

Islamic approach to corporate social responsibility: an international model for Islamic banks

International
model for
islamic banks

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Abstract

Purpose – This study aims to present a corporate social responsibility (CSR) model that would apply to Islamic banks, considering the international aspect of social responsibility because CSR is not applicable in the same way in all types of societies.

Design/methodology/approach – Based on the extensive review of the existing literature, the authors aim to present an Islamic CSR model applicable to Islamic banks. This study is based on the international approach to CSR developed by Masoud (2017). Each responsibility has an equal share but with specific changes regarding the order of priorities between them and the type of responsibility.

Findings – The findings show that the existing literature provides several Islamic CSR models. Most of these models are general and offer guidelines to Islamic financial institutions, but no model applies exclusively to Islamic banks. Using these models for Islamic banks is challenging because of their specific business activities, especially in non-Muslim countries. This study proposes a model that could act as the main guideline for Islamic banks with enough flexibility to meet different market and stakeholders' requirements.

Practical implications – The model was not tested on a sample, and not all Islamic principles were considered. However, it is applicable for Islamic banks, especially considering internationalization in their businesses and the further development of Islamic banking. At the same time, this model puts ethical norms in the spotlight. This is particularly emphasized in the case of non-Muslim countries or in societies where a particular law does not regulate Islamic bank activities.

Originality/value – Although there is a growing literature on this topic, existing studies primarily discuss the Islamic approach to CSR from the overall perspective, not in a specific industry. While some authors developed their own Islamic CSR models relying on the primary *Shariah* sources, others base their proposals on other classical CSR ideas. To the best of the authors' knowledge, this is the first study based on the CSR model developed by Masoud (2017), considering the relationship between economics and religion and the implications of the Islamic moral economy.

Keywords Islamic corporate social responsibility, CSR, Islamic banking, Economics, Religion

Paper type Conceptual paper

1. Introduction

Corporate social responsibility (CSR) as a concept, way of doing business and scientific issue has been occupying managers, marketing experts and researchers for more than 60 years. In that era of scientific research on whether a corporation is an artificial entity or a “person” responsible for the society in which it operates, there have been different approaches to understand business interaction with the community. This is particularly important in the case of the banking industry because banks are important financial institutions and, in some cases, the bearers of the entire financial system of a country.



Such an understanding of business responsibility toward society was particularly emphasized during the global financial crisis (GFC) in 2008 and the collapse of the conventional economic system. After that, the world was focused on the Islamic banks as ethically determined business entities that base their operations on religious postulates (Askari, 2012; Haneef and Smolo, 2013; Smolo and Mirakhor, 2010). That brought attention to the relationship between economics and religion. For instance, Western economics focuses on *homoeconomicus*, where the economy is neutral “between the ends” (Robbins, 1935), and religious beliefs, practices and behavior play no role in the life of *homoeconomicus*. Contrary to this, a feature of Islamic economics is the concept of *homoislamicus*, which emphasizes the sources of Islam. As the most crucial difference between *homoeconomicus* and *homoislamicus*, Warde (2000) notes the assumption of altruism where Islam, like other formerly capitalist systems, is preoccupied with the well-being of a community in which each individual behaves altruistically and according to religious norms. In such a system, resources are scarce, but scarcity is relative, and resources are limited only to the extent that human knowledge is limited (Smolo, 2013).

This nexus between economy and religion is associated with the concept of CSR because the Islamic approach to CSR is based on the religious postulates following the Quran and Sunnah. In other words, responsibility toward society (*maslahah*) is integrated into the Islamic value system (Abd Razak, 2018; Abu Bakar and Yusof, 2015; Dusuki and Abdullah, 2007). If we consider that this axiom is as old as religion itself – over 1,400 years – then it can be concluded that the social responsibility system is deeply rooted in *Shariah*. This implies that the Islamic approach to CSR differs from the Western epistemology. In other words, the Islamic approach to CSR should include responsibility toward God, humans and the environment (Yusuf and Bahari, 2015). In that aspect, CSR is an essential part of any Islamic corporation, including Islamic banks and financial institutions.

The analysis of CSR in Islamic banking is critical because Islamic banks have a dual position in society: financial institutions that fulfill a collective religious obligation and institutions that perform the role of a financial intermediary (Farook, 2007). In that regard, relying on the extensive review of the existing literature, this study represents an attempt to present a CSR model applicable to Islamic banks. It considers the international aspect of social responsibility because CSR cannot be applied in the same way in all types of societies (Visser, 2006). In addition, it considers the process of internationalization and further development of Islamic banking (Hanić, 2017). Hence, there are several reasons for this research.

First, in the CSR development theory, religion’s influence on this concept was not left out because Frederick (1998) decomposed the name of CSR into C – cosmos, S – science and R – religion. Such an understanding of CSR points out that religious feelings can be an essential component of CSR, where religiosity and individual beliefs affect actions taken by managers and their attitudes toward CSR (Barro and McCleary, 2003; Hiliary and Hui, 2009; Su, 2019). Second, from the Islamic perspective, CSR is an integral part of religious teaching and cannot be viewed as a separate entity (Dusuki and Abdullah, 2007) regardless of whether it comes from an individual or a business organization. In other words, God is one of the stakeholders because he is permanent, eternal and absolute (Schwartz, 2006). Third, despite the growing literature on CSR, the Islamic approach to this concept is not present enough in the research context (Hanić and Efendic, 2020). At the same time, some of the existing studies primarily discuss the Islamic approach to CSR, using Islamic ethical principles but from the overall perspective, not focusing on a specific industry. Fourth, some authors developed their own Islamic CSR models. In contrast, others did it using the pyramid developed by Carroll (1979, 1991). To the best of our knowledge, this is the first study based

on the CSR model developed by Masoud (2017), considering the relationship between economics and religion and the implications of the Islamic moral economy (IME) focusing on the internationalization of Islamic banking.

This paper is structured as follows: the second part discusses the relationship between economics and religion as a basis for understanding the Islamic value system. The third part presents various Islamic CSR models found in the literature. The fourth part elaborates on the Islamic CSR model proposal for Islamic banks. Finally, the fifth part provides concluding remarks.

2. Theoretical foundation: economics and religion

There are two approaches to recognizing the relation between religion and business activities. The first involves analyzing a given relationship directly – through the character of the owner or CEO of the company and how she/he as a person has integrated hers/his religious identity into the company's management system and decision-making process. Some authors like Barro and McCleary (2003) and Hilary and Hui (2009) note that individuals' religious beliefs lead to good economic attitudes and better performance. This is consistent with Su (2019), who analyzes the influence of religion, primarily Buddhism and Taoism, on managers in China in the sector of high and low polluting industries. The sample consisted of 8,262 companies listed on the stock exchange. The results showed that if companies operate in more religious areas, their managers are more spiritual and motivated to engage in socially responsible activities. Likewise, the results show that the influence of religion on CSR is more substantial in the sector of highly polluting industries.

The second approach, which is also used in this research, is when religion is integrated as the input and starting point of the entire system, especially the financial one. According to Brammer *et al.* (2007), organized religion has a significant role in establishing and disseminating ethical guidelines consistent with religious doctrines and proposing practical guidelines for ethical business conduct. Thus, the business organization is one of the bearers of activities carried out within such a system. The specificity of this approach is that the business model itself adapts to religious foundations and creates rules and ways of acting according to these determinants. In practice, this view has been confirmed in research by Mitroff and Denton (1999), who analyzed 215 managers of religion-based organizations and whose opinion is that God is equivalent to a "big boss" or CEO and is at the top of the hierarchy.

3. Literature review

Researchers started to explore CSR from an Islamic perspective after 2000 (Alamer *et al.*, 2015). The concept of Islamic reporting or the Islamic approach to CSR can be found in papers by Syafri Harahap (2003), Haniffa and Hudaib (2004), Sairally (2005), Maali *et al.* (2006), Dusuki and Dar (2007) and others.

In his work *Ethical Foundation of Islamic Economics*, Naqvi (1978) identifies four essential components of every Islamic economic activity:

- (1) *tawhid* (the complementarity or God's unity and sovereignty and represents the nature of knowledge and its articulation, implying that, in the context of economic activity, none of the stakeholders can dominate over others);
- (2) *equilibrium* (requires a balance in individuals' behavior, which in religious terms is closely related to the postulate of belief in the Day of Judgment (life after death). In the economic context, balance refers to all stakeholders' socioeconomic justice and social well-being;

- (3) *free will* (it builds on the belief in the mission of God's messengers where man as an individual has the right to choose the path of life, but at the same time emphasizing his role as God's vicegerent); and
- (4) *responsibility* (it concerns the axioms mentioned above because it is closely related to every act or deed by an individual).

Those axioms are closely related to the foundations of the Islamic approach to CSR, or what [Asutay \(2007\)](#) calls the IME. [Asutay \(2013\)](#) defines the IME as "a religiously defined response to the economic development failure in the Muslim world, whether capitalist, socialist or nationalist, with authentic meaning derived from the ontology of Islam" that particularly emphasizes the social dimension of economics. It is based on *homoislamicus* and strives to achieve economic and sustainable development, applying social justice guided by the social investment principles ([Asutay, 2012](#)). In other words, it means empowering the community toward creating a greater social good. Also, it emphasizes the role of man (business organization) as a trustee in social relations.

The IME empowers the community by promoting greater social good (*maslahah*) and moral virtues while at the same time calling for an end to all vice. To this end, we can refer to the GFC as an illustration. For instance, [Necati \(2013\)](#) points out that a lack of morality in the conventional financial sector that relies purely on the idea of the "invisible hand" can lead to the emergence of a "stealing hand [1]." At the same time, the Islamic financial industry (IFI) was more resilient to the GFC, especially in the first wave of the crisis. This is mainly because of its underlying principles prescribed by the *Shariah* (Islamic law) and followed by Islamic financial institutions ([Haneef and Smolo, 2013](#); [Smolo and Mirakhor, 2010](#)).

After reviewing the available literature, we can divide the models of the Islamic approach to CSR into several groupings that will be discussed shortly. These groupings are based on:

- four ethical axioms approach: Unity, equilibrium, free will and responsibility ([Hanić, 2020](#));
- the objectives of the *Shariah* (*Maqasid al-Shariah*) and public interest (*maslahah*) approach ([Asutay and Harningtyas, 2015](#); [Bedoui, 2012](#); [Darrag and E-Bassiouny, 2013](#); [Darus et al., 2013](#); [Dusuki and Abdullah, 2007](#); [Mergaliyev et al., 2021](#); [Mohd Nor, 2012](#));
- mandatory and recommended forms of Islamic CSR approach ([Farook, 2007](#));
- social welfare paradigms approach ([Muhamad et al., 2008](#));
- taqwa paradigms approach ([Dusuki, 2008b](#));
- application of public interest and importance of social capital approach ([Yusuf and Bahari, 2015](#));
- extended Carroll model ([Carroll, 1991](#)) from an Islamic perspective approach ([Khurshid et al., 2014](#));
- paradigms of *Tawhid* and *Shariah* approach ([Abu Bakar and Yusof, 2015](#));
- the Islamic model of CSR based on four types of responsibility approaches ([Turker, 2016](#)); and
- the Islamic corporate governance approach ([Abu-Tapanjeh, 2009](#); [Murphy and Smolarski, 2020](#)).

In the genesis of the development of the Islamic approach to CSR, [Sairally \(2005\)](#) explored the concept of the application of socially responsible investing by Islamic financial

institutions through the adoption of the corporate social performance model developed by Wood (1991), which includes four stages:

- (1) identifying the CSR principles of IFIs;
- (2) management of the CSR principles by the IFIs;
- (3) responsiveness to and integration of CSR issues; and
- (4) performance and impact of CSR actions.

Furthermore, the work of Dusuki and Dar (2007) is particularly significant. Focusing on two Islamic banks from Malaysia, namely, Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad, and using a sample with over 1,500 respondents, the authors explore the perception of various stakeholders in terms of social responsibility. The authors divided stakeholders into financiers, depositors, branch managers, employees, advisors, regulators (Central Bank officials) and the local community, following the definition given by Freeman (1984). The research results show that all stakeholders are interested in CSR and have positive attitudes about this concept.

Mohammed (2007) developed a framework for understanding the Islamic approach to CSR using the mentioned four ethical axioms. The author emphasizes that Islamic morality or code of ethics creates a sense of responsibility in the minds of believers. This model is based on three main groups:

- (1) *the four ethical axioms* which are emphasized as essential values of the Islamic moral system and are also the basis for the Islamic socioeconomic system;
- (2) *the Islamic ethical system* has emerged from the four ethical axioms mentioned above. For example, the trustee concept is derived from the axiom of unity because everything belongs to the creator. Thus, man is the vicegerent on earth and is considered the trustee of resources; and
- (3) business transaction law in Islam that represents the elements of business transactions under Islamic jurisprudence (*fiqh*). The concept of lawful or permissible (*halal*) and unlawful or impermissible (*haram*) provides clear guidance for business transactions in Islamic economics based on four ethical axioms. All the three groups are interconnected to create a coherent framework for socially responsible business in Islam.

In the same vein, Farook (2007) argues that Islamic CSR is based on the three core elements derived from the holy Quran. These three elements are vicegerency, divine accountability and the principle of enjoining the good and forbidding the evil. Resting his ideas on these three core elements, he envisions the Islamic approach to CSR to be built on forms that are:

- mandatory (scanning investments or *Shariah* compliance, making permissible earnings in terms that it is *halal* and not *haram*, acting responsibly toward clients and justly toward employees and fulfilling the obligation of *Zakah*); and
- recommended (provision of *Qard-Hasan* loans; reduction of environmental impact; additional criteria for checking clients and contractors; selection of appropriate industry [those with the most positive social and environmental impacts]; customer excellence; investment in micro and small businesses; employees' well-being; charitable activities; and religious endowments).

In the model presented by [Dusuki and Abdullah \(2007\)](#), Islamic CSR is based on the classification of the division of *maslahah* given by the Islamic scholar Al-Shatibi and includes three categories [2]:

- (1) The essentials (*daruriyyat*) are required and considered vital for founding well-being in this world and the Hereafter. If society in some ways neglects them, the outcome will be anarchy and the disorder of the functionality of the community, which will result in total collapse.
- (2) The complementary or needs (*hajiyyat*) complement the essentials (*daruriyyat*). Without the *hajiyyat* in place, people will face hardship. However, the nonexistence of the *hajiyyat* will not wholly disrupt the regular order of life, as is the case with the *daruriyyat*.
- (3) The embellishments (*tahsiniiyyat*) refer to what is desirable. They relate to matters that bestow society's enhancement and guide to an improved life. Without these values in place, society will still function normally, and the life process will not be compromised.

The authors also used a pyramid shape, as did [Carroll \(1991\)](#), stating that levels reflect varying degrees of importance in fulfilling responsibilities. According to [Dusuki and Abdullah \(2007\)](#), the *maslahah* pyramid functions as a framework and general guideline for the ethical filtering mechanism. It provides managers with three levels to resolve ethical conflicts that inadvertently arise when implementing CSR programs and initiatives. Compared to the complementary and embellishment categories, the lower level represents the most basic responsibility to be fulfilled. The three pyramid levels are not mutually exclusive, but all levels are interconnected and interdependent. At the same time, this model is based on flexibility because each element containing one level can be raised or pushed down, depending on different circumstances affecting the public.

In another paper, [Dusuki \(2008b\)](#) approaches CSR by looking at it through the prism of *Taqwa* or God consciousness. In practice, this model equates CSR with a religious obligation. This paradigm calls for harmonization and integration of "material well-being with moral-spiritual values." Through a voluntary commitment, people can achieve the ultimate goal, *al-Falah*, or the overall well-being. Hence, CSR is both a moral and religious initiative based on the belief that a company should be "good" whether it is profitable or not. Finally, [Dusuki \(2008b\)](#) analyses the Islamic approach to CSR by comparing it with the conventional one based on the five levels:

- *Level 1: Irresponsible* – an extreme situation where a firm violates laws and breaches the minimum moral standards.
- *Level 2: Minimalist* firms comply with the minimum regulatory and legal requirements without significant engagement in voluntary CSR activities.
- *Level 3: Apathetic* – firms that operate within the law and are committed to mandatory ethical responsibilities with minimal CSR activities.
- *Level 4: Tactical* – firms are fulfilling their social responsibilities to achieve positive publicity that will eventually bring them profits in the future.
- *Level 5: Taqwa centric* – at this stage, firms are implementing CSR based on the belief that a company should be socially responsible regardless of financial results. This is an example of the Islamic worldview based on principles of *maslahah*, vicegerency and justice.

In another paper, [Muhamad et al. \(2008\)](#) link CSR to the *Tawhidic* approach to a human relationship according to which Islamic business organizations (IBOs) are equally responsible for their actions toward the society (stockholders, employees, customers, suppliers, government, public and debtors), the environment and ultimately to Allah subhanahu wa ta'ala (SWT). In their view, promoting social justice and the attainment of *al-Falah* (human well-being) is the main objective of Islamic CSR. Hence, implementing CSR in Islam means the operation of IBOs in line with *Shariah* principles that would lead to *Barakah* (blessing) and eventually to *al-Falah*.

Using the four social responsibilities (economic, legal, ethical and philanthropic) developed by [Carroll \(1991\)](#) in the form of a pyramid, [Khurshid et al. \(2014\)](#) developed an Islamic CSR model. This study represents the first attempt to adopt the “Western” pyramid of social responsibilities under religious principles. In their views, Islam accepts the stakeholder approach developed by [Freeman \(1984\)](#), whereby company owners or investors have the right to make a profit but not at the cost of harming other stakeholders. Otherwise, the principle of justice, emphasized in Islam, would be violated. At the same time, [Khurshid et al. \(2014\)](#) consider all four responsibilities equally important, so the pyramid shape was not used. A similar approach was taken by [Turker \(2016\)](#) as well.

Considering the above, it is evident that a specific CSR model for Islamic financial institutions, particularly Islamic banks, is required because the Islamic approach to this issue is based on a pronounced social paradigm that includes:

- *tawhid* and not solely economic rationalism based on profit;
- business principles that consider a more comprehensive social community that participates in the use of resources and does not focus only on individuals who control resources; and
- business criteria are based on the Quran and not exclusively on modern commercial law. It is important to emphasize that one does not exclude the other because the fundamental principle of Islam is justice. Thus, the law is an integral part of the Quran.

Previous models can serve as a framework for each IBO to define its CSR policy. Still, it is also necessary to specify certain activities and adapt them to the specific industry where CSR is implemented because its implementation cannot be generalized to all markets and sectors. In that aspect, we propose our Islamic CSR model for Islamic banks based on the international CSR pyramid provided by [Masoud \(2017\)](#) that considers some of the theoretical foundations of previous models.

4. Islamic corporate social responsibility model for Islamic banks: a proposal

This section will elaborate on our model that applies to Islamic banks. However, before we get to the point, we need to discuss further the basic ideas and concepts on which our model is based.

4.1 Founding ideas: a brief overview

Although the CSR pyramid is indispensable in analyzing this concept, [Visser \(2006\)](#) emphasizes that it is, in fact, difficult to apply it outside the USA, especially in developing countries, and that it needs to be reformed. In this context, [Visser \(2006\)](#) redefined the pyramid of social responsibilities in its application to the African continent, emphasizing that given responsibilities are understood differently from their understanding in the USA. This view was confirmed by [Crane and Matten \(2016\)](#) in the example of Europe, stating that

all levels of the pyramid are present in Europe but that they have different meanings and are interconnected in another specific way. Based on this, Visser (2006) concludes that economic responsibility is of the utmost importance, whereas philanthropy is given the second-highest priority. In third and fourth place, respectively, are legal and ethical responsibilities.

A similar consideration of the different notions of responsibility given by Visser (2006) was also offered by Masoud (2017), presenting an international model of the CSR pyramid. This model differs from the one developed by Visser (2006) based on a different order of priorities between categories of responsibility and the type of responsibility that the author classifies as: economic, glocal (global and local at the same time), legal and ethical (as one responsibility) and philanthropic responsibility.

Masoud (2017) points out that philanthropic responsibility is at the top of the international pyramid but can change position depending on the context. The same situation is in the other two responsibilities, but not in the case of economic responsibility. This is because business entities primarily increase the national economy through income, employment opportunities and investments.

The possibility of shifting responsibilities results from the CSR pyramid being a flexible tool that determines the dynamics and allows the framework adjustment. When we discuss each responsibility separately, economic responsibility is the first and most crucial concern of CSR because the company must operate positively to survive. Without the power to make and maximize profits, the company and business activity can hardly contribute to any social responsibilities. Although making a profit may not be the most critical goal in some regions, especially in Muslim countries, Masoud (2017) emphasizes that the proposed model can still be implemented in such countries.

The glocal responsibility is based on “think globally, act locally” and represents decision-makers’ obligation to engage in activities that protect and improve the environment and society while recognizing sociocultural aspects, users of technology and the nature of

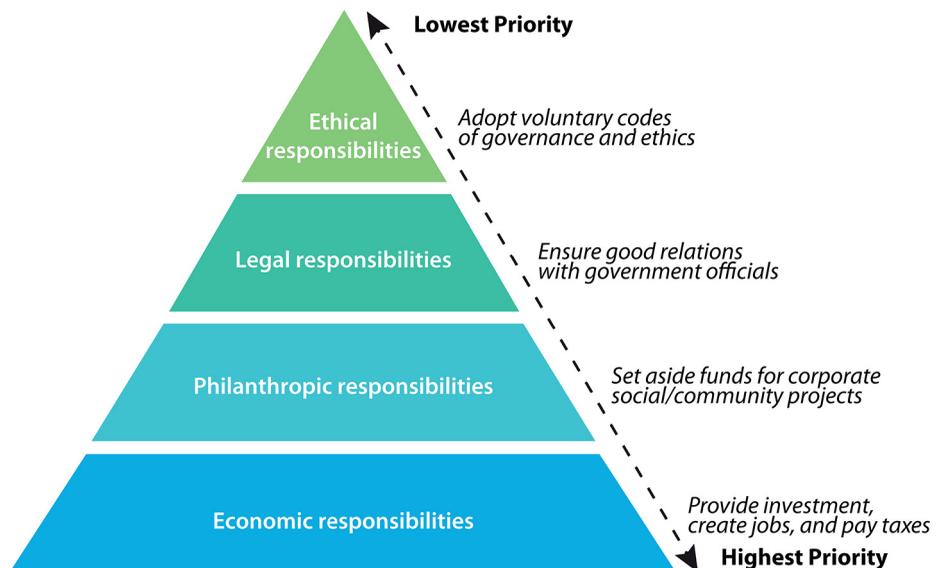


Figure 1.
CSR pyramid for developed countries

Source: Adapted from Visser (2006)

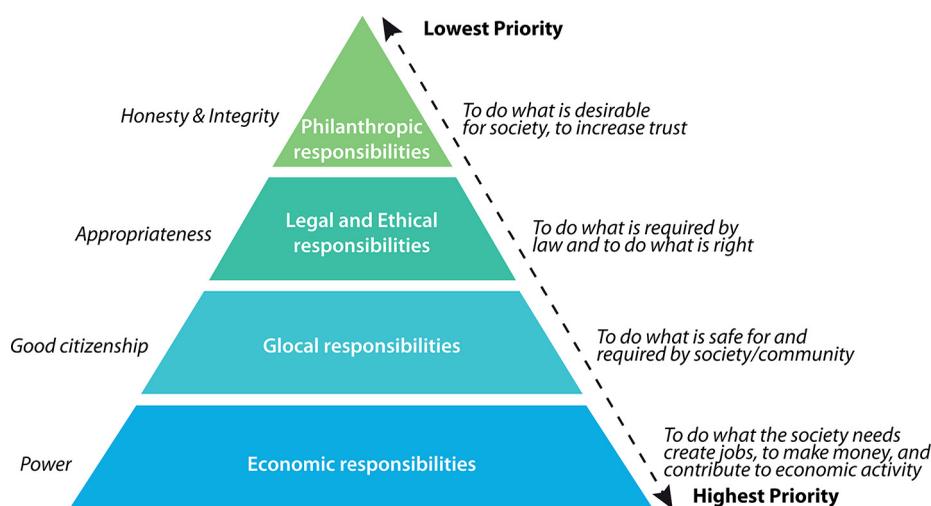


Figure 2.
International CSR
pyramid

Source: Adapted from Masoud (2017)

political rights. These are also the determinants of this type of responsibility. The legal and ethical responsibilities are merged into one responsibility and can also change within the international pyramid of CSR. Masoud (2017) believes that the legal and ethical responsibilities are the focal point of social resistance within many commercial projects in developed, developing and transition economies. They can be a decisive factor in the discussion regarding the contributions of a particular project.

When it comes to philanthropic responsibility, Masoud (2017) argues that it is not an enforceable responsibility but involves purely discretionary activities. In the model of the international pyramid of CSR, philanthropy is given the lowest priority because the discretionary nature of such responsibilities means that most companies will be in charge of them after ensuring that they have executed others. One of the most visible ways the business world can help society is through corporate philanthropy. However, company managers have no right to decide how profits can be used because money does not belong to them. However, Masoud (2017) and Visser (2006) emphasize that philanthropic responsibility may take second place within the international pyramid of responsibilities, just after the economic one. This depends on the region or country within which the pyramid is implemented.

4.2 Proposed corporate social responsibility model for Islamic banks

In line with Visser (2006) and Masoud (2017), Peters *et al.* (2011) also state that unique CSR solutions based on Western codes and regulations do not necessarily have to be implemented in the East or developing countries. For this reason, we present our model of the Islamic approach to CSR from the point of view of Islamic banks (Figure 3). This model is based on Masoud's (2017) types of responsibilities. As in Khurshid *et al.* (2014), the pyramidal form was not used because each responsibility has an equal share. However, in line with the recommendations given by Visser (2006) and Masoud (2017), we made specific corrections concerning ordering (see Figure 3).

4.2.1 Economic responsibility. Economic responsibility is defined as the first responsibility, which is in line with the view given by Carroll (1979, 1991), Visser (2006, 2008), Visser and Tolhurst (2010), Khurshid *et al.* (2014) and Masoud (2017). In a broader context, this model is based on Chapra's model of understanding the economic role of an IBO. In that model, an Islamic bank should strive to balance between providing sufficient returns to its shareholders and savers while not neglecting its social responsibilities and obligations to its stakeholders (Chapra, 1985, 2001). Doing business following *Shariah* is undoubtedly a fundamental pillar of Islamic business institutions.

Islam's attitude toward profit is apparent. Islam forbids the interest but allows the profit. Hasan (2008) states that there is an affinity between the economic scheme of Islam and capitalism because they allow private ownership of property, freedom of enterprise and a free-market system in a competitive environment and profit as a source of capital creation and growth. Islamic banks are business institutions that strive to make a profit. However, the goal of their business certainly has a different connotation because Islamic banks have a dual position in society: religious and financial. Religious refers to the fulfillment of *Shariah* business conditions, whereas financial focuses on using the available funds of the bank to undertake socially beneficial activities. In this context, making a profit is necessary to generate that profit to realize social welfare and public interest.

Achieving a reasonable profit, as defined by Baydoun and Willett (2000), is closely related to the view expressed by Ali *et al.* (2013), stating that profit, in Islamic opinion, is not an exclusively economic matter and that considerations of profit are not independent of the ethical system. The authors point out that profit occupies a central place in Islamic ethics. Islamic regulations do not justify profit leading to exploitation and market irregularities, making the Islamic position broader, similar to stakeholder theory. This clear identification of the activities of Islamic banks within the framework of economic responsibility seeks to achieve a balance between profit as the ultimate goal and all stakeholders of the Islamic bank. The use of profit and loss sharing (PLS) products should also be equally widespread for Islamic banks to return to their base (Usmani, 2002).

The significance of the Shariah Committee is inevitable in the Islamic finance industry (Farook *et al.*, 2011). However, as far as this model is concerned, subjecting the approved activities to additional revision by the Shariah Committee is classified as economic responsibility, as confirmed by Mollah and Zaman (2015). Analyzing 172 banks, 86 of which are Islamic, they found that the effect of the Shariah Committee on the financial performance of Islamic banks, measured by accounting measures, is positive when the Shariah Committee has a supervisory role but negative when the role is pure advisory in nature.

4.2.2 Philanthropic responsibility. Philanthropic responsibility is presented as the second type of responsibility because it has a different meaning in the Muslim world than in the Western. As pointed out by Masoud (2017), the concept of philanthropy in Muslim countries is embedded in business organizations. It is considered a means of alleviating poverty, providing better education for children, equal opportunities for women, better community support, improved working conditions and environmental protection. Indeed, the most critical example is *Zakat* and its impact on society. Islamic banks and individuals who can be required to pay *Zakat*, which, according to Dusuki (2008a), can help balance the country's economy by helping the poor and those in need achieve better lives. On the other hand, this also impacts poverty because it occurs because of extravagance, waste and nonpayment of what rightfully belongs to less able segments of society (Askari *et al.*, 2012).

In addition to *Zakat*, *sadaqah* (almsgiving) – a form of voluntary contribution – is also an integral part of Islamic teachings. In Islamic banks, donations that they can make, primarily in cash, are the best form of assistance and lead to improved social opportunities (Masoud,

2017). The same situation is with approving *Qard-Hasan* loans and their role in achieving the Sustainable Development Goals, that is, reducing poverty and increasing the education's quality (Hanić and Sućeska, 2018). However, according to Elnahas *et al.* (2021), being *Shariah*-compliant does not necessarily mean that those firms are more socially responsible.

4.2.3 *Glocal responsibility*. Glocal responsibility starts from doing what is safe and required of society/community. At its core, it can be said that this responsibility places the most significant emphasis on environmental issues. Islam strongly emphasizes the value of environmental protection in several places in the Quran (7:56; 78:6-7). When it comes to Islamic banks, the best example is undoubtedly green Islamic bonds (green *Sukuk*) that can help fight climate change, paving the way for intelligent investment in environmentally friendly projects based on sustainable resources. Malaysia is one of the countries leading the Muslim world regarding green Islamic bonds. Islamic banks can help in terms of stimulating investor demand for green *Sukuk*.

Although Islamic banking is widespread in over 60 countries worldwide, there are still many doubts about what it represents, especially in non-Muslim countries. For that reason, Islamic banks should be active in scientific research, organize conferences on Islamic banking and support the scientific development of this area through active cooperation with educational institutions. This would undoubtedly not only increase the interest in this area but it would also acquaint the public with the specific business model represented by Islamic banking.

The primary determinant of Islamic banking is intended for everyone, regardless of religion, ethnicity or nationality. Hence, to reduce sociocultural differences, Islamic banks can approach the rebranding of their name using a name that does not directly contain the prefix Islamic in its name. This way, Islamic banks, especially in non-Muslim countries, would not be disadvantaged, especially if the public is not sufficiently acquainted with the principles of Islamic banking. This trend is already present in some banks, as was the case with the Islamic Bank of Britain, which changed its name to Al Rayan Bank.

Hayat and Hassan (2017) justify this approach. They investigated the impact of the prefix "Islamic" on the corporate governance of listed companies viewed from the debt perspective. The authors found no evidence that the Islamic prefix says anything about corporate governance. Looking at the current Islamic and non-Islamic components of the S&P 500, Islamic companies have lower debt (by 22%), with no significant differences in the average quality of corporate governance.

4.2.4 *Legal and ethical responsibility*. According to Masoud (2017), legal and ethical responsibilities are merged. From the Islamic point of view, the emphasis is on fulfilling the necessary legal norms, but simultaneously, *Shariah* requirements, which are laws in themselves. The application of Accounting and Auditing Organization for Islamic Financial Institutions standards is not mandatory but is certainly recommended as it provides guidance and resolves *Shariah* concerns that may arise. Islam emphasizes equality and requires Islamic banks to respect this principle in every segment of their businesses. For instance, in their relations with debtors, banking services to people with special needs to employment policies where men cannot be given priority over women or vice versa (unless the difference is based solely on business experience or knowledge). Likewise, Islamic banks need to provide adequate working conditions for their employees, and providing a space for prayer can undoubtedly be one way of meeting this responsibility.

The presented model uses a classification of more recent responsibilities and has an international character, which certainly suits Islamic banking. In addition, it can serve as a guide for Islamic banks, especially those that do not operate in a predominantly Muslim environment or whose activities are not regulated by a special law on Islamic banks. In other

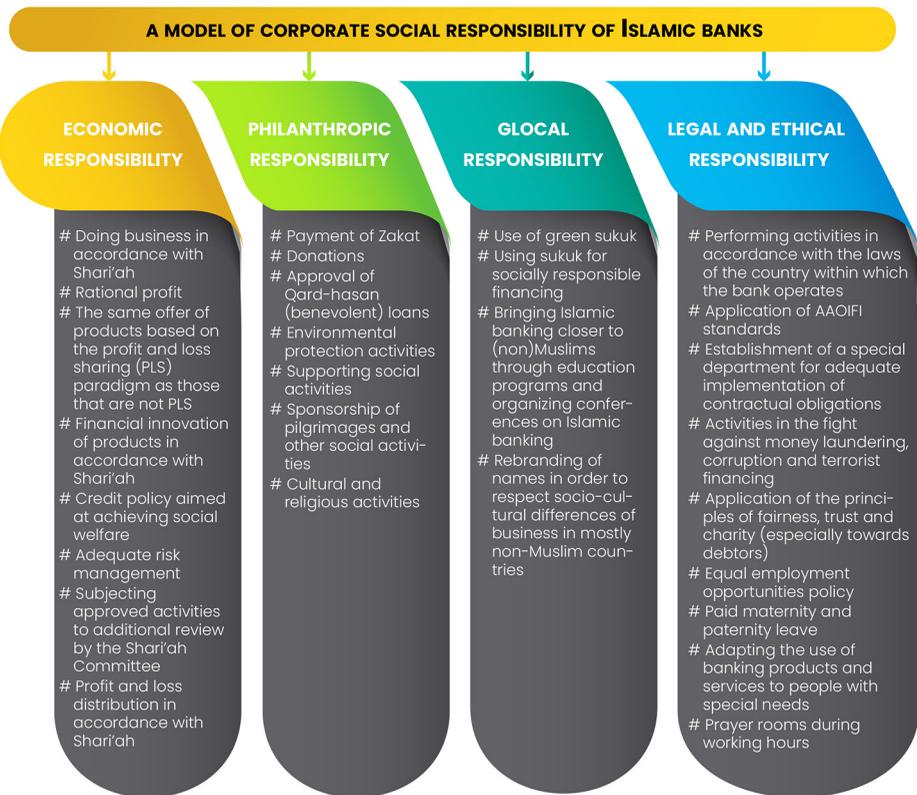


Figure 3.
New model of the
Islamic approach to
CSR

Source: Authors

words, this model can help identify responsibilities that an Islamic bank should exercise in its activities.

The presented model uses an international classification of social responsibilities that considers the different socioeconomic environments in which Islamic banks operate. In this aspect, this paper adds value to the general understanding of CSR in Islamic finance in terms of why an Islamic financial institution needs to have a deep-rooted approach to moral, ethical and environmental issues in its business operations. In addition, the presented model can serve as a guide for Islamic banks, especially those that do not operate in a predominantly Muslim environment or whose activities are not regulated by a special law on Islamic banks (Hanić, 2020).

After creating a model, the next step would include its testing in terms of creating a scale to validate it. Over time, different methods have been developed, ranging from reputational indices and ranking based on specific indicators to disclosing nonfinancial data, where the technique of content analysis is most often used. Such an approach is known as the corporate social responsibility disclosure. In these types of research, the disclosure index is used to validate CSR, which is defined as the Corporate Social Responsibility Disclosure Index. In the case of Islamic banks, several indexes were developed, but it is essential to adapt those indexes to the market or region that is the subject of research, which is in line with the proposed model.

5. Conclusion

The concept of CSR has been present in the scientific and professional public for more than 60 years. Although many definitions have been developed so far, there is no universal approach to understand the social responsibility of a business organization. This aligns with the concept developed on the postulates of the Western understanding of society, ethics and business organization as the bearer of social activities. In this domain, the emphasis in this paper is on the Islamic approach to CSR, which is not sufficiently represented in scientific research. Also, bearing in mind that from the Islamic point of view, the goal is to achieve the social well-being of the individual and all members of communities, social responsibility is an integral part of Islam. Therefore, it is mandatory in the application by all those institutions that call themselves Islamic, regardless of whether it is financial or nonfinancial. In that aspect, the emphasis in this paper is on Islamic banks, which as financial institutions have a dual position in society: religious and financial.

In this paper, the emphasis is placed on creating an Islamic CSR model that will apply to Islamic banks. The international pyramid of social responsibility defined by Masoud (2017) was used. The specificity of this approach is that it considers the characteristics of societies that do not have the same value system as Western countries in which the concept itself is developed. This primarily refers to applying the CSR pyramid given by Carroll (1979, 1991). In this way, emphasis is placed on the different responsibilities (economic, philanthropic, global and legal and ethical responsibility) that a business organization has toward the company in which it operates.

The paper also reviews previous research in the models that other authors developed. The main difference between those models and the proposed one is that they focus more on a general approach. In contrast, the model in this paper focuses on Islamic banks, emphasizing the concept of internationalization of Islamic banking and its application in countries that are not predominantly Muslim or do not have special laws that would regulate the operations of these financial institutions.

This paper has its limitations. First, the existing literature is overwhelmed with different CSR models, but this study reviews only those most commonly discussed. Second, the study did not consider all ethical principles and postulates of Islam. Hence, further amendments and improvements may add additional value to the proposal. Finally, the model represents a theoretical attempt to develop the Islamic CSR model. Consequently, this model needs to be tested and empirically validated.

Notes

1. *Italics* are ours for emphasis.
2. Although there are different classifications of *maqasid al-Shariah*, Muslim scholars generally classified them into three main categories: *daruriyyat* (essentials), *hajiyyat* (complementary or needs) and *tahsiniiyyat* (embellishments). For a detailed discussion about different categorization, see Ashur and Al-Tahir (2006, pp. 112–29) and Kamali (1998, 2008).

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