

Corporate Social Responsibility from an Islamic Moral Economy Perspective: A Literature Survey

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Abstract

Islamic finance re-emerged in modern times as an alternative ethical financial proposition shaped with the norms and principles of Islam. In this new construct not only the 'form' or the legality of the financial instruments and operations are considered, but Islamic moral economy foundations of Islamic finance necessitates that Islamic norms must be integrated as 'substance' in financial activity. This is considered as the distinguishing point of Islamic finance, and is also the meaning of the suffix 'Islam' in Islamic finance. The substance, hence, refers to real economic activity, observing social good, contributing to human and economic development, and enhancing and protecting individual, society and environment. In modern times, this is considered as 'corporate social responsibility' (CSR), which has always remained an integral part of the Islamic moral economy as an inevitable ontological reality. This paper, hence, aims to explore and identify the CSR nature of Islamic finance; and also argues that Islamic finance institutions, therefore, have to pay due importance to social and developmental objectives in their operations; and therefore should be concerned with the 'consequences' of their financings with the objective of mitigating or moderating the 'observed' social failure of Islamic finance and banking institutions.

Introduction

Islamic moral economy (IME) offers a new paradigm in which moral is endogenised into the economic and financial thinking in an integrated manner; and therefore, it provides a moral filter through which economic

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and financial choices as part of behavioural norms can be made according to the Islamic teaching. The concept of CSR, hence, by definition is considered as an integral part of IME due to the ontological reasoning of Islamic teachings in which social justice and social good is prioritized. In other words, the IME paradigm with its axioms and principles has direct implications and provides rationale for CSR in organisations through articulating the ideals of IME in personal and organisational levels.

Since Islamic Financial Institutions (IFIs) are considered as financing and operational tools of IME paradigm, the business sector including IFIs working within the IME paradigm are expected to function in essentialising and also prioritising the CSR by also considering the social outcomes of their operations in terms of social welfare, natural recourses and the environment in their attempt to fulfil their social responsibilities towards society. This is essentialised through IME, as Islamic banks are expected to work within the objective function defined by *maqasid al-Shariah* objective aiming to promote social well-being through maintaining justice. In other words, IFIs by definition are expected to “consciously align their decisions and actions so that these are ‘socially responsible’” (Sairally, 2005: 1).

The notion of CSR in Islam in addition to stakeholder’s duties and their interests also includes moral obligations. Thus, CSR from an Islamic perspective, as part of the new paradigm is an endogenous concept and expected to be in IFIs’ agenda.

It should be noted that the epistemological and ontological sources of the Islamic thought, the *Quran* and *Sunnah* have a clear emphasis on human responsibilities towards other individuals, society and environment. In addition, faithful observance of social responsibility and Islamic moral values encourages trustful and pleasant relations among people “and motivate them to fulfill their mutual obligations promoting family and social solidarity, tolerance and peaceful coexistence” (Chapra, 2008:12) as part of CSR in everyday life implying that human is the essential base of CSR and therefore human beings, developed with such Islamic consciousness, will be able to conduct ethical behaviour in every aspect of life including in their business life and business organisations.

Despite such an aspirational worldview articulated by IME, in the reality the situation is not that optimistic and critics argue that IFIs have not been able to fulfil the aspirations of IME as they no longer attach to the spirit and the nature of the moral economy. This is also observed in the way Islamic banks convergence towards their conventional counterparts in

terms of objective function but also operations. As a result, the social failure of IFIs has been observed (Asutay, 2012). In other words, a divergence between the principles and ideals of Islamic moral economy and course taken by the professional operations of IBF has set in since 1990s when the internationalisation of IBFs has become a reality. However, it is suggested that IME can be offered as one of the remedies for the social failure of Islamic finance (Asutay, 2009: 24).

In responding to these issues with the objective of rendering a comprehensive understanding of CSR through the IME, this paper delineates the aforementioned arguments and therefore, starts with an introduction to IME and its axioms. It presents the rationale for 'social' in IME by referring to ontological and epistemological sources. As the aim of foundational principles and axioms of IME is to pinpoint the principles of IBF, this paper identifies these principles and relates to CSR in a consequential manner. After highlighting the role of IFIs in IME as socially responsible to society, various theories in relation to the concept of CSR from Islamic perspective are discussed. The chapter concludes with highlighting the ongoing debates on the divergence of IBF practices from the aspirational position of IME and hence Islamic CSR and the necessity of going back to the basics through revising the philosophy of IME based on the authentic principles of Islamic teachings.

Conceptual Definitions of CSR

CSR can be expressed in different ways. The social responsibility of business can be described as transparent business actions that are based on ethical values, respect for people, communities, and environment and at the same time comply with legal requirements. Socially responsible companies have a positive and productive impact on society. By and large, CSR is about how companies manage the business processes to produce an overall positive impact on society. In addition, social responsibility plays a considerable role in creating a cleaner environment (European Commission, 2001: 5). According to Aras and Crowther (2009: xxi), the concept of CSR is related to business contribution to social development and social behaviours of employees.

Ward (2008: 9) stresses that business has become an integral part of society and the role of CSR is to analyse how efficiently business tackles social issues and to increase socially beneficial decisions of companies. The

European Union highlights the voluntary nature of CSR by defining it as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis” (cited in Hopkins, 2004: 6). On the other hand, during the UNRISD conference in Geneva, in 2003, several discussions revealed the need of regulatory approach in the CSR movement to implement better CSR strategies (UNRISD, 2003: 3).

Different corporations have framed different definitions of CSR depending on the institutional and political contexts in which they operate. Therefore, according to Marrewijk (2003: 96), contemporary conceptual definitions of CSR are rather subjective. As a consequence,

CSR is a very slippery concept with shifting definitions, but at very least involves a company going beyond its strict legal obligations to take into account the impact its business has on stakeholders other than its shareholder. (Corkin, 2008: 39)

Despite the plethora of literature on CSR, due to the substantial public and academic interests in the subject, the good understanding of the subject still does not exist and this creates additional difficulties to the contemporary definition of CSR. First of all, the scope of CSR is very wide to be applicable to corporations (Marrewijk, 2003: 96). Secondly, there is no general agreement of terms that gives a source for CSR initiatives (Marrewijk, 2003: 96). Thus, the variability of concepts and lack of comprehensive research hinder a dialogue between academicians and practitioners. Furthermore, the existing literature largely highlights the positive impacts of CSR on business, whereas a small number of studies examines the price of CSR initiatives and the correlation of social responsibility and business (Vogel, 2005:11). Although CSR means the voluntary behaviour of business towards stakeholders, companies face several problems while deciding how to meet the requirements and hopes of different stakeholders and at the same time do not neglect shareholder issues. The reporting criteria of socially responsible practices as well as the choice of the best CSR initiatives are important and complicated (Aras and Crowther, 2009: xxi).

In spite of the fact that “CSR is confusing” (Webb, 2002: 3 as cited in Hopkins, 2004: 2) and its concept is surrounded by numerous ambiguities, media and the modern commercial era influence business entities to be

more involved in the promotion of social development matters (Balabanis et al., 1998: 25) as organisations function in a “shared environment” and it is assumed that they should adopt CSR principles (Sairally, 2006: 14 taken from Preston and Post, 1975).

In addition, organisations perceive to have strong CSR commitment due to the fact that being “an integrated part of society and community” brings about moral and ethical rules (Azid *et. al*, 2007: 1). Apart from the economic obligations, firms are compelled to care and support the interests of all the elements of the firm and society. It is assumed that in order to meet economic goals and their responsibilities towards stakeholders and large environment, organisations should function and grow in a corporate governance framework, which aims “to align as nearly as possible the interests of individuals, corporations and society” (Sir Adrian Cadbury in ‘Global Corporate Governance Forum’, World Bank, 2000). This indeed rationalises the need for CSR in the financial and business world.

Islamic Moral Economy as the Basis of CSR

IME in its modern context emerged in the beginning of 1970s, as a respond of Muslim intellectuals to the failure of capitalist and socialist development strategies in the Muslim world (Asutay, 2007a: 169-170). Therefore, IME came as “a modern definition of divinely ordered rules and principles related to economic and financial activities, instruments, contracts and choices” (Asutay, 2010: 35).

As opposed to the self-centered behaviour, rationalism and the maximisation of an individual’s utility as assumed by the prevailing systems, IME aims to develop socio-tropic individual through norms and moral understanding, where individuals consider their own interests as well as social ‘good’ and conduct their business affairs within the bounds of Islamic principles in also taking into account of social environment and hereafter. Furthermore, the issue of maximising the prosperity of any individual in Islamic economics is parallel to maximising welfare of the community with the consideration of hereafter (Asutay, 2007a: 171), as *ihسان*, or beneficence is considered an essential part of human life as the axioms of Islamic economics states.

Moral values that are integrated into IME make this paradigm different from the conventional economics, explicit framework of which is based on justice, equity, human dignity, freedom and moderation

in everyday life including economics and financial transactions. As an economic policy framework also, IME focuses on development and management of economic resources in order to fulfil spiritual, social and essential material needs of society in developing a holistic approach to economic and financial issues. Additionally, IME prioritises a moral duty on human beings to provide opportunities for those living in poverty through redistribution of wealth. In fact, Islamic economic paradigm “aims at producing disciplined or morally filtered economics and financing which should not lead the individuals, but rather should be led by individuals as regulated by the moral economy principles of Islam” (Asutay, 2010: 36). Thus, the strong implication of moral dimension in economic and financial life as proposed by IME entails several conditions such as ensuring social justice, social development and environmental protection, maintaining nature and humanity in harmony, the prohibition of taking and receiving interest.

It should be noted that the existing voluminous literature on Islamic economics shows a tendency to advocate socio-economic goals of the system, particularly, *adalah* or social justice and *haqq* or right perspective, enhancement of human well-being and social equity, and poverty reduction. The socio-economic goals of the IME are perfectly outlined by one of the fathers of the Islamic economics paradigm, Siddiqi (1980: 22) as follows:

- (i) Enhancing human well-being;
- (ii) Reaching sufficiency and harmony in society as well eliminating poverty and fear;
- (iii) Meeting basic needs of individuals;
- (iv) Providing the higher quality in life and better place to live and optimising the use of available resources;
- (v) Fulfilling spiritual need of society;
- (vi) Establishing economic and social justice as well as maintaining background for equality of opportunity and cooperation;
- (vii) Encouraging universal brotherhood and justice as well as distribution of national income and freedom in accordance with the principles of justice and equity and the context of social welfare.

As can be seen, IME offers a new paradigm in which moral is endogenised into the economic and financial thinking in an integrated

manner; and therefore, it provides a moral filter through which economic and financial choices can be made according to the Islamic norms. This provides a rationale and motivation for a sustainable and CSR oriented economic paradigm by endogenising all the stakeholders in a society.

Axiomatic Foundations of Islamic Moral Economy in Rationalising CSR

It is worth mentioning that the philosophical foundations of Islamic economics are completely distinct from the core theoretical issues of other conventional systems due to the fact that Islamic economics is based on strong moral values derived from the ontological sources of Islam, namely Qur'an and the tradition of the Prophet. The conceptual foundations or axioms, as Asutay (2007b: 7) states, have been established by the intellectual efforts of leading academic theoreticians in the field, such as Chapra (1999; 2000), Naqvi (1981; 1994), Siddiqi (1981), El-Ghazali (1994), Ahmad (1980; 1994; 2003) and Sirageldin (2002).

Naqvi (2003: 149-157), in particular, while discussing the theoretical fundamentals of Islamic economics, refers to *tawhid* (God's unity), *al'adl wa'- ihsan* (equilibrium), *ikhtiyar* (free will) and *fard* (responsibility). These concepts were further expanded through the addition of *rububiyyah*, *khilafah* and *maqasid-al Shari'ah* by Arif (1989) and Ahmad (1979; 1994) (Asutay, 2007b).

It is suggested that the implications of these axioms on the economic system might positively affect individual's behaviour and make their contributions to society more meaningful thereby the economy will achieve socio-economic justice. In other words, the axioms through which foundations of IME is developed helps individuals to endogenise social good and justice in their objective functions.

IME is defined by these philosophical foundations as an ideal to analyse the causes of economic and social problems and find practical solutions that suit modern societies within the context of the doctrines of Islam.

IME assumes following philosophical foundations:

(i) *Tawhid* (God's unity and sovereignty) is the recognition of the oneness of God. IME is founded upon the vertical ethicality manifested by *Tawhid*. As an initial part of social justice, vertical ethicality means

that all individuals are equal in the sights of God, which also includes accountability to God, who is worthy of absolute worship and this requires humans to be conscious of their actions (Naqvi, 1994: 26) as it is the belief and relationship between human and the Creator (Naqvi, 2003:150). *Tawhid*, as a fundamental element of the IME, refers to the freedom of deeds wherein every human being is regarded as an essential part of the entire system. As an axiom, *tawhid* establishes the norms for economic and business activities from an Islamic point of view by not only focusing the consequences of economic activities in this world but also their repercussions in the hereafter and hence brings 'spiritual accountability' into the equation to establish social equilibrium in the society through the economic and financial means

It is important to note that *tawhid* provides an objective function for human life and gives meaning to human life, and this objective function is determined by *falah* or salvation or happiness. However, as a dynamic system IME extends the *falah* through spiritual accountability as two-dimensional: happiness in this world and in the hereafter.

(ii) *Al-'adl wa'l-ibsan (Equilibrium and Beneficence-Socio-Economic Justice)* is another significant axiom of IME, where individuals are obliged to contribute in establishing justice (*'adl*) and promoting beneficence (*ibsan*), which accordingly lead to the manifestation of socio-economic justice. Basically, this axiom alongside with *Tawhid* means that each human being in this life should receive what he/she deserves as well as achieve high life standards on both personal and social levels (*bayat al-tayyebah*). As the horizontal equality that lies in this conceptual foundation provides all elements of the fundamental base of the social, legal, political and economic organisations in actualizing justice. In addition, *adalah* as an axiom of social justice and beneficence, necessitates that individuals and societies are supposed to set up a balance between current and forthcoming needs of the generations as well as develop strategies to meet the requirements of human beings. Furthermore, it articulates that individuals to attain a higher level of life and develop suitable methods that ensure fair income and wealth distribution within the stability and sustainable development policies (Asutay, 2007b: 7).

(iii) *Ikhtiyar (Free will)*: Islamic economic systems aims to guarantee individual liberty and freedom of choice of opportunities. Individuals are free to decide how to use their own capabilities and economic resources, which is the essential part of an economic structure but also is an essential

instrument of *adalah* as without freedom justice cannot be realized. On the other hand, it seeks to provide effective moral filters at different levels of life and activity. Therefore, although there is a free will (*ikhtiyar*) given to individuals to choose whatever path they desire to follow, they have a responsibility as a *fard* towards themselves, society and the Creator (Naqvi, 2003:157)

(iv) Fard (Responsibility) aims not to leave the social justice related matters to individual choices, as IME through this axiom aims to make some of the social justice oriented arrangements as mandatory. This suggests being responsible or to benefit society at large (Asutay, 2007b: 7-8) through not only voluntary action but also mandatory action aims to make sure that *adalah* can be established.

(v) Rububiyah as one of the significant conceptual foundations of IME demonstrates that individuals are obliged to show respect to the divine arrangements in broad social and environmental concept for nourishment, allowing to direct, reach, and to sustain things to their perfection (Ahmad, 1979: 12). This refers to the importance of sustainable development to maintain harmonious relations between different spheres of life.

(vi) Tazkiyah (Purification plus growth) refers to growth with harmony and hence implies sustainable development, which assumes that Islamic communities will preserve “their fundamental, internal balances while undergoing various processes of change” (Sardar, 1997: 51). This economic axiom has come as a result of combination of *tawhid*, *adl*, *fard*, and *rububiyah* since it leads individuals to develop fully their human potentials in addition to harmonious social and economic development, which should be conducted with ethical and moral considerations. Consequently, “the result of tazkiyah is *falah*, prosperity in this world and the hereafter” (Ahmad, 1994: 20, cited in Asutay, 2007b: 8).

(vii) Khalifah and human accountability before God (khalifa or individual’s role as God’s vicegerent on earth). This indicates that humankind is the representative of Allah on earth, therefore, “Allah has entrusted mankind with stewardship of Allah’s possession” (Farook, 2007: 33). This axiom identifies the role and status of human being, specifies his/her duties as a Muslim and a part of the entire Muslim community and “the reasons of the existence of the individual” (Asutay, 2007b: 8). An individual’s role as *khalifah* requires him/her to achieve *falah* but also create an environment through which others also can reach *falah*, therefore, an individual is entailed to work and contemplate in an integrated manner.

This axiom is a direct consequence of the pillar of the sovereignty of God as it explains one's aim and behaviour of providing social welfare and justice as a crucial element of faith (Mohammed, 2007: 109). Thus, in order to function according to the identified foundational axioms, IME imagines and considers a *khalifah* human being in the sense of *homoIslamicus*. The practical implications of the concept of *khalifah* are "universal solidarity, sustainable consumption of resources, which are trust from God, pursuing a humble life-style, and having human freedoms to conduct daily life" (Asutay, 2007b: 8).

Thus, the aforementioned foundational axioms of IME aims at having imagined individuals who are accountable for their actions, concerned with the interests of the society as a totality in an integrated manner. Additionally, and most importantly, is the concept of *khalifah*, which is translated as vicegerency of God on earth, which is a role given to individual humans by God. This can be termed as *homoislamicus* (as opposed to the *homoeconomicus*) as an individual who have immersed these axioms in his or her life by fulfilling the roles and duties expected. This is what distinguishes the Islamic methodology from the neo-classical economic methodology, where the ultimate end result will be self-development of individuals and subsequently harmonious development of the overall economy and ultimately ending in *falāh* (success, happiness and well-being). As a consequence, the direct implication of this would be the creation of moral economy away from the highly materialised and financialised economy.

(viii) *Maqasid al-Shariah (objectives of the Shariah)* provides the moral and legal framework in giving meaning to the axioms, which states that the objective of *Shari'ah* is to promote human well-being in serving the ultimate goals and objectives of religion. In other words, whatever the effort is dispensed must be for human well-being. The early interpretations of *maqasid al-Shari'ah* by al-Ghazali, defines it as "promoting the well-being of all mankind, which lies in safeguarding their faith (*din*), their human self (*nafs*), their intellect (*'aql*), their posterity (*nasl*) and their wealth (*mal*)" (Chapra 2000: 118). Thus, *maqasid al-Shariah*, with its unchanging moral framework and flexible and dynamic approach, presents spiritual guidelines for personal, social, political, economic and intellectual activities of human beings (Dusuki, 2005: 45, taken from Sardar, 2003). The substance or the epistemology of *maqasid al-Shari'ah* comes from concepts such as *aqidah*, *akhlaq* and *fiqh* are the key elements of *Shari'ah*, where *aqidah* refers to creed or a religious belief system; *akhlaq* is the practice of virtue and manners;

fiqh is the set of legal principles that deals with the actions of individuals.

The interpretation of the concept of *Maqasid al-Shariah* was enlarged by Ibn Khayyūm through expanding the horizon of IME to be more involved with increasing public interests in order to be able to tackle issues such as poverty and inequality, where some methods based on Islamic law could not successfully deal with. Accordingly, Islamic moral principles regard the individual welfare to be parallel to the common interests, which broadens the limited definitional margins of Islamic law (Asutay, 2007b: 9). In different words, this assists to establish an economic discipline with an emphasis to the objectives of Islam as a comprehensive way of life rather with an emphasis on the objectives of Islamic law (Siddiqi, 2004).

As a result, the abovementioned ethical axioms derived from ontological and epistemological sources of Islamic teachings form the foundation of a moral-based Islamic economic system and provide the fundamental framework, which aims “to maintain a balance between today’s and tomorrow’s consumption, and to maintain an equitable distribution of wealth and income” (Sirageldin, 1995: 465).

The most important or distinguishing feature of IME, as can be seen, is the obligatory existence of an ‘Islamic moral filter’ in individual, social and organisational level through which business activities should take place (Sirageldin, 1995: 464) within the framework of Islamic ethics as an integral part of the Islamic faith having implications for all spheres of individuals’ lives including business dealings and obligations.

The IME paradigm with its axiom and principles has direct implications and provides rationale for the CSR through embedding the ideals of IME in personal and organizational level. For this, the business sector including IFIs working within the IME paradigm are expected to function in essentialising and also prioritizing the CSR by focusing on social welfare, considering natural recourses and the environment in their attempt to fulfil their social responsibilities towards society as they aim to accomplish the main *Shari’ah* objective of promoting social well-being though maintaining justice.

The notion of CSR from an Islamic perspective does not only entail stakeholders’ duties and their material interests, it also entails moral obligations. Therefore, CSR, as a part of Islamic framework paradigm, is not an exogenous concept, which is expected to be apparent in IFIs; on the contrary, it is “firmly inscribed within the religious bond” (Dusuki, 2008:14). In the epistemological and ontological sources of Islam, the clear

emphasis of human responsibilities towards the environment in general and its living creatures in specific can be found as an attempt to reach social justice on planet earth as well as the social justice in relation to individual and social environment. Furthermore, faithful observance of social responsibility and imposed Islamic moral values encourages trustful and pleasant relations among people “and motivate them to fulfill their mutual obligations promoting family and social solidarity, tolerance and peaceful coexistence” (Chapra, 2007:15).

IME, thus, aims to create its own institutions to respond to economic and financial needs of the society in which it operates, which includes financial institutions. However, they are considered as part of the ethical paradigm of IME and therefore are expected to contribute to socio-economic development rather than financialisation of the economy.

Principles of Islamic Finance

Islamic finance emerged as a part of Islamic economic thought as part of its institutional aspect in 1970s. Islamic finance aims to fulfill the aspirations of IME through financing and regulating economic activity according to Islamic injunctions and ideals. IBF institutions aiming to articulate IME should serve social justice and social well-being as an integral part of their functioning in their attempt to function within the Islamic ethical values to achieve a balance between social and financial objectives. As socially constructed institutions IFIs, are expected to foster economic development where the main objectives are social welfare and social justice. While achieving prosperity is desirable in IME, the financial activities leading to it should be guided by the following Islamic principles:

(i) Prohibition of interest (or *riba*) is one of the core requirements that IFIs should observe.

(ii) Risk sharing: Taking into account that *riba* is rejected and acquiring debt without having the means and intention to repay is discouraged in Islam. Islamic finance as a result prioritises joint ventures in various forms by emphasising risk-sharing aspect.

(iii) Asset-based: The two aforementioned principles of Islamic finance propose the existence of a direct relationship among the real and financial sectors. Islamic law requires that each financial transaction should be tied to tangible underlying asset. Thus, financial and economic activities

of IFIs are undoubtedly and directly identified with the real economic sector activity (Askari *et al.*, 2010: 13). As a result, IFIs have the objective of creating productive economic activities, which will lead to asset-based financing over the debt-based financing (Asutay, 2010b: 25).

(iv) *The concept of money:* According to Islamic thought, “money does not have any intrinsic value of its own apart from the value of the precious metals that are to be found in real sector production of the currency” (Choudhury, 2011: 293). Thus, IFIs are not allowed to engage in money creation out of debt. Central to IME is the idea that money serves to assist social and economic activities of individuals through being a measure of exchange (Ayub, 2007: 437). Generating money from money is harshly prohibited; for this reason, wealth can be created just by lawful trading and investing in assets.

(v) *Prohibition of speculation (maysir) and uncertainty (gharar):* Commercial activities in Islam are subject to the restrictions such as ban on *gharar* and *maysir*, where the former means uncertainty and the latter gambling or speculation. The prohibition of speculation, gambling and uncertainty emerges from the same rationale to highlight the importance of asset-based productive economic activity (Asutay, 2010b: 26).

(vi) *Screening of investment activities to ensure whether they are Islamically permissible or not.* Islamic financial framework based on strong moral values discourages entrepreneurs to invest in the production of goods and services and in any financial contract that contradict the IME principles. Thus, it excludes financing and investing in unethical industries such as casinos, pornography, tobacco, alcohol, drugs, harmful substances, nuclear energy or any sector, which activities are considered harmful and morally unacceptable to the interests of society and environment. Accordingly, investing in business activities that will cause the pollution or exploitation of common natural resources of environment, which include water, air, soil, minerals, plants, animals and energy resources is unlawful. Investors should seek to align their financial investments with Islamic financial principles in order to include social dimension to their activities and contribute to ethical and socially responsible projects.

(vii) *Irfaq* which is defined in the glossary of Islamic economics and finance as “Concessions in public property such as market places or inaccessible mines given to individuals on payment of certain duties or taxes” (Khan, 2003: 105). Thus, *waqf*, *zakah* and concepts of *sadaqah*, and

qard hasan, which are the articulation of *irfaq* (Asutay, 2010a: 5), present additional explanation of accepting CSR, a part of Islamic framework paradigm, as an exogenous concept, which is expected to be apparent in IFIs:

Contemporary Islamic Models of CSR

This section aims at presenting the contemporary Islamic models of CSR by founding on the above discussion on IME and its articulations.

Chapra's Model

The early writings by Islamic economics fathers such as Chapra (1985) and Siddiqi (1983) suggest that the social role of all sorts of IFIs should be placed upon their objective of profit maximisation in order to maintain socio-economic justice, support and sustain economic development (Dusuki, 2007: 31; Sairally, 2006: 63). This view has been introduced in the more recent literature as Chapra's model (Sairally, 2006: 63 taken from Lewis and Algaoud, 2001: 95).

Taking into account that Islamic banks and other IFIs deal with public funds, they are required to consider the betterment of the whole society upon the benefit of individuals. This basically means that IBFIs have to fulfil social obligation as a religious compliancy as well as to perform other prearranged conventional financial tasks. This model envisages Islamic banks as multipurpose or universal banks that integrate commercial and merchant banking and provide wide range of financial services (Sairally, 2006: 63; Hassan and Lewis, 2007: 9). This view has been widely supported by academicians as Sadr (1982), Siddiqi, M. N. (1983, 1985), Ahmad, Z. (1984), Ahmad, K. (2000), Siddiqi, S. H. (2001), Haron (1995), Rosly and Bakar (2003), Haron and Hisham (2003), Naqvi (2003) and some others, who believe that for IFIs, setting objectives to promote Islamic religious principles, traditions and norms alongside the protection of the necessities of Muslim societies is as important as maximising their profit (Dusuki, 2008b: 135). Accordingly, it can be said that this model is compatible with the social and ethical goals of *Shari'ah* and Islamic spiritual objectives. Hence, "Islamic banks must promote social welfare programmes and activities and make more contributions towards the needy and the poor without undermining its commercial viability" (Dusuki, 2008b: 135).

According to this model, hence, there is a great expectation placed upon Islamic banks to be CSR-active and contribute significantly to social and economic problems of the less advantaged citizens in the society and at the same time Islamic banks should be able to maintain their commercial viability (Dusuki, 2008b: 135).

Ismail's Model

An alternative view was proposed by Ismail (1986), who argued that since IFIs are part of the commercial sector of the economy, they should be responsible only for economic and financial activities. All morally and socially concerned commercial activities are expected to be assigned to the third non-profitable sector.

In this model, Ismail draws an Islamic economic system, which consists of three financial sectors: the government sector or *siyasi*, the commercial sector or *tijari*, and the welfare sector also known as third sector or *ijtimai* (Hassan and Lewis, 2007: 10). Ismail (1986), thus, claims that Islamic commercial institutions of the commercial or *tijari* sector are restricted to be responsible to the shareholders and depositors and not to the society as a whole. Therefore, within this framework, social welfare objectives are not the primary tasks of Islamic banks and expected to be fulfilled by another institutions. In short, Ismail's view propagates the idea that Islamic banks are not different from other commercial financial institutions with the highest priority to conduct their affairs in a *Shari'ah* compliant way (Dusuki, 2008: 136 taken from Lewis and Algaud, 2001; Satkunasegaran, 2003).

Ismail's model has been further supported by Tag el-Din (2003) who articulated the position that socio-economic needs of the society should be left to the 'social sector' such as *waqf* and other charitable institutions. It is important, however, to state that socio-economic process cannot be done without including moral and ethical values (Sairally, 2006: 66).

Dusuki's Model (*Taqwa* Paradigm)

Taqwa paradigm, which inspires to consider CSR as part of religious obligations, was introduced by Dusuki (2008a: 15). *Taqwa* or God-consciousness can be characterised as "the individual, spiritual, moral, ethical, and psychological capacity to raise oneself to that higher level

that makes a person almost immune from the excessive material desires of the world, elevating the individual to a higher level of prophetic self-consciousness” (Mowlana, 2008: 136). Thus, it is assumed that people with *taqwa* paradigm continuously seek God’s pleasure and as a result, act in the line with the *Shari’ah* principles. Harmonising, integrating and combining worldly affairs with spiritual values are essential for individuals, as this will determine the fate in this world and the hereafter. Individuals and corporations that embrace *taqwa* paradigm undertake their responsibilities as vicegerents of God in all circumstances, which make them accountable to God, who is the owner of themselves and the resources they utilise and manage (Dusuki, 2008a: 15; Dusuki and Abdullah, 2007: 9). The role of *khalifa* provides human beings with the authority over the creation and this authority is accountable.

According to Dusuki (2007b: 34), corporations that operate in compliance with the *Shari’ah* principles and employ *taqwa*-paradigm in their approach of conducting business activities do not focus solely on profit generation as they acknowledge and put more emphasis on the importance of social, ethical and moral dimensions in their agenda.

Four major points have been promoted by Dusuki’s *taqwa* paradigm: human dignity, free will, equality and rights, trust as well as responsibility (2005: 47-49). He further argues that CSR from Islamic perspective takes more holistic approach, which distinguishes it from the Western approach (Dusuki, 2008a: 13). The idea central to this view is that achieving success and happiness in this world is as crucial as accomplishing *falaha* and happiness in the hereafter. Dusuki (2008a) highlights that CSR has a broader meaning from Islamic hallmark as it values more on spiritual reward rather than material reward.

Reflecting on the Models

There are similarities that can be drawn between Chapra’s model and Carroll’s (1979) view of CSR as well as between Ismail’s (1986) model and Friedman’s vision of CSR. The two main aforementioned models of CSR attributed to IFIs by modern Islamic economists can also be associated with the UK and USA models of CSR (Dusuki, 2008b: 136-137; Hassan and Lewis, 2007: 10-11; Sairally, 2006: 66-67). In Chapra’s model, Islamic banks regarded as universal institutions, where the provision of social services emphasised beside the objective of

profit maximisation. Furthermore, social welfare projects of IBFIs should be in line with the principles of *Shari'ah* with the focus placed on the maximisation of stakeholders' interests. Moreover, the ethical and social responsibility inherently imposed on business and economic activities, as religious compliancy would imply that philanthropic activities would be integrated into the business concept of IFIs due to their expected role towards community development. Consequently, Chapra's model can be related to the Carroll's (1979) vision of CSR, which encompasses four main agenda: responsible business practices, consumer responsibility, sustainable enterprise and corporate philanthropy.

Additionally, the parallels can be found between Chapra's view and the UK approach to CSR, where social issues are tackled explicitly by institutional networks. In this situation, "the business policy on social responsibility ... is taken as part of the wealth creation process and to increase the competitiveness of the business and the value to the society (Baker, 2004) - with the motivation for acting in a socially responsible way within the Islamic paradigm being faith driven" (Sairally, 2006: 66-67).

On the contrary, Ismail's (1986) model has similarities with the new-classical point of view, famously advocated by Friedman (1970) who "defined the social responsibility in a strictly limited neo-classical economic sense", where corporations are only responsible to their stakeholders due to their considerable contribution towards capital maximisation (Bichta, 2003: 16). Ismail's view analogously accepts IFIs as commercial institutions functioning within Islamic framework and fulfilling mainly the interests of their shareholders and depositors. As IFIs are expected to be developed into profitable and sustainable institutions, social goals in this model are pursued indirectly. This model can also be associated with the implicit approach of CSR in America, where the social issues addressed implicitly by corporations through their CSR policies, programs and strategies (Matten and Moon, 2005: 336). Thus, CSR in this situation does not take place at the top of the management agenda and not an integral part of a company's strategy. As a result, in Ismail's model CSR initiatives should be undertaken by the third non-profitable sector.

Dusuki (2008b: 137) extends this discussion by stating that Chapra's and Ismail's models do not actually have significant differences, except in degree and emphasis. The application of Ismail's model of CSR would be more appropriate to Islamic banks operating in multi-religious countries with different traditional religious communities. On the other hand,

applying Chapra's model to Islamic banks might be more successful in the countries with dominant Muslim population (Dusuki, 2008b: 137 taken from Satkunasegaran, 2003).

Islamic CSR and the Practices of Islamic Banks and Financial Institutions

Islamic finance as an operational tool of IME is dedicated to maintain the economic and social development with the objectives of essentialising human centred economic development and improving human well-being, within the social economy of Islam (Asutay, 2007b: 11). Despite the impressive growth of Islamic finance in the last three decades, and its spiritual underpinnings, it appears that the sector is still searching for its soul (Chowdhry, 2006). While Islamic finance is considered as an ethical alternative to conventional finance, however, there are concerns over its Islamicity and hence the ethicality of IBF. Islamic finance, thus, has been criticised for being materialistic and losing the spirit of IME. This issue has been discussed extensively in the modern literature of Islamic finance (Asutay, 2007b; Kuran, 1997; El-Gamal, 2000; Warde, 2000; Obaidullah, 2008; Abozaid and Dusuki, 2007; Sairally, 2005; Halim, 2000; Siddiqi, 2004).

As has been highlighted by numerous scholars, the gap between the ideals and realities of Islamic finance is growing. Until recently, researchers mainly focused on the form rather than on the substance of Islamic finance. In fact, Islamic finance has neglected the morally based value judgment, constituting the substance as opposed to the rules, and norms of IME or the forms (Asutay, 2009: 3). As a result, Islamic finance has been criticised for converging towards conventional products.

Although by mimicking the conventional debt-based instruments and products the legal mechanism of Islamic financial transactions complies with the *Shari'ah* principles, it shuns the spiritual underpinnings of Islamic law. Therefore, the current debate is developing around Islamic based finance (fulfilling all the social requirements) versus the *Shari'ah* compliant finance, as practiced in current times. This view has been supported by El-Gamal (2006: xi), who describes the current practices of Islamic finance as "Islamization of contemporary financial practice ... accomplished by means of modified premodern financial contracts (such as sales, leases, and simple partnerships)".

Critics claim that the nature of IFIs do not distinct from the nature of their conventional counterparts as they apply modified conventional practices. According to Siddiqi (2007) and Chapra (2010), IFIs have been struggling in achieving the *Shari'ah* authenticity of Islamic financial products, hence, have too many similar characteristics with conventional finance. Consequently, "Islamic finance has arguably failed to serve the objectives of Islamic law (maqasid al-Shari' a)" (El-Gamal, 2006: xii) since the distinguishing factor of Islamic finance from conventional finance is its underlying philosophy, not *only* the prohibition of *riba* or the features of contracts.

Therefore, it is essential for Islamic finance to preserve the values of IME, which promotes "profit-and-loss sharing, and hence risk-sharing; thus partnership against the dominance of the strong, namely the capital; serving humanity and society for the sake of spiritual attainment and to perceive resources as trust from God, and hence directing all the resources to their perfection; spiritual accountability; and working for social good and justice not as a voluntary exercise but also in some cases as compulsory acts" (Asutay, 2010c) in order to have ethical IFIs.

Taking into account these values of IME, which are, unfortunately, have been neglected in the current Islamic finance practices, Islamic banks are imposed to add ethical and CSR financing issues in their agenda alongside the other banking practices (Ahmed, 2004: 131). IME emphasises the importance of a social welfare system based on mutual help as the development of societies is impossible without maintaining the social justice, where the most impoverished and marginalised are reached, their basic needs are met and resources are distributed equally; thereby, Islamic finance is capable of playing a key role in building communities. However, in the reality the situation is not that optimistic as the statistics show that the large share of Muslim population in the world is still financially excluded because the delivery of basic financial services to the people from disadvantaged strata does not exist or still at the very beginning (Mohieldin *et. al.*, 2011: 2).

Furthermore, several studies reveal that the concept of CSR in IFIs is still in its infancy and their understanding of being socially responsible is limited to *zakah* distribution (Sairally, 2005). Despite having the social objective as an inherent function, critics argue that IFIs are mainly focused on commercial and economic aspects of the industry. Therefore, as Asutay (2010b: 25-26) stresses, there is an urgent need to unlock the

potential of IFIs and its social significance through the mechanism of microfinance and social banks. Based on Islamic principles of social equity and redistributive justice, microfinance within Islamic finance framework can be recommended to be provided by the following instruments and institutions of IBF (Asutay, 2010b: 26).

Against this background, however, microfinance has not been well developed enough in the agenda of IFIs (Obaidullah, 2008: 3). The good examples of Islamic microfinance (IMF) can be found in Syria and Yemen, where IMF institutions were sanctioned by the government, in Indonesia and also in Bangladesh with the substantial help of Bangladeshi Islamic Bank (Asutay, 2010b: 27). However, these attempts are not enough and there is a huge dissatisfaction with the performance of the Islamic finance industry. While the large amounts of resources and efforts have been channelled to develop the Islamic finance sector, the same should be done in order to further the development of Islamic microfinancing.

Socio-economic status of communities cannot be improved through allowing the use of increasingly sophisticated financial instruments that currently prevailing in the market and have solely economic purpose. The industry of IBF, unfortunately, largely implements the form of debt-like instruments that mirror images of conventional debt financing instruments and have alike economic and social effects. As a result, the exciting inconsistency between the aspirations of IME and realities of Islamic finance has occurred and is shifting towards the directions of neoclassical economics. This situation has been defined by Asutay (2010b) as the 'social failure of Islamic finance'. In line with Asutay's (2010b) argument, the study conducted by Hassan and Harahap (2010), which includes seven IFIs, shows that Islamic banks do not have sizable CSR initiatives (Aribi and Gao, 2012: 206). Another research of thirty-two Islamic banks conducted by the scholars from the International Institute of Islamic Thoughts (1996) has been able to demonstrate the overriding emphasis on economic goals and not the social goals of the banks under the study. This study also reveals that in assessing attractiveness of the investment, economic conditions have greater impacts than social (Maali *et al.*, 2006: 269).

Thus, in order to overcome the apparent divergence between initial objectives and realities of Islamic finance, the virtues of IME should be unlocked further. The substance of the products should be reviewed with the same seriousness as the compliance of contracts' forms to *Shari'ah*. Islamic finance "must break free of the temptation to take the path of replicating

conventional products. Success on the material plane by sacrificing its spiritual mandate is an actual failure from an Islamic perspective” (ISFIRE, 2012: 22).

Despite their social failure and several limitations, Islamic banks play a significant role in terms of pooling funds and they have demonstrated to deliver desired valuable services that balance the needs of consumers and producers. Therefore, in order to enhance the social potential of Islamic banks and correct the observed failure of Islamic finance “robust social justice oriented principles” should be introduced “into IBF by endogenising social justice into its operational nature” (Asutay, 2010a). Consequently, the attention should be drawn from the legal frame of the Islamic contracts to the spiritual message of the IME, which could help to reduce the gaps between the realities of Islamic banking and the aspirations of IME. This reorientation should reinforce the universality and acceptability of Islamic finance, hence, would allow it to become a distinctive value proposition.

Conclusion

In summary, this paper provides the Islamic perspectives on CSR and justice as an alternative to the Western theoretical constructs of CSR. It presents the socially responsible vision and objectives of IME with the recourse to the objectives of the Islamic law and an integration of moral filter to the practices of IBF. It highlights the reasons of CSR becoming an integral part of IME and hence, IBF through underlining Islamic financial principles alongside philosophical foundations of Islamic economic system. Thus, based on the discussion and considering the definition of CSR, IBF by definition should be CSR compliant. However, the realities of IBF deviate from the ideals of IME and Islamic finance has become a part of the international financial system with the ambitions.

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