Islamic Perspective of Corporate Social Responsibility

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Introduction:

Corporate social responsibility (CSR) has been an area of discussion for management scholars, business consultants and organizations from few decades. The phenomenon emphasizes the role of business towards the society. Corporate social responsibility provides standard behavioral rules which guide the organizations to adopt productive and positive manners for the advancement of the society.

One of the striking attempts to disclose the CSR activities was from Hong Kong Shanghai Banking Corporation (HSBC), who prepared its first CSR report in 2003 and pledge support to different philanthropic and community projects mainly for environment, art, heritage and education (1). Although, the purpose of implementing CSR is to serve the society by environmental protection, concerned for employees, community development and social welfare of the society but treating CSR as a way to retain the sympathies of people for profit making purposes is against the spirit of welfare activity. Therefore, there is stark contrast which exists between Islamic point of view on social responsibility of the businesses and many western theories of CSR (2).

Many western scholars tried to find the rationale of performing social welfare activities by connecting it with the strategic benefits an organization can achieve from CSR (3,4), but regardless of all the efforts to legitimize CSR, it is still facing tremendous criticism from different western scholars as it involves trade-offs among the interests of shareholders and welfare of the society beyond the economic benefits.

Many researches have been published from decades on western philosophy of CSR but only few attempts have been made to explore the concept of CSR from Islamic perspective. This study not only tries to fill the research gap by delineating the phenomenon of “Corporate Social Responsibility” in the light of Islamic teachings but also provide the reason of clear demarcation among the western and Islamic perspective on CSR.

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Evolution of Corporate Social Responsibility:
The concept of corporate social responsibility has a vast history and basic idea along with practice on CSR can be found from centuries ago in the Muslim world. The conducts (in the lights of the Holy Quran & Hadith) of companions of the Holy Prophet (peace be upon him) as well as the other Muslims, are clear indicators regarding their focus on social responsibilities. The concepts of Zakat & Sadaqat are well-known phenomenon in this regard.

However, in the western countries as well as in USA, this phenomenon was under discussion in the 20th century, especially in the last 50 years (5). The presence of this concept can be observed in the famous book “The Functions of Executive” of Chester Barnard in which he addressed the need of analyzing the legal, physical, economic, moral and social elements prevailing in the environment while making the business decisions (6). However, Peter Drucker was probably the first who explicitly discussed about CSR in his book “The practice of management” published in 1954 (7). He considered social responsibility as one of the eight most influential areas for setting the business objectives. According to him, assuming the responsibility for public good is a growing requirement for the managers. Managers should consider whether their conducts increase the public good, support the healthy beliefs of society and contribute towards increasing the harmony, stability and strength. Peter Drucker finally mentioned in his book that management’s ultimate responsibility was towards the enterprise, towards itself, our society, our heritage and towards our way of life.

Bowen was probably the first who formally defined the corporate social responsibility as “it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (8). Because of Bowen’s seminal work for corporate social responsibility, it is justified to call Bowen as the father of Corporate Social Responsibility concept (5). Another most prominent writer in the area of Corporate Social Responsibility is Keith Davis, who extensively wrote on this topic. According to Davis, corporate social responsibility refers to “businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest” (9).

In 1970, Milton Friedman had shown his reservations on corporate social responsibility (10). According to him, the basic purpose of the corporation is to increase the wealth of its shareholder. He also mentioned that the justification for selecting the executives by the shareholder is to take care of their interests rather than spending for social purposes. He argued
that employees, customers and stakeholders could spend their money for the social welfare, if they wish to do so. Carroll also seemed to be supporting the concept of CSR as provided by the Milton Friedman (11). According to him:

Before anything else, the business institution is the basic economic unit in our society. As such it has a responsibility to produce goods and services that society wants and to sell them at a profit. All other business roles are predicated on this fundamental assumption.

Many scholars up till that time spent their intellectual expertise in conceptualizing CSR and its different dynamics. But still it was tough for the executives to digest this phenomenon as it enforced the organizations to voluntarily spend the money for the benefit of the society without seeking for any material value. Linking CSR with the financial performance was the strategy adopted by the researchers in order to motivate the executives to practice CSR in their respective organizations. Philip Cochran and Robert Wood has operationalized CSR and investigated its linkage with the financial performance (12). Cochran & Wood used the reputational index for this study. Another research conducted to find the relationship among CSR and financial performance was published by Carroll, Hatfield & Aupperle (13) and they tried to operationalize CSR. Similarly, Frooman, Key & Popkin & Roman et al., found a positive correlation among CSR and financial performance (14, 15, 16).

Regardless of all the research evidences for the relationship of CSR with improved financial performance, the business community was still looking ways to legitimize and rationalize CSR activities (17). For this purpose, now the theorists focused on allocating the resources in order to create a competitive advantage and obtain long term social objectives. Porter and Kramer argued that investing in the philanthropic activities may be a healthy source for improving competitive advantage because of convergence of interest among social and economic gains (18). Kurucz et al. have tried to rationalize CSR by using four different perspectives: (1) CSR will reduce the risk and cost; (2) CSR will strengthen the reputation and legitimacy; (3) helps in building competitive advantage; and (4) Synergetic value creation through creating win-win results (19).

Finally, have a look at some of the researches being conducted in the last four years to analyze the current issues discussed regarding financial aspect of CSR. According to Mishra & Suar, managers have strongly perceived that CSR is associated with increase in financial as well as non-financial performance of the firm and socially responsible activities towards the stakeholders can be beneficial and profitable (20). Lee & Shin have found out positive relationship between customer purchase intentions and
awareness about CSR activities (21) and CSR is positively related with the firm’s awareness (22). Research revealed that if consumers have high level of trust and awareness then it will be translated positively into purchase intentions (23). Value maximization, branding and stakeholders are also assumed to be the key motivators for adopting CSR activities (24). Similarly Albuquerque et al. confirmed that CSR increases firm’s value and decreases systematic risk (25).

**Dimensions of Corporate Social Responsibility:**
CSR has been defined by the practitioners and researchers in different ways which leads towards a confusing image of CSR. In a content analysis, Dahlsrud has found out five dimensions (26).

**Table 1: Dimensions of CSR**

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>The definition is coded to the dimension if it refers to</th>
<th>Example phrases</th>
</tr>
</thead>
<tbody>
<tr>
<td>The environmental dimension</td>
<td>The natural environment</td>
<td>‘a cleaner environment’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘environmental stewardship’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘environmental concerns in business operations’</td>
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<tr>
<td>The social dimension</td>
<td>The relationship between business and society</td>
<td>‘contribute to a better society’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘integrate social concerns in their business operations’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘consider the full scope of their impact on communities’</td>
</tr>
<tr>
<td>The economic dimension</td>
<td>Socio-economic or financial aspects, including CSR in terms of a business operation</td>
<td>‘contribute to economic development’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘preserving the profitability’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘business operations’</td>
</tr>
<tr>
<td>The stakeholder dimension</td>
<td>Stakeholders or Groups</td>
<td>‘interaction with their stakeholders’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‘how organizations interact with their employees, suppliers, customers and communities’</td>
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<td></td>
<td></td>
<td>‘treating the stakeholders of the firm’</td>
</tr>
<tr>
<td>The voluntariness</td>
<td>Actions not prescribed</td>
<td>‘based on ethical values’</td>
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<tr>
<td></td>
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<td>‘beyond legal obligations’</td>
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<td></td>
<td></td>
<td>‘voluntary’</td>
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</tbody>
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*Source: Adapted from Dahlsrud (2008)*
Theories of Corporate Social Responsibility:
CSR is a concept which emerged gradually and still looking for its legitimacy. There are five broader theories associated with CSR based on different perspectives.

Classical theory of CSR:
One of the most influential proponents of classical view of CSR was Milton Friedman. In his article “The Social Responsibility of Business is to Increase its Profits” published in New York Times (10), he developed an argument that corporate executive is an employee of business and his sole responsibility should be “to make as much money as possible”. According to him, employees, customers and stakeholders can use their own money in the social activities because executive serves as agent for the interest of the principle. The final words of this article demonstrate the crux of the argument. In final lines he wrote “society, "there is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”. Hence, the prevailing world view of self-interest economic man can be observed in the arguments of Freidman.

Social Contract theory:
Social contract theory was developed by Donaldson & Dunfee which guides the managers to take care of ethical context in making decisions (27). The companies which adopted the social contract perspective of CSR would consider it as a societal expectation. According to this theory, businesses are part of the social structure and, hence, should contribute to meet the needs of society (2). According to this theory, corporate business and society have mutual interests as former require the support in the shape of sales and resources from the latter and in return latter may expect the socially responsible behavior from former (28).

Instrumental theory:
In order to find the rationale of performing socially responsible activities and legitimize this concept, a theory was developed that highlighted the strategic orientation of CSR. The defenders of this theory assert that business should adopt CSR concept in order to gain the good image in the society (2). The proponents of strategic CSR argued that developing and maintaining good reputation through CSR activities may result in enhancement of reputational capital of the firm.

Legitimacy theory:
Beside economic, political and social aspects, legitimacy theory focuses on the environmental pressure and forces the organizations to adopt CSR activities (2). Legitimacy seemed to be the key reason for adopting the CSR
activities by the corporate firms so that these can be used for publicity and gaining the sympathies of the society (29). Theory asserts that organizations seek to match their actions with what is perceived to be appropriate in the society. The society’s perception is a real motivator for CSR and is crucial for the survival of the organization because if the organization is not satisfying the society’s perception then society may revoke its social contract with organization.

**Stakeholder theory:**
This is among of the most frequently cited theory of CSR in the literature. According to this approach, managers adopt such CSR activities that pay attention towards the rights and needs of all the stakeholders of the business (30). Decisions are made by looking at the obligations towards the stakeholders and their requirements are given due priorities while making any policy (31). In other words, stakeholder’s theory strengthens the idea of shareholders’ interests supremacy while making the decisions (2).

**Critique on contemporary perspectives of CSR:**
Before condemning the contemporary theories of CSR, it is an obligation to give due respect and tribute to those scholars who contributed honestly in disseminating the message of social responsibility with a sole purpose of urging business class to help the needy and let the corporate sector believe that it is obligatory on them to contribute actively in the development of the society.

From classical to stake-holders theory, a common reason for adopting/not adopting CSR activities is profit generation and maximization. Whatever reason is adopted, the underlying assumption is an accomplishment of monetary objectives. The spirit of capitalism can be observed easily in each of western CSR perspective. According to Max Weber (1904), the real spirit of capitalism is “Money can beget money, and its offspring can beget more, and so on” (32).

Social contract theory urged the corporations to adopt CSR activities otherwise society may breach its contract with the firm which would ultimately result in reduction in overall value of the organization. Furthermore, corporations have to renegotiate as the societal preferences has changed (27). Similarly, Instrumental theory focused on strategic importance of CSR and recommended to use CSR activities as a strategic tool for achieving competitive advantage. On the other hand, society/stakeholders are considered as a strong pressure group for adopting CSR activities according to legitimacy & stakeholders theories. They assert that organizational activities must be matched with societal/stakeholders expectations. In other words, western view of CSR is an ever changing phenomenon.
Regardless of many attempts to make widely acceptable rationale for practicing CSR activities, still western theorists have failed to provide a single ethical justification in this regard (33) whereas, Islam provides a holistic view, derived from the divine commandments of the Holy Quran and sayings of Allah’s Apostle (peace be upon him). The divine revelations provide strong moral and ethical principles that are more eternal, absolute and enduring (33). Islam encouraged Muslims to perform socially responsible activities just for the sake of Allah and do not look for any kind of monetary, economic or strategic benefits in response to welfare activities. It is mentioned in the Holy Quran:

“Those who spend their wealth in Allah’s way and thereafter do not express favour nor cause injury (hurt the recipient’s feelings), their reward is with their Lord; there shall be no fear upon them nor shall they grieve.” (34)

Furthermore, CSR seems to emerge as a voluntary notion in the west, the compliance of which is not obligatory. But in Islam, charity for the welfare of the society is obligatory in the shape of Zakat. The Holy Quran mentioned regarding those beneficiaries of Zakat:

“The obligatory charity is only for the destitute and the really needy, and those who collect it, and for those in whose hearts the love of Islam needs to be instilled, and to free slaves, and to debtors, and in Allah’s cause, and to the traveler; this is decreed by Allah; and Allah is All Knowing, Wise.” (34)

Islamic perspective on CSR

The concept of Benevolence (Ihsan) or kindness to others is a major contributor towards people’s responsibility towards their society. Benevolence is defined as “an act which benefits persons other than those from whom the act proceeds without any obligation.” It can be seen that benevolence demands for kindness/benefit to other without any obligation. The concept looks somewhat similar to CSR but Islam focuses on volunteer activities having no purpose other than acquiring Allah’s pleasure. It is specifically mentioned in the Holy Quran:

“O People who Believe! Do not invalidate your charity by expressing favour and causing injury – like one who spends his wealth for people to see, and does not believe in Allah and the Last Day; his example is similar to that of a rock covered with dust and hard rain fell on it, leaving it as a bare rock; they shall get no control over (or benefit from) anything they have earned; and Allah does not guide the disbelievers.” (34)

The divine teaching on different dimensions of CSR with respect to stakeholder’s well-being are given below.
Relationship with stakeholders
A firm cannot operate in isolation; it has to deal with different stakeholders. Almighty Allah and His messenger (peace be upon him) provided complete guidelines for dealing with the stakeholders. Stakeholders include employees, debtors, creditors, competitors, environment and general society.

Relationship with Employees
Islam emphasizes on equality of relationships with all humans. Although, employees are under employers authority, but doesn’t signifies the superiority of employer. According to the Holy Quran:
“O mankind! We have indeed created you from one man and one woman, and have made you into various nations and tribes so that you may know one another; indeed the more honorable among you, in the sight of Allah, is one who is more pious among you; indeed Allah is All Knowing, All Aware. (Piety is the basis of honor in Allah’s sight).” (34)

According to the Holy Quran, the basis of superiority is neither the wealth of this world nor the higher worldly rank, rather the basis of superiority is piety (Taqwa). Therefore, the employees should be treated fairly. Although, they have weak financial position and dependent on the organization, but may have more Taqwa or competence than those on the higher posts.

Almighty Allah has strictly conveyed through his messengers the rules regarding the hiring, promotion, evaluating performance or any other aspect of providing financial benefit to the subordinates:
“Allah doth command you to render back your Trusts to those to whom they are due; And when you judge between man and man, that you judge with justice: Verily how excellent is the teaching which He give you! For Allah is He Who heareth and seeth all things”. (34)

Relationship with debtor:
In Western management style, if a debtor is not able to pay back dues on time then the most optimal option is rescheduling of payment by charging some additional amount in the shape of penalty. More socially responsible companies may wave off the penalty amount and reschedule the original amount. On the other hand, Islam advised its followers to act under the shadow of benevolence while dealing with the debtors. It is specifically mentioned in the Holy Quran:
“And if the debtor is in difficulty, give him respite till the time of ease; and your foregoing the entire debt from him is still better for you, if only you realize”. (34)

The same concept is emphasized in below mentioned Hadith:
“Narrated Hudhaifa: The Prophet said, Before your time the angels received the soul of a man and asked him, 'Did you do any good deeds (in your life)ʹ? He replied, 'I used to order my employees to
'grant time to the well-off and forgive the needy.' So Allah said to the angels; excuse him”. (35)

Both above mentioned narrations clearly describe the Divine stance regarding debtors.

**Relationship with Creditors**

Islam does not only instruct the businessmen to forgive your trade who are in straitened situations but also strictly advised to pay the debt on or before time with handsome manner. It is mentioned in Hadith:

The Prophet said: The best amongst you is he who pays his debts in the most handsome manner." (36)

Islam creates balance in every matter. Debtors are recommended to be forgiven in case of any emergency and similarly creditors are advised to not only pay back their debt on time but to pay back in handsome manner. There are strict warnings for those creditors, who do not pay back their debt on time without any reason. It is mentioned in Hadith:

Narrated Abu Huraira: Allah's Apostle said, "Procrastination (delay) in repaying debts by a wealthy person is injustice." (37)

Similarly, it is mentioned on another place:

It was narrated that Abu Hurairah said: A man came to the Prophet (Peace Be Upon Him) when He was delivering a Khutbah from the minber, and he said: If I fight in the cause of Allah with patience and seeking reward, facing the enemy and not running away, do You think that Allah will forgive my sins? He said: Yes. Then He fell silent for a while. Then He said: where is the one who was asking just now? The man said: Here I am. He said: what did you say? He said: I said: If I fight in the cause of Allah with patience and seeking reward, facing the enemy and not running away, do You think that Allah will forgive my sins? He said: Yes except for debt. (38)

**Relationship with competitors**

In the West, competitor is considered to be the most dangerous entity for the survival of the firm. According to Beekun, businesses try to assert themselves over the competitors and try to eradicate them for the sake of obtaining monopolistic pricing through hoarding and enjoy above average profits (39).

Islam totally rejects this phenomenon. According to a Hadith, it is mentioned about hoarding:

“The Messenger of Allah said: 'No one hoards but (is) a sinner” (40)

Competitors also try to suppress each other because of the threat of losing business. Almighty Allah has advised the believers to keep trust on Him. If they do so, Almighty Allah is sufficient for them and provides them with His blessings from sources which they could not imagine. Hence, a believer should not be worried about new entrants and should not try to hurt them through any means. It is mentioned in the Holy Quran:

“And He will provide him from (sources) he never could imagine.
And whosoever puts his trust in Allâh, then He will suffice him.
Verily, Allah will accomplish his purpose. Indeed Allah has set a measure for all things”. (34)  

**Relationship with environment**  
Voluntarily feeling the responsibility of securing the environment is another important dimension in social responsibility. Islam has provided clear guidelines for such issues. Wasting or contamination of water is strictly prohibited in Islam. In the Holy Quran, Almighty Allah has provided the Muslims a general rule for wasting.  
“Indeed those who needlessly waste are brothers of the devils; and the devil is very ungrateful to his Lord.” (34)  

It is further mentioned in a Hadith:  
“The blessed Messenger of Allah passed by Sayyiduna Sa'd whilst he was performing wudhu. He asked, 'Why this wastage (of water)?' Sayyiduna Sa'd asked, 'Can a person waste water in wudhu?' He replied, 'Yes, even if you are on a bank of flowing river.'” (41)  
The Hadith shows that wastage of water is not acceptable in Islam but the content of Hadith and the Holy Quran mentioned above regarding wastage signifies that every kind of wastage is disliked and prohibited (Haram) in Islam. Therefore, Muslims are advised to secure and use the natural resources with proper care.  
Regarding the contamination of environment, which is a very crucial issue now days, Islam provides general but clear instructions.  
It is mentioned in Hadith:  
“Jabir reported: The Messenger of Allah (May Peace Be Upon Him) forbade to urinate in stagnant water.” (42)  

Above mentioned Hadiths clearly emphasized the securing of natural environment in Islam and it is a mandatory duty of every Muslim (including businessmen) to take care of their natural environment. Moreover, the Holy Prophet (peace be upon him) emphasized on planting which is a major source of environmental purification in this world. According to a Hadith:  
“The Prophet (May Peace Be Upon Him) said: If the Hour is about to be established and one of you was holding a palm shoot, let him take advantage of even one second before the Hour is established to plant it.” (43)  

**Relationship with general society**  
There are many Quranic verses and Hadiths in which Almighty Allah and His Messenger (peace be upon him) have emphasized on taking part in the welfare of the society. Concept of Zakat (obligatory charity) and Sadaqa (optional charity) has vast implications in this regard. Allah has strictly instructed to give 2.5% of the savings in charity and it is obligatory on every Muslim.  
This concept is mentioned at different places in the Holy Quran:
“O dear Prophet (Mohammed – Peace Be Upon Him) take the obligatory charity from their wealth, by which you may cleanse them and make them pure.” (34)

“And keep the prayer established and pay the obligatory charity and obey the Noble Messenger, in the hope of attaining mercy.” (34)

As a vicegerent of Almighty Allah, it is the duty of each human to take care of the affairs of his creatures, especially the other people living in the society because whatever humans have, belongs to Almighty Allah. Humans are just the depositary of this wealth and bound to spend it in accordance with the guidance provided through divine revelations. It is mentioned in the Holy Quran:

“To Him only belongs all whatever is in the heavens and all whatever is in the earth, and all whatever is between them, and all whatever is beneath this wet soil.” (34)

Conclusion:
The paper tries to provide a perspective of CSR other than western view. Islam has its distinct perspective regarding CSR which can be clearly demarcated from the western ideological constructs and theoretical perspectives. According to Islam, performing socially responsible activities are obligatory on every person who has the capacity. Moreover, Islam provides more ethical and obligatory behaviors towards different business stakeholders.

To conclude, CSR is deeply inscribed in one of the founding pillar Zakat (obligatory charity) of Islam and which is not an alien concept. Human beings, as a vicegerent on earth, are stewards of the resources provided by Almighty Allah and are responsible to use them for the betterment of the society according to the guidelines provided in the Divine revelations. This concept of vicegerent encourages Muslim businessmen to instill the good CSR practices in their business conduct for the sake of Almighty Allah. Islam has provided a comprehensive road map to the businessmen regarding their relationships with different stakeholders ranging from employees and customers to society and environment. Islamic dogma provides more rationale and ethical standpoint for fulfilling the expectations of the stakeholders. Hence, a firm that claims to operate its functions according to the Shariah principles will naturally practice CSR.

To make the concept of Islamic CSR more understandable, there is a need to arrange trainings so that people especially entrepreneurs and business executives may better recognize the importance of CSR according to Divine principles. These trainings will educate the people about the importance of CSR, its significance for different stakeholders including society and can play their role in eliminating the misunderstandings that may arise during implementation of this concept.
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