forward to a brighter and more socially responsible future (Al Jazeera, 2003).

In 1997, the total assets of Islamic financial institutions were estimated at over US \$100 billion (Khalili, 1997: 19), compared with US \$5 billion in 1985 (Iqbal, 1998). Currently, the total assets in the global Islamic banking industry stand at over US \$260 billion, with an annual growth rate of 23.5 per cent (ClariNet, 2004). Moreover, this growth is not limited to Islamic countries such as Pakistan, Saudi Arabia or the Gulf States. The Islamic banking sector has gained a toehold in the United States and Western Europe, with a number of Islamic finance services entities presently in operation (Martin, 2002).

The dramatic growth of Islamic finance over the last three decades is one of the more striking phenomena in international banking and finance. Twenty years ago there were only a handful of Islamic financial institutions; today there are over 267 Islamic banks worldwide (Bahrain Monetary Agency, 2004), and major international banks such as Citibank and Hong Kong and Shanghai Banking Corporation (HSBC) have established their own Islamic finance arms (De Lorenzo, 1997). There is a silent financial revolution taking place and it is spreading to non-Muslim countries as well. The importance and

potential of Islamic banking has prompted the International Monetary Fund (IMF) to facilitate the establishment of the Islamic Financial Services Board (IFSB) to address the need for a more suitable regulatory framework, new financial instruments and institutional arrangements to provide an enabling operational environment for Islamic finance (Sundararajan and Errico, 2002).

One of the major differences between conventional and Islamic banking is that the latter is based on keeping in view certain social objectives intended for the benefit of society. This is because Islam is an ethical system, which guides mankind in all his activities including commerce and trade (as demonstrated in the preceding two chapters). The prohibition of *riba* (interest) in any Islamic transactions is one of the key features that distinguish Islamic banks from any other kind of bank. The forbiddance of *riba* (interest) stems out of principles of socio-economic justice in Islam in that the objective is to disallow any unjust distribution of wealth through forced or undeserved loss to one party or unearned gain to the other party. This is the basis of the formation of Islamic financial institutions, which later emerged as Islamic banks around the world. Usmani (2002) asserts that the philosophy behind Islamic banking was ‘aimed at establishing distributive justice free from all sorts of exploitation’ (2002: 113). According to Islamic principles, business transactions can never be separated from the moral objectives of the society.

Against that background, it is reasonable to presume that Islamic banks and their business values and norms will be consistent with the conceptual framework of CSR in Islam presented in the preceding chapter. The survey of Islamic banks will seek to ascertain the extent to which such Islamic precepts are implemented in practice. A sample of six Islamic banks from Malaysia, United Arab Emirates, Saudi Arabia and the United Kingdom was utilized for this study.

### **5.3 Characteristics of Islamic Banking**

Islamic banking represents a radical departure from conventional banking. From the viewpoint of corporate social responsibility and governance, it embodies a number of interesting features since equity participation, risk and profit-and-loss sharing arrangements form the basis of Islamic financing. Because of the prohibition on interest (*riba*), an Islamic bank cannot charge any fixed return in advance, but rather participates in the yield resulting from the use of funds. The depositors also share in the profits according to a predetermined ratio, and are rewarded with profit returns for assuming risk. Unlike a conventional bank, which is basically a borrower and lender of funds, an Islamic bank is essentially a partner with its depositors, on the one side, and also a partner with entrepreneurs, on the other side, when employing depositors' funds in productive direct investment (Algaoud, and Lewis, 1997).

There are two major differences from the conventional banking framework. First, and foremost, an Islamic organization must serve Allah (TME) and His creation. It must develop a distinctive corporate culture, the main purpose of which is to create a collective morality and spirituality which, when combined with the production of goods and services, sustains the growth and advancement of the Islamic way of life. To quote Janahi (1995):

*“Islamic banks have a major responsibility to shoulder... all the staff of such banks and customers dealing with them must be reformed Islamically and act within the framework of an Islamic formula, so that any person approaching an Islamic bank should be given the impression that he is entering a sacred place to perform a religious ritual, that is the use and employment of capital for what is acceptable and satisfactory to God” (p.42).*

There are equivalent obligations upon employees too:

*“The staff in an Islamic bank should, throughout their lives, be conducting in the Islamic way, whether at work or at leisure” (p.28).*

Further, obligations also extend to the Islamic community:

*“Muslims who truly believe in their religion have a duty to prove, through their efforts in backing and supporting Islamic banks and financial institutions, that the Islamic economic system is an integral part of Islam and is indeed for all times ... through making legitimate and halal profits”(p.29).*

Second, interest-free banking is based on the Islamic legal concepts of *Shirkah* (partnership) and *Mudaraba* (profit-sharing). An Islamic bank is conceived as a financial intermediary mobilizing savings from the public on a *Mudaraba* basis and advancing capital to entrepreneurs on the same basis. A two-tiered profit-and-loss sharing arrangement operates under this system. The bank receives funds from the public on the basis of unrestricted *Mudaraba*. There are no restrictions imposed on the bank concerning the kind of activity, duration, and location of the enterprise, but the funds cannot be applied to activities, which are forbidden by Islam.

The banks have the right to aggregate and pool the profit from different investments, and share the net profit (after deducting administrative costs, capital depreciation and Islamic tax) with depositors according to a specified formula. In the event of losses, the depositors lose a proportional share or the entire amount of their funds. The return to the financier has to be strictly maintained as a share of profits.

These conditions give the finance obtained many of the characteristics of non-voting equity capital. From the viewpoint of the entrepreneur, there are no fixed annual payments needed to service the debt as under interest financing, while the financing does not increase the firm's risk in the way that other

borrowings do through increased leverage. Conversely, from the bank's viewpoint, the returns come from profits - much like dividends - and the bank cannot take action to foreclose on the debt should profits not eventuate. The Islamic banking governance structure and principles are further elaborated in the following sections.

### **5.3.1 Governance Structures of Islamic Banks**

The financial arrangements in Islamic banking imply quite different stockholder relationships, and by corollary governance structures, from the conventional model since depositors have a direct financial stake in the bank's investment and equity participations. In addition, the Islamic bank is subject to an additional layer of governance since the suitability of its investment and financing must be in strict conformity with Islamic law (*Shariah*) and the expectations of the Muslim community. For this purpose, Islamic banks employ an individual *Shariah* Advisor and/or Board.

Governance structures are quite different under Islamic banking because the institution must obey a different set of rules - those of the holy *Qur'an* and *Hadith* – and meet the expectations of the Muslim community by providing Islamically acceptable financing modes. The profit-and-loss sharing methods, in turn, imply different relationships from those under interest-based borrowing and lending.

The *Shariah Supervisory Board* (SSB), and the internal controls that support it, is central to corporate governance in Islamic banks. The SSB is vital for two reasons. First, those who deal with an Islamic bank require assurance that it is transacting within Islamic law. Should the SSB report that the management of the bank has violated the *Shariah*, it would quickly lose the confidence of the



majority of its investors and clients. Second, some Islamic scholars (*Ulemas*) argue that strict adherence to Islamic religious principles will act as a counter to the incentive issues (under *Mudaraba* and *Musharaka* type contracts discussed later in sec-5.3.3 elaborating Profit-loss sharing arrangements in Islamic banking). The argument is that the Islamic moral code will prevent Muslims from behaving in ways, which are ethically unsound, so minimizing the transaction costs arising from incentive issues. In effect, Islamic religious ideology acts as its own incentive mechanism to reduce the inefficiency that arises from asymmetric information and moral hazard. Such matters are obviously basic to the successful operation of Islamic modes of finance, and are assessed in the next section discussing the principles of Islamic banking.

### **5.3.2 Principles of Islamic Banking**

An Islamic bank is based on the Islamic faith and must stay within the limits of Islamic Law or the *Shariah* in all of its actions and deeds. The original meaning of the Arabic word *Shariah* was ‘the way to the source of life’ and it is now used to refer to a legal system in keeping with the code of behaviour called for by the holy *Qur'an*. Accordingly, four rules govern investment behaviour in Islamic banking:

1. the absence of interest-based (*riba*) transactions;
2. the avoidance of economic activities involving speculation (*gharar*);
3. the introduction of an Islamic tax (*zakat*);
4. the discouragement of the production of goods and services, which contradict the value pattern of Islamic prohibition (*haram*).

These four elements give Islamic banking its distinctive religious identity. They will be briefly discussed in the following.

### **Riba (interest)**

Perhaps the most far reaching of these is the prohibition of interest (*riba*). The payment and the taking of *riba*, as occurs in a conventional banking system, are explicitly prohibited by the holy *Qur'an*, and thus, investors must be compensated by other means. Technically, *riba* refers to the addition in the amount of the principal of a loan according to the time for which it is loaned and the amount of the loan. While there has been a debate as to whether *riba* relates to interest or usury, there now appears to be consensus among Islamic scholars that the term extends to all forms of interest (Al Qaradawi, 2002).

The main difference between conventional and Islamic financial systems is that the latter is based on keeping in view certain social objectives intended for the benefit of society. This is because Islam is an ethical system, which guides man in all his activities including commerce and trade. Whereas, as conventional banker need not be concerned with the moral implications of a business venture for which money is lent, the Islamic banker has a much greater responsibility in this respect. This leads one to a very fundamental concept in Islamic banking, namely the relation between investor and bank. In case of Islamic banks, this relationship is conceived as a partnership, whereas, in conventional banking it is that of a creditor and investor (Venardos, 2005).

Islamic finance is based on equity, whereas, the conventional banking system is debt based. Islam is not against the earning of money, but it prohibits the earning of money through unfair trading practices and other activities that are socially harmful, which is why predetermined interest (*riba*) is forbidden. This edict springs from the Islamic belief that wealth should not be hoarded but put to productive use so that others can share in its benefits. It is also considered wrong to charge for the use of money. Essentially, the owners of capital must share in any losses as well as in the profits of any enterprise invested in. At the same time, Islam does not allow uncertainty or *Gharar* in contracts.

### **Gharar (Speculation)**

Another feature condemned by Islam is economic transactions involving elements of speculation - *Gharar*. Buying goods or shares at lower and selling them for higher price in the future is considered to be illicit. Similarly an immediate sale in order to avoid a loss in the future is condemned. The reason is that speculators generate their private gains at the expense of society at large. This again is an important characteristic of social responsibility in Islam discussed in chapter-3, sec-3.4.2 concerning Islamic business tenets. Islamic banks need to be cautious and avoid dealing with such businesses. They must be cognizant about the investment propositions that must be in accordance to *Shariah* principles of business transactions. This also prevents the hoarding of essential products, which is strictly prohibited (*haram*) in Islam.

### **Zakat (Islamic Tax)**

A mechanism for the redistribution of income and wealth is inherent in Islam, so that every Muslim is guaranteed a fair standard of living (*nisab*). An Islamic tax, *Zakat* (a term derived from the Arabic *zaka*, meaning “pure”) is the most important instrument for the redistribution of wealth. This tax is a compulsory levy; one of the five basic tenets of Islam. Generally, the accepted amount of the *Zakat* is one fortieth (2.5 per cent) of a Muslim’s annual income in cash or kind from all forms of assessed wealth exceeding *nisab*.

Every Islamic bank has to establish a *Zakat* fund for collecting the tax and distributing it exclusively to the poor directly or through other religious institutions. This tax is imposed on the initial capital of the bank, on the reserves, and on the profits as described in the handbook of Islamic banking.

### **Haram (Prohibited)**

A strict code of ‘ethical investment’ operates in the Islamic banking system. Hence, it is forbidden for Islamic banks to finance activities or items forbidden in Islam (*haram*), such as the trade of alcoholic beverage and pork meat. A more detailed description of *haram* (prohibited) according to *Shariah* has been discussed in chapter-3, section-3.4.

Furthermore, as the fulfilment of material needs assures a religious freedom for Muslims, Islamic banks are required to give priority to the production of essential goods which satisfy the needs of the majority of the Muslim community, while the production and marketing of unnecessary luxury activities (*israf wa traf*) is considered unacceptable.

### **5.3.3 Profit-Loss Sharing (PLS) Arrangements**

If the paying and receiving of interest is prohibited, how do Islamic banks operate? It is necessary to distinguish between the expressions ‘rate of interest’ and ‘rate of return’. Whereas Islam clearly forbids the former, it not only permits, but also encourages, trade. In the interest-free system sought by adherents to Islamic principles, people are able to earn a return on their money only by subjecting themselves to the risk involved in profit sharing. As the use of interest rates in financial transactions is prevented, Islamic banks are expected to undertake operations only on the basis of profit and loss sharing (PLS) arrangements or other acceptable modes of financing. *Mudaraba* and *Musharaka* are the two PLS arrangements preferred under *Shariah*.

### **Mudaraba**

A *Mudaraba* can be defined as contract between at least two parties whereby one party, the financier (*sahib al-mal*), entrusts funds to another party, the entrepreneur (*Mudarib*), to undertake an activity or venture. This type of contract is in contrast with *Musharaka*. In arrangements based on *Musharaka* there is also profit-sharing, but all parties have the right to participate in managerial decisions. In *Mudaraba*, the financier is not allowed a role in the management of the enterprise. Consequently, *Mudaraba* represents a profit-loss sharing (PLS) contract where the return to lenders is a specified share in the profit/loss outcome of the project in which they have a stake, but no voice.

The bank applies the restricted form of *Mudaraba* when funds are provided to entrepreneurs. The bank has the right to determine the kind of activities, the duration, and location of the projects and monitor the investments. However, these restrictions may not be formulated in a way that harms the performance of the entrepreneur, and the bank cannot interfere with the management of the investment. Loan covenants and other such constraints usual in conventional commercial bank lending are allowed. Moreover, in conventional banking, the loan is not contingent on the profit or loss outcome, and is usually secured, so that the debtor has to repay the borrowed capital plus the fixed interest amount regardless of the resulting yield of the capital. Islamic banks cannot require any guarantee such as security and collateral from the entrepreneur in order to insure its capital against the possibility of an eventual loss.

In case of losses, the liability of the financier is limited to the capital provided. On the other hand, the liability of the entrepreneur is also restricted, but in this case solely to labour and effort employed. This distribution effectively treats human capital equally with financial capital. Nevertheless, if negligence or mismanagement can be proven, the entrepreneur may be liable for the financial loss and be obliged to remunerate financier accordingly. The

entrepreneur shares the profit with the bank according to previously agreed contract. Until the investment yields a profit, the bank is able to pay a salary to the entrepreneur based on the ruling market salary (Handbook of Islamic Banking, 1977-86).

### **Musharaka**

Many of the same restrictions apply to *Musharaka* financing, except that in this instance the losses are borne proportionately to the capital amounts contributed. Under *musharaka*, the entrepreneur adds some of his own capital to that supplied by the investors, so exposing himself to the risk of capital loss. Profits and losses are shared according to pre-fixed proportions, but these proportions need not coincide with the ratio of financing input. The bank sometimes participates in the execution of the projects in which it has subscribed, perhaps by providing managerial expertise.

*Mudaraba* and *Musharaka* constitute, at least in principle if not always in practice, the twin pillars of Islamic Banking. The two methods conform fully to Islamic principles, in that under both arrangements lenders share in the profits and losses of the enterprises for which funds are provided and *shirkah* (partnership) is involved. The *Musharaka* principle is invoked in the equity structure of Islamic banks and is similar to the modern concepts of partnership and joint stock ownership.

Thus, under these two Islamic modes of financing (*Mudaraba* and *Musharaka*), the project is managed by the client and not by the bank, even though the bank shares the risk. Certain major decisions such as changes in the existing lines of business and the disposition of profits may be subject to the bank's consent. The bank, as a partner, has the right to full access to the books and records, and can exercise monitoring and follow-up supervision.

Nevertheless, the directors and management of the company retain independence in conducting the affairs of the company (Handbook of Islamic Banking, 1977-86).

### **Two-Tiered Mudaraba**

For banking operations, the *Mudaraba* concept has been extended to include three parties: the depositors as financiers, the bank as an intermediary, and the entrepreneur who requires funds. The bank acts as an entrepreneur when it receives funds from depositors and as financier when it provides the funds to entrepreneurs. In other words, the bank operates a two-tier *Mudaraba* system in which it acts both as the *Mudarib* on the saving side of the equation and as the *sahib al-mal* (owner of capital) on the investment portfolio side.

Insofar as the depositors are concerned, an Islamic bank acts as a *Mudarib*, which manages the funds of the depositors to generate profits subject to the rules of *Mudaraba*. The bank may in turn use the depositors' funds on a *Mudaraba* basis in addition to other lawful (but less preferable) modes of financing; including mark up or deferred sales, lease purchases and benevolent loans (*Qard al Hassan*). The funding and investment avenues are now listed (Handbook of Islamic Banking, 1977-86).

### **5.3.4 Sources of Islamic Funds**

Besides their own capital and equity, Islamic banks rely on two main sources of funds – transaction deposits, which are risk free but yield no return and investment deposits, which carry the risks of capital loss for the promise of variable. In all, there are four main types of accounts under these two main sources. The current and savings accounts fall under the transaction deposits category. Investment accounts and special investments account fall under investment deposits category. A brief description of these accounts follows.

### **Current Accounts**

Current accounts are based on the principle of *al-wadiah*, whereby the depositors are guaranteed repayment of their funds. At the same time, the depositor does not receive remuneration for depositing funds in a current account, because the guaranteed funds will not be used for PLS (profit-loss sharing) ventures. Rather, the funds accumulating in these accounts can only be used to balance the liquidity needs of the bank and for short-term transactions on the bank's responsibility.

### **Savings Account**

Savings accounts also operate under the *al-wadiah* principle. Savings accounts differ from current deposits in that they earn the depositors income: depending upon financial results, the Islamic bank may decide to pay a premium (*hiba*) at its discretion, to the holders of savings accounts.

### **Investment Accounts**

An investment account operates under the *Mudaraba al-mutlaqa* principle, in which the *Mudarib* (active partner) must have absolute freedom in the management of the investment of the subscribed capital. The conditions of this account differ from those of the savings accounts by virtue of: a) a higher fixed minimum amount, b) a longer duration of deposits, and c) most importantly, the depositor may lose some of or all his funds in the event of the bank making losses.

### **Special Investment Accounts**

Special investment accounts also operate under the *Mudaraba* principle, and usually are directed towards larger investors and institutions. The difference between these accounts and the investment account is that the special investment account is related to a specified project, and the investor has the choice to invest directly in a preferred project carried out by the bank.



### **5.3.5 Uses of Funds**

The *Mudaraba* and *Musharaka* modes, referred to earlier, are supposedly the main conduits for the outflow of funds from banks. In practice, however, other important methods applied by Islamic banks include:

**Murabaha** (mark up): Another mode of financing in Islamic banks is the ‘mark-up’ device. In a *Murabaha* transaction, the bank finances the purchase of a good or assets by buying it on behalf of its client and adding a mark-up before reselling it to the client on a ‘cost-plus’ basis profit contract.

**Bai ‘muajjal** (deferred payment): Islamic banks have also been resorting to purchase and resale of properties on a deferred payment basis. It is considered lawful in *fiqh* (jurisprudence) to charge a higher price for a good if payments are to be made at a later date. According to *fiqh* this does not amount to charging interest, since it is not a lending transaction but a trading one.

**Bai ‘salam** (prepaid purchase): This method is really the opposite of the *Murabaha*. In the case of *Murabaha*, the bank gives the commodity first, and receives the money later. For *Bai ‘salam*, the bank pays the money first and receives the commodity later. This mechanism is normally used to finance agricultural products.

**Istissanaa** (manufacturing): This is a contract to acquire goods on behalf of a third party where the price is paid to the manufacturer in advance and the goods produced and delivered at a later date.

**Ijara and Ijara wa Iqtina** (leasing): Under this mode, the banks buy the equipment or machinery and lease it out to their clients who may opt to buy the items eventually, in which case the monthly payments will consist of two components, i.e. rental for the use of the equipment and instalment towards the purchases price.

**Qard al Hasan** (benevolent loans): This is the zero return type of loan that the holy *Qur'an* urges Muslims to make available to those who need them. The borrower is obliged to repay only the principal amount of the loan, but is permitted to add a margin at his own discretion.

**Islamic Securities**: Islamic financial institutions often maintain an international Islamic equity portfolio where the underlying assets comprise ordinary shares in well run businesses, the productive activities of which exclude those on the prohibited list (alcohol, pork, armaments) and financial services based on interest income.

All the modes of financing in Islamic banks have a purpose of meeting the moral objectives fulfilling their responsibility of well-being, both for their stakeholders as well as the larger society they operate in. This is consistent with the principles of *amanah* (trusteeship) in an Islamic system.

In summary, the prohibition of *riba* (interest) in all its transactions and the profit-loss sharing (PLS) arrangements constitute a major characteristic of Islamic banks, which distinguish them from their conventional counterparts. The role of *Shariah Supervisory Board* (SSB), policing and monitoring Islamic banking transactions in adherence to *Shariah* add further to their distinct governance structure. The features and characteristics of Islamic banking encompass *Shariah* principles governing socio-economic behaviour

in an Islamic society. The purpose of such financial system is to maintain social responsibility and justice along with economic prosperity and thus, well-being of society.

The key features and characteristics of Islamic banking and finance discussed in this chapter existed for centuries since the time of the holy Prophet Mohammed (PBUH). However, it was more of an individual or a family approach, lacking an institutionalized form. A growing Muslim middle class, the rise of the Asian Tigers, increased deregulation and the oil shocks of the 1970s in the Gulf countries stimulated the development of Islamic financial institutions adhering to *Shariah* principles. This led to emergence of current Islamic banking and finance industry. Islamic banking and finance is now a confident part of the new global world of venture capital, ethical investment and profit and loss sharing.

Given that the features and characteristics of Islamic banking system are in accordance with *Shariah*, the purpose of which (*maqasid al Shariah*) is the well-being (*falah*) of society, it is reasonable to expect that the practices of Islamic banks will be consistent with the conceptual framework of CSR in Islam presented in the preceding chapter. To explore the extent to which this is true, a survey of Islamic banks was conducted.

Before the survey results are reported in the next chapter, an overview of the survey process will be provided. The selection and characteristics of the sample, data handling (collection, analysis and integration process) and reporting of results will be discussed in detail in the following.

#### **5.4 An Overview of the Survey Process**

The survey process was based on a phenomenological approach using a sample of Islamic banks situated in different parts of the world. This was deemed suitable because the objective of the survey was to explore the contemporary phenomenon of social responsibility in business practices of Islamic banks whose operations are based on *Shariah* principles.

It can be concurred with Benbasat, Goldstein and Mead (1987) that no research strategy is better than another. However, the choice of the research strategy depends on the nature of the topic investigated and current knowledge of it. The nature of the topic includes considerations of the phenomenon, the context, the role of the investigator and the type of research questions. All these elements are considered as part of the technical definition of phenomenological research (Benbasat et al, 1987). This type of approach is found particularly helpful in identifying causal relationships, such as in this study: the relationship between Islam and its believers' business practices. Furthermore, they are found useful in capturing the knowledge of practitioners and developing theories from it, especially when there is more interest in exploring organizational issues as opposed to technical ones.

Senior management (i.e. CEOs and MDs) and members of *Shariah Supervisory Boards* (SSB) were recruited as research participants in the survey. Semi-structured face-to-face interviews were conducted with the participants by the researcher at their respective locations to elicit their views and opinions on issues of CSR from an Islamic perspective. The researcher travelled to various countries, locating selected Islamic banks in Malaysia, UAE, Saudi Arabia and United Kingdom for data collection. Prior to the conduct of the survey, ethics approval was obtained from the University Ethics Committee (AUTEC) and adherence to the ethical norms of research were strictly followed throughout the survey process.

The data collected through interviews was recorded and transcribed by the researcher. Further integration and analysis of the transcribed data followed. A pattern matching technique to compare the empirically observed patterns was used for this purpose. The integrated data was categorized to address the propositions and business expectations arising from the conceptual framework of CSR in Islam. The results of the survey are reported in next chapter. A detailed description of the survey process follows.

#### **5.4.1 Sample Design**

A sample of Islamic banks was chosen for the survey. Justification for this choice has been discussed in the beginning of this chapter (section-5.2). One must be aware that there is a variation among Muslims of their understanding and interpretation of Islam in different parts of the world. These variations, coupled with differences in experiences and circumstances, influence management decisions and practices. Considering this reality, six Islamic banks operating in different parts of the world were selected from a wide range of countries. Empirical evidence from multiple organizations is often considered more compelling (Yin, 1994: 44).

However, time and budget constraints did not allow a large sample size. While the aim of sampling in an experimental study is generalization and prediction, the aim of selecting organizations in an exploratory survey is to test new interpretation. Hence, the sample does not need to be representative of a larger population, as is the case for experimental studies (Cooper and Schindler, 1998; Miles and Huberman, 1994; and Patton, 1990). The focus of the sample has been on information richness illustrating the framework of CSR in Islam. Hence, six Islamic banks were selected from ethnically diverse countries representing the wide spectrum of Islamic understanding. The same data collection method has been used for all organizations.

A sample of Islamic banks based in Malaysia, United Arab Emirates, Saudi Arabia and United Kingdom was selected for this survey. *Malaysia* is considered to be a moderate Muslim nation with a liberal approach towards Islam. *United Arab Emirates* on the other hand, though traditional in Islamic thought and practices, is open to the Western world for international commercial relations and envisions being hub of Islamic commerce in future. *Saudi Arabia* is the epicentre of the Islamic world. Any study on Islam in an international setting would be incomplete without the inclusion of Saudi Arabia as it is the place of origin of Islam. The religion is the foundation of its society and practiced with its strict interpretation according to the 'Wahhabi' philosophy, which is strongly based upon the *Qur'anic* interpretation without any scope for modification. The *United Kingdom*, the only Western country chosen for this study, can boast of the first full-fledged Islamic bank in Europe, inaugurated towards the end of 2004. It would have been interesting to see how an Islamic organization, based on *Shariah*, operates in the contemporary Western society.

As a contingency plan, a few other Islamic banks from other countries were also selected. However, the situation did not warrant the use of the contingency plan due to successful meetings as planned for data collection.

#### **5.4.2 Research Participants**

Two participants from each of the six Islamic banks (totalling 12 research participants) were recruited for this survey. Face-to-face semi-structured interviews were conducted separately with each participant. One of the research participants was either the Chief Executive Officer (CEO) or Managing Director (MD) and the other participant was a member of *Shariah Supervisory Board* (SSB) representing their respective organizations.

It is vital to note that moral or immoral actions do not occur in vacuum. They most often occur in an organizational context that is conducive to the managers (Trevino, 1986; Victor & Cullen, 1988). Barney and Griffin (1992) further contend that organizations have obligations to protect and contribute to the society in which it functions (p.726). However, organizations themselves do not have morals or ethics. Actions of peers and top managers, as well as the organization's culture contribute to the moral context. The organization's relationships with its environment often pose ethical dilemmas and call for ethical decisions. These decisions rest with the senior management of organizations. As the senior management determines the issues of business conduct and principles in any organization, hence, it is imperative to seek their opinion and views in this regard.

Thus, senior managers (CEOs/MDs) were chosen as research participants. As head of the organization, they were sufficient to provide the information being sought for the purpose of this study. Face-to-face semi structured interviews were conducted with them to generate data exploring the extent to which Islamic banks practice and implement *Shariah* principles with features consistent with the conceptual framework of CSR in Islam. Only one member of *Shariah Supervisory Board* (SSB) from each organization was included in the survey as a representative of the views of the SSB policing Islamic jurisprudence in Islamic banks' daily activities (*Fiqh ul Muamalaat*).

The initial identification of the research participants was done through an inspection of the organizational and management hierarchy of the selected Islamic banks. Accordingly, the CEOs or MDs and corresponding SSB member were identified for face-to-face interviews. Contact was established with the short-listed research participants. Initial canvassing of the willingness of participants to be included was through electronic correspondence (i.e. E-mail) followed by telephone calls. Later, upon the agreement of the identified individuals, a formal invitation letter was sent through, together with the

Participant Information Sheet and Consent to Participation in Research form. Participants were then given two weeks to consider the invitation and ask any questions about the research.

### **5.4.3 Ethics Approval**

The purpose of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities (Cooper and Schindler, 1998). As this research aimed to use primary sources (face-to-face interviews with the research participants) to obtain data, it was assumed that some individuals might feel reluctant to disclose information as well as their identity. Ethical conduct demands to protect the rights of the research participants and safeguard their confidentiality and safe custody of the acquired data.

Thus, approval for conducting survey for this study was sought from the Auckland University of Technology Ethics Committee (AUTEC). A detailed description of the survey process in the prescribed form (EA1) was submitted to AUTEC prior to the fieldwork. The ethics approval was granted on 21 August 2006 vide Ethics Application Number 06/102.

As part of the ethical norm in conducting the survey, written consent was sought from all the research participants prior to each interview. Acknowledgement of informed consent was also obtained in writing, when the interviews were conducted as per the appointments. The Participant Information Sheet provided to them earlier outlined the background of this study and purpose of the survey. The research participants were also informed that this study was conducted only for academic purpose (doctoral study) and that they have the right to refuse or withdraw from the survey.



#### **5.4.4 Data Collection**

Data collection was achieved through semi-structured face-to-face interviews with senior management (CEOs/MDs) and *Shariah Supervisory Board* (SSB) members. The researcher travelled to countries locating the selected Islamic banks to interview the research participants personally. The interviews were conducted at the offices of the research participants in their respective locations. The total duration of each interview was approximately five to six hours (accounting for breaks during the interviews). Thus, total man-hours spent for interview purposes amounted to around 70 hours.

The interviews were semi-structured because this study is exploratory. An interview is a point at which order is deliberately put under stress. Whether of interest or not, the respondent is still concerned with displaying a certain degree of his or her competence as a member of whatever community is invoked by the interview topic. This is an inescapable constraint of face-to-face interactions. The consequence is that the data produced by such interviews are social constructs, created by the self-presentation of the respondent (Miller & Dingwall, 1997).

Although personal interviews are the most costly form of data collection in general, they also offer important advantages. The ability of the interviewer to notice and correct the respondent's misunderstandings, to probe inadequate or vague responses, and to answer questions and allay concerns are important benefits in obtaining complete and meaningful data. The interviewer can control the order in which the respondent receives the questions, which is not possible with written questionnaires (Judd, Smith & Kidder, 1991). What is more, the interviewer can control the context of the interview.

The most important advantage of personal interviews as a research technique is reflected by the data quality. Personal interviews can attain the highest

response rate of any survey technique, sometimes over 80 per cent. In addition, face-to-face interviews can best establish rapport, and motivate the respondent to answer fully and accurately, again improving the quality of data. Finally, face-to-face interviews offer the possibility of modifying one's line of enquiry, following up interesting responses and investigating underlying motives in a way that postal and other self-administered questionnaire cannot. Although the interview is in no sense a soft option as a data gathering technique, it has the potential of providing rich and highly illuminating material (Robson, 1993).

Thus, interviews, based on a schedule of semi-structured questions, were conducted to obtain information from the research participants. A list of questions (Appendix-A) was used at the start of the interview to guide the informants' participation. The questions were open-ended and derived from the propositions and expectation/application of the four ethical axioms that constitute the conceptual framework of CSR in Islam presented in the preceding chapter. The research participants were encouraged to express their opinion freely on the issues pertaining to their practices. All interviews were audio-recorded and then transcribed at the early stages of data collection.

#### **5.4.5 Data Integration and Analysis**

The data collected through interviews was transcribed and then integrated. All the data acquired was examined and categorized recombining the evidence to address the propositions of this study. The identity of the research participants remained confidential in line with ethical norms. A coding process was utilized for this purpose. For instance, each participating organization was coded as A, B, C, and D. The individuals from those organizations were coded as A1, A2, B1, B2, C1, C2, D1, and D2. This coding process was enforced to ensure confidentiality of the names, positions and organizations of the research participants.

Dealing with qualitative data can be burdensome because they include large quantities of narratives, which come from different sources of evidence. Yin (1981) contends that the mistake that most novice researchers fall into is when they spend more time and effort on documentation and leave the analysis to the end waiting for all evidence to be gathered. The researcher then is likely to feel lost among the huge amount of evidence, having the problem of deciding where to start and where to end. To minimize this complication, two elements of the database – the data displays and data narratives were used as the techniques for data integration and analysis.

The pattern matching technique was used for data analysis to compare the empirically observed patterns consistent with the propositions and expectations/applications of the conceptual framework of CSR in Islam. When patterns coincide, the internal validity of the study is strengthened (Yin, 1994:106). However, as this study has been exploratory in nature, these initial predictions needed to be revisited and the comparison process repeated. Several iterations of the comparison process between the features of conceptual framework and the empirical findings were carried out until it was satisfied that all rival explanations have been explored, thus maintaining internal validity. Further comparisons across the organizations later followed to establish external validity.

The data was then categorized to address the questions posed during the interview and results reported chronologically. All the materials were kept safely and separate from the identification of the research participants so that the collected data cannot be traced backwards.

#### **5.4.6 Structure of Reporting the Results**

The structure of reporting the results of the survey (in next chapter) has been organized in context of the four ethical axioms that constitute the core values of the conceptual framework of CSR in Islam. The reporting of the survey

results begins with general information acquired from the research participants regarding their background, their organization's commitment to CSR in general and awareness of an explicit notion of CSR in Islam. This is followed by the discussion of more specific issues pertaining to the four ethical axioms of CSR in Islam (i.e. *unity, equilibrium, free will and responsibility*).

The focus of the reporting structure was to explore the extent to which the practices of Islamic banks are consistent with the framework of CSR in Islam elaborated earlier. The results were presented categorically to match the propositions and expectations arising from the conceptual framework.

## **5.5 Conclusion**

The key features and characteristics of Islamic banks discussed in this chapter provide a background of understanding the governance structure and principles of Islamic banking. All the modes of transactions in Islamic banking implied establishment of social responsibility and justice along with economic prosperity in accordance to *Shariah* principles of socio-economic behaviour. This is consistent with the features of the conceptual framework of CSR in Islam. It remains now to only explore the extent to which such a framework is practiced in a contemporary business environment.

To that end, a survey of Islamic banks was conducted. An overview of the survey process outlining the design of the sample, selection of research participants, data collection and handling procedures was discussed in this chapter to provide a clear understanding of the survey process.

Now that the characteristics of Islamic banking system and the survey procedure are clear, the following chapter will present the results of the survey. This will ascertain the extent to which the conceptual framework of CSR in Islam is consistent with the practices of Islamic banks in a contemporary business environment.

## Chapter 6 Corporate Social Responsibility in Islamic Banks: Results of an Empirical Survey

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### **6.1 Introduction**

The preceding chapter provided a background of the governance structure and principles of Islamic banking. As Islamic banks conduct their operation in adherence to *Shariah* principles, it is expected that their practices will be consistent with the conceptual framework of CSR in Islam presented in this study. A survey of Islamic banks was conducted to explore the extent to which such a framework is practiced in a contemporary business environment. This chapter will report the results of the survey.

An overview of the survey process was discussed in the preceding chapter (sec-5.4). A sample of six Islamic banks from different parts of the world was selected for the survey (justification for choosing Islamic banks for this study is discussed in chapter-5, sec-5.2). Two research participants from each organization were recruited for face-to-face semi structured interviews. One of them was either a Chief Executive Officer (CEO) or Managing Director (MD) and the other participant was a member of *Shariah Supervisory Board* (SSB). A list of questions (appendix-A) was used to guide informants' participation. The identity of all research participants and their organizations remained confidential throughout this chapter in line with ethical norms.

This chapter begins with inquest into the background of the research participants, the level of commitment to corporate social responsibility (CSR) by their organizations and awareness of a notion of CSR in Islam. This is followed by an exploration into the practices of Islamic banks that may be consistent with features of the four ethical axioms (*unity, equilibrium, free will and responsibility*), which are the core values of the conceptual framework of CSR in Islam presented in this study. The survey results reveal that Islamic banks are committed to CSR in adherence to *Shariah*, and their practices are consistent with features of the framework of CSR in Islam.

## **6.2 Background of research participants**

The purpose of acquiring this information was to ascertain the research participants' authority to discuss issues of CSR practices in Islamic banks. It was observed that the research participants, who were either a CEO or MD of their respective organizations, have background in conventional banking industry with experiences ranging from 15 to 25 years in international banking and finance sector, mostly in Europe and the United States. This was clear from the responses of research participants. As one research participant stated:

*“I am a qualified chartered accountant with work experience in banking and financial services. I was Director- Operations of a Stock Broker and then was a senior executive in one of the high street banks in Europe. That gave me a lot of background in setting up this (Islamic) bank operationally”.*

Another research participant similarly stated:

*“Prior to taking over as CEO of this bank, I was working in the UK for 15 years with an established bank. I am a practicing banker”.*

Another research participant shared his background in banking industry:

*“I have worked in Europe and the United States for nearly 25 years in the banking and finance industry”.*

The above quotations suggest that the research participants are well versed with the rules and regulations of the banking and finance industry due to their previous experiences. The members of *Shariah Supervisory Board* (SSB), who are experts in Islamic jurisprudence relating to business transactions (*Fiqh ul Muamalaat*) complement their banking and finance experiences.

All research participants were Muslims by faith, and thus, religious belief played an important role in their professional conduct. There was a general consensus among the research participants that as Muslims, it was incumbent upon them to do something for society in accordance with Islamic principles. They responded to their call of conscience, of fulfilling religious obligations towards society, through their expertise in professional life. Almost all research participants mentioned this reason as a driving factor for leaving their flourishing conventional banking career to adopt their new roles in the Islamic banking sector that was still at its infancy.

*“I have been a successful high-flying executive in the banking and financial sector... but then I made a decision to follow up my religious beliefs as well in professional life. Our religion provides a driving factor...”*

Another response was:

*“...There has to be an ideal that drives a person in his life. There has to be values that are intrinsic to that person and also intrinsic to the organization. When you have that commonality, then you are driven by a bigger purpose. Islam provides me with that purpose”.*

Another research participant mentioned:

*“...Being in an Islamic bank is unique on its own. You hardly get this kind of job, where you marry both your profession and religion at the same time. I worked in Europe and the US and came across many things which conflicts with your belief, but you have no choice. Being in an Islamic organization in contemporary business world allows you to pursue your profession as well as opportunity to fulfil religious duties...Alhamdulillah, it's amazing”.*

Some research participants also mentioned about the sacrifices they made to shift their career from conventional to Islamic banking industry, e.g. pay cut compared to their previous position and the challenges and insecurities of an infant industry (i.e. Islamic banking). As one research participant stated:

*“We all joined this (Islamic) bank coming from by and large blue-chip companies and took a salary cut as Islamic banking is still at its infancy. What would possess someone to do that, if it was less than something that fundamentally impacted his/her values and set of beliefs?”*

However, they mentioned that the religious obligation of fulfilling their social responsibility motivated them and hoped for a better reward in the hereafter (*akhirah*) by almighty Allah (TME).

The background of the research participants, who were senior managers and professionally well experienced, authorized them to speak for their organizations' CSR practices. The SSB members with expertise in Islamic jurisprudence were authorized to enlighten the practices of Islamic banks in accordance with *Shariah* principles.

### **6.3 Commitment to Corporate Social Responsibility (CSR)**

Following the background of the research participants, their organizations' commitment to CSR in general was enquired. The response to the question was affirmative.

	<u>Corporate</u> <u>A</u>	<u>Corporate</u> <u>B</u>	<u>Corporate</u> <u>C</u>	<u>Corporate</u> <u>D</u>	<u>Corporate</u> <u>E</u>	<u>Corporate</u> <u>F</u>
<b>Commitment to CSR</b>	Yes	Yes	Yes	Yes	Yes	Yes



There was a consensus among all research participants that their organizations are committed to corporate social responsibility. All of them stated that Islamic organizations must be socially responsible because Islam champions the cause of social responsibility and justice. They contend that the core values and principles of an Islamic organization, besides making profits, are to serve its customers and community in accordance with the Islamic belief system. According to one research participant:

*“We (Islamic banks) have twin objectives. First objective is to provide services that conform to Shariah. Second objective is to provide Shariah-compliant products and services at a reasonable cost to our customers in the community. This way we can fulfil our responsibility to society”.*

Another research participant responded similarly:

*“We are here not only to make money but also to provide products and services which are essential to those who believe in them. Because in many markets you do not have the luxury of leading an Islamic way of life or doing Islamic banking and financing”.*

Thus, the objective of Islamic banks is to provide products and services, which are *Shariah* compliant. This enables Islamic banks to serve the community and is considered as part of their commitment to social responsibility. One of the research participants also stated that:

*“The main objective of Islamic banks is to follow Shariah. We cannot make money at the cost of Shariah. So our first and foremost mission is to make money by being Shariah-compliant. This is the reason of our existence. If we have a problem with this, then we might not exist as well”.*

All research participants asserted that the *raison de 'etre* of Islamic banks is to supply *halal* products to a community that is under-served for banking products and services in accordance with their belief system (*shariah*). In absence of such financial products and services, the community would be deprived of their religious practice in financial and economic terms. This is considered as social responsibility of Islamic organizations, which Islamic banks are committed to fulfil.

All research participants pointed out that Islamic banking is driven by religious motivation and is naturally inclined to be ethical and socially responsible according to the business precepts of Islam:

*“The key thing for us is that we are stressing at the ethical nature of banking from a particular religious perspective, i.e. Islam. We (Islamic banks) not only make money but also fulfil our obligations by being socially responsible naturally in accordance with Islamic precepts. This ethical aspect also attracts non-Muslims to us”.*

Islamic banks’ practices in commitment to CSR principles are reflected in their products and services in accordance with the tenets of business transactions in Islam (discussed in chapter-3, sec-3.4.2). All research participants clearly outlined their organizations’ restriction in not to deal with businesses that produce and deal with socially hazardous or harmful products, e.g. tobacco, alcohol, and arms related businesses, as they are socially harmful and thus *haram* (prohibited), conforming to the *Shariah* principles. This was clear from the responses of research participants. As one of them stated:

*“If somebody comes to us and asks for money to expand his off-licence business that sells alcohol – although the return might look lucrative, we have a decision to make in accordance to Shariah. In that case, we will not deal with them. Something which is a sure shot profit making proposition but*

*haram – we can't deal with propositions (e.g. alcohol or gambling related businesses) that do not conform to Shariah principles”.*

Another research participant stressed on a similar issue:

*“We don't finance tobacco related business. There is nothing unIslamic, as tobacco is not considered haram. But we still do not deal with them, as they are hazardous and harmful. Similarly we don't deal with any logging businesses because they are harmful to environment”.*

Some research participants contend that the financial services they provide, e.g. pawn broking, is part of their commitment to CSR:

*“Islamic way of pawn-broking is an essential service that we consider for the community because there are individuals who will fall into the hands of ‘loan-sharks’ (charging high interests on money lent) in absence of such services of Islamic banks. This way, Islamic banks fulfil their commitment to CSR”.*

Liasing with educational institutions and providing students with work experience opportunities is also considered as their way of caring for CSR and contributing to society. Islamic banks are also working on providing ‘interest-free’ loans to students to pursue their education.

It was noted that Islamic banks do not have any department dealing with CSR specifically. Their organizational set up made every one responsible to care for CSR in adherence to *Shariah* principles. Envisioning the direction of the organization, the senior managers spend a lot of time on CSR issues. The SSB members highlight and point out the CSR principles embedded in *Shariah*. This was clear from the responses of all research participants who were CEOs and MDs of their respective organizations. As one research participant stated:

*“Commitment toward social responsibility is not restricted to one department or individual in Islamic banks. All of us are responsible in accordance with our belief system (Shariah). I, as head of the organization, spend lot more time on these issues pertaining to services related to social responsibility. The Shariah Supervisory Board highlights the importance of CSR through religious injunctions that we follow”.*

However, some research participants expressed their concern about matching their CSR practices with their conventional counterparts. They stressed that Islamic banks are committed to CSR but not in a conventional context. They contend that the conventional corporations have a CSR budget that is allocated separately. That budget enables them to conduct their philanthropic activities, e.g. helping schools and charities, etc. The conventional corporations also publicize these CSR activities to gain competitive advantage over their competitors and use it as a tool in their marketing strategy.

A significant difference between conventional and Islamic organizations emerged through this discussion. Islamic organizations are naturally inclined to be socially responsible in adherence to *Shariah* principles. Hence, they do not publicize their CSR activities, as several business organizations in contemporary business world do.

Thus, it is evident that Islamic banks are committed to corporate social responsibility. However, this is not guided by a higher notion of CSR. Rather, it is in adherence to *Shariah*, the purpose of which (*maqasid al Shariah*) is well-being (*falah*) of society. CSR is an integral part of Islamic banks' existence in accordance with the philosophy of socio-economic behaviour in Islam. However, when asked if they are aware of an explicit notion of CSR in Islam, the responses from all research participants were negative.

#### **6.4 Awareness of A Notion of CSR in Islam**

The issue of commitment to CSR in general was followed by a more specific question regarding awareness of a notion of CSR in Islam. As observed in the preceding section, Islamic banks are naturally inclined to be socially responsible due to their operation being in adherence to *Shariah*. However, the response to the question of whether they are aware of the existence of an explicit notion of CSR in Islam was negative.

	<u>Corporate</u> <u>A</u>	<u>Corporate</u> <u>B</u>	<u>Corporate</u> <u>C</u>	<u>Corporate</u> <u>D</u>	<u>Corporate</u> <u>E</u>	<u>Corporate</u> <u>F</u>
<b>Aware of CSR in Islam</b>	No	No	Yes/No	No	No	No

The above matrix suggests that although they are committed to CSR, Islamic banking management are not aware of a higher-order framework of CSR in Islam explicitly. Only one research participant (Corporate-C) responded positively considering that being an Islamic organization, it is their obligation to be socially responsible according to the teachings of Islam in general. Therefore, every Muslim must be socially responsible naturally and this is reflected in one's commercial activities. However, he also conceded, that there is a lack of a systematized framework with explicit notions of CSR in Islam. Hence, the response in that column is mixed.

All research participants clarified that Islamic banks, though socially responsible in adherence to *Shariah* principles, were not aware of a systematic framework of CSR in Islam. One of them pointed out:

*“...There is nothing out there from a contemporary corporate perspective to guide Islamic behaviour organizationally”.*

One of the research participants highlighted the lack of an institutionalized approach to corporate social responsibility from an Islamic perspective:

*“Am I aware of an Islamic notion of CSR? No, not formally. Because there is nothing out there that says this is how you behave in a corporate set up to conform to Islamic CSR practices”.*

Another research participant responded similarly:

*“No, I haven’t seen, heard or read about it. I have come across people talking about Islamic organizations to be socially responsible but have not seen any model or framework of CSR in Islam as of yet, identifying what an organization should be doing to follow an Islamic framework of CSR”.*

However, there was a general consensus that practices similar to the notions of CSR were present in Islamic organizations under current but not specific enough as a systematized framework. As one response indicate:

*“Muslims are, by religion, commanded to care for the needy and poor. They must give charity, look after neighbours and strangers, etc. - the caring aspect, these are all social responsibility. However, there is a lack of institutionalizing an Islamic notion of social responsibilities in a corporate environment”.*

Thus, although Islamic banks are committed to CSR, their authorities are not aware of an explicit notion or framework of CSR in Islam. This is clear from the preceding responses of all research participants. Islamic banks’ commitment to CSR, however, is due to their pre-occupation with following legal edicts according to *Shariah*, rather than being informed by a higher-order mission of social responsibility in Islam.

There are many current practices in Islamic banks that are consistent with notions of CSR in Islam. These seem to be ad-hoc and driven more by legal requirements in adherence to *Shariah* rather than by a higher-order understanding based on fundamental religious texts concerning social responsibility. To substantiate this claim the following discussion will delve further into their current practices and the motive forces behind them.

The survey results are presented in the following discussion replicating the order of the four ethical axioms (*unity, equilibrium, free will and responsibility*), which are the basis of the conceptual framework of CSR in Islam presented in chapter four.

### **6.5 The Axiom of Unity in Practice**

The axiom of unity forms the foundation of Islamic faith. Belief in one God – Allah (TME) is at the top of the goal of *Shariah*, as it is crucial for human well-being (*falah*). This provides a powerful integration principle in Islam, for all humankind is united in submission to Allah (TME) – the Creator of everything in the heavens and earth.

The relationship between the Creator and the created is based on this concept. The axiom of unity shows the interrelatedness of all that exists and leads to the basis for relations with others, allowing human beings to act in a respectful and caring manner. This further, acts as a moral filter and motivation necessary for the allocation and distribution of resources based on universal brotherhood and socio-economic justice.

According to the axiomatic concept of unity, Allah (TME) – provider of all resources, has put humankind at the helm of His creations and assigned them with the task of being His *Khalifah* (vicegerent) on earth. This principle of

*Khilafah* (vicegerency) follows directly from the concept of unity by describing man's purpose and behaviour of maintaining social responsibility and justice as an essential part of faith.

As *Khalifah* (vicegerent) of Allah (TME) – the Provider of everything on earth, humankind must utilize the resources bestowed upon them equitably, in the spirit of the purpose of the Islamic social system. Based on this concept, it is expected that a faithful (as trustee of Allah's (TME) resources on earth) will be trustworthy, not hoard wealth avariciously and be non-discriminatory. These characteristics of socio-economic behaviour are also expected to reflect in commercial activities of Islamic organizations. The extent to which this is implemented in Islamic banks is explored in the following.

#### **The Axiom of Unity in Practice in Islamic Banks**

<b><u>Axiom</u></b> ▼	<b><u>Corporate</u></b> <b><u>A</u></b>	<b><u>Corporate</u></b> <b><u>B</u></b>	<b><u>Corporate</u></b> <b><u>C</u></b>	<b><u>Corporate</u></b> <b><u>D</u></b>	<b><u>Corporate</u></b> <b><u>E</u></b>	<b><u>Corporate</u></b> <b><u>F</u></b>
<b>Unity</b> <i>Trustee (al'amin)</i>	Yes	Yes	Yes	Yes	Yes	Yes

The above matrix suggests a general consensus among all research participants that Islamic banks consider themselves to be custodians of their clients' capital (the concept of *amanah*) in accordance with the nature of being a trustee (*al'amin*) of Allah's (TME) wealth on earth. This is consistent with the concept of unity in the conceptual framework of CSR in Islam.

The responses have been categorized into three sections: (a) trustworthiness; (b) avoid hoarding wealth avariciously; and (c) avoid discrimination. These are the key features of the axiom of unity.



**(a) Trustworthiness**

The concept of trustworthiness is an essential part of any business dealing of Islamic banks. All research participants agreed that it is their responsibility to hold their clients' funds as a custodian of their wealth (*amanah*) to uphold the concept of trusteeship (*al'amin*) according to *Shariah* principles. This was evident from the response of one research participant:

*“Trustworthiness is very important for us (Islamic banks) as custodian of others wealth. It is our responsibility, when we have other peoples' money, to do everything according to Shariah – that is why people come to us...”*

As majority of contracts in Islamic banking are based on *profit and loss sharing arrangements* (PLS), it entails trustworthiness in dealing with the parties involved. In practice, when the funds are invested to generate profit that is shared with the investors, it is essential that Islamic banks provide services to their investors with the best rate of return on their investments according to *Shariah* principles. All transactions must be transparent to ascertain their trustworthiness. This was clear from responses of the research participants, as one of them stated:

*“Integrity, trust and service are our guiding principles to help us forge strong relationships with our customers. Those same principles of ethical banking and positive human values in Shariah will continue to guide us”.*

Another example of trustworthiness was noted in the responses that mentioned the prohibition of financing life-style services. For example, Islamic banks do not provide loans for excessive personal holidays or unnecessary luxury items.

One research participant pointed out those Islamic banks cannot invest in or finance such business propositions that violate Islamic tenets of business

transactions. For instance, Casinos or Karaoke bars that serve alcohol, due to prohibition (*haram*) of gambling and alcohol in Islamic jurisprudence (*fiqh*):

*“Financing such businesses that deal with haram products and services would breach the trust of our clients who come to us for our Islamic credibility”.*

Investment in compliance with *Shariah* principles is an essential characteristic of Islamic banks. All research participants commented that as custodians of others money held in trust, trustworthiness is a key element of Islamic banking practice and governance. This, they contend, is one of the distinguishing features of Islamic banks:

*“There is a significant difference between Islamic and conventional banking. The fundamental difference is that we (Islamic banks) are not moneylenders. We are custodians of others money and hold it in trust (amanah) and thus, utilize them responsibly in accordance with Shariah. So trustworthiness is a very key element”.*

Furthermore, Islamic banks provide services (e.g. interest-free banking), which are essential to those who believe in them and want to deal financially in accordance with Islamic precepts. There is a shortage of such products or services in many markets (especially for Muslims in Western countries) that hinder leading an Islamic way of life. Islamic banks fulfil their social responsibility by catering to those market segments.

One research participant stressed the importance of providing products and services that would facilitate practice of Islamic principle of trusteeship (*amanah*):

*“Wealthy Muslims consider their wealth like any other wealthy non-Muslims. They want wealth management services and want to leave good heritage for*

*their spouse and offspring. They are able to make more money and create more wealth as well. There is no problem with such intentions, but there is a significant difference between dealing with financial matters in accordance with Shariah and other conventional financial transactions that may involve haram elements, e.g. riba (interest) or investing on businesses dealing with haram products or services. Islamic banks provide services and products that help in fulfilling their obligations of trusteeship in adherence to Shariah”.*

In accordance with the concept of trusteeship of Allah’s (TME) wealth on earth, Muslims are required to be trustworthy and deal with their transactions according to *Shariah*. According to all research participants, Islamic banks fulfil their social responsibility by providing such *Shariah* compliant financial products and services. This, they contend, is part of their commitment to CSR.

Islamic banks also provide products and services that facilitate in avoiding hoarding of wealth avariciously. This again, is an essential element of the conceptual framework of CSR in Islam. The extent to which this is practiced in Islamic banks is explored in the following.

**(b) Avoid Hoarding Wealth Avariciously**

There are strict injunctions against hoarding in Islam. All the resources on earth are to be held in trust according to Islamic philosophy. Therefore, wealth must be utilized equitably to benefit both the owner and the larger society. This is evident from the concept of *Zakat* (Islamic tax). The highest *Zakat* liability is on ‘reserve cash-in-hand’ but declines as it is used more productively. For instance, Islamic modes of investments, e.g. *Musharaka*, enable productive use of wealth. Such investments prevent *riba* and hoarding, as well as create opportunities in the community.

Islamic banks facilitate avoidance of wealth hoarding through their products and services. A research participant elaborated the manner of implementing this significant feature of Islamic framework of CSR:

*“There are investment opportunities like Musharaka based investments. Such investment helps growth for entrepreneurs as well as the investor and increases the wealth in terms of investment. The profit and loss sharing (PLS) concept encourages entrepreneurs to be more productive. Undue pressure on payment of interests on investment, irrespective of the business performance, is avoided. This also helps the community at large by eradicating poverty and unemployment through job creation by such investments. On the other hand, the ‘reserve cash-in-hand’ is utilized productively through such investments”.*

This is considered different from the conventional approach to banking. In conventional interest-bearing investments, there are pressures on entrepreneurs to fulfil their obligation of interest payments on funds borrowed, irrespective of their business circumstances. In case of losses, the entrepreneur is doomed. The benefits of such investments are restricted to the parties involved and thus, create a gap in economic prosperity in society. Islamic banks, in accordance with *Shariah* principles, facilitate equitable distribution of wealth:

*“Islamic banks fulfil their social responsibility by utilizing their clients’ funds through Musharaka based investments, avoiding the menace of riba (interest). Such investments benefit both the lender and the borrower along with the larger community”.*

Another research participant went a step further illustrating the practices of some Islamic banks in adherence to strict injunctions against hoarding:

*“There are some schools of thoughts in Islamic jurisprudence (fiqh) within the Shariah that would even prohibit financing food grains related businesses.*

*Because they are concerned about the hoarding element of it and food grains, once upon a time, was substitute for money. So they do not agree with these types of financing”.*

However, there was no consensus on this issue. Different banks and their SSB members viewed this issue of financing in context of their national economy.

**(c) Avoid Discrimination**

All research participants agreed that as an Islamic organization, it is incumbent upon them to uphold the tenets of *Shariah* that prohibit discrimination in all forms. In practice, they cared about the rights and privileges of their employees. As one research participant stated:

*“We (Islamic banks) are built on a firm foundation of values of unity, progress, quality, entrepreneurship and innovation. Part of that value is honouring our human resource, which is a major social responsibility”.*

It is normal in Islamic banks to allow their employees to practice their religion while at work. For instance, allow time off work hours for obligatory prayers (*salat*), and be lenient during the fasting period in the month of *Ramadhan* - by adjusting working hours to avoid undue hardship.

A research participant identified another unique way of non-discriminatory practice in Islamic banks:

*“There is a general practice of greeting each other and also our customers as per Islamic salutation – Assalamoalaikum wa rahmatullah (peace and blessings of Allah be on you)”.*

This was interpreted to be important in creating a harmonious environment for both the employees and customers in the bank through courteous behaviour, as Islam stands for good behaviour in every day life. This is also important in light of avoiding discrimination in any form, as the Islamic salutation demonstrates respect for one another.

Female employees are treated with due respect and equally at work. For instance, they are allowed to choose whether they want to use *hijab* (covering their head with cloth) in accordance with the dressing code in Islamic jurisprudence (*fiqh*) or not. This is in line with avoiding discrimination of the freedom of choice of individuals. Nonetheless, they must dress modestly and avoid exposure of physique in any form. This leniency however, is not allowed in Saudi Arabia, as *hijab* is compulsory in that country.

In summary: practices of Islamic banks are consistent with the characteristics of the ethical axiom of unity. Although they are not systematized in form of a conceptual framework, the basic requirements of trustworthiness, avoiding hoarding of wealth avariciously and avoiding discrimination in any form are present under current in practices of Islamic banks. Transparency in transactions in adherence to *Shariah* principles and equitable utilization of their clients' funds are essential elements of Islamic banking. This is consistent with the principle of *amanah* that constitutes a significant part of the axiom of unity. Equal treatment of their employees and courteousness with their customers in daily banking practices illustrates their non-discriminatory behaviour. Further, *Musharaka* type of deals encourages entrepreneurship. The profit and loss sharing (PLS) concept prevent hoarding of wealth avariciously (prevent interest-bearing investment that is strictly prohibited in Islamic jurisprudence). These are consistent with the principles of social responsibility and justice - an integral part of the framework of CSR in Islam.

Islamic banks are expected to play a significant role in fulfilling their social responsibility by maintaining equilibrium in financial transactions. The extent to which they implement this in practice and the manner of its implementation is explored in the following.

## **6.6 The Axiom of Equilibrium in Practice**

The axiom of equilibrium denotes a sense of balance among various aspects of a man's life to produce the best social order. Allah (TME) has created everything with a balance to maintain equilibrium. As *Khalifah* (vicegerent) of Allah (TME) on earth, mankind is expected to maintain equilibrium in society through social responsibility and justice. A middle path must be maintained in all socio-economic affairs of a Muslim society. Adherence to this principle, in an Islamic society or organization will ensure a harmonious society through aggregation of natural and social forces.

Islamic organizations are expected to facilitate the axiom of equilibrium through their practices of maintaining balance in the socio-economic sphere. Equitable distribution of wealth is an important aspect of this axiom. The extent to which this is consistent with the practices of Islamic banks is explored in the following responses of the research participants.

### **The Axiom of Equilibrium in Practice in Islamic Banks**

<b><u>Axiom</u></b> ↓	<b><u>Corporate</u></b> <b><u>A</u></b>	<b><u>Corporate</u></b> <b><u>B</u></b>	<b><u>Corporate</u></b> <b><u>C</u></b>	<b><u>Corporate</u></b> <b><u>D</u></b>	<b><u>Corporate</u></b> <b><u>E</u></b>	<b><u>Corporate</u></b> <b><u>F</u></b>
<b>Equilibrium</b> <i>Justice (al'adl)</i>	Yes	Yes	Yes	Yes	Yes	Yes

All research participants agreed that the concept of equilibrium, in an Islamic perspective, is an essential element of a Muslim society and cannot be flawed as Allah (TME) commands it.

It was evident from the survey that the axiomatic concept of equilibrium is a core issue of the model of Islamic banking. Islamic banks are conscious of their social responsibility of maintaining balance in adherence to Islamic socio-economic concept. The concept of *al'adl* or distributive justice derived from this axiom is practiced through profit and loss sharing (PLS) on investments. This was illustrated by a research participant elaborating the PLS arrangements of Islamic banks:

*“The conventional banks make profit of around 15-20% on their investment and give their investors a fixed rate of around 4-5% in return, whereas we are making 6-7% of profit now. That is on savings side. We share 50% of that profit with our customers. If InshaAllah, say in 5 years time, we make 10-15% profit, our customers profit share will jump from 2.75-3% currently to 5-7.5% then. This is nearly double because our performance in profit has doubled, not because the rate of interest has increased from the Central Bank. If the rate of interest is low from the Central bank, in conventional banking, the rate of return on investments decreases, but in Islamic bank, even if the conventional interest rate is low, and our profit is high and increases, the rate of return on investment also increases as we share profit with our customers”.*

The preceding comment implies that the share of profit in conventional banks is not equitable. In case of Islamic banks, the principle of profit and loss sharing according to Shariah is more productive. This is considered an Islamic bank's approach to maintaining equilibrium in financial transactions. In case of any government intervention on the rate of return on investments through regulatory legislations, the research participants also suggested a solution, as one research participant elaborated:



*“In case we have a ceiling on profit sharing due to government regulations in a non-Islamic environment, then we will try and pass over the profit to other aspects of our products and services, so that our customers benefit, e.g. administration fees and other charges can be reduced. This is how we will maintain the balance. This is an Islamic way of maintaining equilibrium”.*

Micro financing by Islamic banks in form of pawn-broking is another significant practice consistent with the axiomatic concept of equilibrium. One of the research participants pointed this out:

*“Pawn-broking – money lent without charging any interest to the needy is a classic example of equilibrium in practice. This is one way of illustrating distributive justice and attempting to eradicate poverty in the society. This sort of activities (interest-free micro financing) also reduces the disparity between the rich and poor, creating social harmony”.*

However, this practice is more structured and rampant in Islamic banks in Malaysia compared to their Middle Eastern and European counterparts.

Another example of consistency with features of the axiom of equilibrium was cited in financing of agricultural businesses by Islamic banks:

*“The concept of sharing, i.e. we (Islamic banks) provide the seeds and the farmers grow them and both of us share the crop. This is Islamic concept of maintaining socio-economic equilibrium that reduce the disparity in society between the rich and poor”.*

One research participant pointed out that the sharing concept has always been present in the agricultural community in Islamic society, and was not new. Now, it has been institutionalized in a contemporary environment through practices of Islamic banks and commercially accepted.

One of the significant characteristics of Islamic banks, revealed in this survey, is that they are not in the market just to maximize their profit but also to share the responsibilities of society in maintaining harmony in socio-economic terms. The manner of implementing such a feature consistent with the axiom of equilibrium was explored further. It was noted that the management of Islamic banks intend to pass on their profits to the wider society. This was illustrated in the following statement of one research participant:

*“In terms of transactions, adherence to precepts of Islamic jurisprudence (fiqh) in maintaining equilibrium is practiced diligently in Islamic banks because, as custodian of other people’s money, we have a strong obligation to ensure that the return is from halal source (in accordance with Shariah). That is why profit-maximization is not the sole responsibility of Islamic banks. We must be transparent about our investment profile and returns. Any extra sum in reserve must be utilized for the welfare of society by means of community projects for the needy”.*

All research participants commented that it is incumbent upon them, as Muslims, to help the needy and as such, finance them in the community through *Qard al Hassan* (benevolent loan). This enables disbursement of extra profits in reserve to benefit society and foster equitable distribution of wealth.

However, there was concern among the research participants that this is an ideology, which is still to be fruitful in a complete sense, as Islamic banking is at its infancy in most of the countries. As one response indicate:

*“We have a long way to go as an industry (Islamic banking industry) to get to that ideal (equitable distribution of wealth)”.*

Another research participant commented similarly:

*“...But most of the products and services of Islamic banks are imitations of our conventional counter-parts with a tag of being Shariah compliant. Some of the products being developed are technically halal and Shariah compliant, but we have not been able to create a fully Shariah based financing system yet”.*

Another response indicated that achieving complete *Shariah* adherence is a challenge for Islamic banks:

*“Islamic banks have to move further as an industry, towards creating products where more Shariah based products and services are provided. More established Musharaka type deals (sharing in entrepreneurial activities through investment in compliance with the principles of amanah) are carried out. This is more of an ambition than current state”.*

There was a general consensus among all research participants that Islamic banking industry needs to grow more rapidly towards complete adherence to *Shariah* principles. The current products and services provided by Islamic banks are imitation of their conventional counterparts with slight modification to suit *Shariah* compliance. In order to gain strong foothold in the banking and financing industry around the world, Islamic banks must prove their Islamic credentials by developing a more coherent *Shariah* based operation.

In summary: the profit and loss sharing (PLS) arrangements in Islamic banks, e.g. sharing cost and profit in agricultural investments and pawn-broking, help eradicate poverty. The products and services provided by Islamic banks in adherence to *Shariah* principles enable equitable utilization of wealth. Such practices of Islamic banks are consistent with the concept of equilibrium in the conceptual framework of CSR in Islam.

## **6.7 The Axiom of Free Will in Practice**

Every individual and organization has the freedom to choose. However, that freedom, for a Muslim who strives to gain Allah's (TME) favour and blessings, is dictated by *Shariah* principles. According to the Islamic belief system of total submission to the will of Allah (TME), Muslims are obliged to follow the divine commandments. The principle of total submission permeates every aspect of a Muslim's life including commercial transactions. Thus, Muslims are expected to contribute to society, fulfil all obligations pertaining to their social responsibility and care for the less fortunate. The extent to which the axiom of free will is consistent with the practices of Islamic banks is explored in the following responses of the research participants.

### **The Axiom of Free Will in Practice in Islamic Banks**

<b><u>Axiom</u></b> ↓	<b><u>Corporate</u></b> <b>A</b>	<b><u>Corporate</u></b> <b>B</b>	<b><u>Corporate</u></b> <b>C</b>	<b><u>Corporate</u></b> <b>D</b>	<b><u>Corporate</u></b> <b>E</b>	<b><u>Corporate</u></b> <b>F</b>
<b>Free Will</b> <i>Freedom of Choice</i>	Yes	Yes	Yes	Yes	Yes	Yes

The following section of the survey result has been categorized into three sections:

- (a) Contribution to the well-being of society;
- (b) Fulfilling obligations; and
- (c) Care for the less fortunate/down trodden in society.

(a) **Contribution to the well-being of Society**

There was a general consensus among all research participants that Islamic banks contribute to the well-being of society by providing an Islamic option of dealing with wealth. The consumers have the freedom to choose or reject their services. The senior managers of Islamic banks interpreted the axiom of free will in terms of providing a choice in banking. One research participant illustrated this:

*“We are here to show people that you have a choice. You have a banking need, here is one way (Islamic banks), and we can solve your banking needs. However, the choice is yours. You can’t tomorrow turn around and tell God that I did not have a choice and that’s why I went to a ‘Usury Bank’, which is what happens in – say a place like New Zealand. Because you do not have a choice of having an Islamic bank there, therefore, you (Muslims) are forgiven for not having a choice. But here, when you have a choice, we give you an ethical Shariah compliant product at competitive price, of the same quality with better service, now what is your excuse for not using it?”*

Islamic banks contribute to the well-being of society through various avenues. Islamic banks activities, e.g. engaging with educational institutions, by means of providing scholarships, opportunity for apprenticeship and training for students, etc. is considered part of their contribution to the well-being of society. They have a choice not to engage in such activities, but being an Islamic organization adds to their compulsion of contributing to the well-being of society in accordance with *Shariah* principles.

Dissemination of knowledge regarding financial transactions in accordance with *Shariah* was considered a significant means of contribution to the well-being of society among all research participants. As one response indicated:

*“Dissemination of knowledge behind the logic of Islamic banking system will clarify the doubts about its difference with its conventional counter-parts”.*

Another research participant cited an example regarding knowledge of Islamic banking and the choice following from it:

*“In the western countries, Muslims wanting to deal Islamically have been financially excluded for long. First, because of the ‘interest’ (riba) issue, where people were religious and did not go to banks, so they kept hard cash with them, creating a high proportion of the ‘Cash Economy’ – the proverbial ‘hidden under mattress’ case. Secondly, because they did not trust the banks, and thirdly, its culture – they did not do it before, so they do not do it now. The concern was how to get these people to use the modern means of finance by providing the right solution in accordance with their religious belief. Islamic banks in those societies organize seminars in the community and propagate the knowledge of right and the wrong according to Islam and help them choose the right thing. This is one way of contributing to the well-being of society by leading from darkness to light”.*

There was a consensus among research participants that it was obligatory upon all learned Muslims to propagate the benefits of Islamic system for the welfare of society. As such, Islamic banks consider it necessary to propagate about Islamic banking and financial system. However, one of the research participants cautiously differentiated between propagation and conversion:

*“...It is our obligation to propagate. But at the end of it, we are not on the path of ‘converting or conquering’ the world, we are there to show people - here is a choice. So we work with the whole society for its benefit and that is how we fulfil our obligation to well-being of society, although we are free to chose whether to do it or not. But because we are Islamic, it is an obligation”.*

Accordingly, some Islamic banks sponsor International Islamic banking and finance conferences, interacting and engaging with the wider global business community and exchanging views and ideals that lead to the welfare of society. Some Islamic banks also have a research division that looks into these issues. They publish articles in newspapers and journals/magazines on Islamic banking and finance and organize seminars in the community.

Some research participants expressed concern for environmental issues. They contended that refusing to deal with businesses that cause harm to the ecological environment is their mode of contributing to the well-being of society. This was evident from one response:

*“It is not only Islamic activities but anything that is harmful and hazardous to environment and society is out of our business dealing”.*

Islam has clearly prohibited anything that is harmful to individual or hazardous environmentally. Thus, Islamic banks do not deal with or finance tobacco related businesses, as it is harmful. Similarly, some Islamic banks do not finance logging companies because they simply log and do not replant, causing harm to the ecological environment. Some Islamic banks also require compliance to the pollution effect from the businesses they invest in, to make sure that they do not finance businesses that are hazardous to the environment. Thus, it is a significant obligation of Islamic organizations to care for the well-being of society in accordance with the Islamic philosophy fulfilling their social responsibility.

**(b) Fulfil obligations to Society**

There was a general consensus among all research participants that Islamic banks fulfil their obligations to society by providing Shariah compliant product and services. As one research participant commented:

*“Islamic banking is an ethical form of banking that is based on sharing risk and reward and the fact that we differentiate whom to finance (must be halal business) help us fulfil our obligation to society”.*

Islamic philosophy encourages investing in community-based projects that will be fruitful for both business as well as the larger community. Unlike conventional banks that invest in any profit-making proposition, Islamic banks have to be cautious in their business dealings and investments. For example, investing in building a Casino. Such an investment creates many jobs and provides employment and income, which is good for economy. However, Islam prohibits investment in such businesses because besides creating employment and income, it will ruin families and disrupt the social balance through the menace of gambling.

Well being of society also depends upon responsible actions of individuals and organizations. It is an obligation of financial institutions (Islamic banks in this context) to be aware of how the money they lend is being spent. For instance, the finance provided by Islamic banks must not be utilized for any purpose forbidden (*haram*) in Islam. One research participant pointed out:

*“We do not do credit cards. Because, we cannot control the way money is spent out of it. For example, the customer holding the credit card can use it in a Casino to gamble (which is haram). We have to honour the expenditure and in the process will get involved in a haram act indirectly”.*



Another research participant further pointed out:

*“Generally, people use credit cards to overspend. They will be tempted with all the extra credit limits beyond their own money. So, they will fall into the trap of debt and interest payment. With no means to pay back the full amount at once, there is a need to keep up with the financial obligations that needs to be fulfilled putting unnecessary burden on the customer. Thus, credit cards are created to create a need rather than fulfil a need”.*

Islamic principles discourage overspending. There are clear commandments in the *Qur'an* in this regard, prohibiting spendthriftness. One has to use and spend within the bounty provided by Allah (TME) wisely. It is every Muslims' responsibility to fulfil this obligation and practice it in their daily life. Thus, it is one of the responsibilities of Islamic banks, as an Islamic organization to provide the right *Shariah* based product.

One research participant stated that many banks (including Islamic banks) are designing new credit cards to lure their customers to spend. But there was caution among some research participants, particularly SSB members, whether this (credit card) is a *Shariah* based product. It must be noted that some Islamic banks provide 'interest-free' credit cards but their service charges are higher than their conventional counterparts. There are concerns whether the higher service charge is 'interest' in other form.

Some research participants mentioned that there are people who need credit cards or similar product for legitimate and genuine reasons. As one research participant explained:

*“It is important to distinguish between the need for money out of necessity, for instance, one needs to buy a car to go to work; as opposed to someone who*

*needs money to spend lavishly unnecessarily, for instance, going on luxurious holidays every year by using credit card and falling into the debt trap”.*

Islamic banks have to be careful in distinguishing between the right and wrong needs in accordance with *Shariah*. This is the responsibility of SSB members, who are generally Islamic scholars, to provide guidelines on such matters.

(c) **Caring for the less fortunate in Society**

The banking and finance industry generally cater to segments with money to invest and excludes the lower end of society in economic terms. Islamic banking system is unique in its operation to this effect. Ideally, in accordance with Islamic principles of social responsibility and justice, it must care for the less fortunate in society to maintain equilibrium and social justice. The extent to which Islamic banks implement this ideology of caring for the less fortunate in practice is explored in the following responses of research participants.

One of the major characteristics of the Islamic social system is to uplift the condition of the down trodden and less fortunate in society. That is why *Zakat* is obligatory in Islam. The purpose of *Zakat* is to provide the less fortunate with minimum standard of good life.

A major responsibility of Islamic banks is to disburse wealth equitably, in line with *Shariah* principles. They fulfil this responsibility through their *Zakat* disbursement operation. As one research participant stated:

*“All Islamic banks facilitate the disbursement of Zakat funds through their services for this purpose specifically. We make sure that the Zakat funds are distributed to the needy. This contributes toward our service in caring for the less fortunate in society”.*

Although Islamic banks do not have a specific division or department overlooking their CSR activities, they have a business development team, which is responsible for creating relationship with the community. This team look after the community banking, a unique feature of Islamic banking industry. For instance, one research participant explained:

*“Our sales department has its business development team that create business as well as links with the community through the mosques and charities and madarasas (Islamic schools). This enables us to be present in the community through the network and cater to the needs of the less fortunate in society”.*

Islamic banks also have specific accounts (current and savings accounts) for mosques and provide interest-free overdrafts (they call it ‘reserve’ to avoid confusion). As one research participant mentioned:

*“There are few small mosques and madarasas in non-Muslim societies, which cannot afford to run on their own. Islamic banks in those societies allow them extra money as overdraft to cover their expenses. Islamic banks provide, in some instances, fee-free banking, interest-free overdraft facilities, etc. It has a Qard al Hassan (benevolent loan) element”.*

Providing support to smaller social Islamic institutions that benefit the community is considered part of caring for the less fortunate in society. One of the responses from a research participant summarized the contribution of Islamic banks in caring for the less fortunate in society in general:

*“The pawn-broking service that we provide is for the less fortunate; we work with the social organizations that benefit the community; we provide financial help to poor students and also for other educational projects, etc. So, we participate a lot. But we do not go around doing loud publicity campaign that we are doing something great – for marketing purpose. Charity is something*

*you do not want the recipient to be embarrassed about. You do not do it for the sake of publicity or ostentatious purpose. It is your social responsibility”.*

It was noted from the response of another research participant that:

*“In non-Islamic countries, nowadays Financial Services Regulators (FSA) enforces regulations on conventional banks (by law) to create products and services for the socially and financially excluded. So, the conventional banks do not want to do it but are forced by the government regulators. We (Islamic banks) in adherence to Shariah principles are obliged to do it naturally. It is an obligation as a Muslim to serve the needy”.*

Although it is not publicized, as the earlier quotation of one research participant suggest, Islamic banks contribute to the welfare of society by caring for the less fortunate through their products and services catering to the needy segment of society. However, they have the freedom to choose not to cater to such segments. As Islam champions the cause of social responsibility and justice, any organization operating in accordance with its precepts, cannot escape the responsibility of fulfilling its obligation to society. This is one of the significant purposes for the existence of Islamic banks.

In summary: by choosing to be ethical in accordance with *Shariah* principles, Islamic banks' practices are consistent with features of the axiom of free will. They contribute to the well-being of society by catering to the needs of those segments of customers who want to deal with their financial transactions according to *Shariah*. As an Islamic organization, it is incumbent upon them to be socially responsible.

## **6.8 The Axiom of Responsibility in Practice**

The axiom of responsibility ties in with all the other three ethical axioms (*unity, equilibrium and free will*). A significant part of a Muslim's faith is that he is accountable to Allah (TME) in the hereafter (*akhirah*) for every deed on this earth. Achieving Allah's (TME) favour and blessings by adhering to the divine commandments is a significant motivation of a faithful's action. Every individual is accountable and ultimately responsible for his own actions. The manner in which Islamic banks implement this axiom of responsibility is explored in the following.

### **The Axiom of Responsibility in Practice in Islamic Banks**

<b><u>Axiom</u></b> ↓	<b><u>Corporate</u></b> <b><u>A</u></b>	<b><u>Corporate</u></b> <b><u>B</u></b>	<b><u>Corporate</u></b> <b><u>C</u></b>	<b><u>Corporate</u></b> <b><u>D</u></b>	<b><u>Corporate</u></b> <b><u>E</u></b>	<b><u>Corporate</u></b> <b><u>F</u></b>
<b>Responsibility</b> <i>Accountability</i>	Yes	Yes	Yes	Yes	Yes	Yes

The axiom of responsibility, similar to the other three axioms discussed earlier, is significant for Islamic banks. All research participants mentioned that it is the responsibility of every person-individually and organizations-collectively to be socially responsible. This is consistent with the framework of CSR in Islam.

Muslims strongly believe that they are accountable to Allah (TME) for their deeds in this world and thus, their actions should reflect Allah's (TME) will to please Him. The manner of implementation of such a concept by Islamic banks was explored. The results have been categorized into three parts:

- (a) Accountability;
- (b) Management decisions of accountability based on *Shariah*; and
- (c) Fulfilling the responsibility as an organization towards society

**(a) Accountability**

The integrity and existence of Islamic banks is dependent upon following the Islamic precept of being accountable to Allah (TME). Responding to the axiomatic concept of responsibility, all research participants contended that the concept of accountability is very important. As one of them stated:

*“There is a lot of scepticisms about Islamic banking regarding its integrity and authenticity of Shariah compliance – whether it is halal, haram or interest by another name. Our decisions of business transactions are based on Shariah and must be transparent. Any ambiguity or chance of delinquency in violation of Shariah principles (even hidden) is considered a grave sin. We are accountable to Allah (TME) for our deeds and thus, cautious of the practices”.*

Another research participant commented similarly:

*“In our organization, the biggest principle is the Shariah principle... your deeds are between you and your God. You are not doing it because you want to impress your neighbour. I mean the sayings that are very loud and clear that nobody knows who is the best amongst us – not the one who may have the longest beard or pray all the time, not the one who has given all to charity, but it is at the end only He (God) knows. So we all strive. In today’s society, a lot of people often do many things for ostentatious purposes, to impress”.*

The concept of accountability to Allah (TME) is very important in Islamic banking practices as pointed out by another research participant:

*“... What possible interests do I have personally? I am accountable for myself. I am accountable for selling something that is Islamic. If I am selling things that are unIslamic in the name of Islam, I am committing sin. Its like somebody saying here is halal chicken and its not halal, he is a fraudster”.*

These statements imply that if they do not believe the product or service is *halal*, it is very difficult to reconcile in one's conscience. It is a fraud. To overcome this sort of delinquency, the *Shariah Supervisory Board* (SSB) advises the bank on the legitimacy of their products and services. That is why, every Islamic bank has a *Shariah* compliance officer or manager who checks and controls the product and services in regards to its legitimacy.

Islamic scholars (*Ulemas*) advising the Islamic banks play an important role in policing the difference between *halal* and *haram* products and services. They are equally responsible for their actions, as they possess the knowledge of Allah's (TME) will and guidance that must be propagated to others.

#### **(b) Management Decisions of Accountability based on Shariah**

The role of management in Islamic banks is very crucial, in order to ascertain the organization's operation in accordance with *Shariah* principles from top to bottom in management hierarchy. The research participants, who were CEOs and MDs of their respective organizations, agreed that:

*“We have an obligation to do things in accordance with Shariah due to being an Islamic organization. Our credibility lies in it...”.*

Islamic banks have an obligation to manage their clients' funds and investments responsibly as a custodian (the concept of *amanah*). However, as an organization, Islamic banks are also accountable to their stakeholders, in

line with the structure of modern corporations and thus, their social activities need to be balanced with the stakeholders interest, who invest in them to gain profit from their investment. As one research participant pointed out:

*“It is the responsibility of management to make decisions that are beneficial to the stakeholders and be accountable for it”.*

Another research participant mentioned that the management decisions of accountability must be delegated throughout the organization, in order to make everyone accountable conscientiously and thus, responsible for their actions. When asked how that translates into practice, the research participant clarified:

*“We are working on a system where everyone is accountable for everything in the bank from top to bottom hierarchy. We are in the process of building the ‘total Shariah compliant system’. The purpose of doing that is to minimize the risk of doing something wrong from bottom up management process. The other side of it is to make every individual in the organization aware of what is right (halal) and wrong (haram) and be responsible for their decisions”.*

As part of this process, some Islamic banks are training their staff and teaching Islamic jurisprudence on business transactions (*Fiqh ul Muamalaat*).

However, most of the research participants conceded that there is a lack of organizational culture with better understanding of the Islamic way of life according to Islamic jurisprudence (*fiqh*). The progress of a ‘total *Shariah* compliant system’ is hindered due to lack of a systematized Islamic framework that governs commercial practices. The institutionalized approach to accountability according to *Shariah* is a goal they are striving to achieve.



**(c) Fulfilling the Responsibility as an Organization towards Society**

Islamic banks consider it a responsibility to project themselves as an ideal Islamic organization. They can ascertain this by achieving the twin goals of commercial success and fulfilment of their socially responsibility. This was evident from a response:

*“I think we have the responsibility to play a very important role – as an Islamic bank and as an individual Muslim, to combat negative perception against Islam in the world by being a positive role model. We want to be a success story for both Muslims and non-Muslims. The non-Muslims should consider us contributing to society in which they also live in and look up to us as a role model. That’s when we will be really successful in our objective of corporate social responsibility according to Islamic precepts”.*

Dissemination of knowledge through proper education is also considered a vital responsibility of Islamic organizations. Majority of the research participants expressed that taking educational initiative by disseminating knowledge regarding Islamic finance is a means of fulfilling their responsibility towards society. One research participant clarified:

*“There are lot of elements in Islamic finance and social issues that are not publicized today and masses do not understand where the problem is. For instance, Allah (TME) said that He would declare war on people who are using ‘riba’ (interest) or dealing in ‘riba’. But not many Muslims are aware of the seriousness of this commandment and its implication on social responsibility and justice”.*

Thus, Islamic banks have taken initiatives to propagate knowledge about Islamic finance. Consequently, they periodically publish articles in local newspapers and journals on various subjects relating to Islamic finance. As one research participant mentioned:

*“We have published nearly 20 articles in local newspapers and journals in the past one-year. It is not that it brings in money or customers. It is just to educate people and let them know what the different concepts of Islamic banking and finance are.”.*

Another research participant further echoed this sentiment:

*“Knowledge locked up in books is not going to help. It is our responsibility to educate everyone. So we fulfil our social responsibility through some education initiative that we undertake through seminars and newspapers”.*

Financing students to pursue education is also considered a significant social responsibility of Islamic banks. Some research participants mentioned that their banks are working on financing students’ education:

*“Some Muslim governments are very generous and thousands of students take financing from the government for their education. But this was never structured Islamically. It was structured conventionally with elements of ‘riba’ (interest) in it. Some of the Islamic banks are now working to structure student financing according to Shariah, so that when a student, in the beginning of their life knows what Islam is, then would have a better feeling of what the future practices are in life”.*

The response suggests that the idea of ‘Islamic student loan’ (interest-free loan) is still at a planning stage. Further research is underway to design such financial package.

In summary: the principle of accountability to Allah (TME) is a significant catalyst for *Shariah* compliance in Islamic banks. The senior management rules out scepticism about the legitimacy of Islamic banks’ products and services. They are conscious of the concept of accountability to Allah (TME) and thus, conduct their operation in adherence to *Shariah* principles. However, Islamic banks are striving to create a ‘total *Shariah* compliant system’.

## **6.9 Conclusion**

The purpose of the survey conducted was to explore the extent to which the conceptual framework of CSR in Islam is consistent with the practices of Islamic banks in a contemporary business environment. This chapter reported the results of the survey.

The survey results reveal that despite lack of a systematized framework of CSR in Islam, features consistent with the four ethical axioms (*unity, equilibrium, free will and responsibility*) are implemented quite extensively in Islamic banks. Many current practices in Islamic banks, drawing on *Shariah* principles, mirror the expected behaviours or practices generated in the conceptual framework of CSR in Islam presented in this study.

However, the reason for such practices by Islamic banks is strictly in adherence to *Shariah*, rather than guided by any higher notion of CSR. In effect, CSR practices in Islamic banks are a by-product fulfilling legal requirements according to *Shariah*, the purpose of which (*maqasid al Shariah*) is well-being (*falah*) of society. Reflecting the fact that CSR is a by-product of legal compunction, implementation or adherence to CSR is a rather ad-hoc, even accidental matter for Islamic banks.

Thus, characteristics of the framework of CSR in Islam are present under current in practices of Islamic banks but are followed imperfectly. Their operation can be improved by the guidance of a higher-order framework. There is a formidable task of marshalling all the currently disparate practices under a more coherent higher-order framework guided by fundamental texts of Islam (*Qur'an* and *Hadith*). The conceptual framework of CSR in Islam presented in this study is a modest step in the direction of achieving that end.

## Chapter 7 Conclusion

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The aim of this study was to explore notions of Islamic philosophy pertaining to social responsibility and justice, which may give rise to a conceptual framework of corporate social responsibility (CSR) in Islam that has resonance with the prevailing notions of CSR. This was driven by the gaps in both the current discussion of CSR as well as Islamic literature. The generation of an Islamic framework based on *Shariah* principles is expected to fulfil the objective of addressing some of the shortcomings in both the Western and Islamic literature. The Islamic framework may further, serve as a counterpart to the current notion of CSR, providing a wider global perspective.

Corporate social responsibility (CSR), as discussed in the current literature and practiced by businesses, has largely been based on a Western centred concept. The current discussion of CSR precludes or ignores the possibility of notions of CSR arising based on other different value systems. This study sought to explore this territory by focusing on a major world religion – Islam.

The evolution of CSR in historical context is a concept that has sought to address or has emerged in response to issues and practices that are specific to the conduct of business in a western context. The majority of scholars contributing to the debate of CSR originate from Western countries and their perception of CSR is based on the theories and practices of corporations in Western society. That is why most of the international standards of code of conduct for corporations have been developed in Europe and America (see table.1). This led to lack of a comprehensive global context with a wider perspective of CSR from diverse socio-cultural and religious background from different parts of the world other than the West. This gap in the current discussion of CSR has been demonstrated in the first two chapters.

The concept of social responsibility and justice in light of the holy *Qur'an* and *Hadith*, explored in third chapter, provide enough evidence that a rich vein of

a notion similar to the prevailing notions of CSR has been an integral part of Islamic society for nearly 14 centuries. The goal of Islamic religious values and beliefs based on *Shariah* principles (*maqasid al Shariah*) has been good life (*hayat tayyibah*) and well-being (*falah*) of society, both of which stress brotherhood and socio-economic justice – an essential characteristic of CSR.

Although many elements within Islam are consistent with a Western notion of CSR, these remain scattered, incoherent and unsystematic. The Islamic literature is fragmented and several studies on Islamic business practices are either superficial or inadequate. Most of the literature on Islamic business practices tends to focus on particular aspects of commercial practice or remains too theologically oriented. The task therefore, has been to elaborate a higher-order framework that would organize and systematize the scattered elements of social responsibility and justice within Islam.

The task of constructing a higher-order framework to organize and systematize the scattered elements of social responsibility in Islam was carried out in chapter four. A set of axioms was introduced to systematize and summarize the concept of social responsibility and justice. Propositions and business expectations arising from the fundamental ethical axioms elaborated a possible conceptual framework of CSR in Islam.

The four ethical axioms (*unity, equilibrium, free will and responsibility*) that are core values of any Islamic business or society represent the ethical philosophy of Islam. These ethical axioms guide day-to-day behaviours of a believing Muslim in accordance with *Shariah* principles. All the characteristics of a unique perspective of business practices prescribed by Islam and organized under the four ethical axioms form the foundation of an Islamic society that is also reflected in their commercial practices and thus, a concept of corporate social responsibility in Islam. The conceptual framework of CSR in Islam presented in chapter four provides a systematic representation of what this might look like in an Islamic society.

The extent to which the conceptual framework of CSR in Islam is consistent with contemporary business practices was explored using a survey of Islamic banks from different parts of the world. The survey revealed that despite lack of a systematized framework, many current practices of Islamic banks mirror the expected behaviours or practices generated in the Islamic framework. It appears from the survey results that Islamic banks operate with an awareness of the principles of the four ethical axioms, which are the foundation of any Islamic business and society. They implement the expected behaviours of Islamic code of conduct quite extensively. To that extent, there is a consistency with the framework of CSR in Islam presented in this study.

Such consistency however, seems to be ad-hoc, driven by legal requirements in adherence to *Shariah* rather than an explicit understanding or pursuit of CSR. Lack of a systematic framework with explicit notions of CSR from an Islamic perspective caused hindrance to an institutionalised approach to implementing CSR practices in Islamic organizations. This study filled this lacuna by presenting a systematic and more coherent framework of CSR in Islam that may serve as a guideline for CSR practices in Islamic organizations.

The aim of this study to explore Islamic philosophy pertaining to social responsibility and justice resulted in generation of such an Islamic framework. The Islamic framework also fulfils the objective of addressing the shortcomings in current discussion of CSR by providing a wider global perspective. The framework of CSR in Islam will contribute to the synthesis of Islamic business literature, which otherwise is fragmented and scattered.

This study demonstrate that Islam, as a universal religion, accentuate human relations, kindness and harmony among all in society. The essence and spirit of the religion is founded on the principles of social responsibility and justice, fulfilment of which is obligatory upon all believing Muslims. Adherence to such a system will expunge the menace of hatred and bloodshed among fellow human beings and create a harmonious global society.

### **Limitations of the Study and Implications for Future Research**

The conceptual framework of CSR in Islam presented in this study provides a broad paradigm of Islamic business practices in adherence to the *Shariah* principles. However, this framework lacks any quantitative evaluation criteria for measuring the implementation of such a concept - in practice and empirically. Thus, the framework can be expanded to integrate theory with practice in consultation with industry. It follows that quantitative evaluation criteria can, and arguably should be developed to assess the implementation of CSR practices in Islamic organizations.

Due to the lack of any systematic framework of Islamic business practice, this study could provide only limited insights into the CSR practices of Islamic banks. Case studies of organizations implementing the framework of CSR in Islam would be an interesting subject for further exploration and may provide an insightful way forward. This would reveal whether the framework, when implemented, makes any difference to CSR practices of such organizations. The influence of Islamic business precepts on issues of corporate governance can also be pursued with reference to this framework.

The Islamic framework can also be studied in contrast to the Western notions of CSR, which feature prominently in current discussions. It can further be replicated to examine other religious or socio-cultural philosophies, e.g. Buddhism, Hinduism or Chinese cultural values that may have similar notions of CSR in their religious or social systems. This would provide a wider global perspective of CSR issues.

Due to budgetary constraints, a larger sample from a wider range of countries with an Islamic banking industry or other Islamic organizations could not be pursued in this study. As such, future research may wish to develop a larger sample size, drawn from a wide range of industries with Islamic principles and

located in different parts of the world. This would allow empiricism to ascertain whether the Islamic precepts that permeate every aspect of a Muslim's life, and thus form an essential part of Islamic business and society, are practiced widely across the international Islamic society. Conversely, failure to demonstrate the latter may suggest that the Islamic precepts are merely a concept of theological philosophy good for ostentation.



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## **APPENDIX - A**

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### **Interview Questions**

#### **SECTION – A**

1. Background of research participants:

- Position/ job type/ responsibilities
- Previous positions and experiences
- Religious background
- Religious influence on work

2. Commitment to CSR:

- Does your organization care for corporate social responsibility?
- If yes, how do you fulfil your commitment to CSR?

3. Awareness of CSR in Islam:

- Are you aware of any explicit notion of CSR in Islam?



## **SECTION - B**

1. Muslims are regarded as trustees of Allah's (TME) resources on earth and thus, will not discriminate in any form and not hoard wealth avariciously and not discriminate, in line with the Islamic code of conduct-
  - (a) What is your opinion/view on this issue?
  - (b) How does your Organization adhere and implement this principle?
  
2. Islam prescribes equilibrium in various elements of life to produce the best social order, which is a conglomeration of natural and social forces creating social harmony-
  - (a) What is your opinion on this philosophy?
  - (b) How does your Organization implement this precept of Islamic conduct in business?
  
3. Although man is free to choose his actions, Islam emphasizes man's contribution to the well-being of the society by fulfilling all its obligations and being responsible towards his environment –
  - (a) How does your organization contribute to the well-being of society?
  - (b) What is your organization's approach to fulfilling its obligations? (not in terms of legal requirements but on ethical and religious grounds – towards your environment – socio-economic, ecological, etc.)
  - (c) Does your organization care for the less fortunate in the society it operates in? What is your approach towards them?
  
4. According to Islam, every soul is accountable to Allah (TME) and thus, a faithful's actions are motivated by achieving Allah's (TME) favour and blessings –
  - (a) What is your opinion on this? How do you approach the issue of accountability in your Organization?
  - (b) Are the management decisions of accountability based on Islamic religious values and principles?
  - (c) How do you fulfil the responsibility as an organization towards your society?