HOW TO IMPLEMENT ISLAMIC BANKING’S CSR IN THE SOCIETY?

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ABSTRACT - The concept of CSR began in the West in the 1970s and discussions on the concept of CSR often focused on the view that is founded on the norms, cultures and beliefs of the West. Western perspective of CSR has become common practice for a corporate to run CSR programs. One of the goals of Islamic banking operations is to increase the economic growth towards a better and just society. Therefore, Islamic CSR in IBIs should be underpinning on Islamic philosophy that differs from western perspective. This study aims to examine the implementation of Islamic CSR in IBIs in society base on underpinning of Islamic philosophy. This study relies on secondary data to explore the basic sources of Islam using content analysis. The study found that the implementation of Islamic corporate social responsibility on IBIs in the society should be guided by two Islamic principles, first, the application of maslahah (the public good) which provides a better framework that managers can use when faced with potential conflicts arising from diverse expectations and interests of any corporation’s stakeholders. Secondly, corporate social responsibility program should pay more attention to the importance of social capital in the society. The corporate social responsibility practices in Islamic banking should not only be based on responsibility al kifayah (obligatory upon community) and get a positive corporate image but can also be deemed as a method to alleviate poverty and achieve the true economic goals of Islam.

Key words: Islamic Corporate Social Responsibility, Islamic Banking and Society


Kata Kunci: CSR Islam, Perbankan Syariah dan Masyarakat, Pengentasan Kemiskinan
BACKGROUND

The concept of corporate social responsibility (CSR) is corporate responsibility for sustainable economic development in the effort to improve the quality of life and environment (Asyraf Wajdi Dusuki & Dar, 2005; Hay & Gray, 1994; Obaloha, 2008). In the last thirty years, the concept of CSR has become an issue of discussion related to the relationship between business and society. One issue discussed was the importance of harmonious relationship between the stakeholders with the corporate institutions.

The concept of CSR began in the West in the 1970s and discussions on the concept of CSR often focused on the view that is founded on the norms, cultures and beliefs of the West, especially Europe and America. Western perspective of CSR has become common practice for a corporate to run CSR programs.

Nevertheless, the concept of CSR can be studied and explored critically from a different source that has been developed in the West. The concept of CSR can be studied from the culture and norms of society like Middle East, Southeast Asia and China or in any religion and beliefs, like Islam, Buddhism and Hinduism. Every culture, norms and beliefs of certain communities have different philosophies and epistemologies on the form and practice of CSR.

CSR for the community and increasing corporate participation in society must be interpreted as an effort to create a common good for the corporate and the society. As a result, the awareness about the importance of CSR becomes a collective responsibility to create harmony and alignment with the existing range of stakeholders.

Therefore, the position of Islamic Banking Institution (IBI) as one corporation of the area of finance that has been operating internationally is obliged to be the pioneer of finance institution in carrying out CSR programs based on Islamic underpinning, differ with what CSR developed in the West. It is not only to fulfill the law order or good corporate governance. But far beyond that the implementation of CSR on IBI is based on strong foundation and philosophy of Islam to be one of the financial institutions that can bring up prosperity for the community. CSR on IBI should be a form of accountability to Allah, humans and the environment.

This study aims to examine the way of implement Islamic CSR IBI’s in society based on Islamic philosophy underpinning. The presence of IBI is to meet
social responsibility; this is the differentiating favor between IBI and conventional banking institution (Haron, 2005). It must be admitted that the existence of Islamic banking is to fulfill social responsibility.

**ISLAMIC PHILOSOPHY UNDERPINNING OF CSR**

Researchers vary in defining CSR (Obaloha, 2008). For example, Bowen (1953) defines CSR as a corporate decision to give the benevolence to the community. Frederick (1960) defines CSR use community resource, economic and human beings as a whole to maximize the benefits to society in addition to corporate profits and corporate owners. Based on the theory of Elkington (1997), CSR is a concept for the corporates obligation to consider the interests of customers, employees, shareholders, communities and the environment in all aspect of the operations. This obligation applies broadly beyond the obligations stipulated by law.

Carroll (1999) mentions that CSR takes the form of economic responsibility, law, ethics and charity. According to Carroll (1999), CSR is described to be pyramid like, where the economic responsibility is the key to corporate responsibility, followed by a responsibility to the laws, ethics and the last is charity. Dashrud (2006) has reviewed 37 definitions that are often used by investigators in defining CSR; he concludes that there are five dimensions that are often used in CSR definition; environmental dimension, social dimension, economic dimension, stakeholder dimension and charity dimension.

From there variants of existing definitions, it can be concluded that CSR is a form of corporate commitment to continuing economic development in an effort to improve the quality of life in society and the environment. In other words, CSR is a form of corporate social responsibility towards local society with acts series of corporate activities in the midst of the economic welfare of the community for distribution to all parties.

Most studies on CSR a few decades ago have focused on the form of CSR in Western societies. CSR developments in the west are certainly influenced by ethical values, culture and beliefs of western society, particularly Europe and America. This may be found in several studies that have been done, like Bowen (1953), Carroll (1979, 1991, 1999), Davis (1960, 1973), Freeman (1984), Watrick and Cochran (1985), Wood (1991), Donaldson and Dunfee, (1994), Donaldson and Preston (1995), Smith (2001), Post, Lawrence and Weber (2002), and Birch and Moon (2004). These studies found that the values
and culture that flourished in Western became the standard pattern of relationship between the corporate and the community.

The concept of CSR developed in Western is not the same with the concept of CSR in Islam. First side is the flourished values and culture. Second side is the foundation or the principles of values and culture. CSR in Islam built on the basis of *tasawur* (world view) and epistemology of Islam, which is different from the CSR developed in the West. And the principles of Islamic CSR are based on corporate philosophy according the Al-Qur’an and Sunnah. While CSR in the West based on the view of Western culture and is highly different with Islamic CSR. Hence, the implementation of Islamic CSR needs to study of CSR’s principles based on the Islamic values. It becomes a liability related to Islamic corporate that were born from the womb of Islam.

Social responsibility in Islam is a familiar object. Social responsibility has begun to exist and practice for the past 14 centuries. The discussion of social responsibility is frequently mentioned in the Qur’an. Al Qur’an always links business success and economic growths which are highly influenced by ethical entrepreneurs in their business. Allah said in the Qur’an al-Isra, 17: 35.

Islam gives attention to business through the moral aspects to achieve maximum profits. This shows that Islam is concerned with the economy and morality, both of which cannot be separated. This aspect also affirmed by the Prophet Muhammad (PBUH). The Prophet (PBUH) has said in the hadist narrated by Malik ibn Anas: “A worker/employee is entitled to at least get good food and clothing with a decent size and is not burdened with ability to work outside the limits” (Malik, 1980).

The *hadith* above concludes that minimum wages should allow a worker or employee to obtain good food and feasible clothing, reasonable amount for himself and his family without having to work hard (Yusuf, 2008: 151). Uthman ibn Affan, states: "Do not force woman beyond in her quest for life, because if you do that to her, she might be doing acts contrary to the moral, and not force your male man with a job outside limit of their ability, because if you do that against him, perhaps he would do the theft” (Malik, 795: 2:981).

Al Qur’an also considers environmental sustainability one of social responsibility. All the effort of business should ensure environmental sustainability. Responsible to environment, Allah states in al Qur’an: And when he turns his back, His aim everywhere is to spread mischief through the earth
and destroy crops and cattle. But Allah loved not mischief” (al-Baqarah, 2: 205)

This verse describes how Islam considers environmental sustainability. All the effort of business or non business should ensure environmental sustainability. The relationship between human and environment is very close and cannot be separate. Islam has clearly prohibited anything that is harmful to individual or hazardous environmentally. Thus, it is one of obligation for human to care for the well being of society to guarantee environmental sustainability for the next generation.

While in social welfare, Islam encourages highly Islamic charity to those in need and less ability in work through sadaqah and welfare loans (Qard hasan). Allah says in al Qur’an: “So fear Allah as much as ye can; listen and obey and spend in charity for the benefit of your own soul and those saved from the covetousness of their own souls,- they are the ones that achieve prosperity” (al-Taghabun, 64: 16). The verse describes the responsibility of Muslim to help others through charitable contributions and donations and stinginess is abomination in Islam. The benevolent loan (qard hasan) described in the al Qur’an: Who is he that will loan to Allah a beautiful loan, which Allah will double unto his credit and multiply many times? It is Allah that giveth (you) Want or plenty, and to Him shall be your return (al-Baqarah, 2: 245).

Besides affecting social welfare, the act of benevolent loans can also bring double benefits for individuals and corporations. First, benevolent loan can be creating a positive image for individuals and corporations as well as and the second, getting a new business network formation which may result in increasing profits.

In a hadith narrated by Tirmizi, (hadith No. 653), the Prophet Muhammad (PBUH) said in a hadith narrated by Salman bin Amir, "Alms for the poor is charity. And the charity to family has two advantages, namely the rewarding for Allah and strengthening brotherhood” (Al-Tirmizi, 1993).

The statement demonstrates above show that the concept of social responsibility and the concept of justice have long existed in Islam, as long as with the presence of Islam brought by the Prophet Muhammad (PBUH). Prophet Muhammad (PBUH) realized social responsibility and created justice in line with the guidance of al Qur'an. Likewise, the practice of the Prophet Muhammad (PBUH) in the application of social responsibility and justice in society becomes a source of reference for guidance to the next
generation, known as al Sunnah. Both al Qur'an and al Sunnah have been very harmonious in upholding true justice.

Although the verses of Qur’an and the hadith do not directly refer to CSR but there are many verses in the Qur’an and hadith which explain the obligations of individuals to bear the needs of others. Therefore for individuals that come together to create a corporate have the obligations to help the public and give benefits to others. The existence of corporate were viewed by jurists such as Shafi’i, Ahmad bin Hambal, Ibn Hamid al-Ghazali, Ibn al-Faraj, Ibn Al Jawzi which occupied a position as fard kifaya. Corporates can do what individual find hard to do, corporates can bear and take care the interests of the larger community, such as foundation (Ibn-Taymiyah, 1982).

In fact CSR corporate not only bears and cares for living creatures around them, but more than that, CSR is the obligation of humans to comply with Allah’s laws. Allah has commanded humans to obey Him, and a form of obedience to Allah is to ensure the survival of human kind and the natural surroundings.

The existence of Muslims in the face of the earth has two tasks; obedient servant to Allah and the fair caliph. The relationships between the two main tasks are in line and should not be separated from one another. As a servant who worships Allah, each individual has an obligation to make all events of his life as a form of perfect devotion to Allah. In this case, the concept of worship is necessary to be understood in a broader sense. This means that apart from the specific worship of ritual piety, each individual is required to perform other common rituals of all the activities that bring about the welfare of man and nature in compliance with certain conditions, with right intentions and have to ensure that those actions allowed in the shari’ah (Abdullah, 2008; Moses, 2008; al-Mushlih & al-Shawiy, 1998). It also gives the meaning that human being in carrying out his duties as a vicegerent on earth cannot arbitrarily act, but must do so based on the shari’ah rules as evidence of slavery to Allah as the Creator.

As a vicegerent, humans are entrusted to manage this environment involving human relationship with other human beings and human relationships with Allah's creation, including animals, plants and the environment. Al Maududi (1967) interpreted meaning of the word "vicegerent" as "representative of Allah on earth". As a representative, humans must be and act like nature, will and actions of the substitute. As the vicegerent of Allah on earth humans do not
have absolute freedom to do whatever impunity. Mankind must act within the authority delegated to him by Allah.

Ibn Kathir explains humans purpose of ruling the earth (khalq al Ard) in verse 6; 165; is as executors for the prosperity of the earth from time to time to be utilized by future generations (Ibn-Katsir, 1999). This means the continuity and sustainability of the vicegerent task is not just limited to one generation, but responsible to next generation.

Both interpretations quoted by al-Maududi and Ibn Katsir regarding the meaning of vicegerent, gives a clear picture of the duty of every human being to be responsible to Allah as the Giver and the representative of the human and natural on the earth to create harmony life. Accountability requires that people take care of nature and all its contents for the salvation of man himself and the continuity of other creatures of Allah. He is also a form of trust to be guarded and escorted from the various forms of fraud. All this is proof of gratitude to Allah the Creator of His servant, so that they are not classified into categories of heathen of mercy.

Precisely the position of CSR in Islam is one of the essential human tasks which is a mandate from Allah. On one hand CSR is the obedience to Allah, on the other hand it serves as a human responsibility as the vicegerent of Allah on earth. Therefore, those who were bestowed by advantages and higher position by Allah is obliged to help other humans in order to ease the burden on those who are not affluent and face weaknesses.

Therefore, Islamic CSR obligations are the responsibility of individuals who come together in one corporate to give a positive impression for the environment in order to empower the weak and to preserve natural surroundings. Leaving CSR activity causes the wrath of Allah and brings punishment. In contrast implementing CSR will give birth to pleasure and comfort in building cooperative relationships between the corporate and community and creating intimacy with society. Allah says (Noble Quran, 1999):

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\text{It is He who hath made you (His) agents, inheritors of the earth: He hath raised you in ranks, some above others: that He may try you in the gifts He hath given you: for thy Lord is quick in punishment: yet He is indeed Oft-forgiving, Most Merciful. (al-An'am, 6: 165)}
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Islamic CSR has a philosophy underpinning from Islamic philosophy as the guidance in the various activities of life, including CSR practices in Islamic corporate like Islamic banking. Islamic CSR must be understood as part of shari’ah compliance. Islamic CSR is to be practiced in line with the principles of al Qur'an and al Sunnah and not just merely fulfil al kifayah (obligatory upon community) and giving a positive image to corporate, but also as method to reduce poverty and achieve the true economic goals in Islam.

Consequently, the position of the implementation of Islamic CSR can be categorized into three dimensions of relationship responsibilities. Firstly, it is the relationship of responsibility to Allah. Secondly, the relationship of responsibility to human being. And the last is the relationship of responsibility towards the environment.

**HOW TO IMPLEMENT ISLAMIC CSR IBI'S IN SOCIETY?**

Implementation of Islamic CSR in the society should be guided by two Islamic principles, first, the application of maslahah (the public good) which provides a better framework that managers can use when faced with potential conflicts arising from diverse expectations and interests of any corporation’s stakeholders. Secondly, CSR program should pay more attention to the importance of social capital in the society.

First, the application of maslahah. Maslahah means “something of benefit, opposite the word of mafsadat, which means damage or destruction. Maslahah means something to raise the benefits and profit” (Macluf, 1976). Maslahah “consists of considerations which secure a benefit or prevent harm. Protection of life, religion, intellect, lineage and property is maslahah”.

According to al-Ghazali (1322 H), the objective of the Shari`ah is to promote the well-being of all mankind, which lies in safeguarding their faith (al din), their human self (al nafs), their intellect (al `aql), their posterity (al nasl) and their wealth (al mal). Whatever ensures the safeguard of these five serves public interest and is desirable.

Al-Syatibi (2003) described the objective of the Shari`ah is to promote the well-being of all mankind not all at one level. Al-Syatibi and al-Ghazali divides maslahah in shari`ah to be achieved in three levels (Al-Ghazali, 1322 H; Al-Syatibi, 2003). First, al Dharuriyyah (the essential); second, al hajiyyah (the necessary); and third, al tahsiniyyah (the luxury).
Al Dharuriyyah: The essentials are the self-interests upon which people essentially depend, such as faith, life, intellect, posterity, and wealth, if neglected, would lead to hardship and appear total disruption of life’s normal order. Al Hajjiyah: The complementary interests supplement the essentials and refer to those interests that, if neglected, would lead to hardship but not to the total disruption of life’s normal order. In other words, they are needed to alleviate hardship so that life may be free from distress and predicament. Al Tahsiniyyah: The embellishments refer to those interests that, if realized, would lead to refinement and perfection in the customs and conduct of people at all levels of achievement (Al-Ghazali, 1322 H; Al-Syatibi, 2003; Asyraf Wajdi Dusuki & Irwani, 2007).

In the case of priority to achieve between three levels al dharuriyyah (essential), al hajiyyah (necessary), al tahsiniyyah (luxury), the Islamic scholars have agreed that level al tahsiniyyah and al hajiyyah have different levels, as well as al daruriyyah. Level al daruriyyah most necessary than level al hajiyyah and al tahsiniyyah. Therefore, if there is conflict between the benefit of al tahsiniyyah with al hajiyyah, al hajiyyah is preferred then al tahsiniyyah. Likewise, if benefits of al hajiyyah or al tahsiniyyah compete with al dharuriyyah, al dharuriyyah is preferred (Qarāfi, 1925).

Hence, Qarāfi asserts that the above classification is related to and deeply rooted in the Shari`ah’s objectives to ensure that society’s interests are preserved in the best fashion both in this world and in the Hereafter. According to his views, such a classification implies how a maslahah-based methodology could be used to derive new rulings from the Shari`ah, meet society’s changing needs, and solve contemporary problems related to socio economic endeavors. Thus, these principles can help establish guidelines for moral judgments and balancing the individual’s self-interests with social interests. Especially in conditions where the Qur’an and al-Sunnah are not explicitly explain in detail. This framework could be basis reference for implementing CSR in IBI.

There are two ways for using maslahah which can be made by IBI to implement CSR. First, the positive side by performing CSR activities are for maintaining and ensuring the creation of mashlahah for stakeholders. And the second, negative side by refusing and avoiding all the possible of mafsadah happened or will happen in the IBI’s.

The implementation of Islamic CSR based on principle of maslahah, IBI can create many programs of CSR for arising welfare society. This principle, by implication, reflects how Islam stresses the importance of considering public
interests rather than merely individual interests. It provides a framework for making decisions and a mechanism for adapting to change. Perhaps this principle can further contribute to delineating the role of IBI in terms of their CSR. It also offers guidelines for moral judgment on the part of managers and other stakeholders, particularly in solving conflicts that may arise when pursuing CSR.

According to Dusuki and Irwani (2007) applying the maslahah to CSR can be described to look like a pyramid form (figure 1) below:

![Figure 1. The Maslahah Pyramid](image)

Dusuki dan Irwani (2007) elaborate on the first level (the essentials), managers are expected to strive to preserve and protect their stakeholders’ essential needs (viz., religion, life, intellect, posterity, and property) and the public good in general. For example, under the CSR precept, they must protect their employees’ welfare or basic needs by providing adequate prayer rooms and protecting the employees’ safety and health in the workplace, thereby reflecting their responsibility to safeguard, respectively, the faith and values of life. Moreover, they must confine their operations to those that safeguard the above-mentioned essential values. Accordingly, corporations have a moral and social responsibility to avoid any activities that may cause disruption and chaos in people’s lives, even though pursuing them may engender higher profits. Such examples include business activities that can endanger people’s lives and disrupt their intellects as a result of environmental degradation and manufacturing illicit drugs for public consumption.
As soon as this level’s responsibilities have been fulfilled, the corporations may strive for the second level: the necessary. Here, it is deemed beneficial to remove difficulties that may not pose a threat to the normal order’s survival. For example, these managers may want to extend their social responsibility commitment by extending the employees’ essential needs, such as fair pay and a safe workplace, to include continuous training and enhanced human quality programs. The latter is not really essential, for neglecting it does not threaten the employees’ continued existence. However, assuming such a responsibility fulfills the complementary interest of advancing the workers’ intellectual well-being (knowledge and skills). In some cases, such an effort can be considered one of the essentials. For example, IBI needs to provide adequate Shari’ah training to their employees concerning the offered Islamic financial instruments in order to protect the interests of the faith.

At the highest level, the luxury, corporations are expected to discharge their social responsibilities by engaging in activities or programs that may lead to improving and attaining the perfections of public life. Giving charity or donating to the poor and the needy, as well as offering scholarships to poor students and providing sufficient, correct, and clear information or advertisement regarding all products, are some of the examples of CSR commitment with respect to realizing this level’s goal for society.

The pyramid’s three levels are not mutually exclusive; rather, all levels are inter-related and mutually dependent. The arrows pointing upward and downward reveal the flexibility and mechanism of change in the decision-making process, in the sense that any element comprising one level of maslahah may be elevated upward or pushed downward, depending on the different circumstances concerning the public at large. However, it should be noted that such flexibility is confined within the Shari‘ah’s framework, and not vice versa.

This reflects the pyramid’s dynamism in assisting the decision-making process within each different context, time, and space. For instance, if circumstances change and corporations are encouraged to respond and, as a result, reconsider their roles within society, this will necessitate a realignment of their business institutions (e.g., mission, vision, policy deployment, decision making, reporting, and corporate affairs) to the new maslahah, so long as it does not contradict the Shari‘ah’s principles (Asyraf Wajdi Dusuki & Irwani, 2007).

The maslahah pyramid above can be used as frame of reference for CSR managers in IBI’s products of CSR for IBI’s stakeholders. CSR which refers to
maslahah based on three levels of urgency that must be achieved. Maslahah reflects the urgency level of importance that should be achieved in the implementation of CSR. Lowest level is *al dharuriyyah*, which is the first and most major accomplishment to be achieved in the implementation of CSR. The second level *al hajiyyah* achieved when the first level *al dharuriyyah* have been fulfilled completely, as well as the third level *al tahsiniyyah* accomplishment after the first and second levels have been done (Qarrawi, 1925).

The maslahah pyramid, which functions as a framework and a general guideline to an ethical filter mechanism, provides managers with three levels of judgment to resolve the ethical conflicts that inadvertently emerge while applying CSR programs and initiatives. The levels also reflect the different degrees of importance in terms of responsibility fulfillment. The bottom level, the essentials, constitutes the most fundamental responsibility to be fulfilled, as compared to the complementary and the embellishments categories.

Secondly, CSR program should pay more attention to the importance of social capital in the society. Since in the beginning of 1990s where some influential works emerged (Fukuyama, 2000; Putnam, 1993), in the various field of social sciences, analysis of social capital has grown with the perceived importance of their impact on socio-economic outcomes (Yamamura, 2008). I will consider the role played by social capital in implementing Islamic CSR for IBI mainly from the standpoint of economics welfare.

Social capital is defined as features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated action (Putnam, 1993). Social capital thus seems to play a critical role in preventing agents from taking opportunistic behavior, raising efficiency and so promoting the economic development (Hayami, 2001).

Ostrom (1993) states the development utilizes social capital for the community’s to show better result. Social capital is one of the prerequisites for the success of development programs in community. Ostrom view's have relevant with the research was conducted by Ohama (2001), Fukuyama (2000), Badaruddin (2006, 2008) and (Ibrahim, 2006). Therefore, implementation of Islamic CSR in IBI through micro-finance by utilizing the potential of social culture for local communities will provide high benefit impact to fulfill the basic needs of the community.
CONCLUSION

Islamic CSR in IBI’s should be underpinning on Islamic philosophy that was differ with western perspective. This study aims to examine the way of implement Islamic CSR IBI’s in society base on Islamic philosophy underpinning. The position of the implementation of Islamic CSR can be categorized into three dimensions of relationship responsibilities. Firstly, it is the relationship of responsibility to Allah. Secondly, the relationship of responsibility to human being. Therefore, the implementation of Islamic CSR in the society should be guided by two Islamic principles, first, the application of *maslahah* (the public good) which provides a better framework that managers can use when faced with potential conflicts arising from diverse expectations and interests of any corporation’s stakeholders. Secondly, CSR program should pay more attention to the importance of social capital in the society.

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