A COMPARISON OF CORPORATE SOCIAL RESPONSIBILITY FROM CONVENTIONAL AND ISLAMIC PERSPECTIVES¹

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Abstract

The emergence of corporate social responsibility (CSR) that has been developed since 1960 in western countries has surged an interest in developing countries including Malaysia. The changes in society social values has lead to this new interest. CSR has become an important idea since the corporate growth and development is not only depend on corporate profit alone but also depending on other factors that contribute to the corporate sustainability in a long terms. CSR is generally known as a corporate commitment to operate economically concerning with their social surrounding. It has been a framework in business ethics and has set up a standard to which a corporation must subscribe in order to give an impact to the society in a positive and productive manner. This article will discuss the comparison of corporate social responsibility in Islamic and conventional perspectives. Issues on CSR from Islamic perspective is not newly discussed but has been exist and become a guideline in Islamic business world. This CSR concept is applicable with the development objectives in Islam as guided such as human development, production of beneficial goods, enhancing high quality of human life and sustainable development.

Introduction

Interest in corporate social responsibility (CSR) has surged since it was developed in the 1960s in western countries. Moreover, this concept has rapidly expanded around the world, especially in developed countries such as the United States and Europe. It is not newly discussed by either academicians or business pundits but recently the CSR concept has attracted a new interest in discussions. The changes in society social values caused by competitive lifestyle, the effect of globalisation and liberalisation, and also the social problems occurring in society has led to this new interest. These are among the factors why CSR has emerged of interest internationally. Firms and corporations began to notice that corporation profits alone cannot truly contribute to

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the growth and development of corporations in the long term, but depend on other factors to ensure corporate sustainability remains for a long time. Social support becomes helpful in order to make sure the sustainability of a corporate institution takes place.

Most academics and business pundits have noticed how CSR, which was assumed an irrelevant and often frowned-upon idea, has transformed into one of the most orthodox and widely accepted concepts in the business world during the last twenty years or so. Even up until the late 70s, CSR was still a joke in discussion and a contradiction in terms by the investment and business community. However, by the late 90s, the CSR concept became sanctioned and promoted by all parts of society from government and corporations to non-governmental organizations and individual consumers. Most major international organizations including the United Nations, World Bank, and International Labour Organization not only endorse the idea of CSR, but also have established guidelines and permanently staffed divisions to research and promote CSR.

CSR indeed is a modern concept. Most scholars accept that Howard Bowen was the first man to attempt to theorize the relationship between corporation and society through his book “Social Responsibilities of the Business (1953)”3. But it does not mean that there are no studies on CSR before him. On the contrary, many industrialists and writers such as Henry Ford, George Perkins of US Steel and sociologists also comment on that relationship. It is only that Bowen organized the idea of CSR in a more systematic and rational way. The growing of CSR in these years has drawn heavy criticism leading to unpleasant controversy. The objection to the CSR concept is most probably caused by the classical economic argument proposed by Milton Friedman4. In the 1970s, a new study on CSR was commissioned by the Committee for Economic Development5. This study reshaped the debate by providing wider views to examine the issue. During the 1990s, the concept of CSR finally became recognized internationally and was sanctioned by major international institutions.

There are some reasons why the concept of CSR was not accepted during the 1970s or before. In the early years, the shareholders of a corporation did not accept the idea that business is a service6, thus, their aim was more on corporate profits. Only in recent years, specifically the 1990s, did shareholders positively respond to the idea of CSR. They have accepted the idea that CSR can lead to a brighter performance of corporate institutions. This is probably because of the cultural shift in favour of social responsibility during the years. However, the more critical reason is because the meaning and business implication of CSR in the 1990s was much less repulsive to shareholders than the one advocated in years before. In 1919, the concept of CSR of a corporation was totally separated from its financial performance. Traditionally, people were always reminded that businesses are profit-making organisations, thus, there is no need to be concerned with social good since they are not politicians or clergymen7. This view is rooted in the western economic thinking proposed by Adam Smith’s value free neoclassical concept of utility as maximization of self-interest or pleasure8. Therefore, Adam Smith saw no financial reward in running a business concentrating on public good. But, By the 1990s, the concept of

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3 Ibid.
4 Ibid.
5 Ibid.
6 Ibid.
8 Ibid.
CSR had become much more closely related to market outcome through a number of empirical findings as well as theoretical studies\(^9\). It is shown by the number of reports on CSR by corporate institutions that stated in their annual reports compared to previous years.

There are two major factors that led to the changes of people’s traditional perceptions on CSR. These two factors have a great impact in changing people’s traditional thinking, norms and values while simultaneously broadening the definition of business responsibilities. The first factor is the new globalisation phenomenon that has increased the power of corporations on both a local and global scale. This phenomenon gives impact to widespread concern over the political, economic, social and cultural effect on countries, people and the environment\(^10\). Second, the booming Internet era that increased the power of communications and has infiltrated almost every part of the world\(^11\). This kind of communication has become an effective tool to influence people’s opinion worldwide, besides spreading information. The changes in people’s concerns and way of communication has led to the emergence of interest in CSR.

Definitions

Some concepts can have as many meanings as there are individuals who attempt to employ it. The same goes for CSR as well. Blair has defined the CSR concept through the meaning of responsibility. The word responsibility, as defined by the dictionary, is the state of being responsible, answerable or accountable. Responsibility can also be defined as ethics, which is the status of personality considered as capable of responding to the obligations established by moral law or by ethical principles and ideals\(^12\). According to Blair, it is questionable whether the word social even needs to be coupled with responsibility since responsibility implies a concern for others. The World Business Council for Sustainable Development has defined CSR as the business commitment and contribution to the quality of life of employees, their families and the local community, and society overall to support sustainable economic development\(^13\).

CSR is a framework for the role of business in society and setting standards of behaviour to which a company must subscribe to impact society in a positive and productive manner as defined by Asyraff Wajdi Dusuki\(^14\). CSR is also stated as denoting corporate activities beyond making profits such as protecting the environment, caring for the employees, being ethical in trading and getting involved in the local community\(^15\). In addition, CSR is also referred to as corporate citizenship emphasizing the contribution a company makes to society through its core business activities, its social investment and engagement in good causes\(^16\). According to

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\(^9\) Min-dong Paul Lee (2008), *op.cit.*

\(^10\) Asyraff Wajdi Dusuki (2005), *op.cit.*

\(^11\) Asyraff Wajdi Dusuki (2005), *op.cit.*

\(^12\) Blair J. Kolasa (1972), *Responsibility In Business*, New Jersey: Prentice Hall, p. 4


Kenneth\textsuperscript{17}, the corporate social responsibility can be broadly defined as an organizations commitment to operate in an economically and environmentally sustainable manner while recognizing the interest of its stakeholders. In a simple way, we can say that CSR is a corporate commitment in contributing to economic development by concern for the employees, their families, local community, environmental protection and reporting, human rights and society as a whole in the way that can benefit both the corporation and the society.

However, this definition of CSR is different from an Islamic perspective. Aside from the conventional perspective, the Islamic view on CSR has a more holistic approach. Its spiritual views are based on the teachings of the Quran and Sunnah. The notion of social responsibility in Islam is firmly consistent with the religious bond. The religious bond requires man to submit to shariah by committing himself to the contractual obligation and leading life in accordance with high virtue and moral consciousness as stipulated by shariah. The religious bond implies a commitment to moral standards as well as social norms based on shariah\textsuperscript{18}.

To understand the concept of CSR in Islam, we must first know the foundations of Islam that contribute to the development of the concept. Aqidah (belief and faith), ibadah (worship) and akhlaq (morality and ethics) are the foundations of Islam. These elements embodied in Islamic shariah are central to the worldview of Islam\textsuperscript{19}. The key to understand shariah lies in taqwa, the awareness of God or God consciousness. This element becomes instigator to the individual to achieve the objectives of shariah by the ways that are prescribed by shariah itself. Taqwa or God-consciousness will shape the moral values within an individual in shaping his social life. The God-conscious man will ensure his relationship with Allah is always nourishing as well as his relationship with humans and other creatures and nature. The CSR concept in Islam encompasses the broader meaning embracing the taqwa dimension by which corporations as groups of individuals, execute the role and responsibilities as a servant and vicegerent in all situations\textsuperscript{20}. By doing so, the corporations have assumed to perform their responsibilities towards Allah. An individual that protects their relationship with Allah, has coincidently nurtured their relationship with others. This situation will avoid conflicting interests among society’s members since everyone in the group has a unity of purpose in life, which is to serve Allah\textsuperscript{21}. Mankind will cooperate rather than compete with each other to obtain al-falah (ultimate happiness) as a success of life.

Besides, individuals from the Islamic viewpoint bear the ultimate responsibility of their own action. This can be seen in the final sermon of our Prophet Muhammad s.a.w:

\begin{quote}
\textit{“Verily, you will meet your Lord and he will ask you about your actions. You will neither commit injustice nor will you be wronged. No Muslim is allowed from his brother’s property except that what he gives away with good heart, so do not wrong each other. The most honourable of you with Allah is that believer who has morality”}
\end{quote}


\textsuperscript{18} Asyraf Wajdi Dusuki (2008), \textit{op.cit.}, pp. 14

\textsuperscript{19} Ibid.

\textsuperscript{20} Ibid. pp. 17

\textsuperscript{21} Ibid. pp. 18
This sermon deals mostly with social responsibility and justice. Individuals are responsible for their actions, therefore, they are warned not to act immorally just to serve their own interest. Individuals, mostly Muslims, must be concerned about others in every action they do. The responsibility cannot be shifted to another since the individual will be judged on his own deeds as narrated in the Holy Quran (74:38)

“Every soul will be (held) in pledge for its deeds”

(Surah al-Muddathir 74:38)

The ideals of social responsibility and justice are applicable with business transactions in Islam. The relationship between commercial activities and civil activities in Islam, is taken as natural and the rules of practice are embedded in the Islamic precepts. The concept of corporate social responsibility in Islam, as defined by Javed Akhtar, refers to the expectations that society has of business not to harm and also to contribute positively to the well being of others. Meanwhile, Asyraf Wajdi Dusuki added that CSR is a moral and religious initiative based on the belief that a company should be good regardless of its financial consequences, be they positive or negative. Still, Islam is not against profit-making and it is seen as a necessary condition for the corporation’s existence. Islam acknowledges self interest as a natural motivating force in all human life but it has to be linked with the overall concept of goodness and justice.

The fourth Caliph of Islam, Ali Ibn Abu Talib summarized the concept of social responsibility in his letter to Malik al-Haris al-Ashtar. From the letter we can understand that the corporate sector provides numerous pertinent services to society. The corporate sector also contributes substantially to the economic growth and development for a country. It plays an important role in determining the quality of life through its impact on the physical and social environment. Therefore, the corporation deserves to make profit regarding the hard work and the risk they bear. He also stated that the businesses that run in unethical and immoral ways should be punished by severe punishment. From this we can understand that although the corporations can make profit, they must not be solely guided by immoral and unethical ways in pursuit of their objectives. They must take into account their responsibility towards society in order to protect their relationship with Allah as well as others. By the proper relationship with Allah, a person’s daily interaction and transactions will be inspired by the values of trustfulness, firmness, respect for the law, kindness and many other values instead of deceit, haughtiness, ostention, envy, jealousy, backbiting and self-aggrandisement.

From the Islamic viewpoint, there is a framework in doing CSR for Islamic corporations. Islamic corporate bodies must do their responsibility in conformity with shariah teaching, which can be seen as a wajib (obligatory) responsibility and sunnah (recommendable) responsibility. An Islamic corporation must obey the wajib to do and wajib to avoid from doing for the wajib responsibility. For wajib to do, the corporations must pay the business zakah at 2.5% rate of corporate profit. Zakah is considered as wajib responsibility for the corporations as it was the divine command in Islam along with shahadah (testimony), solah (prayer), fasting and hajj (pilgrimage). Every Muslim must obey this commandment in order to become a good Muslim and to be blessed by Allah. Aside from doing the wajib, Islamic corporations are prohibited from activities that are illegal such as gambling, financing of tobacco, drugs, alcohol or even being involved with commodities, services and individuals whose moral practices are dubious. Therefore, their business operation must be shariah compliant. Besides the wajib responsibility,
the corporations are encouraged to do the *sunnah* responsibility such as *sadaqah*. What is considered as corporate social responsibility from a conventional perspective is regarded as a *sunnah* corporate social responsibility for Islamic corporations as long as it does not conflict with *shariah* teachings.

There are seven main areas for CSR – environment, energy, employees health and security, other things relating to employees, products, commitment in society, and others that relate to corporate policy and reports to society. Takis Katsoulakos and Yannis Katsoulakos added four more areas of CSR including human rights, labour standards, anti corruption and economic responsibility. Corporate institutions should be concerned with these areas of CSR while running their businesses. The welfare of employees and their families has to be emphasized by the corporate sector to make sure the productivity level increases. Besides that, their business activities should not pollute the environment or bring any harm to mankind. There has always been a conflict between businesses and the environment. Issues such as global warming, pollution, acid rain, and deforestation have always been connected with business activities. Therefore, corporate organizations have to pay attention to these issues because these are the social costs they should bear while running their business. Corporate organizations should also take part in social activities to fulfill society’s current need and to enhance corporate sensitivity. By doing so, a corporation’s good image will increase and will thus prolong its sustainability.

**Comparison between Islamic and conventional perspectives on CSR**

From the definitions given before, we can see that although the concept of CSR form the Islamic viewpoint is similar to the conventional view, differences still exist. The first difference that can be seen among these two perspectives is the concept of CSR. CSR from an Islamic perspective is based on a holistic approach, which is based on the *shariah* foundation. This approach is viewed based on the teachings of the Quran and *sunnah*. Muslims are obliged to follow the guidance in the Quran and *sunnah*. Therefore, this concept of CSR is not a new thing among Muslims. In contrast, the concept of CSR from a conventional perspective is more a humanistic approach rather than a holistic approach. It does not involve any spiritual element at all. Corporations from the conventional view are driven by the government or corporate policy in order to commit to CSR. That is why the CSR concept became a controversial issue in the early years of its implementation.

The concern for others and the environment is deeply inscribed in the pillars of Islam and is binding on every Muslim. Therefore, every Muslim is responsible to others, either the society or the environment as a whole. The *taqwa* paradigm will drive every Muslim to play their role in this world and develop it in accordance with *shariah*. Each individual plays an important role in their life as a servant and vicegerent. By understanding this, they are ultimately responsible to Allah and coincidently to others including mankind, other creatures and the environment as well. By the proper relationship with Allah, the person’s daily interaction and transactions would be inspired by the values of trustfulness, firmness, respect for the law, kindness and other good values instead of deceit, haughtiness, ostentation, envy, jealousy, and self-aggrandisement.

Meanwhile, the issues of morality that have been discussed in CSR from a conventional view are not merely a matter of rules but also of principles – general standards for evaluating conduct, standards that apply to all behaviour and rules. This principle of morality includes the principle

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of utility, which is also known as a principle of the greatest happiness. This principle produces the greatest balance of happiness and unhappiness to make sure equal consideration to the happiness and unhappiness of everyone that will be affected by one’s action is given. It also includes the principles of fairness that are founded on the need to respect the other person.

Besides, the differences between these two views can be seen as the objectives of commitment to CSR. An Islamic corporation commits to CSR in order to set up the right relationship with Allah and play its role as vicergerent in this world. Everything that has been done by Muslims is to obtain ultimate happiness (al-falah) and the blessing from Allah. Al-falah becomes a fiesty factor to the corporations in order to commit to CSR in their business operation. Apart from that, the social responsibility of business from a conventional perspective is to maximise profit for the shareholders within the rules of the game, which are fair competition, no deception or fraud and so on. Studies have shown that companies that rate the highest on ethics and corporate social responsibility are the most profitable. Hence, corporate social responsibility has become a strategic force that is shaping successful business. In the conventional view, the main objective of doing CSR is to gain corporate profit, which is affected by the good image of the corporations in the longer term. Many corporations today operate with concern for the stakeholders and this CSR concept has been regarded as a business tactic to improve the corporations’ performance.

Furthermore, moderation and concern for the needs of others, along with one’s own is an integral part of an Islamic perspective of CSR. Therefore, social responsibility in Islam is not the duty of government alone, but of all the members in the community including the business corporations. Thus, each individual as well as corporations are encouraged to sacrifice, give up and spend their wealth on the poor and the needy in society while only expecting a reward from Allah. However, some western writer’s said that social responsibility is the duty of government as a whole, not just the corporations. Corporations are the profit-making organisations and since they are not social-oriented organisations, there is no need to be concerned about social good. This is how conventional CSR is different from the Islamic perspective.

Besides that, the medium of distribution of the corporations’ wealth is also different in these two views. In Islam, the medium of zakah is used to distribute the wealth among the poor and needy in society. Zakah is regarded as one of wajib corporate responsibility of the Islamic organization and Islamic corporations are obliged to pay business zakah at 2.5% rate from the corporate profits. Through the zakah fund, the corporations will then distribute it to the society, by either giving it directly to the poor and needy persons or through involvement in social programmes such as economic development programmes or any other social activities that can benefit the society as a whole. In contrast, the conventional corporations distribute their wealth by special funds that have been allocated by the corporation itself. This fund will also be distributed to the society as a donation or by involvement in social programmes. Both types of fund, will then be distributed to the society in a way that will have an impact on the society and nature as a whole.

Conclusion

CSR from an Islamic perspective is more holistic, which ultimately grounds Muslims moral and ethical judgement on Islamic principles of shariah. It is not an alien subject in Islam since it has been deeply inscribed in shariah. CSR in Islam is examined in the light of the God consciousness paradigm, the objectives of shariah and the principles of public interest. Islamic corporations are

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27 Kenneth Amaeshi (n.d). op.cit.
28 Asyraf Wajdi Dusuki (2008), op.cit., pp. 19
29 Ibid.
expected to be guided by Islamic principles as those involved in Islamic business normally regard their ethics and social responsibility commitment as being more enduring since they are ultimately based on divine revelation. Therefore, it provides a strong indication for CSR to be naturally embedded and instilled in the practice of Islamic business transactions. Islam as an ethical system guides the believer in all of their activities including commerce and trading. Business transactions can never be separated from the moral objectives of society.

The introduction of social responsibility in business is criticized by some people that believe this concept should be kept apart from the primary responsibility to the stakeholders of the corporations, since it has drawn heavy criticism leading to unpleasant controversy. Unlike the Islamic view, CSR in the conventional view is regarded as a good business tactic that will boost the corporate reputation and goodwill, which in return will lead to the enhancement of financial performance.
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