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AN ISLAMIC ETHICAL PRINCIPLES TOWARDS PROMOTING CSR PRACTICE IN ISLAMIC BANKS

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Abstract. Islamic banking industry has been established for almost 50 years since 1970s. Although an Islamic banks still makes up only a fraction of the banking assets of Muslims, it has been growing faster than projected, growing with at an annual rate of 17.6% yearly, it is projected to grow by an average of 19.7% by 2018 (Naveed,2014). The *Shariah* based concept, products and services provided have been well accepted worldwide. However, there still lack of discussion on how Islamic banks adopted all the Islamic ethical principles in performing their CSR. The paper aims to discuss the Islamic ethical principles in promoting CSR among Islamic banks. It is a conceptual attempt to discuss on how Islamic principles can influence the Islamic banks towards the implementation of CSR. The religious characteristics that acted as a foundation for the establishment of Islamic banking are expecting to have an influence on corporate social responsibility practice. For that reason, the paper examines and analyse the relevant literature and develop the relationship between Islamic bank and CSR. The paper finds that, Islamic ethical principle has a strong influence of CSR practice among Islamic banks. Thus, it is expected that the Islamic banks should be more proactive in CSR practice rather than conventional bank in fulfilling its religious obligation and their exemplary as a financial intermediary. The study offers an original contribution to Islamic banking literature by develops a link between Islamic banking and Islamic ethical principle in promoting CSR practice.

Keywords: Islamic Bank, Corporate Social Responsibility Practice, Islamic Ethical Principle

1. Introduction

The corporate social responsibility concept has been discussing since 1930s and the contemporary era of CSR discussion began in the 1950s (Caroll, 1999). In Islam, that concept has been clearly highlighted and discuss in the Holy Quran since 1436. Corporate Social Responsibility (CSR) is a priority issue should be highlighted by all Islamic bank managers to avoid a management issue and business scandal such as frauds, breaches of trust and other unethical behaviours such happened to Barings, Enron WorldCom and number of companies around the world (Snider,2003; Dusuki 2009).

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Nowadays, in the Western countries, consultancy firms have sprung up to advise corporations on how to implement CSR and how to let the public know they are doing it. This step has been followed by AAOIFI with the establishment of a comprehensive ethical reporting guideline in 2010 to enhance and promoting CSR reporting among Islamic banks. The emergence of CSR in the West today requires an instructive examination from an Islamic perspective. Thus, this paper, therefore, aims to discuss the concept of CSR from Islamic perspective. In doing so, it examines the concept of CSR from Islamic point of view to enhance the practice of CSR among Islamic banks.

Numerous theoretical and empirical studies have investigated the phenomenon of CSR in Islamic banks (such as: Mohammed 2007; Khan 2010; Aris et al. 2013; Hassan et al. 2012). Nevertheless, the progress made to date to illuminate the importance of CSR, there still a limited study (see: Mohammed 2007; Rashid et al. 2013; Williams & Zinkin 2009) which discuss CSR ethical principles from an Islamic perspective especially among Islamic banks. This study attempts to fill that gap.

2. Islamic Ethical Principles towards Promoting CSR Practice

Islamic ethical principles provide a broader framework for CSR. In terms of responsibility and accountability, Muslims believe that they will be accountable for whatever they do in this world and hereafter. Thus, it requires that every deed and word in this world must be in line with Islamic teachings. The importance of accountability to the man's life has also been manifested by the Prophet Muhammad (PBUH) as Abdullah bin Umar, *Allah's* Apostle, said, "Surely! Every one of you is a guardian and is responsible for his charges: The Imam (ruler) of the people is a guardian and is responsible for his subjects; a man is the guardian of his family (household) and is responsible for his subjects; a woman is the guardian of her husband's home and of his children and is responsible for them; and the slave of a man is a guardian of his master's property and is responsible for it. Surely, every one of you is a guardian and responsible for his charges" (*Shahih Bukhari*: Volume 9,252). Individuals are expected to feel socially responsible for others in the community. In general, the aim of the Islamic economic system is to allow people to earn their living in a fair and profitable way based on *Shariah*, without the exploitation of others so the whole society may benefit. Islam also emphasizes the welfare of the community over individual rights (Shamim & Karim, 2010).

Prior research supports the idea that religious people have a wider notion of CSR than non-religious people (Williams & Zinkin, 2009; Brammer et al., 2005; Weaver and Agle, 2002). Given that Islam, like Judaism, is concerned with orthopraxy as well as orthodoxy, in Islam, the proper development of human life requires two things: (1) the resources needed to maintain life and fulfil the material needs of both the individual and society; (2) the individual's knowledge of the principles of individual and social behaviour to allow individual self-fulfilment, on the one hand, and the maintenance of social justice and tranquillity on the other (Ahmad, 1971). Unlike in some societies, where there is a separation between religion and state, which led to the consideration of religion as a private matter in a "so called value-free society" (Rice, 1999, p. 345), Islam influences the decision making of its followers in every context, including business. Perhaps more important is the need for balance between the demands of this world and the demands of the afterlife (Chapra, 1992).

The importance and special nature of worship (*Ibadah*) are fundamental elements of Islam; worship is the main reason for the creation of mankind (Ali, 2006).

The influence of Islam on business practices is well documented in the Holy *Quran* and *Sunnah*. Islamic business values, such as justice, socio-economic measure, human wellbeing, and honesty are the core of CSR in Islam. Islamic banks are considered as having an ethical identity and they have different social and economic objectives, since the foundation of their business is based on religion (Aribi & Arun, 2014; Haniffa & Hudaib, 2007; Maali, et al, 2006). The general objective of Islamic banks is to contribute to the development of the economy within the boundary of Islam. Within the range of *Shariah* (Islamic law), Islamic banks are expected to be guided by an Islamic economic worldview, which is based on the principle of social justice and the wellbeing of society (Dusuki, 2008).

In general, Muslims are expected to conduct their business activities in accordance with the requirement of *Shariah*, which is fair and honest toward others (Rahman, 1994; Hussain, 1999). The issue of CSR has been clearly highlighted in the Quran and Hadith, and it has been practiced since the era of the Prophet Muhammad (PBUH). That's have few Islamic ethical discussed int this paper as a best practice of CSR as follows:

2.1 The *Shariah* (Islamic Law)

In Islam, the *Shariah* or 'Islamic Law' is the foundational basis in understanding CSR. The concept of the *Shariah* in Islam consists of ethics and values covering all aspects of life (personal, social, political, economic, and intellectual). Dusuki and Abdullah (2007a) stated that the concept of the *Shariah* reflects the holistic view of Islam, which is a complete and integrated code of life. It encompasses all aspects of life, either individual or social, both in this world and hereafter. Zinkin (2007) stated that the *Shariah* is not just a legal, but it also functions as a moral framework.

Shariah has grown within the guidelines set by the objective (*Maqasid Al-Shariah*), which aims to promote the well-being of mankind. According to Al-Ghazali (cited in Dusuki and Abdullah 2007a, p. 31), "the main objective of the *Shariah* is to promote the well-being of all mankind, which lies in safeguarding their religion (*ad-din*), their human-self (*nafs*), their intellect (*aql*), their family (*nasl*), and their wealth (*mal*)". For example, to achieve the objective of *Shariah* in protecting wealth, Islamic banks provide an alternative to conventional banks, which operate based on interest that gives a negative impact on the distribution of income and economic fairness (Basah, 2012). There is not just focus on the elimination of interest in transactions, the activities of Islamic banks should also be in line with the objective of the *Shariah* and they are expected to be more concerned on the CSR issue that conventional banks. According to Mohammad & Shahwan (2013), there are three main elements in *Shariah*: (1) the *Aqidah* that discusses belief and faith; (2) the *Akhlaq* that discusses morality and ethics; and (3) the *Fiqh*, or legal rulings, governing the acts of human beings. The fundamental aspects, such as the *Aqidah* and *Akhlaq*, are not subject to change, however, the *Fiqh*, or legal rulings, may change and vary according to time (Siwar and Hossain, 2009). Mankind is responsible for their actions to God (*Allah*); therefore, they should act responsibly and strive to do well and avoid doing evil.

In addition, Dusuki and Abdullah (2007) stated that the concept of *Shariah* has three implications on the concept of corporate social responsibility. First, in Islam, corporate social

responsibility is an initiative of the religious and moral, based on the belief that the corporation should be good despite the financial impact. Based on this concept, business is not driven by profit maximisation alone, but alongside the pursuit of ultimate happiness in this world and hereafter. Secondly, the guidelines set out by the Islamic principles of bringing out a balance between individual rights and duties, responsibilities towards other people, and between personal interest and altruism. Finally, the concept of reward is developed to incorporate within its reward in this world and the hereafter. This provides a strong motivation and self-propelling motivation, without denying a person's natural instinct for personal gain. The principles above act as guidelines and an added value of Islamic banks in the financial industry. The *Shariah* acts as an internal control over Islamic banks alongside secular legislation. It is supposed to act as an internal control, which makes an Islamic bank more sensitive towards CSR than conventional banks.

2.2 Justice

Islam is a religion that emphasises justice in society. Graafland et al. (2006) divided the principles of justice in Islam to several types of business activity, such as justice including the fulfilment of promises, pacts, and contracts. Therefore, Muslims should be honest, sincere, and truthful in their business dealings, and ensure accuracy in terms of promised products and specifications. Second, it encourages equal treatment in labour management. Hiring people and wage payment should be based on merit and competencies. Finally, justice in Islam also includes the equitable distribution of wealth. In the Holy *Quran*, there are several verses, which discuss the concept of justice, such as:

“We have indeed sent our messengers with clear proofs and sent down with them the Book and the Balance, so that people may uphold equity. And we sent down iron in which there is strong power, and benefits for the people; and (We did it) so that Allah knows the one who helps Him and His messengers without seeing (Him). Surely Allah is Strong, Mighty.” (Quran 57:25).

“Allah enjoins to do justice and to adopt good behaviour and to give relatives (their due rights), and forbids shameful acts, evil deeds and oppressive attitude. He exhorts you, so that you may be mindful” (Quran 16:90).

Besides the above, Islam also promotes justice and the equal treatment of all living beings. Based on the principles of justice, *Muslims* have to be fair, not only among themselves, but also in their dealings with others and even with their enemies (Zinkin, 2007). The concept of justice implies that human beings are equal, except on the basis of piety and good character (Dusuki, 2008). As vicegerents in this world, the concept of justice is important, as humans are not only responsible to God, but also to the society. Rather than fulfil their self-interest, they should also have concern about society and the natural environment. Kamla et al. (2006) indicated that human beings' responsibility towards nature is not only related to benefits for themselves, it is a comprehensive responsibility, which includes society and future generations. According to AAOIFI (2010) Islamic banks are voluntarily encouraged to disclose their internal environmental preservation policy in their annual report. They are expected to be more concerned and proactive in promoting socio-economic justice and apply all the Islamic values and principles in their CSR practice. Dusuki (2008) discusses that the human interactions should be based on trust, equity and justice. The right attitude of human

beings is not to serve only one's own, or the national 'self-interest', but to cooperate with others to fulfil basic needs, to develop the entire human potential, and to enrich human life.

In economic activities, in order to achieve social justice in society, Islam provides a foundation for establishing socioeconomic justice to society. For example, Islam imposes an obligatory payment of income and wealth (*zakah*), philanthropic trusts (*waqf*), alms and charity (*sadaqah*), and interest free loans (*Qard al Hassan*). Another important aspect in economic activities is socio-economic justice. Socio-economic justice is an essential element in Islam; the objective of Islam is the formation of a justice to the society (Ibrahim, 1998). *Ibin Al Qayim al-Jawziyyah* contends, "The *Shariah's* basis is wisdom and welfare of the people in this world as well as the Hereafter, which lies in the complete justice, mercy, well-being and wisdom. Anything which operates from justice to oppression, mercy to harshness, welfare to misery and from wisdom to folly, has nothing to do with the *Shariah*" (cited in Aris et al. 2013; Ibrahim, 2000, p. 57).

Social responsibility and justice are based on the Islamic concept of human well-being and a good life; to strengthen brotherhood and sisterhood among Muslims, then promote socioeconomic justice, which requires a balanced satisfaction of both the material and spiritual needs of all humans (Chapra, 1992). The significance to pay *Zakah*, the encouragement of charity, the prohibition of Riba (usury), and the encouragement of *Al-qard hassan* (interest-free loan) are clear examples of the Islamic emphasis on social justice (Maali et al., 2006). With regard to *Qard Al-Hassan*, the Holy *Quran* states, "He who will give Allah *Qard al-hassan*, which Allah will double into his credit and multiply many times" (*Quran*, S1: 245).

2.3 Zakah

One of main pillars of Islam is *Zakah*, it literally means purification (Mohammed, 2007; Saheeh, 2000). *Zakah* is enunciated in many verses in the Holy *Quran* and *Sunnah (Hadith)*. Ibrahim and Yaya (2005, p. 10) define *Zakah* as "a religious obligation and a levy accepted by Islam on a Muslim income and wealth to be distributed to the defined beneficiaries, such as the poor and indigent". While AAOIFI (2010) defines *Zakah* as a fixed religious obligation calculated by reference to net assets that have appreciated or have the capacity to appreciate in value over a specific period of time, except for assets that have been acquired for consumption or use in the production of revenues. It is collected from Muslim individuals and businesses (which meet net assets liable for *Zakah*) and distributed to the poor, needy, and for the interest and welfare of the community. Therefore, the main purpose of *Zakah* is the redistribution of wealth and to eradicate poverty in society (Lewis, 2001; Ibrahim et al, 2014). Muslims consider *Zakah* as one of their main duties to show their responsibility towards society, the poor and the needy (Bjorklund, 2004).

The significance of *Zakah* in Islam is slightly different from a normal welfare programme and it is different from general tax, as it is understood today by some people (Lewis, 2001). It is a specific type of fund that is compulsorily paid to the treasury (*Amil*), whether there is a need for it or not (Belal et al, 1997). The Islamic state may take the responsibility for collecting and distributing *Zakah*, but where this is not the case, individuals and businesses are still obliged to pay it directly for the interest and welfare of the community (Maali, 2005). Not all Muslims are obligated to pay *Zakah*, the payment is obligatory to individuals and businesses subject to the fulfilment of certain conditions and after deducting debts and needs (Nabhani,

1997). *Zakah* is payable once a year at the end of the *Zakah* period (i.e., one lunar year). According to Clark et al. (1996), it is payable on a productive asset that has been possessed for a full year. However, assets, which are being used or consumed, are exempted, provided they are not being used for trade purposes (Rahman, 1999). *Zakah* is considered as an act of worship; therefore, Islam really encourages its followers to seek for wealth, as it does not contradict the *Shariah*. The wealthier they are, the more they can contribute to the community by paying *Zakah*.

From an institutional point of view, Islamic banks are involved in *Zakah*, either by setting aside a percentage of their profits for charitable activities or through the administration of *Zakah* funds (Bjorklund, 2004). Islamic banks are expected to be more concerned with their *Zakah* management to ensure that all groups of needy (*Asnaf*) benefit from their *Zakah* contribution. According to AAOIFI (2010), all Islamic banks have to disclose *Zakah* information in annual reports as part of their CSR obligation to the stakeholders. Another aspect of ethical value in CSR from Islamic perspective is the elimination of *Riba* (usury) in the Islamic banking activities.

2.4 *Riba* (usury)

Generally, the word, *Riba* (usury), comes from the Arabic language and means an increase or a growth. The linguistic meaning of *Riba*, in this context, is an increase or a gain on a capital loan at a predetermined rate, which a lender charges a specific rate to a borrower for deferred financing facilities (Amjad, 1999). In the same vein, El-Ashker (1987, p. 38) defines *Riba* as the difference between the amount borrowed and the payment amount, which is normally higher than the principle amount, and is strictly prohibited in Islam. The prohibition of *Riba* is clearly stated in many verses in the Holy *Quran*, such as:

- a) “That which ye lay out for increase through the property of (other) people, will have no increase with Allah: But that which ye lay out for charity, seeking the countenance of Allah (will increase): it is these who will get a recompense multiplied” (Quran 30:39).
- b) “That they took *Riba* (usury), though they were forbidden and that they devoured men’s substance wrongfully – We have prepared for those among men who reject faith a grievous punishment” (Quran 4:161).
- c) “O ye who believe! Devour not usury doubled and multiplied; but fear Allah, that ye may (really) prosper” (Quran 3:140).
- d) “Those who devour usury will not stand except as stands one whom the evil one by his touch hath driven to madness. That is because they say: ‘Trade is like usury.’ But Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge). But those who repeat (the offence) are companions of the fire, they will abide therein (forever)” (Quran 2:275).
- e) “O you who have attained faith! Remain conscious of God, and give up all outstanding gains from Usury, if you are (truly) believers” (Quran 2: 278).

Theoretically, in Islam, *Riba* is regarded as a prominent source of unjustified advantage, where the business activities are operating using an interest-based system (Sarker, 2000). Therefore, the prohibition of *Riba* is a solution of establishing a fair economic system in

which there are no forms of exploitation or unjustified enrichment (Bjorklund, 2004). This is known as an Islamic economic system, which is based on *Shariah*. Among the main points of the prohibition of *Riba* are: it causes unfair distribution of income in favour of the rich (financiers), who have the capital as interest guaranteed in return for the lender without taking any risk, while the borrower or the entrepreneur pays interest irrespective of the result of the business or investment (Attiah, 1989). Therefore, the prohibition of *Riba* is the best solution to establish socio-economic justice between the financiers and the entrepreneurs (Bjorklund, 2004).

Most Islamic scholars state that the prohibition of interest, or usury, (*Riba*) in Islam is not because the religion does not see it as a way to turn excess capital into profit, but because of a deeper concern for the moral, social, and economic well-being of society. A *Riba* system creates profit without doing any work and it does not share the risk between the lender and borrower (Al-Qaradawi, 1985). The vast majority of Islamic schools of thought agree that *Riba* stands for interest in all types and forms (Chapra, 1992). However, the Islamic Research Centre (IRC) announced in 1996 that all banking interest charge is the same as *Riba* and is prohibited (cited in Maali, 2005). Islamic scholars have clearly explained that *Riba*, as mentioned in the Holy Quran, refers to all excessive rates of interest charged by banks (e.g., Ahmad, 1989; Hindi, 1996). *Riba*-free banking is a key advantage of Islamic banks; nowadays, Islamic banks are well accepted in all parts of the world and hold well over US \$700 billion in assets and are growing at over 15% p.a (Khan, 2010). The Islamic banking industry involves wider ethical and moral issues with its *Riba*-free transactions. This factor makes it more economically efficient than conventional banking and promotes greater economic equity and justice.

2.5 Tawhid (Unity) & Khalifah (Vicegerent)

In Islam, the concept of CSR is also consistent with the concept of unity (*Tawhid*). According to this concept, God is the Creator, Owner, and Source of all things, and has entrusted mankind as a *khalifah* (vicegerent) to use and manage the assets in this world (Ali, 2006). In return for the use of the physical universe, mankind has to be accountable for what they use and manage in this world, all aspects will be accountable in front of God (*Allah*) in hereafter. (Farook and Lanis, 2007).

Islamic economics take the midway between the two extremes of capitalism and communism (Al Banna Choiruzzad & Nugroho, 2013). Islam recognises that it is a human nature to possess property in order to satisfy one's needs, and ensures free trade. In this sense, ownership of private property is encouraged in Islam, and its usage, which is not contradicted with *Shariah*, is permitted (Lewis, 2001). It is clearly stated in the Holy *Quran* that all wealth belongs to *Allah* and *He* has put human beings in charge of this wealth. Islam accepts disparity in wealth within a rational limit but does not tolerate this difference arising so that some people spend their life in luxury, while the majority of people are left to lead a life of misery and hunger (Taheri, 2003). As a vicegerent, mankind has to manage their wealth in accordance with the commands and guidance of *Allah* (Rahman, 1999).

As a trustee of God (*Allah*), all actions must be based on His rules and regulations, namely the *Shariah*. The concept of vicegerency is inter-related with the concept of *Tawhid* (unity) in Islam. The concept of *Tawhid* states that all possessions, wealth, expertise, abilities, positions and power belong to Allah. The human being is only a trustee of them. The accumulation of

wealth is not the key objective of landowners in Islam, but their ability to sustain and bring benefit to themselves and others from the land (Kamla et. al., 2006). This concept is different from the conventional point of view. In Islam, the management of all resources must be in accordance with religious requirements.

The concept of *Khalifah* (vicegerency) defines the person's responsibility to Allah, to the community, and to himself. According to Chapra (1992), the implication of arising from the concept of *Khalifah* is that the individual is regarded as the trustee of God's resources and should ensure that the resources are well managed in a proper manner, which is in line with the *Shariah* (Islamic law). The underlying concept of the vicegerent is one of representation or stewardship; the real ownership of the assets remains vested in their owner, and not their steward or administrator, who simply manages them in accordance with the owner's instructions, within the limits of authority prescribed, to do the will of the owner, as opposed to his own (Williams & Zinkin, 2009). This leads to different meanings of private ownership as understood in a conventional perspective (Suliman and Willett, 2003). *Allah* empowered individuals to possess, enjoy, and transfer what *He* has granted to them. Therefore, Islam perceives wealth as a grant, which has been given as a trust from *Allah* into the hands of human beings. Therefore, it should be utilized in an efficient way to produce the maximum output and to fulfil *Allah's* guidance (Metwally, 1997). It is stated in the holy Quran: "And recall what time thine Lord said unto the angels: 'verily I am going to place a vicegerent on the earth.' They said: 'wilt Thou place therein one who will act corruptly therein and shed blood, while we hallow Thine praise and glorify Thee!' Allah said: verily I know that which ye know not" (Al Quran 2:30).

Based on the vicegerency concept, there are no inhibitions attached to economic enterprise and people are encouraged to avail themselves of all opportunities available, which is in line with the *Shariah* (Rice, 1999). There is no conflict between the moral and socio-economic requirements. People can enjoy profit and wealth, but they must pay *Zakah*. Moreover, the right to accumulate wealth and profit is not negated in Islam as long as it does not contradict the Islamic principles (Ullah & Jamali, 2010). Resources are for the benefit of all and not just a few, everyone has the right to acquire and utilize the resources (Rice, 1999).

In summary, worship to *Allah* is not only restricted to the five pillars of Islam. It involves all aspects of life. Williams and Zinkin (2005) stated that in Islam, there is no separation between the individual's public and private life. Thus, every decision and act in life and business must be based on Islamic teachings. This principle does not only apply among Muslims, but also in their relationship with non-Muslims, society, and the environment.

2.6 Benevolence (*Ihsan*)

The concept of benevolence in Islam complements the concept of justice. The Holy *Quran* clearly states the requirement of justice and benevolence: "Verily *Allah* Enjoins justice and worshipping none but *Allah* alone and Al-Ihsan and giving help to kith and kin (i.e. all that *Allah* has ordered you to give them such as wealth, visiting, looking after) and forbids *Al-Fahsha* (i.e. all evil deeds, such as illegal sexual acts, disobedience to parents, to take a life without right) and *Al-Munkar* (all that is prohibited by Islamic law) and Al-Baghy (All kinds of oppression). He admonishes you, that you may take heed" (16:90).

Al Qurtubi (cited in Basah, 2012) classified justice as mandatory and benevolence as being beyond the mandatory. To adhere to the concept of justice, a person's inner intentions and feelings should be consistent with his words and actions. The concept of benevolence is beyond the concept of justice, which requires the person's inner intentions and feeling to be better than his or her outward actions. Benevolence reflects the importance of protecting and promoting the wellbeing of others with whom one is in regular personal contact (Schwartz, 1992). Research by Schwartz & Bardi (2001) indicates that benevolence is among the most important values in society. It plays a crucial role in endorsing social harmony and predicting pro-social behaviours (Bardi & Schwartz, 2003). Previous studies have indicated that benevolence is positively associated with behaviours, such as helping others, voicing constructive suggestions, donating money, and volunteering (Grant & Mayer, 2009; Arieli et al., 2014), demonstrating social sensitivity (Mumford, Connelly, Helton, Van Doorn, & Osburn, 2002), with awareness concerning moral dilemmas (Myry & Helkama, 2002), and expressing readiness for social contact with others (Sagiv & Schwartz, 1995).

To alleviate poverty in the community, Islamic banks offer several mechanisms, such as a benevolent loan (*Qard Hassan*)², a charity (*Sadaqa*) fund, and a Waqf fund (endowment fund) (Bhuiyan et al., 2012). *Qard Hasan* is an implied loan, which is free from any benefit or return to the lender, and it is more commonly referred to as an interest-free loan (Obaidullah, 2008). Practically, *Qard Hassan* facilities are provided by the Islamic banks to support and enhance the development of small and medium enterprises (SME). It is also known as an interest-free loan, which is given for either welfare purposes or for fulfilling short-term funding requirements. The *Qard Hassan* is a loan, which granted by the lender without expectation of any return on the principal, but the borrower is obligated to make a principal repayment. The following verses from the holy Quran reveal the importance of *Qard Hassan* in Islam:

“Who is it that will lend Allah a *qard hasan* which He will multiply for him (the lender) many times and for him shall be a generous recompense” (Al-Quran 18:18).

“Verily, those who give *sadaqa*, men and women and lend to Allah a *qard hasan*, it shall be increased manifold (to their credit) and theirs shall be an honourable good reward” (Al-Quran 11: 57).

“If you lend Allah a *qard hasan*, He will multiply it for you. Allah is the most appreciating, the most forbearing” (Al-Quran 64:64).

2.7 Transparency

When it comes to transparency in business, Islam goes much further than the UN Global Compact transparency standards (Williams & Zinkin, 2009). For example, clear written contracts are required for all business transactions, as stated in the Holy *Quran* (*Quran*, 2, p. 282). Also, in Islam, as in Judaism, the principle of caveat emptor does not apply. Many *Hadiths* outline that principles, such as, “it is not permissible to sell items without making everything about it clear, nor is it permissible for anyone who knows about its defects to

² AAOIFI, 2010 define Qard Hasan as a non-interest-bearing loan intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the period.

refrain from mentioning it” (*Hadith*, narrated by *Al Hakim and Al-Baihaqi*). Muslim businesses are, therefore, expected to ensure high quality standards in performing their job and to be transparent in their transactions. The issue of quality standards can also be seen in Quranic teaching on weights and measures (Quran, 6, p. 152; 17, p. 35; 83, pp. 1–6). For example: “Give just measure and cause no loss (to others by fraud). And weigh with scales true and upright. And withhold not things justly due to men, nor do evil in the land working mischief” (Quran, 26, pp. 181–183). Whilst this does not of itself imply that the same standard should be applied everywhere, it does require that full information is provided on the standards used, which requires greater transparency and accountability. Therefore, Islamic banks are expected to promote a greater transparency in conducting their business, in line with Islamic business code of conduct.

2.8 Accountability

According to Haniffa (2001), under Western accountability models, companies are accountable to their stakeholders. In this model, the responsibility and accountability are not considered to extend beyond human society and the frameworks do not envisage any accountability to God (*Allah*). From an Islamic perspective, the perceived relationship of individuals and firms with God (*Allah*) affects the concept of accountability (Maali, 2006). Muslims, as required by Islam, have to question their actions or hold themselves accountable before being held accountable by Allah on the Day of Judgment for what they have done in their life (Abdul-Rahman and Goddard, 1998). As a vicegerent and trustee of *Allah*, every human act in this world will be questioned on the day of judgement. Farook (2007) called this concept ‘divine accountability’, and it is the basis for all actions of Muslims and, in turn, organisations representative of Islam. The concept of divine accountability is clearly stated in the holy Quran, in such verses as: “When you are greeted with a greeting, greet in return with what is better than it or (at least) return it equally. Certainly, Allah is Ever a Careful Account Taker of all things” (Quran 4:86).

The word *Hisab* in Arabic, which is synonymous with account or accountability, is repeated more than eight times in different verses in the Holy *Quran* (Askary and Clarke, 1997). It shows importance of accountability in Islam. According to Lewis (2006), the basic similarity between *Hisab*, or account and accountability, lies in the responsibility of individuals and businesses to carry out duties as prescribed by Islam. Accountability, in this context, means accountability to the Islamic community at large, which has the right to know about the effects of the operations of organisations on its wellbeing (Lewis, 2006). Ibrahim (2000, p 23) elaborates this aspect of accountability, as follows: "accountability is the duty of an entity to use (and prevent the misuse of) the resources entrusted to it in an effective, efficient and economical manner, within the boundaries of the moral and legal framework of the society and to provide an account of its actions to accountees, who are not only the person(s) who provided it with the financial resources, but to groups within society and society at large".

The concept of accountability is derived from the Quran and is powerful in the Islamic system of business, which means accountability in front of *Allah* (SWT) not only in this world, but also in the hereafter. Accountability to *Allah* reflects trustworthiness, which includes both instruments and goals. Abbasi et al. (2012) argue that the instrument is that which is started with to enhance efficiency and effectiveness, then in time is transferred to be a goal itself (p.233). As the Quran plainly explains: “Then shall anyone who has done an atom’s weight of good, see it, and anyone who has done an atom’s weight of evil, shall see it”

(Quran, 99:7-8). *Allah* (SWT) said “Nor can bearers of burdens bear another’s burden. If one heavily laden may call another to bear his load, not the least portion of it can be carried by the other, even though he is nearly related” (Quran, 35:18).

Prophet Mohammad (PBUH) emphasises responsibilities and clarifies the intertwined responsibilities of applying real accountability. He said, “Beware that every one of you is a shepherd and everyone is answerable with regard to his folk. The caliph is a shepherd over the people and shall be questioned about them. A woman is a guardian over the household of her husband and his children and has to be questioned about them. A slave is a shepherd over the property of his master and shall be questioned about it”. Then, He (PBUH) adds: “beware that every one of you is a guardian and every one of you shall be questioned with regard to his trust” (Sahih Bukhari, 1967; Sahih Muslim, 1829). Afifuddin and Siti-Nabiha (2010) add that these verses apply to all organizations, not just personal accountability.

3. Islamic teaching vs Islamic practice

In theory, Islamic banks are expected to be fully convergence with the *Shariah* and implement all the Islamic values in their operation, but that’s have few arguments of its implementation in real world (Khan 2010b). Islamic ethical principles and values give high influence on the business and socio-economic of Muslims life. It’s have been practicing since the time of Prophet Muhammad (PBUH). Values and ethical principles that practiced by Islam since the time of Prophet Muhammad (PBUH) 1436 years ago may serve as a foundation for notions of corporate social responsibility alike as what have been practice in Europe (Williams & Zinkin 2009).

The holy *Quran* has enjoined that the economic success of business will flourish if it is underpinned by morality, *Quran* says that: “... give full measure when you measure, and weigh with a balance that is true...” (*Quran*, 17: 35). From this verse, it shows that the convergence between morality and the economic orientation of business is clear stated in the Holy Quran, thus Muslims are expected to practice it in their daily life.

A Hadith by Prophet *Muhammad* (PBUH) as narrated by *Abu Hurairah* stated that: “Prophet Muhammad said: Do you know who is poor? They (the companions of the Prophet) answer that: A poor man amongst us is one who has neither Dirham with him nor wealth. The Prophet explain that: The poor of my followers (*ummah*) would be he who would come on the Day of Judgement with prayers, fasts and *zakah* but he would find himself bankrupt on that day as he would have exhausted his funds of virtue since he hurled abuses upon others, brought calumny against others and unlawfully consumed the wealth of others and shed the blood of others and beat others, and his virtues would be credited to the account of one who suffered at his hands. And if his good deeds fall short to clear the account, then his sins would be entered in his account and he would be thrown in the Hell” (Sahih Muslim, No.6251).

This Hadith clearly demonstrates of how emphasis Islam places on the maintenance of social responsibility and socio-economic justice towards the society. Islam has clearly defined responsibilities for the individual, the corporation and the nation-state regarding to CSR issue. In Islam, features of social responsibility and justice are deeply rooted in the *Quran* and *Hadith*. Several commandments in *Quran* and *Hadith* stipulate what must be done in order to establish socio-economic justice among the society. Such example Islam have set an obligatory payment out of income and wealth (*Zakah*) and encourage Muslims to set an endowment fund (*Waqf*), alms and charity (*Sadaqah*), interest free loans (*Qard al Hassan*),

etc to ensure socio-economic justice among the community and create a harmony community.

However, a study by prior scholar such as Williams & Zinkin (2009) find that there is often a difference between teaching and practice, and it must be recognised that not all of the Islamic teachings and practiced in many Islamic countries. For example, when it comes to equal treatment of women in a workplace, many Islamic countries fall short of basic standards of equality as defined by the global standards, and the issues related to basic human rights and transparency of the judicial process (Beekun and Badawi, 2005; UNDP, 2002).

In addition, statistics of corruption, such provided by Transparency International, shows that Islamic countries are often high on the corruption scale. It cannot be deny that its happened due to several factor such as other socio-political factors related to the nature of government and the development of civil society, but it's still clearly shows that Muslims are not purely practice all the CSR values as highlighted in the Holy Quran. Studies by Hofstede (2005) based on the World Values Survey show that Islamic countries tend to be more deferential to hierarchies, less equal in their treatment of women and minority groups, and less supportive of the rights of individuals in the workplace. Even these issues are almost certainly not related directly to Islam per se, but as Muslims who represent Islam to the world, they have to practice all the values as stated in the Holy Quran(Jafar, 2005)

A final possible area of difference arises in the focus on individual responsibility in Islam, an idea reinforced by the lack of priestly intermediation between Muslims and God (Allah), and the apparent recognition that the corporation is no more than a legal entity that has no responsibilities that can be separated from those of the individuals who make up the organisation (Bhatia, 2004). Nonetheless, in general, the close conformity between Islamic ethical standards in business and the universal global standards such example the UN Global Compact is very encouraging since it suggests that a discourse based on the UNGC Ten Principles and discussions of how best to develop CSR can usefully emphasise the commonalities and convergence between modern stakeholder capitalism and Islam. 'European Islam' along the lines suggested a prior scholar such as Sheikh Tariq Ramadan, who suggests that many of the habits that Muslims display are not Islamic per se, but rather are cultural traits specific to the Middle East, Africa or Asia, and "Muslims living in Europe have an opportunity to reread our religion" (Ramadan, 2004).

Therefore, in Islamic banking perspective, it is expected that all Islamic banks who carried out the name of "Islam", implement the values and Islamic ethics principles in line with Islamic teaching. It is our obligation to show to the world the beauty of Islam.

Conclusion

Islamic ethical principles provide a broader view in promoting CSR and it should motivate Islamic banks to actively pursue it. The Islamic ethical principles discussed in the study can be used as a motivation in promoting CSR practice in Islamic banks. From the discussions, the study shows that the Islamic ethical principle has a significant influence towards promoting CSR practice in Islamic banks. They should have a greater affinity towards CSR, since they are guided by strong religious/ethical principles and obligated to adhere to these principles. From the discussions of Islamic teaching and practice, it is important to be highlighted that the Islamic principles must be translated into action and actual practice in

Islamic banks industry. If not, such principles and guidance would just become theoretical only.

That's still have an argument regarding to the current Islamic banking activities deviate from the Islamic spirit, which is their implementation and practice still have no different from those conventional banking activities (Chong and Liu ,2010). Therefore, further study of the current practice of Islamic banking was important to identify the holistic view of CSR in Islamic banking perspective. In this way the correlation between theory (compliance with religious norms) and practice can be ascertained. It is also important to study on and how Islamic teachings and views have impacted upon Islamic banking activities.

The rapid development of Islamic banks in today's world requires an instructive examination of their CSR practices. Therefore, Islamic banks should lead the role in promoting CSR and focus on few critical areas such as environmental risk management, human resource development, human rights and community development. Therefore, future study can be conducted to empirically measure the CSR disclosure level, its determinants and consequences.

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