

Corporate Social Responsibility: An Islamic Approach

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ABSTRACT--- *Social responsibility has become increasingly important in recent times. The term “corporate social responsibility” (CSR) is also found in the literature, treated by the Islamic economy and finance. Islamic CSR is based on the principles of Shariah. Therefore, the main objective of this paper is to study CSR approaches of Islamic and Conventional Economics. Financial institutions, corporations and enterprises need much more to do CSR practices, to promote CSR that underpinned under the principles of Shariah. The main goal of the paper is to analyse and explore the theoretical and practical aspects of social responsibility from the aspect of Islamic economy and finance. The conducted research showed that there is no significant deviation of the principles of Islamic economy and finances versus the traditional principles of social responsibility. The only difference is that the principles of Islamic economy and finances include a higher degree of application of ethical principles, which should result in moral and ethical economic development of society.*

Keywords--- corporate social responsibility, Islamic economy and finance, B&H

1. INTRODUCTION

The purpose of each company is to make profit. The exclusive focus on the profits of most companies in the world (especially large multinational companies) has started to produce effects that are contrary to the goals of the community. The lack of concern about the consequences of its decisions (especially regarding the uncontrolled use of resources, from those of human to natural), has led to catastrophic consequences. They are related to all spheres of humanity's life in the future. The negative impact on social development of the society, the uncertainty of existence, the increasingly frequent economic and financial crises, insufficient education of the population, the increasing gap between the rich and the poor, etc. have led to global social disturbances. Insensitivity to these factors has sparked (over the last 15 years), the exposure of large companies to attacks by the public, informal, formal groups of citizens and executive and legislative authorities. All this brought their socially responsible business into the forefront [Dima & Mirshak, 2007]. For example, the global financial crisis of 2008, imposed a need to find an alternative that would make the current social system humanized and make it more ethical, morally and socially responsible. This is highlighted by the fact that contemporary economists have come to a common conclusion that the key factor / cause of economic and financial crises is actually human greed. In the book *Capital in the 21st Century* [Piketty, 2014] Piketty states that higher profit from capital, compared with profit from labour, creates an increasing social inequality. This has the consequence that rich people are even richer, and the poor are even poorer. In such a spiralling relationship, the newly created value turns into own wealth, and does not go into developmental investments. In the context of the above, the Islamic economy has set itself an example of good practice in how business can and should make a natural blend of business and moral principles. This means that the socially responsible business of today's multinational companies should be based on accepting responsibility for their actions and to encourage a positive impact through their activities on the community, business participants and all other members of the public sphere.

Lately, corporate social responsibility has increasingly attracted attention to Islamic economists. The interest in researching this issue, the authors find precisely in this sense, because the concept of social responsibility and the concept of Islamic economy have the smallest common content in themselves - and this is a moral and ethical aspect of human activity, in which social interest is and should be ahead of individual interest. With the emphasis on social responsibility from the point of view of the Islamic economy, the "global village" could regain lost trust in the failed capitalist financial system. Literally, in the Islamic economy, it is considered necessary that those in power are *de facto* sensitive to the general welfare of people [Mirza Tahir Ahmad, 2010]. It is also stated in the Qur'an, that the one who heads - bears responsibility and is responsible to God for the affairs of those who are subordinate to him in the hierarchy. The overstated role of money in today's world has led to the situation that a modern man can determine the price for everything. Even in a hadith, the Prophet said: "Each of you is like a shepherd to whom the sheep belongs. He is entrusted with the responsibility to look after the sheep. You will be responsible." Each time, the Prophet repeated: "Remember that you will be responsible and that you will answer." That is, in fact, what modern society should follow - in other words, if states become sensitive to the

general well-being and suffering of people, then, before people begin to complain about their own tormented and indifferent, they will be forced to power to take all measures, not from the fear of the request, but from the coercion of their own conscience. So, socially responsible business in the Islamic economy cannot be ignored or dismissed!!!

Therefore, *the subject of research* in this paper relates to the analysis of the concept of Islamic social responsibility *versus* the conventional principles of corporate social responsibility. Scientific literature on this subject is very scarce, and the authors made a significant scientific contribution, and systematized previous comprehensive theoretical knowledge related to the concept of social responsibility from the point of view of Islamic economy and finance and conventional economy. In fact, many studies have been published on the Western philosophy of corporate social responsibility, but only a few attempts have been made to explore the concept of social responsibility from the Islamic perspective. Therefore, this paper attempts to fill this "research gap" by defining the phenomenon of corporate social responsibility in the light of Islamic learning, but also by showing the delineation of the Western and Islamic perspective on social responsibility.

The basic research question raised in the paper is: Is the model of corporate social responsibility, from the aspect of Islamic economy and finance, compatible with the conventional / traditional principles of corporate social responsibility? Given the previously defined subject of the research, *the overall goal* of this paper is to analyse and investigate the theoretical and practical aspects of corporate social responsibility from the aspect of the Islamic economy - in order to present a model or concept of corporate social responsibility from the aspect of the Islamic economy that is compatible with conventional / traditional principles of social responsibility.

The central research hypothesis that we will focus on in this paper is: By systematizing the previous scientific - theoretical knowledge and empirical research on the phenomenon of social responsibility - it is possible to develop a concept of corporate social responsibility from an Islamic point of view, which is basically compatible with the conventional / traditional principles of social responsibility, in the economy based on market principles.

2. LITERATURE REVIEW

2.1 Concept of Corporate Social Responsibility: definition and theoretical background

In Corporate Social Responsibility Policy [EC White Paper on Corporate Social Responsibility - CSR, 2003], the European Commission defines the social responsibility as a concept by which the enterprise integrates the concern on social issues and environmental protection in its business activities and relations on a voluntary basis with stakeholders (owners, shareholders, employees, consumers, suppliers, government, media and the general public).

In the OECD, the company's responsibility implies a search for an effective "fund" between the company and the company in which it operates. Using the notion of "harmony" is respectful of the interdependence of the business world and society - the economy cannot progress, unless the society does it, and the unsuccessful economy will inevitably stand in the way of general well-being.

The World Business Council for Sustainable Development (WBCSD), one of the world's leading non-profit organizations (providing information, instruments, training and advisory services to companies in relation to linking corporate social responsibility and strategic action), defines corporate social responsibility as a business that suits or exceeds ethical, legal, market expectations. By comparing this definition of corporate social responsibility with other definitions, one can notice that it is more comprehensive, because it involves linking business decisions with ethical values and legal regulations, but by respecting people, communities and the environment. [Kotler & Lee, 2009]

Furthermore, Rochlin points out that the Centre for Social Responsibility and Accountability (Boston College) determines the responsibility of the company as a process in which firms act as the economic and social benefit of communities, whereby social interests are unified with other goals of its core business. On the other hand, Warwick University promotes the idea that the responsibility of an enterprise, as a citizen of a society, is manifested in both - the working and ethical obligations of a company, including, human rights, the community, labour relations, consumers, owners, the environment, production, codes of conduct, humorous, marketing, ethics, and so on. [Delić, 2013]

At the beginning of the 21st century, there emerged new theories about corporate social responsibility. Among other things, this influenced knowledge of the causes and consequences of the current world economic and financial crises, the absence of moral and ethical human activity, the presence of greed and obsession with profit, *etc.* Thus, many researchers introduced the notion and concept of strategic Corporate Social Responsibility, based on two assumptions: 1) customers require and prefer products / services that incorporate an element of corporate social responsibility; and 2) corporations will produce a product/provide a service in which social responsibility is incorporated, if benefits of corporate social responsibility outweigh the incurred costs. [Letica, 2010].

Porter and Kramer, by publishing an article entitled *The Competitive Advantage of Corporate Philanthropy*, in 2002 and establishing the *Centre for Effective Philanthropy*, updated the corporate social responsibility as a field of new scientific discussions. According to these authors, the concept of corporate social responsibility, implies the company's performance in areas of its reputation, improving image and reducing the dissatisfaction of civil society organizations or authorities. However, according to Porter and Kramer, corporate social responsibility should be in the function of the general good and that it is an integral part of the "competitive context" in which a particular company operates. Corporate social responsibility, may affect the competitive context of the company, and this potential can be used by companies to create additional social value and improve their competitive advantage in general [Porter & Kramer, 2002].

Modern trends in the field of social responsibility are marked by overcoming the traditional approach to corporate philanthropy (which has been reduced to financial participation in solving social problems) and the idea of socially responsible behaviour, as one of the sources for building and preserving the competitive advantage of the company [Delić, 2013].

2.2 Concept of Corporate Social Responsibility: an Islamic approach

The primary point for researching this issue is found in an article *Corporate Social Responsibility in the Context of Islamic Economy and Finance* [Efendić & Hadžić, 2017]. Namely, the authors are eminent researchers, who wrote on this topic in the Bosnian-Herzegovinian area. Efendić & Hadžić claim that ethical principles should be an integral part of the business strategy of each company and financial institutions. When it comes to the implementation of the principles in Bosnia and Herzegovina (B&H), this is reduced to minor attempts. In B&H only two institutions are operating in the market, and trying to apply the principles of Islamic economy and finance (BBI Bank and First Islamic Microcredit Foundation). Within these institutions, there is a body that controls the implementation of the principles of Islamic economy and finance (the so-called "Sharia Committee"). These two Islamic financial institutions certainly have their social role and different from their conventional competitors. Nevertheless, recent performance studies of these institutions have shown that the BBI Bank is more efficient than the average of conventional banks, while the Islamic microcredit institution is more efficient than the average of conventional competitors. In the final analysis, Efendić & Hadžić led to a crucial conclusion, which is that the goals of the Sharia include all dimensions of social responsibility, however, social responsibility does not include all the goals of the Sharia. The principles of the Islamic economy incorporate all the conventional principles of social responsibility. So, the Islamic economy can be considered as a socially responsible economy!!!

Furthermore, Efendić, 2014 points out that the last economic crisis has highlighted all the weaknesses of conventional economics and business ethics, which are present in contemporary capitalism and the market economy. Today's global imbalances have imposed a need for finding an alternative, which would make the current economic system and doing business humanized, make it more ethical and socially responsible. In the context of the above, the Islamic economy has set itself a good example of how business can and should make a natural blend of business and moral principles. Efendić states that individual action must not be in conflict with social interests. Today, international companies disrupt the interests of local community (eg environmental pollution, irrational exhaustion of non-renewable natural resources, etc.). Once in possession of only one person, and because of the insensitive desire of the individuals to "own" even more, the interest of all communities, hundreds or thousands of people is endangered. However, such conditions in the Islamic economy are not possible and are not desirable. What Efendić particularly emphasizes in this paper is actually the fact that Corporate Social Responsibility ("care for the other", "consultation as a way of joint decision-making") is contained in the basic economic principles of Islam. Therefore, these principles derive from the social responsibility of man's actions. A man should decide on certain activities on his own, if they are without negative consequences for society. However, when it comes to activities of social interest, a person is obliged to consult with other members or representatives of the wider community, when making these decisions. In this way, socially optimal action is achieved and negative externalities per community are avoided.

Analysing the concept of corporate social responsibility, through the prism of the Islamic economy, it is noted that the business and entrepreneurship is encouraged in the same way. The basic principles of economic behaviour of consumers and producers are also, defined. In business relations, from the point of view of Islamic economy, any discrimination between people (on the basis of their religion, gender or gender) is prohibited. Therefore, there is no conflict between good business practice and profit. Therefore, corporate social responsibility is based on ethical business, with three fundamental principles: trust, justice and honesty, and mutual respect [Benić, 2017]. Profits are permitted, but only to the extent that they do not harm the interests of others or the whole community.

Usman Riaz Mir *et al.*, argues that there is a significant contrast in analysing social responsibility from the Islamic point of view from Western theories. Namely, western economists have tried to find reasons for carrying out social activities by linking with the strategic benefits that an organization can achieve with the CSR concept. The CSR concept towards the

Islamic economy is based exclusively on goodness - ie. Benefit -without any obligation and volunteer activities that have no other purpose than enjoying Allah's satisfaction. The authors claim that CSR concept is deeply embedded and embodied in one of the fundamental principles of Islam - Zekat (compulsory goodness). Human beings manage the means provided by Allah and they are responsible for using them to improve society in accordance with the guidelines given in the Qur'an. This encourages every businessman - a Muslim - to set up an example of good CSR practice in his business behaviour, working exclusively for Allah. The company, which functions according to the principles of Sharia, is quite natural to practice the CSR concept.

Farook, 2007, mostly deals with the role of Islamic financial institutions in the context of their social responsibility. Namely, on the one hand, it should be financial institutions that fulfil their obligations to religious expectations, and on the other hand, they must play the role of a classical financial intermediary.

Similar issues can be found in the research by Sairally. In fact, this author points out that the generally practice of financial institutions is obsession with profit and economic effectiveness and she is concerned about the lack of "hearing" about socio-economic equality and well-being. Her research contribution is based on a comparative analysis of the concept of social responsibility of Islam and the West.

Ilyas, 2018, explores the necessity of introducing the concept of "Islamic CRS" into corporations, and as such must be incorporated into their business strategies. Platonova, 2013, claim that Islamic financial institutions and their transactions must be "embedded" with the fundamental principles and norms of Islamic economy and finance

Interesting research on the comparative overview of the concept of corporate social responsibility in Islamic financial institutions (Islamic banks) and conventional banks was studied by Durrani, 2016. Namely, conventional banks show examples of good corporate social responsibility practices in the fields of education, the environment, government, law and sport. On the other hand, Islamic banks are more inclined towards health, art and culture, social protection, protection against natural disasters, *etc.* The study found that Islamic and conventional banks show the need to develop CSR standards in practice.

Fathiyyah Abu Bakar, *et al.*, emphasize that the concept of Islamic social responsibility contains in itself a more ethical and moral dimension, than the traditional concept. The authors emphasize - Zekat and Riba - the obligatory separation of the poor and the absence of interest in business transactions, respectively. Examples of good corporate social responsibility practices are found in Islamic banks, which should be religious, socially and economically responsible to them.

Mohammad, 2007, in his doctoral dissertation points out that until the last decade was not allowed "other religions" (in this case Islam) to explain the concept of social responsibility, both in theory and in practice. According to his knowledge, the focus has always been on European and American literature, and therefore the existing model of social responsibility in literature is more inclined to Western (social, religious, cultural) values. A significant contribution of his research is based on so-called "Framework of CSR concept according to the principles of Islam". The model implies 4 essential elements: 1) Relativism, 2) Utilitarianism, 3) Universalism, 4) Rights Distributive Justice and Eternal Law. The limitation in his research was the applicability of this model in practice.

Elasrag, 2015, believes that Islamic ethical principles provide a broader framework for CSR. Namely, CSR in the world view of Islam requires both individuals and organizations to be guided in the development of a moral self that distinguishes between right and wrong and never loses sight of its responsibilities towards God and humanity. Over the years, CSR has been developed from the classic "profit-centred model" to a modern "socially responsible model". The concept of social responsibility in Islam is discussed in light of Islamic religious values and beliefs according to Shariah.

Lately, there has been a noticeable tendency to shift the focus of research on the effects of social responsibility from external to internal enterprise stakeholders, primarily to employees. Namely, as the general attitude is accepted that people and their knowledge today become the basis for building the competitive advantage of enterprises, this role of employees in organizational success is considered to be more and more important. When it comes to the corporate social responsibility of employees, this is to a large extent associated with ethical treatment of employees. The positive effects of corporate social responsibility and ethical employee treatment are manifested in increasing their morale and commitment to the company, building a positive social atmosphere, building trust in the company, attracting and retaining quality employees (Letica, 2010). Care for employees, as an aspect of corporate social responsibility, increases job satisfaction, reduces the rate of absence and cancellation, which reduces the cost of recruitment and training of new staff (Vitaliano, 2010). In addition, the ethical treatment of employees has the most significant impact on their work performance [Delić, Husaković, Čavalić, 2018]. To what extent is the company acting socially responsibly towards its employees, it is evident in: the field of recruitment and selection, in the area of diversity management, in the field of job design and quality work environment (prevention of stress and mobbing at work), a fair system of material and non-material rewards, in the field of proportionality / disproportion between managerial salaries and salaries of operational employees, the field of employee fluctuation management (especially when it comes to giving employees a fare) and other aspects of ethical management of

human resources. Comparing these tendencies in the field of ethical treatment of employees in conventional economies, with the approach to business according to Islamic principles, we can find a high degree of compatibility between these two different concepts of business.

3. RESEARCH METHODOLOGY

Bearing in mind the interdisciplinary character and complexity of the subject matter of this research, the relevant methods will be used. Therefore, in some parts of the work will dominate: basic methods of scientific description, collecting and arranging facts, formulating individual statements, then methods of economic analysis and logical conclusion and understanding. A historical method will be used for theoretical and methodological analysis and evaluation of the observed research problem. Also, methods of analysis and synthesis, comparison method, methods of induction and deduction, classification method, generalization and concretization methods will be applied.

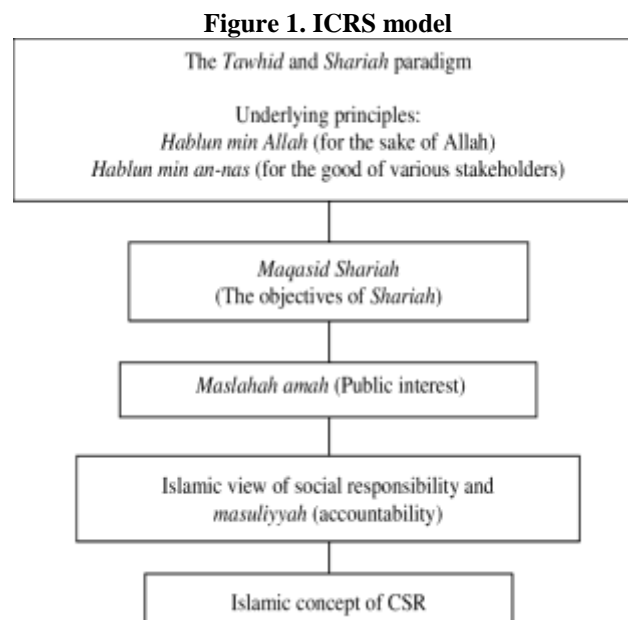
Empirical research was carried out on the basis of secondary data sources, using the desk research method. Thus, books on the field of Islamic economy and finance, management, human resources management, articles, studies, publications, journals, newsletters, reports from local and international institutions, and websites that address these research issues are highlighted.

The results of the research will be presented below.

4. RESULTS AND DISCUSSION

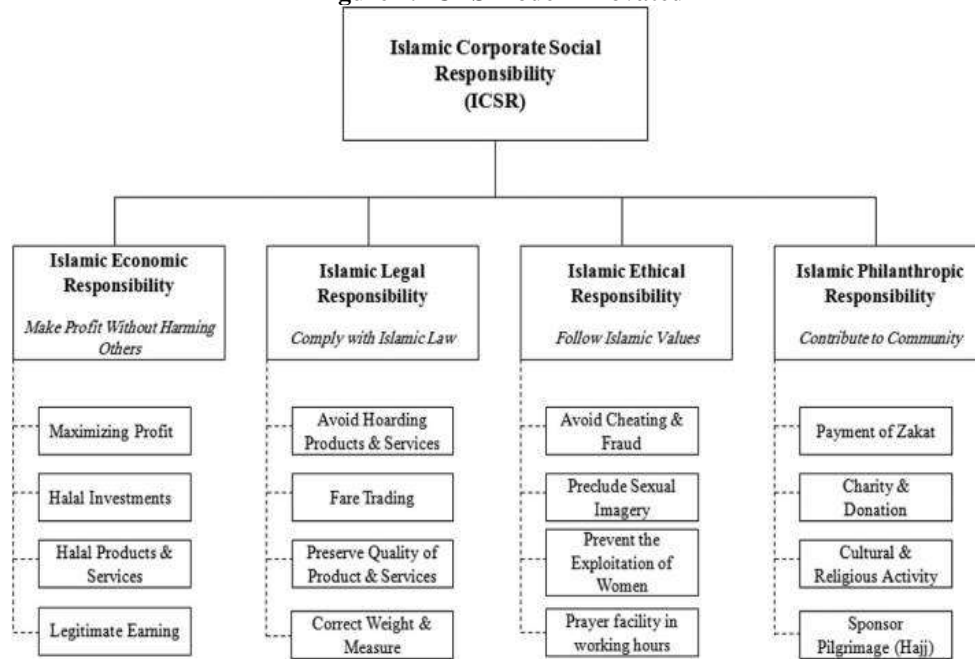
4.1 Analysis of social responsibility in the context of the principles of Islamic economy and finance

Muhammad Khurshid *et al.* 2014, develop “Islamic Model of Social Responsibility (ICSR)”. The foundations of their model are found in the Qur'an, but also in the 1979, study by Carroll. They tried to add to the traditional definition of social responsibility (according to Carroll) the economic-moral-ethical-philanthropic dimension, making the CSR model flexible, both for Islamic business and non-Islamic business frameworks. The first attempt to create a "framework" of socially responsible business was the ICRS model given in Figure 1.



Further, their research on the ICRS concept led to the model from Figure 1 expanding and developing into Model 2 – Figure 2.

Figure 2. ICRS model-innovated



In essence, the authors of this model emphasize that while traditional and Islamic principles of social responsibility have different values and are based on different philosophical foundations, numerous studies point to their common denominators. The only difference is that Islam gives each individual rights in the organization, and interest groups are not treated equally, but in relation to their relative stake. It is clear that Islam supports every activity that is focused on the well-being of society. The emphasis on justice and equilibrium in every part of life is clearly stated in the Qur'an: Justice is closest to piety "(Qur'an, 5: 80). The Qur'an says, " Do not do wrong ... " (Qur'an, 2: 279). These aids imply that all interested parties receive only what is for them, for example: buyers are entitled to fair prices, quality goods and information, employees have the right to adequate salaries, health care, education and share of profits *etc.* The natural resources of the environment belong to all inhabitants, and the companies are not allowed to exploit them for their own benefit. Such exploitation would be an injustice.

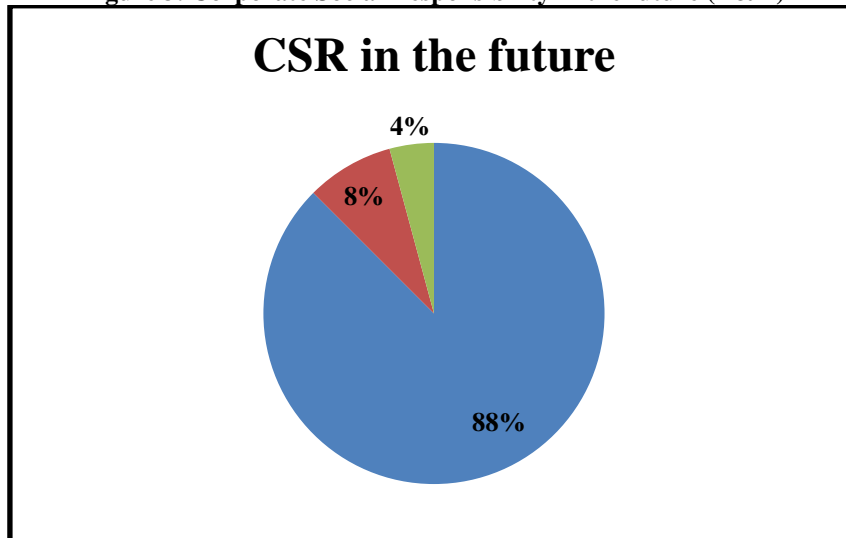
4.2 Analysis of social responsibility in Bosnia and Herzegovina in the context of the principles of Islamic economy and finance

PRIME Communications Agency conducted a survey on CSR in B&H, which was presented to 3rd Sarajevo PR Open, a one-day public relations conference. More than 30 representatives of prominent companies, such as Mercator, P & G, Bosnalijek, FDS, ASA Prevent, Pro Credit bank, ViC, Violeta, Podravka, OMV, BBI, Via media, Posao.ba and many others participated in the research.

In addition to the opinion of representatives of companies, the survey was conducted with more than 30 journalists from media companies from the entire territory of B&H. The research was done with representatives of companies in B&H and with journalists in order to determine: whether companies in B&H strategically plan corporate social responsibility, whether they allocate budgets for socially responsible actions, which segments are particularly supportive and whether they have good relations with media representatives in communication of socially responsible activities. The obtained data will certainly be a good starting point for representatives of companies in B&H in the development of CSR strategies in the future, as well as an incentive for other companies to be more activated in this segment.

Asked whether companies in B&H are socially responsible, 58% of companies said they believe that companies in B&H are mostly irresponsible, 29% believe that companies are mostly responsible, while 13% of respondents believe that companies in B&H are not at all responsible. 92% of respondents stated that corporate social responsibility is included in the annual plans of their companies and that they have planned budgets for the implementation of certain socially responsible actions.

Figure 3. Corporate Social Responsibility in the future (B&H)



<https://www.akta.ba/kapital/bosanskohercegovačke-firme-drustveno-neodgovorne/2464>

Although 92% of company representatives, socially responsible businesses are included in annual plans,

- 88% believe that companies in B&H are occupied with other priorities and that much more time will be required for social responsibility to take a significant place in B&H
- 8% believe that CSR will occupy a significant place in B&H
- 4% believe that CSR will not take a significant place in business in B&H

However, 88% of respondents think that companies in B&H are occupied with other priorities, and that much more time will need to take socially responsible business into a significant place in B&H. In the opinion of journalists, companies should invest most in education, then to solve social problems and ecology. Representatives of companies recognized Tobacco Factory Sarajevo, BH Telecom and Bosnalijek as socially responsible, but M-tel, Raiffeisen Bank and Podravka were at the top of the list, while the journalists recognized Hypo Alpe Adria Group, HT Eronet and BH Telecom as the socially most responsible companies in B&H followed by Bosnalijek, P & G and Avon.

Bosnia Bank International, (BBI Bank), operates in B&H under Sharia law and Islamic principles. BBI Bank is not strictly guided by commercial banking principles. That development approach gives good results, both in the business domain and in socially responsible business. Namely, BBI Bank, as a socially responsible institution, in various ways contributes to the company in which it operates, through investing in the economy, strengthening the economy of B&H, helping to educate and educate young people. Also, BBI Bank provides its employees with continuous professional training through internal seminars and external-on-the-job training. Working in BBI Bank, employees have the opportunity to be educated within the "Young Professionals Program" in the world financial institutions. Also, employees undergo quarterly education on the job training at the Istanbul Stock Exchange, Al Baraka and Kuveyt Türk Bank in Turkey. Therefore, BBI Bank is an Islamic bank that focuses on the development of the economy in the country, through investment in the development and growth of business entities. The CSR concept of BBI Bank is also reflected in the investment of staff, academia and the support of the community in which Bank operates, and commitment to improving the quality of the service.

5. CONCLUSION AND RECOMMENDATIONS

Unfortunately, in B&H, it does not attach importance to the development of Islamic economy and finance in relation to the potential that it offers. We believe that such development would open the prospect of establishing and strengthening cooperation with investors from Islamic countries, whose investment activities would be increased by creating a more favourable financial environment and developing capital markets. All this would further "strengthen" the corporate social responsibility of domestic companies.

A modest example of corporate social responsibility based on the application of the principles of Islamic economy and finance in B&H is BBI Bank. However, the Bank faces the problem of expanding its business due to an unfavourable legal and economic environment. While Serbia and Croatia are working hard on creating a favourable environment for attracting Arab capital, B&H blocks this path ideological prejudices and the understanding of the concept, which creates resistance and obstruction by accepting solutions that make business easier. Although there was a discussion on reforming the legal framework, which would make some progress, nothing has happened in that direction.

The results of the conducted research show that the awareness of academic and political circles in B&H is insufficiently high, and it is necessary to act in the direction of creating stronger cooperation between universities, the public and the private sector, in order to create programs and methodology that will be in the function of affirmation of the importance of CSR with the Islamic aspect.

Furthermore, the results of the research show that the realization of the program in the field of social responsibility did not come to life in the Bosnian enterprises and companies.

In order to achieve satisfactory results with CSR, B&H must adapt to European legal frameworks and methodologies.

Hence, in B&H and its environment, it is necessary to affirm the concept of CSR, through more intensive and better public information in the function of increasing its "awareness" and better interest in issues from this area, and through the implementation of various guidelines developed by international institutions, and all the changes in the legal regulations regulating the company's operations in this domain.

A model of CSR can be applicable in practice, especially in the domain of Islamic banking, and can help prevent the emergence of financial crises.

The Islamic approach towards a social responsible society implies a holistic approach, that is, a systemic (moral and ethical) attitude, based on learning from the Qur'an, providing an alternative, or a better philosophical framework for man's interaction with nature. Therefore, moral and ethical principles are derived from divine discoveries, and they are more durable, more eternal and more absolute, and can be serve as better guidelines for corporations that strive to achieve their business and social responsibilities.

By systematizing the previous scientific-theoretical knowledge and empirical research on the phenomenon of social responsibility presented in this paper, the CSR concept from the Islamic point of view is basically compatible with the conventional / traditional principles of social responsibility in a market based economy.

Limitations in the research: In order to make the notion of Islamic social responsibility more understandable, appropriate educational programs should be created and implemented so that people, especially entrepreneurs and business people, can better recognize the importance of CSR in accordance with the principles of Islam. These trainings will educate people about the importance of CSR, its relevance to various stakeholders in the society

Suggestions for future research: In the framework of future research in this area, a primary research on social responsibility in B&H should be carried out. Also, in future research, quantitative analyses should also be made, for example in order to calculate *the social responsibility index*.

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