

# Corporate Social Responsibility of Islamic Financial Institutions: A Look from the Maqasid Al-Shariah (Purpose of Shariah) Approach

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## Abstract

The Corporate social responsibility (CSR) refers to business practices by corporations and institutions such as banks, insurance companies etc. involving initiatives that benefit society. This research aims to look at the CSR of the Islamic financial institutions and to what extent they achieve maqasid al-Shariah through this concept. It is found that several Islamic financial institutions are involved in activities that promote corporate social responsibility, such as payment of Zakat to the needy, charity takaful product, donations, program funding and institutions of social services, training students, and protecting the environment which is in line with maqasid al-Shariah. It is recommended that the Islamic financial institutions should engage in more activities that will bring more benefits to the society to ensure that they are not left behind in serving the community - which is the main purpose of the Shariah- when compared to its conventional counterpart.

**Keywords:** Maqasid al-Shariah (purpose of Shariah); Corporate social responsibility (CSR); Maslahah (Public Interest); Islamic financial institutions

## Introduction

The Corporate social responsibility (CSR) refers to business practices by corporations and institutions such as banks, insurance companies etc. involving initiatives that benefit society. A business's CSR can include a wide variety of tactics, from giving away a portion of a company's profits to charity, to providing "greener" business operations.

Regarding Maqasid Shariah, the main objective of the Shari'ah is to attain mercy for mankind by ensuring their benefits and moving their harms. Hence Maqasid al-Shari'ah, or the objectives of Shari'ah, aims to "promote benefits and repel harms, which is achieved through maslahah (public interest).

This paper aims to look into the corporate social responsibility of Islamic financial institutions to see to what extent they achieve the maqasid al-Shariah (purpose of Shariah).

This paper will discuss Concept of Corporate Social Responsibility (CSR), explains Maqasid al-Shariah (Purpose of Shariah), provides overview on Concept of Corporate Social Responsibility (CSR) from Maqasid al-Shariah Perspective. And finally which is the conclusion will summarise the research findings and recommendations.

## Concept of corporate social responsibility (CSR)

The concept of corporate social responsibility (CSR) has a long and different history. Even though, showing concern for social responsibility started during the 1930s and 1940s, the modern era of social responsibility (CSR) came into being in the 1950s [1].

According to Bowen (1953, cited in Carroll, 1999) CSR is the obligations of businessmen to follow decisions, policies, and lines of action which are necessary in terms of societal objectives and values. In the 1960s, in an outline of CSR, Frederick (1960) defined CSR as an action taken by businessmen to direct the operations of an economic system so as to fulfill the expectations of the public. That is to say, production and distribution are required to be conducted in such a way that will improve total socio-economic welfare. Frederick (1960) drew attention to five major thoughts on business responsibility during

that time, each attempting to solve the problems of power in a difficult society and highlighting the significance of businesses' responsibility to society [2].

Davis (1960) divided CSR into socio-economic obligation and socio-human obligation. With regard to socio-economic obligation, the businessmen's role is to manage economic units in the society, with an expansive obligation to the community relating to economic development and public welfare. Regarding socio-human obligation, businessmen are required to nurture and develop human values, for example morale, cooperation, and motivation. These two obligations should inspire businessmen's decisions and actions are ought to be taken for reasons at least honestly beyond the firm's direct economic or technical interests [3].

In the 1970s and 1980s, the debate on CSR obligation was extended to groups besides shareholders. Jones included CSR to the notion that corporations have a responsibility to constituent groups in society not only shareholders and those suggested by law or union contract. Such responsibility is voluntary and, second, the obligation is a comprehensive one, spreading beyond the traditional duty to shareholders and other societal groups, such as customers, employees, suppliers, and neighbouring communities [4]. According to Carroll, in the 1980s and 1990s research on CSR increased. Three conceptual categories were used to discuss business performance: business ethic, CSR, and corporate social responsiveness. The said categories had influenced perceptions of the role of business [5].

Frederick (1986) divided CSR into four categories known as CSR1, CSR2, CSR3, and CSR4. CSR1, known as the first wave of CSR, began

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in the early 1950s continued into the mid-1970s. Its focus was on corporate social responsibility. During that period (1950-1970) people felt that something was wrong with the standards governing business conduct. Additionally, while scholars recognised the importance of CSR and accountability, their work was unclear regarding the values of CSR [6]. Husted and Allen (2000) mentioned that during this period, scholars spoke only of what responsibilities corporations should fulfill so as to improve the social environment, instead of how they should respond and react in order to improve it [7].

Corporate social responsiveness began in 1970 as a response to the lack of clearness on CSR1 so that to provide managers with tools for managing CSR1. It is an ethical-philosophical notion of CSR, as corporate social responsiveness is seen as being concerned:

“with the ability of the firm to respond to social pressure in an apparently antagonistic environment with the firm on one side and the ‘stakeholders’ on the other” [8].

Scholarly interest then shifted to the way corporations can develop skills and effectiveness at the time of dealing with social pressures [9]. CSR2 was a shift from an ethical and philosophical concept to an action-oriented managerial concept of social responsiveness.

Frederick afterward referred to CSR3 as social corporate attitude:

“CSR3 embodies the notion of moral correctness in actions taken and policies formulated. Its general value referent is that body of sometimes dimly and poorly expressed but deeply held moral convictions that comprise the culture of ethics [10].

A CSR3 corporation whose normative elements are based on ethics and values will:

- a) Admit that ethics is essential and not just the margin of management decision and policies;
- b) Employ and train managers who accept and practice the vital role of ethics;
- c) Possess sophisticated tools for detecting, possibly anticipating, and coping truthfully with ethical problems affecting the company and its employees; and
- d) Make effort to align its current and planned future policies with the essential values found within the culture of ethics.

Frederick (1998) lastly proposed CSR4 that considers the cosmos, science and religion in social responsibility issues. CSR4 was established as a result of the insufficiencies of the then dominant CSR definition. Frederick (1998) made it clear that in CSR4, the researcher must expand the study of CSR to encompass how business practice should reflect the broadest realms of human knowledge and experience rather than limiting their analysis to the norms and values of any given society or historical period. Frederick (1998) as well stated that it is important for the researcher to study CSR based on the religious viewpoint. Religious belief is very significant in CSR research as it can have an impact on organisational decision-making and workplace behavior [11].

Carroll (1991) argued that one of the factors that added to the uncertainty that normally covered discussions about social responsibility was the absence of consensus on the meaning of the concept. The concept of CSR explained by Carroll (1979; 1991 and 1994) presented four layers of CSR or four kinds of social responsibility: economic, legal, ethical and philanthropic. Carroll (1991) mentioned the four components of CSR beginning with the basic notion that economic performance undergirds all. At the same time, business is

anticipated to follow the law because the law is society’s main reference of acceptable and unacceptable behaviour. It is also required to do what is right, just, fair, and distant itself from action that may bring harm to stakeholders. Business is as well expected to be a good corporate citizen. This can be accomplished through philanthropic responsibility, where business is expected to contribute financial and human resources to the community and to improve the quality of life [12].

### **Maqasid al-Shariah (Purpose of Shariah)**

Maqasid al-Shari’ah, or the objectives of Shari’ah, aims to “promote benefits and repel harms [13]”. Nyazee states Imam Shatibi’s view on the objectives as “... to free man from the grip of his own whims and fancy, so that he may be the servant of Allah by choice, as he is one without it.” [14] These objectives, although not stated openly, but are pointed out in every law in the Shariah.

Imam Ghazali, one of the earliest scholars to deliberate on this issue, has classified the objectives into two primary categories; the deeni (related to deen) and the dunyawī (related to this material world). The dunyawī purposes are further categorised into four types, which are all exclusively meant to serve the single deeni purpose. The four dunyawī purposes are protection of nafs (life), nasl (lineage), ‘aql (intellect), and maal (wealth) [15].

Moreover, these maqasid are divided into three broad divisions, the daruriyyat (essentials), the hajiyyaat (supporting), and the tahseeniyyaat (embellishments) [16]. The daruriyyat are those which are absolutely necessary, with no exception, for the benefits of deen and dunya, and their absence will lead to chaos. Dr. Qaradawi categorized these daruriyyat into two main divisions, i.e. those which are essential to be protected, and those which are compulsory to be eradicated. But, Imam Shatibi regards the five essentials mentioned above among the daruriyyat. Allamah Qarafi and many other scholars have added a sixth essential, namely ‘ird (dignity); [17] which, however, can be considered within the scope of nafs (life). Kamali proposed examples which comprise encouragement of work and trading activities for smooth flow of living and economic development, and also order of education for the interest of intellectual wellbeing, advancement in science, arts and cultures [18].

The hajiyyaat are the interests which are necessary for the betterment of the society, and its absence may not create chaos, but may lead to difficulty and hardship. For example the validity of ijarah (hire) may be an essential interest for the public although it may be of secondary importance to individual. Where there is a conflict between different kinds of interest, the higher should be given priority even if the lesser has to be sacrificed. And when it appears difficult to select the best between groups of conflicting interests, then prevention of evil must be given a priority over the acquirement of benefit [19]. For example, the Prophet (peace and blessings of Allah upon him) encourages the Muslims to make optional charity (sadaqah), even if only half a date. The whole purpose is to make the believers habituated to making charity, and as a result making giving zakat (obligatory charity) easier. Consequently, the essential command of Shari’ah (zakat) is established and in addition, zakat and sadaqah together bring both economic justice in society (the gap between the rich and the poor will be narrowed) and a fraternal community that will develop thereby over time [20].

The tahseeniyyat seek to achieve improvement and perfection in the conduct and customs of people at all ranks. This analysis can be extended to almost every area of human conduct and the realization of all the provisions of the Shari’ah. It is therefore clear that masalih are

not only confined to the provisions of the Shari'ah or religious matters but applies to customary, political, social, economic and cultural affairs etc. This analysis shows that to classify a certain interest and maslahah under these categories is likely to be relative [21].

### **Maslahah (Public Interest)**

According to Imam al-Ghazzali, what we mean by maslahah, is the preservation of the Shari'ah's objectives. In broader sense, promoting and protecting maslahah are achieved through ensuring the preservation of the following five things: religion, life, reason (intellect), family and property [22]. With the changing nature of human civilization and needs, Islam allows the incorporation of permanent features to adjust to these changes. Maslahah, in Islam are aimed to shape the human needs, therefore it is such a tool which permits creativity, dynamism and flexibility regarding social policies.

Literally, the meaning of maslahah is 'benefit' or 'interest' [23], 'welfare', or 'advantage'. In the range of *usul al-fiqh*, the *masalih* are categorized into three, from the point of view of the availability of any textual reference [24].

The *masalih* which are accredited and acknowledged by a textual reference are known as *al-masalih al-mu'tabarah*, whereas the *masalih* which are completely rejected are known as *al-masalih al-mulghat*, and the *masalih* which are neither accredited nor denied of, are regarded as *al-masalih al-mursalah*.

*Al-masalih al-mu'tabarah* or benefits acknowledged by the Shari'ah are those which are intensely discussed in the Shari'ah texts, and approved its benefits. For examples, the order for Jihad, which is aimed to defend the Deen and the provision of *qisas* (retaliation for murder), which aims to guard human lives [24]; and the punishment provided for adultery and slander, which are to protect human dignity; the *ibadah* of *salat* (prayers) protects one from the profanity and iniquity [22]. These benefits, even if not stated in the texts plainly, are inferred with analogical reasoning [24].

Conversely, *al-masalih al-mulghat* or the benefits which are disallowed are also openly stated in the texts, and that are rejected in the Shari'ah. Examples can be taken from the verse of inheritance, [23] which provides that usually the share of a male (son) is twice the share of a female (sister). Although it seems to have been beneficial to offer equal shares for both parties, Almighty Allah with His thoughtful knowledge has forbidden that benefit for a bigger benefit [20]. Likewise, businesses with *riba* (interest, sometimes also used for 'usury') are also banned [22] in spite of the fact that *riba* allows one to make profit.

The main point of discussion here is *al-masalih al-mursalah* which is those benefits that are neither stated clearly in favour, nor denied in the textual scriptures. According to Khallaf they are "The benefits which the lawgiver did not impose as a rule to be implemented, and neither there is any textual indication acknowledging it nor rejecting it [22]". Also, Wahbah Zuhayli, regards these as benefits considered to be harmonious with the attitudes and objectives of the Shari'ah, by promoting benefits and preventing harms [23]. Dr. Yusuf al-Qaradawi, in explanation of the *masalih*, writes "if the *masalih* can prevail in the *ibadat* which are primarily aimed at worshipping (Allah), why should there not be *masalih* in the earthly matters shaped by lifestyles and relationships between individuals, families, societies and nations? [24]". Thus, the Shari'ah is revealed with benefits for the human beings as a whole, which are later developed and discoursed broadly under the concept of *maqasid al-shari'ah*.

### **Conditions of maslahah:**

Even though the Shari'ah takes benefits, and opts for ease, but it does not agree with all that leads to a benefit. The benefits are restricted by some rules in order to accommodate it in the Shari'ah. These conditions are as stated briefly as follows: [19].

1. Not to contradict a recognized *hukm*: when a ruling has been legislated by the Shari'ah, there can be no maslahah to be considered for any ruling that is against it, as the (new) *hukm* would then be maslahah *mulghat*.
2. There can be no maslahah to create a new *ibadah*, or to add any *rukn* in an established *ibadah*, or to eliminate some parts of any *ibadah*.
3. Maslahah should be in line with *qat'ee* (definitive) references and not *zanni* (speculative).
4. When a *hukm* is ordained, the maslahah of that *hukm* should be greater than the *mafsadah* of it, neither equal nor less.
5. The maslahah should be a general and comprehensive maslahah, not restricted and specific to some individual or group.
6. The maslahah should be compatible with the Shari'ah standards of maslahah, and realistically understood.

From this, it is clear that maslahah is not absolute evidence in Islamic law. Preference should be given to *al-Quran* and *sunnah*. Maslahah does not have any power to abolish the rules from *al-Quran* and *Sunnah* [22].

Therefore, in order to stop scholars from using maslahah as absolute evidence, *al-Buti* described in detail the element that distinguishes maslahah in Islam and philosophy. *Al-Buti* stated that maslahah according to philosophers is entirely materialistic. The justification between good and bad is totally dependent on empirical study and personal experience. This justification contradicts the teaching of Islam, as Islam justifies good and bad by considering both worldly life and the life hereafter. Additionally, maslahah in this world has a strong relationship with the maslahah of the hereafter [17].

### **Concept of Corporate Social Responsibility (CSR) from Maqasid al-Shariah Perspective**

Though corporations aim at making profits, but that is not their only objective, because they are required to safeguard the interests of the creditors, suppliers, employees, consumers and the society as a whole. Conversely, *maqasid* of Shari'ah are there to serve individual as well as public and social interests [20].

Islam provides a complete code of behaviour for life as it covers every aspect of life. CSR is thus not remote in the Islamic view and is one of the main concepts in Islamic teaching. Dusuki and Abdullah (2007b) mentioned that the concept of CSR is profoundly celebrated in the Shari'ah. Hence, any corporation such as an Islamic bank that claims to follow Shari'ah based principles should naturally practice CSR, as it protects Islam's true spirit [22].

Williams and Zinkin's study on the compatibility between the tenets of Islam and the United Nations' Global Compact revealed that the teachings of Islam not only appear to be in close conformity with the Ten Principles of the United Nations' Global Compact, but the conformity is in many respects, and even went further than

the minimum standards adopted by this framework [20]. In their study, Williams and Zinkin found that Islamic teachings surpass the requirements of the Global Compact in many important ways: [21]

1. They seem to be wider in scope, for example, in developing human capital and transparency requirements in business transactions.
2. They have a clear codification defining what is allowed or halal and what is prohibited or haram.
3. Islam has a clear enforcement mechanism in the Shari'ah and also in the community and there is the final responsibility of the individual for wrong behaviour on the Day of Judgement.

Therefore, Islamic banks have social obligations towards the community they serve. Islamic financial institutions have dual accountability role—one to God (in the form of social accountability to society and stakeholders) and one to the contracted party [22]. Different Islamic banks all over the world play important roles in the promotion of social responsibility. Islamic banks have adopted several initiatives in the area of social responsibility. Among these initiatives is taking care of disabled individuals whereas many concentrate on environmental issues. And particularly, in Malaysia, each bank has a Zakat fund which offers financial assistance to the poor and needy.

Furthermore, there is an initiative to reduce racial discrimination in South Africa, launched by Al Baraka Islamic Bank [24].

Additionally, Program "charity" t'azur Takaful in Bahrain is an example of the programs established by the Islamic financial institutions. Companies involved in this program often win the award for best Islamic insurance company in recognition of its role in corporate social responsibility and operating in accordance to Islamic law. The company won the award for best Islamic insurance company to recognize its role in corporate social responsibility and operating according to Islamic law. The product charity "T'azur" is the first charitable insurance product of its kind initiated by the T'azur in the month of Ramadan in 2009. It supports charity donors to save regular donations invested in private funds and based on the provisions of Islamic law for several years. After the expiration of this period the accumulated capital would be transferred to charities chosen by the donor [22].

Another example is Islamic Bank of Jordan, established in 1979. The bank usually participates in community service on numerous levels and through a number of products and means such as donations, program funding, institutions of social services, training students, and protecting the environment [15].

## Conclusion

The research finds that the concept of social responsibility (CSR) requires businessmen and corporations to direct the operations of an economic system so as to fulfill the expectations of the public. That is to say, production and distribution are required to be conducted in such a way that will improve total socio-economic welfare of the public.

Furthermore, CSR from Islamic perspective requires business men and corporations to safeguard the interests and welfare of the society as a whole and this is in line with maqasid al-Shari'ah.

Moreover, it is found that several Islamic financial institutions are involved in activities that promote corporate social responsibility, such as payment of Zakat to the needy, charity takaful product, donations, program funding and institutions of social services, training students, and protecting the environment.

It is recommended that the Islamic financial institutions should engage in more activities that will bring more benefits to the society to ensure that they are not left behind in serving the community when compared to its conventional counterpart.

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