

What Does Islam Say about Corporate Social Responsibility?

Asyraf Wajdi Dusuki

Abstract: The escalating social and economic problems brought about by globalization have raised new questions as well as expectations about corporate governance, ethical and social responsibilities. Consequently, corporate social responsibility (CSR) has emerged and developed rapidly as a field of study. Many Western theoreticians have attempted to provide theoretical, moral and ethical groundings for CSR initiatives. However, these attempts have been widely criticized for problems relating to justification, conceptual clarity and possible inconsistency, and for failing to give adequate ethical guidance to business executives who must decide which courses to pursue and with how much commitment. The main objective of this paper is to study the concept of CSR, which has gained popularity and wide acceptance amongst the Western business community from an Islamic perspective. It discusses the Islamic alternative to the various theories underpinning CSR. The Islamic perspective, which prevailed within the ambit of *Shari'ah*, should be influential in the thinking and behaviour of the world's 1.6 billion Muslims.

JEL Classification: G30; G38; G39.

I. Introduction

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

ASYRAF WAJDI DUSUKI, Assistant Professor, Head of Research Affairs, International Shariah Research Academy for Islamic Finance (ISRA), Kuala Lumpur, Malaysia.

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Perhaps, the most striking attempt has been the effort by HSBC Holdings, which produced its first CSR Report in 2003, disclosing its worldwide CSR commitments and pledging support to various community and philanthropic projects, mainly related to education and the environment, heritage and the arts (Cama, 2004; HSBC, 2003). In general, CSR is taken to denote corporate activities, beyond profit making, which include protecting the environment, caring for employees, being ethical in trading, and getting involved in the local community. Some of the main issues are: promoting human rights, community involvement, human resource management, socially responsible investing and social reporting (CSR Europe, 2001).

The emergence of CSR in the West today requires an instructive examination from an Islamic perspective. The concern about social responsibility is also relevant to Islamic enterprise, which regards ethics and social responsibility as enduring principles (Wilson, 2001). This paper, therefore, aims to delineate the concept of CSR in the light of the Islamic perspective. In doing so, it examines the concept of CSR as extensively discussed and debated among Western theoreticians and business communities alike, and its theoretical grounding.

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

The paper is arranged as follows: the next sections 2 and 3 provide an overview of CSR doctrine and answers to why CSR has become such a key issue in the contemporary world. Section 4, reviews various theories underpinning CSR construct, as widely discussed in the Western literature, and Section 5 provides a criticism of the Western views on CSR. The Islamic alternative to the Western theoretical constructs of CSR and the implications for CSR of the Islamic worldview are presented and further elaborated in Section 6, and the concluding remarks are in the final section.

II. The Emergence of CSR

CSR is constantly evolving and incorporates different approaches depending on circumstances and needs. The increased interest in CSR doctrine partly reflects continued discontent among the business community with self-interest and self-indulgence that seem to underpin the Western economic worldview (Al-Attas, 1991, 1995, 1996; Haneef, 1997; Sardar, 2003; Steidlmeier, 1992). This discontent is in part exacerbated by increasing business scandals

(e.g. frauds, breaches of trust, misrepresentations and other unethical behaviours) involving large corporations such as Barings, Enron, Arthur Anderson, WorldCom and a number of others (Snider *et al.*, 2003).

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

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

Obviously, the disadvantaged neighbourhoods and the poor suffer proportionately more severely from bank-branch closures. Due to changes in the market-driven strategy inspired and enacted by profit-motivated banks, increasing numbers of people are excluded from the financial services. The inability to access credit, savings, money advice, bill-payment facilities and financial literacy further exacerbate poverty and social exclusion amongst disadvantaged rural and urban households.

III. Factors Behind the Emergence of CSR

The escalating social and economic problems brought about by globalization have raised new questions as well as expectations about governance and

social responsibilities. Perhaps, the upshot of growth in multinational companies, especially in developing countries, is a shift in the balance of power and responsibility between corporations and the state. With the extensive resources possessed by the giant companies, governments are increasingly looking at such companies to address social and economic problems. Multinational companies are seen as the key to development, through the provision of jobs, payment of taxes, transfer of technology and through charitable contributions to education and health care (Lunt, 2001). Likewise, more and more companies of all sizes and sectors are recognizing the importance of their role in society and the real 'bottom line' benefits of adopting proactive approaches to CSR (United Nations, 2000). In fact, CSR activity is strongest in developed countries, especially amongst many of the United States and European corporations of all sizes across business sectors (O'Brien, 2001; Snider *et al.* 2003).

CSR literature identifies several driving forces behind the growing trend towards CSR initiatives (CSR Europe, 2000, 2001, 2002; Davies 2003; European Union, 2001; Johnson, 2003; Porter and Kramer, 2002; Snider *et al.*, 2003; Vuontisjarvi, 2004). First, there is growing market pressure, wherein customers, employees, or capital markets exert some form of preference, pressure or signal. Social and ethical issues have received increasing public attention and affected market performance, in addition to the traditional price and brand preferences.¹ The growth of the ethical investment industry is another indicator of how much emphasis people are now apparently placing on the social and ethical behaviour of companies (EIRIS, 2001). Second, there has been an increasing regulatory pressure ranging from reporting requirements to government regulations that introduce compulsory business standards by which companies of all sizes have to abide (Davies, 2003). Third, increased power of communications (*e.g.* internet, electronic media, and others) have driven consumers and pressure groups like social activists, non-governmental organizations (NGOs) and trade unions to scrutinize the activities of companies more effectively and develop strategies that may influence companies to act in a socially responsible way. Fourth, there is a competitive advantage that companies believe they can reap by being socially responsible. They foresee that by communicating effectively about their social, environmental and economic contributions, they can strengthen their brand, enhance their corporate reputation with customers and suppliers, and attract and retain a committed and skilled workforce. Indeed, extant literature asserts that,

the commitment to CSR will in turn lead to better performance in terms of profitability, competitiveness and risk management (Brinkman, 2003; Johnson, 2003; O'Brien, 2001; Porter and Kramer, 2002; Snider *et al.*, 2003; Waddock and Graves, 1997).

IV. Theories Underpinning CSR

The discussion so far has described the emergence of CSR as a framework for the role of business in society, setting standards of behaviour to which companies must subscribe so as to impact society and environment in a positive and a productive manner. The sections to follow synthesize some of the major theories that underpin the practice of CSR.

4.1. The classical view of CSR

The most prominent defender of the classical creed regarding role of business in society is Milton Friedman. In *Capitalism and Freedom* (1967) as well as in the seminal, *The Social Responsibility of Business to Increase Its Profits* (1996), Friedman argues that having corporate officials extend their social responsibilities beyond serving the interests of their stockholders is fundamentally a misconception of the character and nature of business in a free economy. In such an economy: "there is one and only one social responsibility of business – to use its resources and to engage in activities designed to increase its profit so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud" (Friedman, 1967: 67).

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

Having mentioned this, the proponents of the CSR doctrine depart from the classical theory by essentially broadening the restrictive classical

framework of a firm's social responsibility, which will be discussed in the following sections in the light of various theories, namely the social contract, the strategic/instrumental, legitimacy, and stakeholder theories. These theories are commonly used to analyse and explain the nature and purpose of CSR as well as to provide answers to the question of 'what' and 'how' the concept of CSR came about. These theories are imperative to construe a firm's duties in society as well as to justify the need for the firms to discharge their commitments to CSR.

4.2. Social contract theory

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

4.3. Instrumental theory

In an attempt to further legitimize the role of corporations in society, an instrumental theory has developed CSR as a strategic tool to achieve economic objectives. The proponents of this theory assert that the business may choose to support some social programmes for reasons of good image (public relations), competitive advantage or other strategic reasons without jeopardizing the interests of its primary stakeholders, namely the shareholders. Some of the prominent proponents of strategic CSR are Burke and Logsdon (1996), Fombrum *et al.* (2000), Quester and Thompson (2001), Windsor (2001), Lantos (2001 and 2002), Johnson (2003), Husted

(2003), Greenfield (2004), Garriga and Melé (2004) and others. They argue that maintenance of a good corporate reputation through CSR initiatives may add to *reputational capital*, by which companies may be profitable in the long run since market forces provide financial incentives for perceived socially responsible behaviour.

4.4. Legitimacy theory

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

4.5. Stakeholder theory

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

As the foregoing discussion shows, there is much overlap between the theories used to explain CSR and justify it in business operations. These theories together serve as the main justifications for CSR practices in the West. In sum, firms engage in CSR to secure their 'license to operate' (legitimacy), whereby the firms are required to meet the interest and demand of the multiple stakeholder groups and honour both the explicit and implicit contracts with various constituents. As a result of honouring contracts, a company develops a reputation, which in turn secures a

competitive advantage in the market and ultimately gains long-term profitability and viability of the firm.

V. Criticism of the Western View of CSR

As the discussion demonstrates, CSR is an attempt to soften the corporation's image by presenting it as humane, benevolent and socially responsible. For some, this is somehow perceived as a mask for the unhindered pursuit of profit and power (The Economist, 2005). CSR is then merely a means to ingratiate capitalism with a rightly suspicious public. That is why the evaluation of CSR varies with the specific interest and needs of different groups and circumstances. The reasons for distrust are perhaps obvious, especially as most of the theories underpinning CSR in the West, as discussed earlier, confine themselves to material factors and human rational argument. These theoretical constructs have their roots in the Western secularist worldview that is based on rational inquiry and argument (Al-Attas, 1993; Hasan, 2002; Lutz, 2002). Consequently, the Western worldview is relative and ever-changing, as it is rooted in empirical observation and theoretical constructs related to it. Following this approach, the Western view on CSR is in general more aligned with the materialistic approach to life than with ethical concerns.

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

This creates a dilemma for business corporations in that there is no absolute principle of ethical or moral conduct to guide social responsibility. Frustrated by this, Humber (2002: 215) even bluntly argues that: "We should abandon the quest to develop a special moral theory for use in business

and we should not attempt to impose the use of any moral theory upon business, but rather should allow corporations to determine their moral responsibilities in any way they see fit". But this throwing up of hands and giving up does not help firms committed to exercising social responsibility to decide how to act in one way rather than another.

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

VI. Islamic Perspectives on CSR

In contrast to the Western theories, the Islamic view of CSR takes a rather holistic approach. It offers an integralistic spiritual view based on the teachings of the *Qur'ān* and the *Sunnah* providing a better alternative philosophical framework for man's interaction with nature as well as his fellowmen (Ahmad, 2002). In fact, the moral and ethical principles derived from divine revelations are more enduring, eternal, and absolute (Ahmad, 2002; Ahmad, 2003b), thus may serve as better guidelines for corporations when exercising their business and social responsibilities simultaneously.

According to Al-Shāṭibī (as cited in Nyazee, 2000), the determination of what is beneficial and what is harmful cannot be left to human reasoning alone (as most Western theorists have advocated, e.g. the social contract theory and the normative stakeholder theory).² Human reasoning plays a role only within a framework of guidance provided by the *Shari'ah* (Nyazee, 2000). Islam affirms the role of reason and experience in theorizing economic behaviour and business activities only in a way that embraces the transcendental aspect of human existence. This is because the inherent limitations of human beings posit a strong need for Divine

guidance, especially to ascertain what is right and wrong.³ Hence, according to Ahmad (2003), the rational faculties can and should only be used to complement, support and strengthen the ethics and morals as framed within the *Shari'ah*.

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

6.1. *Shari'ah* as the foundational basis for understanding CSR in Islam

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

Normally, the *Shari'ah* is described as 'Islamic Law'. But the boundaries of *Shari'ah* extend beyond the limited horizons of law (Sardar, 2003). *Shari'ah* is a set of norms, values and laws that make up the Islamic way of life (Ahmad, 2003). According to one observer, the *Shari'ah* is the "epitome of Islamic thought, the most typical manifestation of the Islamic way of life, the core and kernel of Islam itself" (see Schacht, 1964: 24). The main components of *Shari'ah* are: *'aqidah* or belief and faith, which is also a foundation of *Shari'ah*; *akhlāq* or morality and ethics; and *fiqh* or legal rulings governing the acts of human beings. While the last aspects may change and vary according to time and space, *'aqidah* and *akhlāq* are fixed

and permanent for all times and societies. The elements and characteristics of both *'aqidah* and *akhlāq* anchor the Islamic way of life to a permanent set of values and principles which make Islam resilient and universal. At the same time, Islamic jurisprudence methodology and framework provide mechanisms enabling Muslims to adjust to the local, cultural, technological, economic, societal changes taking place in the world. This makes the *Shari'ah* flexible, dynamic and relevant in the context of changing times.

6.2. *Taqwā* paradigm

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

A person with a *taqwā*-paradigm is imbued with a strong understanding that their role in this world is to manage and develop the world in accordance with the *Shari'ah*. This means harmonizing and integrating material well-being with moral-spiritual values,⁴ which in turn determines their fate in this world and in the hereafter (Hasan, 2002). This paradigm is comprehensive in its essence and implications. It provides a number of values for shaping social life and clarifies the status of human beings and their position in relation to the rest of creation. Furthermore, it defines the nature of human beings' relationship with God, with each other and with the natural environment. Four important points emerge from this framework:

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

(ii) *Free will*: Humans have been endowed with intellectual or rational faculties to choose either to be righteous or otherwise (Mawdudi, 1989). Naqvi (2003) asserts that the vicegerency role allows free will for human beings.⁷ The relativity of the freedom that a person enjoys in Islam means that they will not voluntarily transgress the social limits of individual freedom. The purpose of imposing constraints is not to diminish human freedom but to prevent humankind from arbitrary self-interested social behaviour. This has a great implication for how human beings conduct their affairs. They can choose either to be selfish or socially responsible; they have the capacity to be good or bad, moral or immoral and each individual's ultimate destiny in the Hereafter is dependent upon how they choose to live (Naqvi, 2003).

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

(iv) *Trust and responsibility*: Many scholars including Mawdudi (1977), Kamali (1989a; 1993), Chapra (2000), Parvez (2000) and Naqvi (2003), posit that the vicegerency entails a broader understanding of the concept of human trust and responsibility. The concept of trust, in Islam, is inseparably linked with responsibility, implying that the wealth that is entrusted to a human being is indeed a responsibility that he will be called to account for in the Hereafter. Thus, an individual's responsibility to discharge his 'trust' by spending his wealth is limited in several ways. These include spending in accordance with the Divine wishes; not engaging in illegitimate activities such as hoarding (prohibited especially when there are urgent

social needs to be met), helping the poor (not only a matter of charity but an acknowledgement of the poor's right on one's wealth), and spending moderately because prodigality is both a social waste and a cardinal sin (Kamali, 1989a, 1989b, 1993; Mawdudi, 1977; Naqvi, 2003; Parvez, 2000).

In sum, *Shari'ah* is a system of ethics and values which covers all aspects of human life: personal, social, political, economic and intellectual with its unchanging moorings as well as its important mechanisms for adjusting to change (Sardar, 2003). It is therefore not possible to separate or isolate *Shari'ah* from religion, or from the basic beliefs, values and objectives of Islam (Kamali, 1989b).

6.3. Implications of *Shari'ah* for CSR

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

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

A person's relationship with God should, by right, determine the mode of relationship with fellow servants of God and not *vice versa* (Ahmad, 2003b; Hasan 2002). The relationship and responsibility between man and his Master is in fact an actual and real contract stipulated by the so-called Divine contract, not a fictitious or presumed one like the social contract of John Locke (d.1704) or Jean-Jacques Rousseau (d.1778) (Osman, 2001). This philosophical foundation of the Islamic society will

avoid conflicting interests among members of the society, since everyone has a unity of purpose in his life, that is to serve God (Ahmad, 2003b). This will inevitably lead to a society whereby every member will cooperate rather than compete with each other, as success in life is to obtain the ultimate happiness (*falāḥ*).

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

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

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

Furthermore, Islamic guidance, with its commitment to justice, brings about a balance between the rights of individuals and their duties and responsibilities towards others (Parvez, 2000), and between self-interest and altruistic values (Naqvi, 2003). Islam recognizes self-interest

as a natural motivating force in all human life. But self-interest has to be linked to the overall concept of goodness and justice.⁸ Islam, in fact, lays down a moral framework for effort, spelling out values and disvalues, what is desirable and what is reprehensible from a moral, spiritual and social perspective (Ahmad 2003a; Chapra, 2000). The concept of reward is also broadened by incorporating within it, reward in this world and reward in the Hereafter. This provides a strong and self-propelling motivation for good and just behaviour, without denying the natural instincts for personal gain (Ahmad, 2003a).

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

To depict the position of Islam with regard to the concept of CSR, it is useful to consider CSR as a continuum ranging from irresponsible and self-centred attitudes to the religious or *taqwā*-centric. This continuum shown in Table 1 has five fairly distinct levels: irresponsible, minimalist, apathetic, tactical and *taqwā*-centric, as explained in the second column.

In sum, based on the table 1, the difference between the Islamic and Western approach to CSR lies within the range of Level 2 (minimalist) and Level 5 (*taqwā*-centric). Also, within this range, it provides another way of envisioning the spectrum of Western opinions regarding the CSR doctrine. For example, at one end (Level 2 – minimalist) are those who assert a firm's only social responsibility is to maximize profit while obeying the law and the 'rules of the game' (Friedman, 1967 and 1996). Then, there are those who simply want corporations to be more sensitive to the societal impact of their decisions; along virtually any line they wish (Level 3 – apathetic) (Goodpaster, 2001; Humber, 2002). There are those who view CSR as a good business tactic, boosting reputation and goodwill, which in turn lead to enhanced financial performance (Burke and Logsdon, 1996; Garriga and

Melé, 2004; Greenfield, 2004; Husted and Allen, 2000). At the other end of the spectrum, are those who view corporations as social institutions playing a social advocacy role by using their vast resources for social benefits. According to this view, firms must actively engage in programmes that can ameliorate various social ills, such as by providing employment opportunities for everyone, improving the environment, and promoting worldwide justice, even if it costs the shareholders' money. This is also known as the altruistic view of CSR (Lantos, 2002).

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

Alternatively, the Islamic position rests at the extreme right of the CSR continuum depicting the level of God-consciousness or *taqwā* paradigm, which relates to the belief that God created men to be vicegerents and hence provides a radically different view of business. The Islamic vicegerent principle requires businesses and wealthy individuals to see themselves as stewards or caretakers, not just of shareholders' financial resources, but also of society's economic resources, holding their property in trust for the benefit of society as a whole and ultimately attaining the blessing of God (who is the ultimate owner of all the resources?).⁹ Thus, it is not enough to look at the bottom line of financial statements to determine how well a company is doing. The firm must look beyond the bottom line and the traditional standard of business performance measurement and look at other factors, such as how the firm treats its employees, whether or not it uses its resources in an environmentally sound way, and whether or not its products really make life better for those who use them. The firm must always operate in a good and socially responsible manner regardless of the financial consequences. By so doing, the firm will be blessed by God and will achieve ultimate happiness in this world as well as in the Hereafter.¹⁰ Otherwise, the firm's action is considered as a deviation from the principles of *Shari'ah* which is tantamount to inviting God's punishment in the Hereafter.

Table 1: Description of Corporate Social Responsibility Continuum

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

VII. Conclusion

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

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

Therefore, any firm that claims to base its operation on *Shari'ah* principles should naturally practise CSR as it enshrines the true spirit of Islam. An assimilation of social responsibility and other Islamic ideals in fulfilling customers' expectations deserves the utmost consideration from business managers/owners as it represents a unique and fundamental difference between Islamic and conventional firms, and has the potential to propel Islamic corporations to greater heights in securing customers' recognition and acceptance of their operations.

NOTES

1. Research carried out in 1998 by MORI showed that in the last 12 months, 17% of those questioned had boycotted a company's product on ethical grounds, while 19% had chosen a product or service because of a company's reputation. Again in 1998, 71% of the general public questioned felt that industry and commerce do not pay enough attention to their social responsibilities (see Lunt, 2001).
2. His argument is supported by a number of *Qur'anic* verses, e.g. 23:71.

3. For a detailed discussion on the meaning of human existence in Islam, refer to Ahmad (2003b); Al-Attas (1995 and 1996) and Hasan (2002).
4. *Qur'ānic* verses supporting this argument are: 51:56; 95:4; 17:70; 6:165; 27:62; 35:39; 2:30.
5. In the *Qur'ān*, Islam teaches that God breathed His Spirit into human beings: *Qur'ān*, 15:28-29.
6. See *Qur'ān*, 11:61.
7. In contrast to the conditional freedom of will in the Islamic perspective, the Western view rests on absolute human freedom as advocated by Immanuel Kant (1724-1804), whose works shaped modern thinking in Europe. Kant's argument on absolute autonomy and free-will is based strictly on the exercise of 'pure reason'. He rejected the idea of religion as a source of morality. Instead he considered the realm of pure reason, in which resides the moral imperative – freedom – to be the medium for understanding religion and the existence of God. In his essay 'Natural Religion', he wrote that: "A clear exposition of morality itself leads to the belief in God. Belief in this philosophic connection means not trust in a revelation, but trust arising from the use of the reason, which springs from the principle of practical morality" (cited in Choudhury, 1997).
8. Individuals, imbued with a sense of justice, are not expected to abandon their individual interests altogether. In other words, altruism will not push a business organization beyond justice. However, Islam attempts to create a culture that binds individuals and families into a community so that a natural infrastructure for providing support and help to those in need is developed. For details, see (Naqvi, 2003).
9. See *Qur'ān*, 2:254; 2:3; 3:180; 16:53; 24:33; 57:7.
10. Al-Mawdudi (1989) argues that if a man who has in view success and failure in this world alone, he will only be concerned with immediate benefits and ills. He will not be prepared to undertake any good act if he has no hope of gaining thereby some worldly interest, nor will he be keen to avoid any wrong act if it is not injurious to his interests in this world (Mawdudi, 1989).

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