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A FRAMEWORK FOR CORPORATE SOCIAL RESPONSIBILITY IN ISLAMIC FINANCIAL INSTITUTIONS: THEORY AND EVIDENCE FROM GCC REGION

NASER SALIH K ALQARAN ALZIYADAT

ABSTRACT

The present research addresses the need for the development of a framework for implementing the Islamic CSR of IFIs that exist in conventional economies (i.e. mainly capitalism). The literature review reveals that CSR has never existed in any economic system other than capitalism, and that in spite of the fact that CSR has been based on various theoretical groundings, the ontological worldview of capitalism (mainly economic selfish man) and the epistemological considerations (mainly value-free scientific economic laws used in the production of knowledge) have influenced the understanding of CSR. Thus, the CSR literature fails to address mismatches between the micro objectives of businesses and the macro objectives of society.

Such mismatches are, however, taken into account in the Islamic theory of *maqasid al-Sharia* (*Sharia* objectives) and the *Sharia* jurisprudence method which facilitate the production of *Sharia* rulings through which a balance between micro and macro objectives is achieved. Thus, the present research aims to develop a framework for implementing Islamic CSR (ICSR) for IFIs, based on a built-in compliance with *Sharia* objectives and where *Sharia* objectives are achieved through the managerial implementation of *Sharia* jurisprudence. Four theoretical gaps in the literature on ICSR have been identified: (1) justification of the usage of the frameworks and models of conventional CSR on the basis of the Islamic worldview and epistemology, which are fundamentally different from those of capitalism; (2) the specification of methodologies appropriate to the Islamic worldview and epistemology; (3) the design of a framework for implementing Islamic CSR; and, (4) the design of a framework for measuring Islamic CSR.

It is found that creating an innate ICSR framework is not an end in itself, but instead aims to achieve *Sharia* objectives that represent the socio-political economic objectives of society and businesses, and thus international CSR frameworks are used after adjusting them to the Islamic worldview and epistemology. Furthermore, the PDCA (plan, do, check act) cycle is deployed to implement the *Sharia* jurisprudence method underlying a managerial framework of implementing and measuring ICSR.

The ability of the developed ICSR framework to describe reality has been empirically proven by testing nine null hypotheses against data collected from *Sharia* employees in IFIs in the Gulf Cooperation Council (GCC) region. Moreover, several statistical patterns are identified regarding the survey respondents' levels of knowledge of *maqasid al-Sharia* and conventional CSR, and the influence of organisational and individual differences on both levels of knowledge and the implementation of ICSR.

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RESPONSIBILITY IN ISLAMIC FINANCIAL
INSTITUTIONS: THEORY AND EVIDENCE FROM GCC
REGION**

by

NASER SALIH K ALQARAN ALZIYADAT

**A Doctoral thesis submitted in fulfilment of the requirement
for the award of Doctor of Philosophy at Durham University**

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LIST OF ABBRIVIATIONS

AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
BOD	Board of directors
CED	Committee for Economic Development
CFP	Corporate financial performance
CIBAFI	General Council for Islamic Banks and Financial Institutions
CSP	Corporate social performance
CSR	Corporate social responsibility
GCC	Gulf Cooperation Council
GRI	Global Reporting Initiative
IBF	Islamic banking and finance
ICSR	Islamic corporate social responsibility
IDB	Islamic Development Bank
IFIs	Islamic Financial Institutions
IFSB	Islamic Financial Services Board
IFSI	Islamic financial services industry
IP	The Indicator Protocol of GRI
ISCU	Internal Sharia compliance unit
ISO	International Organisation for Standardization
ISRU	Internal Sharia review unit
JUSE	Japanese Union of Scientists and Engineers
KFH	Kuwait Finance House
KPIs	key performance indicators
KSA	Kingdom of Saudi Arabia
OECD	Organization for Economic Co-operation and Development
PDCA	Plan, do , check, and act
RG	Reporting Guidelines of the Global Reporting Initiative
SPI	Social Productivity Index
SPSS	Statistical Package for the Social Sciences
SSB	Sharia supervisory board
TP	Technical Protocol of GRI
UAE	United Arab Emirates
UN	United Nations
UNEP	United Nations Environmental Program

DECLARATION

I hereby declare that the materials contained in this thesis have not been previously submitted in application for another degree to this or to any other learning institution. I further declare that, except for those quotations, citations or references that have been duly acknowledged, this thesis is the result of my original investigation.

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DEDICATION

To my wife with love.

WORDS OF ENCOURAGEMENT

When I was four years old, my father discussed with me the significance of being a graduate from a UK university. Since then, I have had that dream. Now I am forty-two years old and about to realize my dream at a post-graduate level. I started my PhD journey in 2008, and it took me seven years to reach to the day of writing these lines. Being a father of six children and an employee along with being a self-funded student, the PhD journey has been very challenging, but full of wisdom and knowledge. When I look at myself nowadays in comparison to who I was in 2008, I find many changes in my way of thinking and viewing the world around me. I can feel the influence of logic and the methodological way of thinking, arguing, and discussing in a world that is full of different and contradictory viewpoints.

Being a researcher at Durham University is so demanding; however, results are achieved in accordance with the effort devoted. During my PhD study, I would work for eight hours at my job, then dedicate at least three hours every night for my studies after a rest for two hours. With that stressful lifestyle, I was at risk of developing diabetes, with problems in the bloodstream and a nervous colon. Nonetheless, I have learned from the PhD journey the importance of time management, exercising and socializing while focusing on the ultimate objectives.

Currently, when I am preparing myself to finish this journey I feel like I cannot afford any lifestyle except the one that has knowledge production at its core. In fact, I hope that I will have opportunities to build on what I have gained from my PhD journey while implementing at least part of it.

CHAPTER 1: INTRODUCTION

1.1. Background

According to the (IDB¹ & IFSB² 2007), the Islamic financial services industry (IFSI) faces several challenges crucial to its future. Among these are human resource requirements, appropriate legal frameworks and, most importantly in terms of the subject of this thesis, credibility and sustainability. The latter have been highlighted by the IDB & IFSB (2007, p.27) as follows:

“As the *raison d’être* of Islamic banking is Shariah compliance, the core constituent of Islamic banks’ customers is always expected to remain very sensitive to this consideration. Such a preference among customers may be expected to introduce market discipline among banks in providing products and services of high Shariah credibility...”

The IDB & IFSB (2007, p.27) go on to link the credibility and sustainability of IFSI to the imitation of conventional finance practices by IFIs:

“Since Islamic banking is an unprecedented experience, to maintain soundness and to remain competitive, Islamic banks have no other option but to build on the experiences of the conventional banks. This results in their practices having a considerable degree of resemblance to the services of conventional banks, which is quite the opposite of the vision of *Shariah* scholars and perhaps of the aspirations of customers.”

Two important paradoxical implications can be inferred from the IDB & IFSB (2007) when it comes to the credibility and sustainability of IFIs: (1) IFIs are expected to provide a market discipline that leads to *Sharia* compliance; and (2) as the experience of IFIs is unprecedented, their practices are almost similar to the practices of their conventional

¹ The Islamic Development Bank (IDB) is an international financial institution with the purpose of fostering the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Sharia i.e., Islamic Law. For more details, see www.isdb.org.

² The Islamic Financial Services Board (IFSB) is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. For more details, see www.ifsb.org.

counterparts. Nonetheless, the reconciliation between these two different dimensions has tended towards a convergence between IFIs and their conventional counterparts at the expense of market discipline that leads to *Sharia*-compliance; hence, the notable criticism of the practices of IFIs³. In fact, the criticism of IFIs, from a theoretical point of view, is represented by the adherence of IFIs to the neo-classical philosophy, which is reflected in the business frames, rather than the realisation of the Islamic aspirations promoted by the moral axioms of Islamic economics (Asutay 2007a, b; Zaman & Asutay 2009). As will be explained in section 1.2, this has been a departure point for the present research to review the literature in order to comprehend the differences between the foundational philosophies of capitalism and Islamic economics.

Furthermore, from a functional and micro viewpoint, criticisms to IFIs revolve mainly around their social responsibility (e.g. Badr El Din 2006; Maali, Casson & Napier 2006; Sairally 2007). In fact, the call for Islamic corporate social responsibility (ICSR) has recently emerged in response to the global interest in incorporating more social responsibility into the practices of business organisations (Farook 2007; Dusuki 2008a).

The beginnings of the debate on corporate social responsibility (CSR) mainly started in the 1950s (see, for example: Carroll, 1999; Garriga and Melé, 2004; McWilliams, Siegel & Wright, 2006). Since then, the literature on CSR has evolved from an initial narrow focus and has mushroomed to deal with various different theories and approaches. However, the common denominator between all theories of and approaches to CSR is capitalism as the dominant economic system. This means that CSR is as old as capitalism (Wilson 1958). In fact, capitalism has always had an influential relationship with CSR (Gordon 1946; Heald 1957; Adizes & Weston 1973; Shamir 2004; Bevan & Corvellec 2005; Hanlon 2008; Kerr 2008). Any attempt to understand CSR in isolation from capitalism will lead to difficulties in gaining a comprehensive understanding of the concept and its implementation within capitalist economic systems (Blowfield & Murray 2008). Furthermore, one of the major factors contributing to the need for CSR has always

³ See for example Investment Dar's case with Blom Bank on <http://www.arabianbusiness.com/investment-dar-gets-sharia-board-blow-blom-case-282707.html>, the Dubai Islamic Bank's case <http://www.youm7.com/News.asp?NewsID=234268&SecID=24&IssueID=82>, Al Madina's case <http://www.alqabas.com.kw/Article.aspx?id=709698&date=06062011>, and Arif's case <http://www.alwatansudan.com/index.php?type=3&id=17932>.

been the criticism of the failure of capitalism to cater for social goals, and the abusive practices and scandalous behaviour in the system (Snider, Hill & Martin 2003; Fombrun & Foss 2004; Scherer & Palazzo 2007).

Taking into consideration the fact that Islamic finance is rapidly blooming all over the world (The Banker 2007; CIBAFI 2011), IFIs have become an integral part of the global financial system ⁴ that works under the umbrella of conventional economies (mainly capitalism). However, a convergence between the business models of IFIs and neo-classical ones have been subjectively noticed because IFIs have become more and more pragmatic to implicitly adhere to and promote the neo-classical economics (Zaman & Asutay 2009) but within an Islamic shape. At a micro or functional level, that implicit adherence to the neo-classical economics is reflected in the practices of IFIs; hence, a link between the theoretical and micro-functional criticism of IFIs. In fact, the practices of IFIs have been described as not being constructively built from classical jurisprudence, but they are alternatives or modifications of conventional practices that are sought whenever the latter deemed forbidden (El-Gamal 2006). This is in addition to the findings that the *Sharia*-compliant practices of IFIs are limited to structuring contracts so as to be permissible without taking into consideration the *maqasid al-Sharia* (*Sharia* objectives) (Yusof & Khan 2010). Thus, the criticism of IFIs for not contributing to the socio-economic objectives originally built in their business models (Choudhury 1994; Badr El Din 2006; Sairally 2007) or not achieving the aspiration of Islam by subscribing to the neo-classical value-free business models (Asutay 2007a; Zaman Y Asutay 2007) seem to be valid.

The existence of IFIs in capitalist economic systems has created two schools of thought regarding Islamic economics; specifically, between the concept of an adjusted capitalism and Arif's (1985a) notion of a stand-alone Islamic economic paradigm.⁵ According to Arif, the former recognises fundamental principles in common between Islamic

⁴ In its November 2008 report 'Gulf Islamic Banks Resilient Amid Global Credit Woes', Moodys commented on the case of the spread of Islamic finance using the saying 'No man is an Island' to indicate that IFIs do not operate in isolation from their local, regional and even international environments.

⁵ Arif (1985a) named it as the 'Sharia paradigm for Islamic economics', but the context of his argument supports the idea of stand-alone Islamic economic paradigm.

economics and capitalism, and calls for certain adjustments in capitalism to bring it into conformity with Islamic economics. Consequently, the theoretical work on ICSR is influenced by two approaches. The first pragmatically considers the use of the international standards and instrumental frameworks of conventional CSR. This is because IFIs operate in capitalist systems and have adapted in accordance with the rules of *Sharia* (e.g. Saillary 2007; Ullah & Jamali 2010; Williams & Zinkin 2010; Khan & Karim 2011). The second approach maintains that ICSR innately exists in the business models of the IFIs if they properly follow the axioms, worldviews, and epistemology of Islamic economics with the intention to achieve the embedded socio-economic objectives. The followers of such an approach are of the view that IFIs have deviated from achieving the socio-economic objectives of Islamic economics (e.g. Choudhury 1994; Badr El Din 2006; Asutay 2007a; Sairally 2007b).

Apparently, research on ICSR needs to combine several theoretical groundings related to the relationship between capitalism and CSR, the different theories of CSR, and Islamic economics and Islamic socio-economic objectives related to *Sharia* objectives. This is achieved in the three extensive literature review chapters in this thesis.

1.2. The findings of the literature review and the theoretical gaps

The findings of the literature review in Chapters 2 and 3 indicate that the current global concept of CSR does not exist in any economic system that is not related to capitalism (e.g. it does not exist in socialism or communism). Nevertheless, CSR itself has never been an indigenous component of capitalism (Adizes & Weston 1973), but an add-on to respond to criticisms to capitalism and capitalists (Snider, Hill & Martin 2003; Fombrun & Foss 2004; Scherer & Palazzo 2007). Accordingly, there have always been opponents and proponents to CSR.

The literature reviewed indicates that CSR has always been linked to capitalism and has been influenced by changes occurring in that economic system and the surrounding social and political environments. Thus, CSR was in its normative theoretical stage when Keynesianism economics was the dominant political ideology of capitalism (Gordon 1946; Heald 1957; Levitt 1958; Wilson 1958) when social welfare was largely the

responsibility of governments until the 1970s (Castles 2002). Meanwhile, instrumental CSR has emerged since the beginning of the era of neo-classical era in the 1980s. Instrumental CSR theories aim at providing frameworks for implementing CSR to achieve the long term objectives (mainly economic) of corporations (Whetten, Rands & Godfrey 2001; Garriga & Melé 2004). Furthermore, instrumental CSR frameworks have been used to develop the concept of the ‘business case for CSR’ (see the literature reviewed in Knox & Maklan 2004 and Weber 2005).

Theoretically, CSR has always been influenced by the ontological worldview (i.e. the view of the self interested and selfish economic man, and the view of Social Darwinism operating in society in neoclassical contexts) (Friedman 1970; Haas 1979, cited in Wartick & Cochran 1985). Davis (1973) provided several motivations for the ontological worldview of capitalism (i.e. self interest) supporting the argument for CSR. Amongst these were: the long run self interest that is also associated with profit interest for corporations, public image, the viability of business, avoidance of government regulations, and conforming to socio-cultural norms. This affected CSR by linking it epistemologically to capitalism (i.e. economic knowledge is like natural sciences knowledge and is value free). Therefore, the shift to instrumental CSR required the implementation of the concept on the basis of the business case for CSR.

The ontological worldview and epistemological considerations of capitalism have always influenced the different theoretical groundings of CSR. Thus, the CSR literature fails to bridge the gap represented by mismatches between the micro objectives of corporations and the macro objectives of society. Such a mismatch was explicitly clarified by Levitt (1958), who expressed his concern about preventing the democratic society from being controlled by corporations whose plans were limited to their interests.

On the contrary, Islamic CSR is built in the Islamic economics and accordingly is presumed to be natural output of the behaviours and actions of IFIs. Nonetheless, IFIs are more subscribers to the neo-classical business models (Asutay 2007a, b; Zaman & Asutay 2009) with their underlying philosophy in spite of the implimenttion of the standardised *Sharia* compliant contracts in their operations. A representative indication of this is that

the models used to measure the performance of IFIs in reality usually rely on the materialistic financial performance rather than the socio-economic dimensions of Islamic economics embedded in *maqasid al-Sharia* (Mohammed, Abdul Razak & Taib (2008) and promoted by the moral axioms of Islamic economics (Asutay 2007b).

When considering the philosophical foundations (i.e. worldview and epistemology) of capitalism and CSR, important questions about IFIs are raised. How should IFIs contribute to the achievement of the Islamic socio-economic objectives? How can IFIs be socially responsible while operating in capitalist contexts? Are they going to implement CSR or ICSR? Can ICSR be implemented in a capitalist context? These questions are implicitly answered by the two approaches to Islamic CSR explained earlier in this chapter. However, linking the answers of these questions to the comparison between the Islamic philosophical foundations and those of capitalism can facilitate comprehension of the differences between CSR and ICSR.

The epistemology of Islamic economics is unique in comparison to capitalism. While the latter considers value-free economic knowledge to be produced in the same way as scientific knowledge (i.e. using value-free economic scientific laws) (Pluta 1989), the former consists of Divine Law and human rationalism to investigate economic phenomena in accordance with divine law. This implies that the epistemology of Islamic economics involves both value judgements and positive judgements when addressing economic phenomena (Khan 1987; Chapra 1995; Naqvi & Qadir 1997).

Moreover, the epistemology of Islamic economics, when linking the Divine Law with the human rationalism, requires the efforts of jurisprudential scholars and economists in knowledge production (Al-Suwailem 2013). Thus, when a *Sharia* ruling regarding an economic phenomenon is inductively standardised, that ruling requires the efforts of economists to project the context in which it is going to be implemented (Al-Suwailem 2013) and to test the viability of the ruling after implementation (Imam Al-Qarafi, Cited in Al-Nashar 1984). The combination of these efforts provides the *Sharia* jurisprudence method with a feedback loop between inductive and deductive approaches. In his book *Research Methods of Islamic Thinkers and the Discovery of the Scientific Method in the*

*Islamic World*⁶, Al-Nashar (1984) provided detailed arguments and historical evidence from medieval scholars on the *Sharia* jurisprudence method and its inductive and deductive approaches. Moreover, Al-Nashar further discussed how the *Sharia* jurisprudence method can be used for Islamized knowledge production.

The ontological worldview of Islamic economics is based on the axiom that a human individual is a vicegerent of God on Earth (Arif 1985a; Al-Habshi 1987; Chapra 1995, 1991). Furthermore, that the human individual shares membership of the society with other individuals on the basis of brotherhood (Arif 1985a; Choudhury 1986; Al-Habshi 1987; Khan 1987; Chapra 1995b; Hasan 2005). Such a worldview is fundamentally different from that of capitalism (mainly neoclassical capitalism), where the human individual is viewed as a selfish economic man who interacts with other members of the society based on social Darwinism (Brenner 2000; Giroux 2004; Amable 2011).

A key question can be raised here: are neo-classical business models considered to be neo-classical because they follow the neo-classical ontological worldviews and epistemology? The answer of this question is directly related to the relationship between the knowledge produced in a discipline and the implementation of that knowledge in reality. The epistemology and ontology embraced by a discipline should definitely affect the knowledge produced in that knowledge (Burrell & Morgan 1979; Brayman & Bell 2005). Accordingly, the knowledge produced in neo-classical economics as a discipline is influenced by the worldviews and epistemology of that discipline. Given this, does the knowledge produced in a discipline influence the actual implementation of that knowledge in reality? Logically, the answer is 'yes' because those who implement the knowledge receive their education and training in that knowledge (Hoshmand & Polkinghorne 1992). Based on that, the argument of those who view IFIs as neo-classical institutions can be laid on the ground that they operate in the markets according to value-free materialistic performance for the self-interested selfish economic man, who has economic relations with other members of the society based on the social Darwinism

⁶This book is in the Arabic language with the title: *Manahij Al-Baith Inda Mufakkeri Al-Islam Wa Iktishaf Al-Manhaj Al-Ilmi Fi Al-Alam Al-Islami*

theory. In other words, IFIs are not considered as Islamic economic institutions because they do not operate in the markets according to the values of the Islamic moral axioms reflected on the performance of a vicegerent of God on earth, who has economic relationships with other members of the society based on justice, beneficence and brotherhood. Such an argument on the link between the philosophy and the actual operation facilitates the complimentary link between two points of view regarding the status of IFIs. The first point of view pertains to those who theoretically view the major issue within the IFIs is their adherence to neo-classical frame of business understanding and therefore ignoring the Islamic ethical principles of developing a value oriented embedded business understanding (e.g. Asutay 2007a, b; Zaman & Asutay 2009). The second point of view pertains to those who view the problem of IFIs is their weak implementation of Islamic CSR (e.g. Badr El Din 2006; Maali, Casson & Napier 2006; Sairally 2007). The operationalisation of the link between the two viewpoints can be facilitated by a managerial tool that supports IFIs to operate in accordance with the values of the Islamic economics axioms and the Islamic philosophy represented by the Islamic worldviews and epistemology. In other words, how can IFIs operate in a way that makes them in compliance with the Islamic axioms, worldviews and epistemology in order to achieve the Islamic socio-economic objectives?

The ICSR literature reviewed in Chapter 4 reveals that, when addressing ICSR, authors either subscribe to an adjusted conventional CSR approach or an innate Islamic CSR approach. However, in neither case do researchers argue for or against the usage of conventional CSR frameworks and models at the fundamental level of worldviews and epistemology. This approach to ICSR can facilitate the comprehension of the boundaries between capitalism and CSR on the one side, and Islamic economics and ICSR on the other side. For example, if a researcher in ICSR decides to use stakeholder engagement techniques provided by the GRI standard on sustainability reporting, how should the researcher rank and prioritise stakeholders? The CSR literature mainly prioritises stakeholders based on criteria like stakeholders' legitimacy, power and urgency that may affect the business (e.g. Mitchell, Agle, & Wood 1997). In this regard, voiceless and powerless stakeholders have the least priority for business organisations. Apparently, the

criteria of stakeholder ranking has a lot to do with the philosophy of capitalism (i.e. self-interest and selfishness). However, in Islamic economics, which requires the vicegerents of God on earth to promote justice and beneficence and brotherhood, stakeholder ranking must be in a just way regardless of their power and legitimacy. Thus, voiceless and powerless stakeholders should be treated the same way other stakeholders are treated. In this regard, it is clear that stakeholder engagement as a conventional CSR concept, can be accepted by IFIs but without the criteria used in conventional CSR due to the difference of the foundational philosophy between capitalism and Islamic economics.

Accordingly, the first theoretical gap in the ICSR literature concerns justifications for comparing and using conventional CSR conceptual frameworks at the foundational level of the Islamic worldview and epistemology. When filled, such a gap can provide the required guidance for IFIs to operate within capitalist systems in accordance with the axioms, worldviews and epistemology of Islamic economics, but at a micro level as long as Islamic economics is not the mainstream.

The second theoretical gap is in linking the Islamic ontological worldview with its epistemology in order to provide suitable methodologies for ICSR. For example, Sairally (2007) discusses appropriate Islamic worldviews but measures the CSR of IFIs on the basis of the corporate social performance (CSP) model. In other words, the worldviews and epistemology of conventional CSR are used to measure the social responsibility of IFIs.

Literature review has shown that *Sharia*-compliant frameworks for implementing ICSR have not yet been sufficiently provided (with the exception of that proposed by Dusuki & Abdulah 2008). Arguments on the Islamic foundational axioms, worldviews, and epistemology have not yet been sufficiently operationalised into functional frameworks that can facilitate IFIs' contribution to the Islamic socio-economic objectives embedded in *maqasid al-sharia* (*Sharia* objectives).

This leads to another gap in the literature of ICSR and the operationalisation of *maqasid al-Sharia*: measuring the moral added values of IFIs. For example, the corporate social

performance model is used to measure the social performance of companies. In other words, there is a model used for implementing CSR and producing indicators against which the social performance can be gauged (detailed explanation on this can be found in Wood 2010). This is a logical relationship between measuring the end results while understanding how those results have or have not been achieved. However, the case is not the same for IFIs.

Although the literature on ICSR and *maqasid* operationalisation is still in a nascent stage, some attempts have provided considerable contributions that may pave the way for the proper link between measuring the moral values of IFIs while linking them to how they have or have not been achieved. Mohammed, Abdul Razak & Taib (2008) have proposed a *maqasid*-based model to measure the performance for Islamic banks. The authors have claimed they have operationalised the *maqasid* classification of Abu Zahra (1997). Accordingly, they have identified three broad objectives of *Sharia* that could proxy for performance measurement, namely *tahdhib annafs* (individuals' education and discipline), *adl* (justice), and *masalah* (public interest). Mohammed & Taib (2010) enhanced the model of Mohammed, Addul Razak & Taib (2008) in terms of changing some the elements representing the three groups of *maqasid* and some of the performance ratios that measure them. Antonio, Sanrego & Taufiq (2012) has used the same index developed by Mohammed & Taib (2010) to analyse the performance of two Islamic banks from Indonesia and another two Islamic banks in Jordan.

Based on Bedoui (2012), Bedoui & Mansour (2015) claim to provide an elaborative model for gauging Islamic business ethics based on *maqasid al-Sharia*. They argue that their model facilitates a new quantitative measure that is based on a five-pillar (i.e. the five *Sharia* objectives as identified by Al-Gazali) approach and structured through a pentagon-shaped scheme. They have extended the five *Sharia* objectives of Al-Ghazali (i.e. religion, human life, progeny, material wealth and human reason) into eight by adding ecology, social entity and human rights from the classification of Al-Najar (2006); and then proposed a mathematical measure capturing global performance in the light of *maqasid al-Sharia*.

In spite of the uniqueness of their model, Bedoui & Mansour (2015) have stated that their model has two limitations. The first one is the value measure as a proxy to ethical measurement. Thus, it is "unfair to claim that the quantitative measure is exhaustive and perfectly reflects the ethical performance. Indeed, “values” alone cannot be used perfectly for valuation issues" (p. 570). The second limitation is related to the personal characteristics – particularly religiosity level- of decision makers within organisations.

The limitations of Bedoui & Mansour (2015) are significant in terms of measuring *maqasid* and can be generalized to all other studies measuring *maqasid* based on proxy indicators (e.g. Mohammed, Abdul Razak & Taib 2008, and their followers). The first limitation is explicitly considered in the literature of CSR as the limitation of “context dependence of moral action” that may affect the norms and values by making them “not fixed” (Graafland, Eijffinger & Smid Johan 2004). Islamic jurisprudence takes into account the issue of the context dependence of the action prior to the ruling issuance; thus, even standardised (i.e. codified rulings) should be considered in terms of the contexts in which they are going to be applied (this is explained in details in Abu Zahra 1997; Al-Najar 2006; Al-Raysuni 2006; Al-Suwailem 2013). For example, the European Council for Fatwa⁷ and Research (ECFR) issued a fatwa (*Sharia ruling*) that permitted Muslims living in non-Muslim countries to use interest-based mortgage facilities offered by conventional financial institutions. The fatwa aimed at achieving the objectives of preserving human lives and wealth. However, the text of the fatwa limited it by location, time, and the availability of *Sharia*-compliant alternatives. Taking this example for measuring *maqasid al-Sharia*, the models developed by (Bedoui & Mansour (2015) Mohammed and Abdul Razak & Taib (2008) and their followers can give negative results. This is because they tend to measure the end results without considering the context in which the end results have occurred. Another important indication of that fatwa is that it concerned a codified *Sharia* ruling (i.e. the prohibition of *riba*) meaning that *Sharia* rulings can or cannot be implemented according to achieving *maqasid al-Sharia* in specific contexts.

⁷ Details of the fatwa can be accessed at <http://e-cfr.org/new/fatwa/>.

The context dependent limitation of measuring *maqasid* leads to an important finding related to measuring *maqasid*: the proxies to be used. Since the values are dependent on the context, it is better to measure the proper implementation of the jurisprudence method that leads to the achievement of *maqasid*. This means that if IFIs properly implement the *Sharia* jurisprudence method, they shall achieve *maqasid*. However, *maqasid* themselves are not limited to a shortlist, but they are infinite list that is reached by reasoning to serve the changing and dynamic status of human life (same argument is in Siddiqi 2004, cited in Asutay 2007b)

Accordingly, the third and fourth theoretical gaps concern the lack of frameworks for the practical implementation of and for measuring ICSR when ICSR. In fact, these two gaps basically depend on the former theoretical gaps, because developing a framework for ICSR and measuring its practices by IFIs depend on the fundamental philosophy that governs knowledge production in Islamic economics with its unique ontological worldviews and epistemological characteristics.

1.3. Research problem

As indicated earlier in this chapter, criticising IFIs for not being socially responsible has led to wide debate on their practices (e.g. Badr El Din 2006; Maali, Casson & Napier 2006; Sairally 2007) as indicators for being neo-classical institutions in an Islamic shape (e.g. Asutay 2007a,b; Zaman & Asutay 2009) but not really institutions of Islamic economics. However, an IFI is considered to be ‘Islamic’ provided that it has a *Sharia* supervisory board (SSB) that is responsible for overseeing the *Sharia* compliance of that institution. Thus, if the proper *Sharia* system is well reflected in the managerial system within IFIs, then the practices of IFIs are socially responsible by default.

As divine law, *Sharia* aims to achieve higher socio-economic objectives represented by the higher *maqasid Al-Sharia*. The higher *maqasid al-Sharia* are served by sub-*maqasid* pertaining to each individual *Sharia* ruling. Thus, in a specific context, some sub-*maqasid al-sharia* might be in conflict between themselves on the one hand. On the other hand, other individual interests or even organisational interests and objectives might be in

conflict between themselves. The *Sharia* jurisprudence method is the means for producing rulings regulating the relationship between those *maqasid*. In fact, timely and contextual *Sharia* rulings guarantee fair and balanced settlements between different objectives and interests when there are conflicts between them. The ultimate objective of *Sharia* is accordingly achieved by bringing benefits and avoiding harms. This argument was originally found in *Imam Al-Shatibi's Theory of the Higher Objectives and Intents of Islamic Law* (Al-Raysuni 2006) and the other contemporary scholars (e.g. Abu Zahra 1997; Al-Najar 2006).

The responsibility for achieving of *Sharia* objectives is not limited to IFIs. In fact, it is a comprehensive responsibility that is shared by the different bodies in the Islamic economic system. Nevertheless, IFIs are proliferating across the world and operate under the umbrella of conventional economies. Therefore, the research problem for this thesis is the need to develop a framework for implementing the Islamic CSR of IFIs that operate under conventional economic systems (i.e. mainly capitalism). Such a framework should help IFIs contribute to the achievement of *Sharia* objectives, and the means to achieve *Sharia* objectives is the *Sharia* jurisprudence method that facilitates the production of timely and contextual *Sharia* rulings. Thus, the reflection of the *Sharia* jurisprudence method in the management systems of IFIs is the core of the framework for Islamic CSR which needs to be developed. Furthermore, such a framework can be used as a proxy to measure the way IFIs achieve *maqasid*, where:

(1) *maqasid* cannot be shortlisted in a finite list to meet the dynamic and changing needs of our current lives (Siddiqi 2004).

(2) The values of shortlisted *maqasid*, if any, cannot be measured due to the context dependent nature of those values (Graafland, Eijffinger & Smid Johan 2004).

Moreover, the need for a framework for implementing and measuring Islamic CSR is also important because the literature on Islamic CSR is in its early stages. In addition, it so far lacks a proper reflection of the Islamic worldview and epistemology in frameworks proposed to be viable for implementation.

The *Sharia* jurisprudence method is at the heart of Islamic epistemology (Al-Nashar 1984), and is used to produce *Sharia* rulings governing the practices of IFIs which contribute accordingly to the achievement of the *Sharia* objectives. Thus, the framework for implementing Islamic CSR should revolve around that *Sharia* method. In this regard, a good deal of literature on the PDCA (plan, do, check, act) model and its usage in management and CSR implementation has been reviewed. One remarkable finding about the PDCA model is that it revolves around the scientific method that consists of feedback the between inductive and deductive stages underlying the plan, do, check and act phases (Tsutsui 1996; Moen & Norman 2010). Thus, the PDCA cycle can be adapted with the *Sharia* method in order to develop a managerial framework for implementing and measuring Islamic CSR. This is because the *Sharia* method also consists of loops between inductive and deductive stages.

Given the fact that the scientific method underlies the PDCA, the continuous loops of the PDCA shall produce profound knowledge to the implementing organisations. Thus, the continuous implementation of the *Sharia* jurisprudence method when underlying the PDCA shall lead to produce *Sharia* knowledge related to *maqasid*.

1.4. Research aim and objectives

In light of the theoretical gaps and the research problem identified above, the aim of the present research is to develop a framework for implementing Islamic CSR, where Islamic CSR is embedded in the achievement of *maqasid al-Sharia*, and where *Sharia* objectives are achieved through the managerial implementation of the *Sharia* jurisprudence method. The following objectives are developed to serve the overall aim:

1. To review the evolution of CSR in light of the socio-economic and political surroundings of capitalism. This is the concern of Chapter 2.
2. To review frameworks for of CSR and the usage of the PDCA in the managerial implementation of CSR. This is the concern of Chapter 3.

3. To explore the normative foundations of Islamic CSR on the basis of the worldview and epistemology of Islamic economics. This is addressed in Chapter 4.
4. To identify the fundamental philosophical and axiomatic differences between Islamic economics and capitalism. This is addressed in Chapter 4.
5. To explore the way the philosophical foundations of Islamic economics can be functioned, and they way they can be deployed to achieve Islamic CSR. This is addressed in Chapter 4.
6. To develop a framework for implementing Islamic CSR, where the PDCA cycle is the managerial tool for that framework, and where the *Sharia* jurisprudence is the method underlying the PDCA. This is the concern of Chapter 6.
7. To test the ability of the framework developed for Islamic CSR to describe reality. This is the first concern of Chapter 8.
8. To analyse the viability of the practices of GCC IFIs in achieving contextual and infinite contemporary *maqasid*. This is the second concern of Chapters 8.
9. To describe the extent to which GCC IFIs implement Islamic CSR. This is addressed in Chapters 7 and 9.
10. To provide statistical evidence on the arguments for or against the contribution of IFIs in achieving *maqasid al-Sharia*. This is addressed in Chapter 9.

1.5. Research questions

In light of the research objectives, the following research questions have been developed:

The main question of the research is as follows:

What is the nature of Islamic CSR that is based on in-built compliance with *Sharia* objectives and how can Islamic CSR be implemented and GCC IFIs where *Sharia* objectives are achieved through the managerial implementation of the *Sharia* jurisprudence method?

To answer this key question, the following sub-questions have been developed:

1. What is the nature of the relationship between CSR and capitalism?
2. What are the theoretical foundations of the managerial frameworks of CSR; and how PDCA is used to implement CSR?
3. Based on the worldview and epistemology of Islamic economics, what are the normative foundations of Islamic CSR?
4. What are the fundamental philosophical and axiomatic differences between Islamic economics and capitalism; and how they can affect the implementation of Islamic CSR?
5. How can PDCA-based CSR efforts be adapted in light of the normative foundations of Islamic CSR?
6. How can the *Sharia* jurisprudence method be reflected in a PDCA framework of Islamic CSR which generates socially responsible practices by IFIs?
7. Does the statistical evidence support the ability of the PDCA framework of Islamic CSR to describe reality?
8. Do the practices of IFIs lead them to achieve *maqasid al-Sharia* and Islamic CSR accordingly?
9. To what extent do GCC IFIs implement Islamic CSR?

9.1. Research methodology

The methodology used in the present research is explained in detail in Chapter 5. The research is exploratory by nature due to the lack of existing literature on Islamic CSR. However, it uses a quantitative approach to answer some of the research questions both deductively and inductively. According to Saunders, Lewis & Thornhill (2007), an exploratory study is helpful when there is a need to clarify the understanding of a problem. It is also helpful when the researcher is unsure about the precise nature of the problem. The problem of the current study is not ambiguous, but it contains elements related to different theoretical groundings. Specifically, the concept of Islamic CSR needs to be addressed in an exploratory way due to the lack of existing theoretical and empirical studies. Moreover, exploratory research can be used when the study of a problem is at a preliminary stage (Babbie 1989). It is worth mentioning that IFSI is still in its early stages, having started in its modern form during the 1970s, and the study of the CSR of IFIs is also in its early stages.

The present research is designed in accordance with the philosophy of the functionalist paradigm (Burrell & Morgan 1979). The functionalist paradigm is considered to be the most widely used in business and management research (Bryman & Bell 2007). Therefore, the current research can be categorized as an instrumental study that aims to identify and provide solutions for problems encountered by IFIs when they intend to implement Islamic CSR. Several studies that use instrumental models to implement CSR and which are considered to lie within the functionalist paradigm (Scherer & Palazzo 2007) are discussed in Chapter 2 (e.g. the CSP models of Carroll 1979, Strand 1983, Freeman 1984, Wartick & Cochran 1985, and Wood 1991).

The framework of Islamic CSR developed in Chapter 6 of the thesis needs to be supported by rational objective evidence about the relationship between the components of that framework while providing objective descriptive analysis concerning the status quo of Islamic CSR implementation by IFIs. Moreover, some of the relationships between the *Sharia* practices within the framework of Islamic CSR and the explicit knowledge of *maqasid al-Sharia* and CSR need to be objectively explained. This will contribute to

adding objective knowledge about the implementation of the *Sharia* jurisprudence method that leads to the achievement of *Sharia* objectives and interests by IFIs. Thus, the knowledge that is produced will be based on the assumption that IFIs comprise of consistently real processes and structures that determine the work behaviour of their employees (Burrell & Morgan 1979).

Consequently, the research follows a quantitative approach to answer the relevant research questions deductively and inductively. With regards to the deductive approach, nine null hypotheses have been developed based on the literature on the PDCA model and the logic underlying that model. Thus, the research embraces a cross-sectional strategy to collect data via a questionnaire survey targeting *Sharia* employees in GCC IFIs.

9.2. Research significance and limitations

Addressing the ICSR of IFIs has value in itself. This is because the literature and theory of ICSR is still in a nascent stage, and the Islamic financial services industry is still considered to be in its infancy in comparison to the deeply rooted conventional counterpart. This, in fact, leads to both the significances and limitations of the present research.

Contributing to the enrichment of a literature that is in its early stage is considered to be significant, but the lack of an existing literature creates challenges for the theorization of a relatively new concept. Furthermore, the four theoretical gaps identified in the literature review creates challenges with regard to linking different concepts from different theoretical groundings in order to provide a framework for implementing ICSR when IFIs operate in conventional economies. Nonetheless, the major significance of the present research is that it addresses a central problem when developing an ICSR framework on the basis of combining *maqasid al-Sharia* theory, the PDCA model, the *Sharia* jurisprudence method, and the procedural steps of the international standards of CSR (i.e. GRI, ISO 2600, and Accountability). This combination of different theoretical groundings and philosophical foundations is also considered to be significant in the

present research because of its consideration of Islamic philosophy (i.e. the ontological worldview and epistemology) when using conventional models and frameworks.

A third area of significance of the present research is that it provides statistical evidence that supports the viability of the developed ICSR framework in describing reality; hence, its reliability in measuring the extent to which ICSR is implemented by IFIs. With that evidence, the present research paves the way for further studies dealing with Islamic CSR on the basis of Islamic philosophy, *maqasid al-Sharia* and the *Sharia* jurisprudence method as the core of its managerial implementation.

Nonetheless, the present research has faced several limitations related to data collection. The sample size achieved has imposed limitations in terms of the statistical techniques which could be used for data analysis. The size of the effect of the relationships between variables could not be used in order to test the hypotheses; hence, the reliance on null hypotheses. This is due to the fact the response rates in studies targeting IFIs are usually low, as shown in previous studies (see Chapter 5 for more details).

The population of the present research comprises of all Islamic financial institutions (IFIs) operating on land in all GCC countries excluding Oman. In fact, Oman had no single Islamic financial institution before 2012, and when data was collected for the present research, only one Islamic bank and one *takaful* operator were in the set-up phase in Oman.

There were no reliable formal up-to-date lists of GCC IFIs at the time the sample frame was prepared, and so a list was prepared by the researcher based on information collected from two different sources: (1) the Directory of Islamic Finance of the General Council for Islamic Banks and Financial Institutions (CIBAFI 2011); and (2) the database of Al-Mashora and Al-Raya for Islamic Finance Consulting, Kuwait. The result was an initial list of 139 fully-fledged GCC IFIs.

However, further checks were conducted in order to determine the eligibility of the IFIs to be included in the survey (see Chapter 5). The final list of the sample frame consisted

of 77 GCC IFIs eligible for inclusion in the survey. Those 77 institutions were given equal opportunities to participate in the questionnaire; however, the majority was not responsive. Accordingly, the sample can be considered as a limitation of this research.

The low response rate (i.e. 37 per cent) in this study might be explained in terms of issues of confidentiality and competitiveness related to IFIs as well as their mushrooming distribution in different countries across the world. In fact, one of the most important challenges that faced the researcher during data collection was confidentiality, which was a concern for both the respondents and their IFIs.

Furthermore, the data collection phase in the present self-funded research was limited by time and cost considerations. The researcher extended the timeframe of the study in order to increase the response rate as much as possible while collecting data from five different countries with the help of a specialist polling centre.

9.3. Outline of the thesis

The present research consists of ten chapters, including this introduction. In Chapter 2, the relationship between CSR and capitalism is theoretically reviewed to understand the influence of each on the other. That relationship between CSR and capitalism forms the basis for Chapter 3 in which the historical development of theories of CSR is reviewed with the aim of understanding the impact of capitalism and the accompanying socio-political and social circumstances on the development of the concepts involved.

In Chapter 4, the literature on Islamic CSR is reviewed in relation to the philosophical foundations of capitalism and Islamic economics; hence, the identification of four theoretical gaps which are used to develop the theoretical framework of the present research in Chapter 6. Additionally, Chapter 4 discusses the normative foundations of Islamic CSR while linking the Islamic ontological worldview and epistemology. The theory of *Sharia* objectives (*maqasid al-Sharia*) is extensively discussed with the aim of understanding the logical relationship between *Sharia* interests (*masalaha*) and *Sharia* rulings that lead to the achievement of *maqasid* through the *Sharia* jurisprudence method.

The research methodology is explained in Chapter 5, where the justification for using the functionalist paradigm is given, and the research design, strategy and method are explained. In Chapter 6, the framework of Islamic CSR (ICSR) is developed in accordance with the normative foundations laid in Chapter 4. Furthermore, Chapter 6 makes use of the PDCA model and international standards of CSR and adapts them in accordance with Islamic philosophy so that the ICSR framework can be viable for implementation.

In Chapter 7, a descriptive analysis of the results from the survey is furnished. This is followed by an inferential analysis in Chapter 8 where hypotheses are tested and other statistical patterns are inductively explored in order to answer the research questions.

In Chapter 9, the results of the research are discussed, integrating the theoretical and empirical findings in order to link what has been concluded theoretically with what has been proven statistically.

In Chapter 10, the overall conclusions of the study are provided along with recommendations for IFIs regarding the proper implementation of the *Sharia* jurisprudence method and accordingly the contribution to the achievement of *Sharia* objectives that embed the social responsibility of IFIs.

CHAPTER 2: THE RELATIONSHIP BETWEEN CAPITALISM AND CORPORATE SOCIAL RESPONSIBILITY

2.1. Introduction

Although corporate social responsibility (CSR) may have a semantic indication that limits it to the micro level of the corporation itself, it has evolved and developed under the influence of much more broader factors that can be understood at a macro level. The phrase (corporate + social + responsibility) can be understood at a macro level in relation to the (economic + social + political) factors contributing to the emergence and development of the concept. Such a paraphrasing of the concept is supported by the fact that CSR has theoretically evolved within economic (e.g. Friedman 1970), social (e.g. Bowen 1953, cited in Carroll 2008), and political (e.g. Davis 1960, 1973) theories, amongst others.

Based on the premise that an understanding of the past is necessary to understand the present, the aim of this chapter is to provide a macro viewpoint to those factors and their impacts on the present day global phenomenon of CSR. Therefore, to work towards synthesising the three factors, the current chapter places the economic factor in the centre of the discussion while reviewing the political and social factors within socio-economic and political economy contexts. In this regard, capitalism as the prevailing economic system beside which CSR has emerged and evolved is taken into consideration.

According to Swedberg (2005), sociologists' perspectives on capitalism have always addressed it in terms of its effects: how it has led to class struggle, anomie, inequality, and social problems more generally, thus being part of a political critique of capitalism. Contrastingly, dominant economists' perspectives regard capitalism as a growth machine and a system of great merit.

The perspective of the growth machine of capitalism is based on the open market model that is assumed to work in the public interest and achieve sound socio-economic political goals (Adizes & Weston 1973). In many contexts even in largely capitalist contexts,

social welfare is an integral part of the goals, but the responsibility for it has always been a contentious issue based on several questions of its broader implications: ‘Who’ bears the social responsibility; ‘how’; ‘why’; and, ‘to what extent’? To attempt to answer these questions, first another broader question needs to be considered: How has social responsibility been recognised in the view of corporations?

2.2. Capitalism and the criticism-change cycle

Capitalism is the dominant economic system in the world. The fall of the Soviet Union gave capitalism an advantage over other economic systems in our modern life. Fukuyama (1992) argued that after the fall of the Soviet Union that the debates on capitalism and democracy were over as they had proven their worth. In recent years, in regimes where socialism is dominant (such as in China) there have been serious attempts to turn the economic system into a capitalist one so that it operates in a more efficient manner (Swedberg 2005). Also in recent years, more specifically since the fourth quarter of 2008, the world has witnessed the start of the global financial crisis after which Fukuyama (2008) lamented that “a certain vision of capitalism has collapsed”. In fact, between Fukuyama’s (1992) praise and Fukuyama’s (2008) criticism, changes happened to capitalism. Nonetheless, this cycling between change to capitalism and criticism of capitalism is not new. In the era following the Second World War, capitalism was criticised (Heald 1958; Gordon 1946), hence the change by embracing the Keynesianism economics. Similarly, in the 1970s capitalism was again subjected to criticism, and in that era it led to the move towards neo-classical economics (Harvey 2005).

In essence, capitalism has several diverse forms that “has been seen as a matter of evolutionary development” (Crouch 2009 p. 75). This evolutionary development is a result of the interaction of several socio-economic and political trends leading to non-substantial changes in capitalism itself (Hancke 2009). However, those same trends have led to changes in the concept of social responsibility and the role of private sector in achieving it that have been substantial.

2.3. Capitalism and the exogenous relationship with CSR

The substance of capitalism, according to Adam Smith, is that for a nation to be wealthier, it should have competitive markets in which resources are allocated in the best way, while the individual self-interest is pursued. The role of government, from Smith's viewpoint, is to intervene in the market in a limited way to form what is known as the 'laissez fair' system (Blowfield & Murray 2008). Based on that, it is normal to view the only responsibility of business as increasing profit (Friedman 1970). In fact, CSR when it was initially introduced during the first half of the 20th century, it was considered as radical change in terms of displacing the substance of the corporation as a private, exclusively shareholder and profit oriented enterprise (Pillay 2006). Furthermore, opponents of CSR (e.g. Levitt 1958; Friedman 1970; Haas 1979, cited in Wartick & Cochran 1985) state that CSR implies radical changes in the liberal-democratic order and it does not fit with the political theory of the free market (Dubbink 2004).

One of the major factors contributing to the need for CSR as an add-on to capitalism has always been the criticism of capitalism because of its failure to cater for some social goals and because of abusive practices and scandals surrounding corporations (Snider, Hill & Martin 2003; Fombrun & Foss 2004; Scherer & Palazzo 2007). This is because CSR is not built in the capitalist system where economists view the increase of profitability as the only responsibility of business (Friedman 1970).

However, an interesting point that is not widely known is that the concept of social responsibility is as old as capitalism (Wilson 1958). According to the management historian Daniel A. Wren, "CSR is as old as the 1800s industrial revolution in Great Britain and America where several concerns about women and children's employment, slums, and poverty were raised with the emergence of the factory system" (Carroll 2008, p. 21). Notwithstanding this, CSR and capitalism haven been in a debatable relationship that has opponents, as explained earlier, and proponents following CSR pioneers (e.g. Bowen 1953, cited in Adizes & Weston 1973; Fredrick 1960; Davis 1967) who wanted to breed generations of businessmen caring about the social needs (Adizes & Weston 1973). This has been reflected in the way CSR is usually theorized in association with

capitalism (e.g. Gordon 1946; Heald 1957; Adizes & Weston 1973; Shamir 2004; Bevan & Corvellec 2005; Blowfield & Murray 2008; Hanlon 2008; Kerr 2008).

To gain a comprehensive understanding of the concept of CSR, it is necessary to understand its implementation within the capitalist economic system and furthermore, to consider why some aspects of CSR can or cannot be implemented within capitalism or an alternative economic system (Blowfield & Murray 2008). However, the exogenous relationship of CSR to capitalism can be comprehended when considering the open market model and whether it can or cannot accept CSR. That was specifically clear when the first ideas on CSR were considered as radical change to capitalism (Pillay 2006) during the first half of the 20th century. Additionally, the exogenous relationship between CSR and capitalism can be comprehended when considering the ability of capitalism to deal with moral changes without affecting its substance. Thus, the voluntary practices of CSR based on the business case of social responsibility have been increasingly accepted since the start of the neo-classical era in the late 1970s. Those practices are described by Pillay (2006) as being less radical change to capitalism.

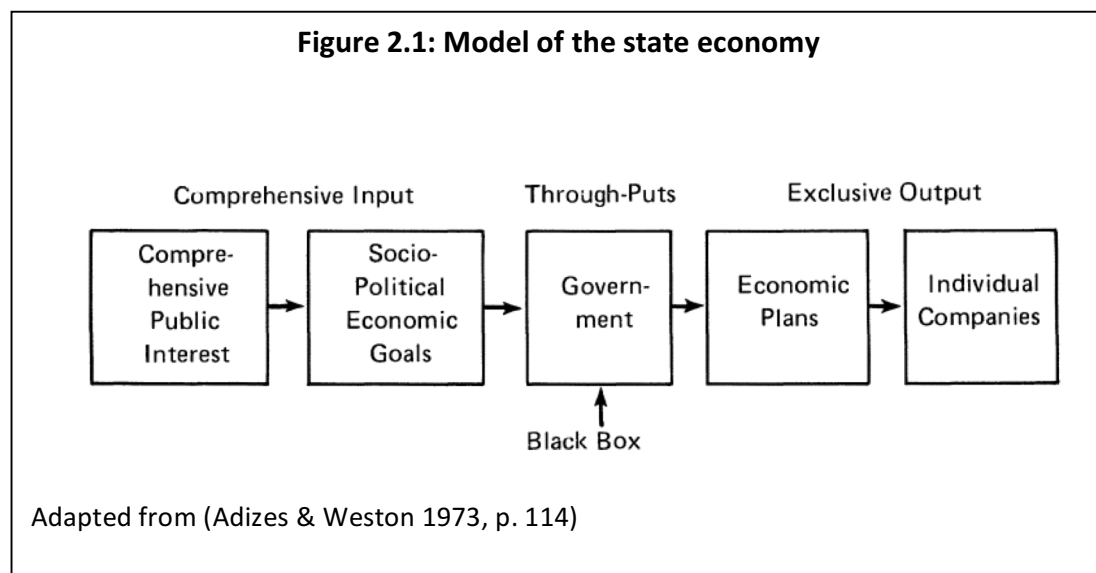
2.3.1. Capitalism and the open market model

For any economic system, the ultimate goal is to achieve the comprehensive public interest for all the society which has socio-economic political goals. Whatever the economic system is, there are elements that formulate the inputs and outputs. The difference between one economic system and another is the positioning of the elements in the inputs and the outputs. This is in addition to the nature of the process through which inputs are transited into outputs and consequently achieve the desired goals (Adizes & Weston 1973).

To understand how capitalism deals with those elements in order to achieve the comprehensive public interest, it is important to understand how another economic system does the same. Such an approach usually uses the theoretical mechanisms of the communist economic model to make the comparison (e.g. Blowfield & Murray 2008;

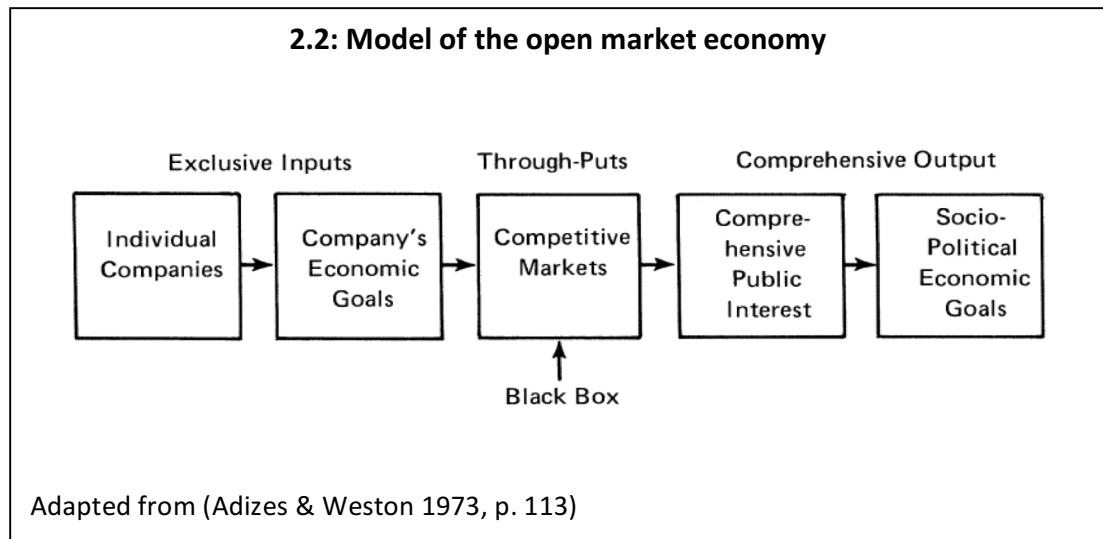
Hanlon 2008; Adizes & Weston 1973) and then understand the externality of the relationship between capitalism and CSR.

Adizes & Weston (1973) compare between communism (the state economy model in Figure 2.1) and capitalism (the open market model in Figure 2.2) in terms of how to achieve the comprehensive public interest. Based on the communist doctrine of classless society, they argue that the unity of interest creates no conflict of interest, hence no need for a mechanism to solve conflicts. Therefore, the comprehensive public interest is presumed to be known and consequently the socio-political economic goals are identified, and both of them formulate the comprehensive input of the model. The processor of the model (i.e. the black box) is the governmental agencies that are responsible for providing a comprehensive plan as an exclusive output to be implemented by different organisations in the society.



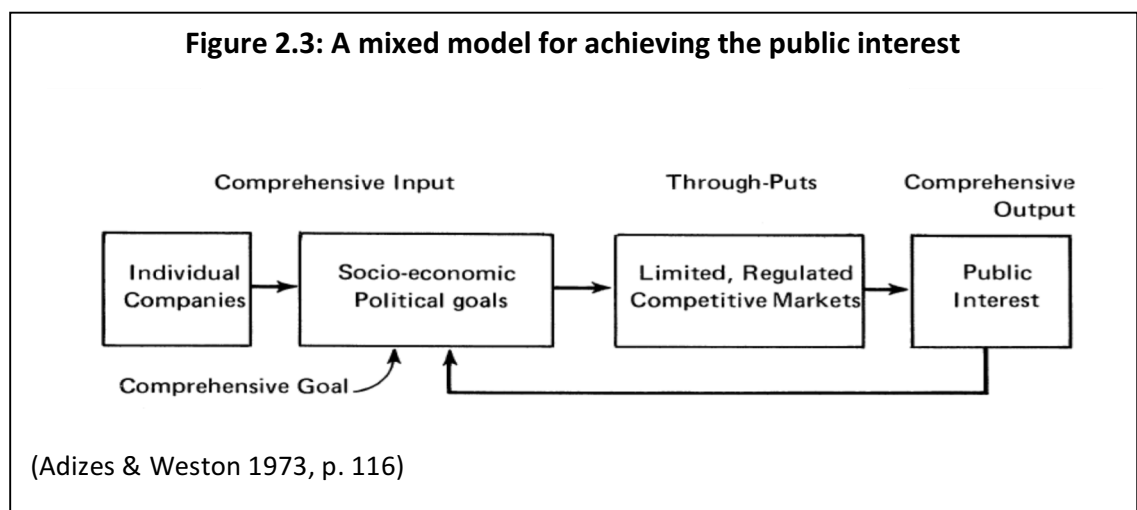
In the classical open market model illustrated in Figure 2.2, individual companies along with their pure economic goals are the exclusive inputs of the model. Each individual company will strive to achieve its pure economic goals which are assumed to achieve broader comprehensive public interest. The black box of the model is the competitive market where companies interact in order to provide what are supposed to be the desirable social and political values (Adizes & Weston 1973, pp. 113-114).

The common denominator between the state economy and the open market economy models is that they both assume that the public interest is achieved through mechanisms external to the individual companies (Adizes & Weston 1973). In the state economy model it is the government that resolves the issue of public interest, whilst in a capitalist regime it is the open and competitive market that resolves that issue.



So, how can CSR fit into the open market model where companies interact with pure economic goals? How can companies have social goals while their substance of existence is pure economic? During the initial stages of the concept, the moral school of the advocates of CSR at the time (e.g. Bowen 1953; Davis 1960; Fredrick 1967) was influencing changes in the model of the open market economy, by aiming to breed a new generation of businessmen who would take on a comprehensive public responsibility as a set of morals and values that would enrich their business ethics (Adizes & Weston 1973). That moral movement of the social responsibility of businessmen was opposed by classical economists who argued that the social responsibility was the responsibility of government whilst the responsibility of business was to increase profits (e.g. Levite 1958; Friedman 1970). In fact, neo-classical economists viewed the imposition of CSR into the open market model would make capitalism only a step away from socialism (Friedman 1970). This is because the impositions of CSR into the open market model requires the theoretical bases of open market model to be changed in order to process new socio-

political economic goals as inputs rather than outputs of the model (Adizes & Weston 1973) (same argument is found in Dubbkin 2004). Figure 2.3 illustrates the change that would happen to the open market model if CSR is imposed as binding practices on companies. Apparently, the open market model would be substituted by a mixed model for achieving the public interest. The new model would require not only integrating socio-economic political goals with companies' economic goals, but also the market would be limited in terms of liberty and regulated (Adizes & Weston 1973). Furthermore, companies would be in charge of the public interest because it is an output of their socio-economic political goals. This in fact, was a foreseen change against which Levite (1958) launched a caution concerning the disorder of democracy that would be created due to the intervention of the self-interested companies in the public interest.



2.3.2. Capitalism, the moral change and CSR

In the argument on the moral change of capitalism is addressed to get more insights on the exogenous relationship between CSR and capitalism. This is because if the argument on the ability of capitalism to change itself in accordance to new moral values, then CSR can be built-in capitalism. If not, then CSR always remains external to capitalism.

Chiapello & Fairclough (2002) argue that over time, capitalism has been able to sustain itself through capital accumulation and re-investment, and this makes capitalism a regime

of accumulation. A regime of accumulation revolves around three important elements (Hanlon 2008, pp. 160-161):

- (1) the distribution between accumulation and consumption (i.e. net production);
- (2) the type of production process based upon this allocation (e.g. mass consumption requires mass productions); and, (3) the nature of the social reproduction of labour via consumption, working conditions, career paths, occupational structure ... etc.

When synchronised, these three features lend a regime of accumulation a status of sustained stability until the internal contradictions emerge to undermine it (Hanlon 2008).

In capitalism, the contradictions of this regime are mainly the results of the conflict of interests between labour providers and capitalists. Boltanski & Chiapello (1999) argue that capitalism as a regime of accumulation has three major characteristics: (1) a minimal format stressing the need for unlimited accumulation by pacific means; (2) competition that leads capitalists to be motivated by self-preservation; and, (3) wage-earning through the sale of labour rather than the fruit of the labour of those who have little or no capital. Within these characteristics, both labour providers and capitalists lack the justification for being part of the process of capitalism (Boltanski & Chiapello 2005).

To justify the commitment of the parties to participating in the process of accumulation and to sustaining that process, motivations should be in place. Motivations are not only limited to economic ones, but they can extend to the possibility of achieving the collective advantages of capitalism (Boltanski & Chiapello 2005). In this regard, it stands to reason that over time there would be regular changes to the moral component of capitalism that will cater for the needs of the different parties. So, what are the drivers of new elements affecting the moral component of capitalism?

Boltanski & Chiapello (1999) argue that it is the ‘spirit of capitalism’ that makes it morally justifiable to all parties entering the accumulation system. They explain that the ‘spirit of capitalism’ is an ideology that combines two major elements: (1) Criticism of

capitalism that is a catalyst for change; and (2) the change that capitalism has faced or needs to face at certain points in history. The criticism-change twinning keeps the spirit of capitalism in a dynamic state within which key players interact in order to provide a new spirit of capitalism (Boltanski & Chiapello 2005). There are three dimensions which play a particularly important role in providing a concrete expression for the spirit of capitalism (Boltanski & Chiapello 2005, p. 164):

(a) The first dimension indicates what is "exciting" about an involvement with capitalism? In other words, how this system can help people to blossom, and how it can generate enthusiasm. This "excitement" dimension is usually related to the different forms of "liberation" that capitalism offers. (b) A second set of arguments emphasises the forms of security that is offered to those who are involved, both for themselves and for their children. (c) Finally, a third set of arguments ... invokes the notion of fairness, explaining how capitalism is coherent with a sense of justice, and how it contributes to the common good.

Boltanski & Chiapello (1999) reviewed texts that provided moral education on business practices and used a combination of thematic and basic lexicographical methods to describe the way in which the spirit of capitalism changed between the 1960s and 1990s. Accordingly, two bodies of work from the field of management studies were reviewed: one from the 1960s, and one from the 1990s. The authors found that the capitalist system of accumulation had changed three times since the end of the 1800s to the 1990s. However, each era of change had its own features in relevance to the three dimensions of the spirit of capitalism (i.e. excitement, security, and fairness) (Boltanski & Chiapello 2005).

Table 2.1 explains the findings that compose three spirits of capitalism Boltanski & Chiapello (1999) have identified. The era of the 1940-1970 is distinguished by several characteristics that were results of the circumstances related to the Second World War and the prevailing Keynesian economics. That era witnessed the emergence of modern CSR especially in the 1950s and 1960s when phenomena and concepts like big industrial companies, mass production, power positions, state economic policy, welfare state, and

career and employment opportunities were the components that nourished the ideology of capitalism. In the era of 1980s to 1990s, the ideology of capitalism changed and was influenced by new factors like globalisation, self welfare responsibility, product differentiation, network firms, multinational companies, and self-help resources by companies to ensure employee security. This era is characterised by the rise of neo-liberalism together with the acceleration of CSR and its acceptance and implementation within corporations (Carroll 2008).

Table 2.1: Three spirits of capitalism

	First spirit: End of nineteenth Century	Second spirit: 1940s-1970s	Third spirit: Since 1980s
Forms of the capital accumulation process	Small family firms. Bourgeois capitalism.	Managerial firms. Big industrial companies. Mass production. State economic policy.	Network firms. Internet and biotech. Global finance. Varying and differentiated productions.
Excitement	Freedom from local communities. Progress.	Career opportunities. Power positions. Effectiveness possible in “freedom countries”.	No more authorisation chiefs. Fuzzy organisations. Innovation and creativity. Permanent change.
Fairness	A mix of domestic and market fairness.	Meritocracy valuing effectiveness. Management by objectives.	New form of meritocracy valuing mobility and ability to nourish a network. Each project is an opportunity to develop one’s employability.
Security	Personal property. Personal relationships. Charity. Paternalism.	Long term planning. Careers. Welfare state.	For the mobile and the adaptable, companies will provide self-help resources to manage oneself.

Boltanski & Chiapello (2005, p. 166)

As for the era starting from the Second Millennium, Kazmi, Leca & Naccache (2008) extend the work of Boltanski & Chiapello (1999) with the suggestion that CSR may be the “brand new spirit of capitalism” (i.e. the fourth spirit of capitalism). Kazmi, Leca & Naccache state that the new era from 2000 onward has been witnessing the introduction and usage of new concepts that are relevant to CSR, such as: moral development, social and environmental agenda, sustainability, self-regulated corporations, the common good

and other concepts that have been clearly seen in the management literature of CSR since the 2000s. This is illustrated in Table 2.2.

Table 2.2 : The fourth spirit of capitalism

	Fourth Spirit: 2000 onward
Excitement	Feeling well by doing good. Moral development. Learning new skills (managing social and environmental agendas).
Security	Sustainability. Secured future opportunities and growth.
Fairness	Integrate business and societal interests. Self-regulated companies. Distributing wealth. Participating in the provision of common good.

Adapted from Kazmi, Leca & Naccache (2008)

In another study that builds on Boltanski & Chiapello (1999) and used the conceptual bases of the institutional approach, Ventura & Vieira (2007) provide an analytical model that enables them to understand CSR as part of a movement to displace capitalism. Aiming at understanding the dynamics of institutionalizing CSR in the field of banking organisations in Brazil by means of documentary analysis and field interviews of 30 organisations, the authors notice that CSR has developed in the past ten years of their study from being an isolated marginal action to a structured action in banking organisations, while at the same time becoming a social value that may contribute toward the legitimacy of the field. Moreover, Ventura & Vieira (2007) demonstrate that retail banks are most involved in the CSR movement, which confirms the phenomenon as displacement of capitalism, and accordingly, the exogenous relationship between CSR and capitalism is viewed even though when following the argument of Boltanski & Chiapello (1999) about the moral change in capitalism.

In each of those cases, whether CSR is considered to be the ‘brand new spirit of capitalism’ or a ‘movement to displace capitalism’, both studies have indications that CSR exists as practices in our days. Apparently, there is no consensus on the the internal relationship between capitalism and CSR. Nevertheless, the argument on their exogenous relationship is valid because CSR requires changes to the open market model on the one hand, and CSR contradicts the worldviews of capitalism (mainly neo-classical

economics) where human individual is considered as self-interested selfish economic man who interacts economically in the society based on the social Darwinism theory.

The question is how has CSR been adapted to fit with the substance of capitalism? In the words, how CSR has been less radical to be accepted and practiced (Pillay 2006) while taking into consideration that the evolutionary development of capitalism is a result of the interaction of several socio-economic and political trends leading to non-substantial changes in capitalism itself (Hancke 2009)? To answer these questions, it is worth tracing the development of CSR since its initial normative stages during the Keynesianism era until it has been practiced during the neo-classical era.

2.4. The evolution of CSR and capitalism

As discussed earlier, capitalism has the ability respond and adapt to the moral changes of a society without affecting its substance until criticism is raised again and then new concepts are introduced within a cycle of criticism-unsubstantial change. Within this context, the evolution of CSR can be understood while taking into account the broad factors affecting the changes that have occurred during different phases in the development of capitalism. Taking into consideration that the change accompanying the development of capitalism passed through the Keynesianism era and the neo-classical era, the aim of this section is to trace the evolution of CSR during those two eras to understand how CSR has been accepted to be practiced by companies although it is theoretically inconsistent with the substance of capitalism.

The focus on the two eras stems from the fact that CSR emerged in its modern form during the Keynesianism era and then became more widely implemented during the neo-classical era (conclusions drawn by the author based on the historical tracing of CSR evolution in Carroll 2008; and the changes in capitalism over the time in Hanlon 2008).

2.4.1. CSR during the Keynesianism era

The Keynesianism economics era named after the British economist John Maynard Keynes who sought to formulate the means by which governments could stabilize and fine-tune free markets (Sachs et.al. 1995). Keynesian economics advocates responses by the public sector that would counter the inefficient macroeconomics outcomes that sometimes resulted from private sector decisions (O’Sullivan & Sheffrin 2003).

The primary objective of that era was the development of an economic plan that would prevent the occurrence of the Great Depression which had occurred during the 1930s (Harvey 2005); governments at the time were obsessed with this issue while they were transferring from wartime to peacetime. The Great Depression had adversely affected many people beyond their control, for example through unprecedented high levels of unemployment; and the impact led to calls for new social responsibilities on the part of governments. Those responsibilities, as Gordon (1946, p. 47) noticed, were a “cardinal element of the official programs of both political parties” in the USA. Additionally, the expansion of governmental intervention was linked to the technical and social developments at the time (Gordon 1946). Moreover, social welfare had become the responsibility of governments that were making use of the economic boom after the Second World War until 1970s (Castles 2002).

After the Second World War, criticism of capitalists’ abuse and scandals were amongst the key factors affecting the growing status of social responsibility along with a weakened faith in the role that free enterprise would play in the public welfare (Gordon 1946⁸; Heald 1957⁹). Other key factors, however, were the increasing power of the social movements as well as governmental intervention in the free market (Gordon 1946; Heald 1957; Wilson 1958). Specifically, governmental intervention was one of the labels of the

⁸ Gordon (1946) noted that faith in the role that free enterprise would play in the public welfare was no longer strong; accordingly “private enterprise is therefore expected to adjust itself to an increasingly complex framework of governmental controls” (Gordon 1946, p. 48).

⁹ According to Heald (1957), the atmosphere surrounding CSR at the time was influenced by several factors, amongst them the growing political power of labour forces and other social representatives, and the growing acceptance of the principle of the government having ultimate responsibility for social welfare in those areas where private efforts fail.

Keynesianism era during which the open market model was limited and regulated (see Table 2.3).

In fact, the influence of social movements and growing calls for governmental intervention were influenced by criticism of capitalism and capitalists. In 1951, the editors of Fortune Magazine described that criticism; according to Heald (1957, p. 376):

"... American capitalism seemed to be what Marx predicted it would be and what all the muckrakers said it was - the inhuman offspring of greed and irresponsibility. . . It seemed to provide overwhelming proof of the theory that private ownership could honor no obligation except the obligation to pile up profits."

Back to the findings of Boltanski & Chiapello (1999), in the 1940s-1970s, several concepts have been identified in the management literature at the time (see Table 2.1). In fact, some of those concepts were considered as deviations from the classical model of the open market (see Figure 2.2). Consequently, the calls for CSR were understood to be as a theoretical modification for the pure economic goals of enterprises (i.e. profit maximisation). Note that behavioural economists like (Simon 1962; Cyert & March 1963; Williamson 1967; Williamson 1970) emphasize the divergence between the personal goals of the management and the corporate goals (Adizes & Weston 1973). Therefore, concepts like job security, pleasant surroundings, social esteem, and job power created difficulties in measuring supply and demand. This is in turn affected the ability to measure maximisation. Accordingly, there was a conceptual shift from a goal of maximisation that was substituted by a goal of satisfaction (Adizes & Weston 1973). Notwithstanding, review of literature on CSR during that era indicates that it was not practiced by companies (e.g. Gordon 1946; Heald 1957; Wilson 1958). Moreover, contemporary literature historically reviewing CSR indicates that the concept was theoretical and normative up to the 1970s (CSR during that era was not practiced (e.g. Carroll 1999; Carroll 2008; Whetten, Rands & Godfrey 2001). Table 2.3 summarizes the socio-economic political factors influenced CSR during the Keynesianism era.

Table 2.3: Socio-economic political factors influencing CSR during the Keynesianism era

Factor	Influence	Results
Change in the moral values of the society	Criticism to capitalism and capitalists' practices	<ul style="list-style-type: none"> • Emergence of the theoretical normative moral movement of the social responsibility of businessmen (Bowen 1953; Davis 1960; Fredrick 1967) • Opposition of a change in the classical open market model to be a mixed model with the state economic model (e.g. Levite 1958; Friedman 1970) • No real implementation of CSR by businesses.
Raise of social movements' power	Pressure on government and businesses to achieve social amenities	
Welfare state	It is the role of the state to take care of the social amenities	
Change required in the open market model to achieve public interest	Need for moral-ethical approaches to account for business and society relationship	
Business reluctant to adapt to change	Disputes or conciliations with relevant parties rather than dialogue and engagement	
	Political pressure on governments	
Governmental intervention	Shift, hold, or discharge social responsibility	

Author's own based on reviewed literature

During that era, when a social responsibility issue arose from criticism of certain capitalists' practices and calls by social activists for enhancements or changes; then attempts at dialogue between social activists and businessmen would be initiated to conciliate the dispute; and if it was not conciliated, governmental intervention would take place (Sid 1952; Levite¹⁰ 1958) perhaps to "discharge" the responsibility (Gordon 1946)¹¹. For example, two instances of governmental¹² intervention as a result of the failure of the dialogue between labour unions and businesses in the USA are notable: (1) the Employment Act of 1946 (Gordon 1946); and, (2) the establishment of the Wage Stabilization Board in 1950 (Sid 1952).

Governmental intervention would be influenced by the political power of either social activists or businessmen. For example, there were calls for increasing the political power of labour unions in order to put more pressures on the government (e.g. Sid 1952). On the

¹⁰ In Theodore Levitt's words about the USA; "[I]f business and the local governments failed to provide some of the routine social-economic amenities which people seemed clearly intent on getting, then that Brobdingnagian freewheeling monster in far-off Washington would" (Levitt 1958 p. 42).

¹¹ Lincoln Gordon viewed the American Employee Act of 1946 as a method used by the government to discharge its responsibility (see Gordon 1946, p. 47)

¹² CSR is considered (explicitly or implicitly) to be formulated in its modern form in the USA in the era following the Second World War (Carroll 2008, Mele 2008; McWilliam, Siegel & Wright 2006; Garriga & Melé 2004; Windsor 2001) or even before that (Cochran 2007; Whetten, Rands & Godfrey 200). Therefore, the majority of cases and literature on which this research stands is from American origin especially those that cover the 1900s-1970s.

other side, as Levitt (1958) noted, that there was a “coalesce” between business and government; so, he launched a caution against that issue that would create a level of power he viewed described as “unopposed and unopposable” (Levitt 1958, p. 47). Clearly, Levitt’s (1958) concern in that instance was how corporations could be prevented from controlling democratic society given that corporations’ plans are limited to their interests when keeping to the classical open market model. However, from the side of businessmen, social responsibility was reluctantly accepted and was dealt with as part of the public relations policies of corporations (Gordon 1946; Heald 1957; Levitt 1958; Wilson 1958).

During that era, governments were keen to have conflicts between individual corporations and social representatives resolved by methods of conciliation because this would shift its social responsibility to corporations. Nonetheless, unresolved disputes when they appeared would return the responsibility to the government. As a result, the government faced political pressure from both social representatives and corporations. Those political pressures would influence the time and type of governmental intervention in the market in order to deal with specific social demand.

2.4.2. CSR during the neo-classical era

Issues such as high levels of unemployment, accumulation of capital, inflation and other fiscal crises appeared in the 1970s. Therefore, the usefulness of the Keynesianism with its high growth economic rates had been exhausted and was no longer working for large sections of society, hence neo-liberalism rose as the new political economic ideology of capitalism (Harvey 2005) in the form of neo-classical economics. Neo-liberalist ideology favours economic policies based on neo-classical theories of economics that minimize the role of the state and maximize the role of the private business sector.

Arguments based on analysing socio-economic trends has articulated that neo-liberal political economic ideology will take the advance over the coordinated and socially oriented ideologies dominant in Europe and South East Asia (Hancke’ 2009). In fact, Hancke’s argument is true to a large extent because the Anglo-American neo-liberalism

has been exported to become a global system since it was embraced by the conservatives (Regan in the USA and Thatcher in the UK) in the early 1980s (George 1999).

However, some have argued that neo-liberalism represents a return to the Adam Smith's liberalism (e.g. Treanor 2005). To some extent, this argument has merit as there are still some common principles between the two. Nonetheless, neo-liberalism has its own specific characteristics influencing CSR especially when taking into consideration that CSR has been accelerated and has become more fragmented¹³ theoretically following the rise of neo-liberalism. In order to explain the position of CSR within the neo-liberalism context, it is worth examining the issues from a macro viewpoint with regard to three critical questions that had become increasingly relevant at that time: why, how and to what extent should corporations implement CSR?, However, a summary of the neoliberalism factors affecting CSR is presented in Table 2.4.

Neo-liberalism has promoted transactional thinking, freedom of innovation and wealth maximisation on the basis of contracts rather than regulations. Accordingly, de-regulation is the most significant label for neo-liberalism strongly supports the voluntary status of CSR (Matten, Crane & Chapple 2003). In fact, the voluntary status of CSR has left open the answer to the question: '[T]o what extent' (Matten, Crane & Chapple 2003) should corporations implement CSR? Moreover, the voluntary status of CSR highlights that CSR is external to capitalism and is not in-built of it (see Table 2.4)

The answer to the question of 'why' is derived from several factors. Within neo-liberalism ideology, the concept of the welfare state has changed into self welfare recourses provided by companies (see the findings of Boltanski & Chiapello 1999) as governments have more limited ability to spend on social programs (Castles 2002) especially after the fiscal crises of the 1970s (Harvey 2005). This shift has strongly influenced the acceleration of CSR since the mid-1970s as governments have expressly encouraged CSR as part of the restoration of legitimate societal governance (Matten & Moon 2008) and have issued guidelines to promote the implementation (e.g. Industry Canada 2005). On the other side,

¹³ See Chapter 3 where this is explained in more detail.

the public has tended to accept CSR in order to face the deficiencies of governmental welfare (Carroll 2001, Lantos 2001). However, the status of CSR has been raised internationally by globalisation – especially the globalisation of neo-liberalism. The World Bank and the International Monetary Fund (IMF), which are considered to be the main promoters of neo-liberalism (George 2005; Treanor 2005), have been encouraging the implementation of CSR at least indirectly by promoting privatization.

Table 2.4: Neo-liberalist factors, influences and results for CSR

Factor	Influence	Results
Deregulation and decline of governmental roles in social welfare.	Shifting the risk of responsibility to the market.	Calls for maximising the private sector role in economic, social, and environmental aspects to voluntarily undertake responsibilities- that previously had been the responsibilities of governments- through processes of integrating stakeholder concerns into companies' decisions.
Privatization.	Increasing the power of the private sector.	
Globalisation.	Rising global concern about and criticism of MNCs' practices.	
More developed social movements with international dimensions.	Increased pressure on corporations to take on social roles.	
Change required in the open market model to achieve public interest through CSR.	Rise of Stakeholder engagement.	
Business acceptance of need to adapt to change.	Development of CSR instrumental tools ¹⁴ .	

Author's own, based on reviewed literature

Additionally, researchers from the left ideologies against neo-liberalism and its globalisation (e.g. Shamir 2004) argue that it has created inequality and widened the gap between poor and rich, a matter that motivated some international organisations (e.g. the UNEP Finance initiative, the UN SRI initiative, the UN Global Compact, and the UN GRI) to call for CSR to be more widely promoted and standardised. Moreover, within the neo-liberalism ideology, the private sector has gained more power that in some cases exceeds national powers (Gariga & Melé 2004; Levy & Kaplan 2008; Melé 2008). However, one of the effects of the rise of multi-national companies (MNCs) has been a simultaneous rise in the level of demands from non-governmental organisations (e.g. Amnesty International¹⁵, and World Wildlife Fund¹⁶) for CSR due to the impact of MNCs' activities on the environment, labour markets, and culture (Levy & Kaplan 2008).

¹⁴ This will be discussed in Chapter 3

¹⁵ www.amnesty.org

¹⁶ www.worldwildlife.org

The ‘how’ question of CSR has been answered theoretically by what has become well known as stakeholder engagement (Freeman 1984; Harrison & Freeman 1999; Freeman & McVea 2001) and answered practically by the establishment of various guidelines (e.g. Global Reporting Initiative GRI; AA 1000 Stakeholder Engagement Standard). ‘Stakeholders’ are defined as, “individuals or groups with which the corporation interacts who have a stake or vested interest in it, such as employees, consumers, suppliers, and local communities within which corporations operate” (Carroll & Buckholtz 2000, p. 21). According to the ISO 26000 Guidelines on Social Responsibility, ‘stakeholder engagement’ is a form of dialogue between the organisation and one or more of its stakeholders in order to help the organisation address its social responsibility through taking the dialogues’ information into consideration in the organisation’s decisions. Although stakeholder engagement can be initiated by the organisation (ISO 26000 2009, 5.5.3), it is more widely implemented based on responsiveness (AA 1000 SE 2006) to stakeholders’ concerns.

Consequently, achieving the public interest from a macro viewpoint should be achieved with the contribution of companies by engaging stakeholder as a voluntary step by in order to integrate the stakeholders’ concerns with the economic goals of companies. As illustrated in Table 2.4, the whole process is based on micro processes that depend on the situations of individual corporations based on their stakeholder engagement and management.

Such a macro process for achieving the public interest through CSR is influenced by several factors that are related to globalisation: (1) the different types of the free market (i.e. the differences in the limits of deregulations / regulations (OECD 2001); (2) the difference of the limits of democracy and the efficiency of the institutions of civil society (Shamir 2004); and, (3) the limits of transparency and corruption in which the markets that corporations work (OECD 2001).

2.5. CSR from a macro viewpoint

The term, CSR, is used in many different ways such that it is difficult to provide a definitive description (Dahlsrud 2006). Nonetheless, an understanding of the macro factors within which CSR has been developed and evolved may facilitate a useful general definition, a summary of which is presented in Table 2.4. The macro factors have been strengthened and their profile raised during the shift from Keynesianism to neo-classical economics; and the concepts behind the macro factors have served as macro justifications for the further rise of CSR.

Dahlsrud (2006) provides an analysis of 37 definitions of CSR originated from 27 authors and covering the time span 1980 – 2003 (i.e. era of neo-liberalism). The definitions are primarily of American and European origins with inclusion of some definitions from Canada and India, a selection that can serve as a good indication about the sentiments at the time about globalisation of neo-liberalism and CSR. Dahlsrud obtained frequency counts by searching for each definition in Google. Then he identified five conceptual factors as dimensions related to the definition of CSR by calculating the scores through adding up the frequency counts of each definition. Dahlsrud's results are summarized in Table 2.5.

Table 2.5: The dimension score and dimension ratio for each of the five dimensions in CSR definitions

Dimension	Dimension score	Dimension ratio
The stakeholder dimension	1213	88
The social dimension	1213	88
The economic dimension	1187	86
The voluntariness dimension	1104	80
The environmental dimension	818	59

Adapted from (Dahlsrud 2006)

Dahlsrud (2006)'s findings appear to show that the changes due to the impact of neo-liberalism were consistent with changes to the definition of CSR. As shown in Table 2.6, the difference between the definitions of CSR during the Keynesianism and neo-classical eras has several indications about the evolution of CSR from its subjective normative status until it has been instrumentally implemented in our days. The stakeholder and the

voluntariness dimensions are consistent with the shifting of the responsibility to the market and the move towards deregulation. The voluntary implementation of CSR pragmatically solve the conflict resulted from the exogenous relationship between CSR and capitalism so that the later can keep its substance that is based on its worldviews and epistemology.

Table 2.6: A comparison between CSR definition during the Keynesianism and neo-classical eras.

Definition of CSR during Keynesianism era	Definition of CSR during neo-classical
“[T]he obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen 1953, cited in Carroll 2008, p. 25)	“A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” Commission of the European Communities 2001, cited in Dahlsrud 2006, p.7)

Globalisation has given a stronger international dimension to the concept which has been extended to include social, environmental and economic issues represented by the triple bottom line (TBL) (Brown, Dillard & Marshall 2006). The TBL which has led to what is known as sustainability has become the key objectives of the international standards dealing with corporate responsibility (AA 1000s, ISO 26000, GRI). Accordingly, some researchers use the phrase corporate sustainability instead of CSR (e.g. Salzmann, Ionescu-Somers & Steger 2005),

Whilst there is no large problem in relation to how to define CSR at a macro level, the problem arises when business strategies are developed, regarding how to take into account the socially constructed nature of CSR and to apply it in a specific context and how to take this into account (Dahlsrud 2006).

2.6. Conclusion

In this chapter, the relationship between capitalism and CSR has been addressed based on an exogenous relationship supported by the fact that CSR is not built-in capitalism and its open market model. Thus, there was a shift from the normative concepts of CSR, launched before the 1970s, that were viewed as displacement of capitalism to include aspects like voluntarism and stakeholder engagement. Those aspects can be viewed as

developments that facilitate the implementation of CSR with the rising status of the private sector, privatisation, and deregulation as major aspects of the neo-classical economics era.

This chapter has theorised two historical motivations related to capitalism: (1) the failure of capitalism to cater social needs that it affected; and, (2) criticisms of the practices of capitalism and capitalists along with accompanying scandals. Those two factors have always been a stimulating force for unsubstantial changes in capitalism. Additionally, these factors have also been a stimulating force for CSR. Accordingly, the rise of CSR has been addressed in this chapter in accordance with the changes in key influential concepts in the political economic ideologies of capitalism accompanying the shift from Keynesianism to neo-classical economics; this has been traced alongside the theoretical changes that would happen in the open market model if the normative CSR of the 1950s was implemented. Thus, the debate on and against CSR has been addressed from the substance of capitalism that the only responsibility of business is increasing profit.

The bottom line of this chapter is that CSR is not built in capitalism but it has been called as an add-on. This relationship can be considered as positive or negative; hence, the existence of proponents and opponents who have influenced the progressive variations the theoretical groundings of CSR.

CHAPTER 3: THE THEORETICAL BASICS OF CORPORATE SOCIAL RESPONSIBILITY

3.1 Introduction

The term corporate social responsibility (CSR) broadly stands on various theoretical grounds, approaches, concepts, ideas, and viewpoints. The findings of the review of the literature concerning CSR indicate that it has not yet been developed into a theory which can stand on its own (Lockett, Moon & Visser 2006). The ever changing status (i.e. practices, values, concepts, and situations during the historical evolution of the notion) of CSR has made it accepted to deal with more specific definitions matching the awareness levels of organisations (Van Marrewijk 2003). An analysis of 37 definitions of CSR shows that there is confusion on how CSR is socially constructed in specific contexts (Dahlsrud 2006). Moreover, arguments on the difficulty of reaching consensus on what constitutes socially responsible behaviour lead CSR to be viewed as a process (Jones 1980). Newcomers to the field of CSR may face difficulties in understanding the concept. This is because CSR is a natural result of ever-changing socio-economic and political circumstances accompanied the debate on whether social responsibility is to be held by businesses that have one and only: increasing profitability (see Chapter 2). This is clearly emphasized when one conducts a search for 'corporate social responsibility' using the Google Scholar search engine, which results in hundreds of thousands of references¹⁷.

The aim of this chapter is to review the CSR literature in order to understand the theoretical problems associated with the concept by linking the evolution of CSR and its external relation to capitalism (discussed in Chapter 2) with the development of different theoretical perspectives dealing with the concept. The chapter investigates the progress of CSR theories from normative emergence and development to instrumental application. This may help in understanding the theoretical dilemma of CSR and identify a theoretical gap concerning the mismatch between the micro objectives of corporations and the macro

¹⁷ A search conducted on Google Scholar gave results of 1,270,000 references.
http://scholar.google.com/scholar?q=Corporate+social+responsibility&hl=en&btnG=Search&as_sdt=2001&as_sdtp=on, date accessed 03/05/2010

objectives of society which leads conventional CSR to be inapplicable to Islamic financial institutions.

Accordingly, the present chapter follows a historical approach in reviewing the literature around CSR based on its external relationship to capitalism as dealt with in Chapter 2. Furthermore, the business case for CSR and its implementation is discussed based on the theoretical model of corporate social performance (CSP) and the PDCA (plan, do, check act) cycle as a managerial procedure for implementation. Thus this chapter sheds light on the real-world implementation of CSR in accordance with international standards related to the concept.

3.1.1. The historical approach

In the initial stages of the development of social responsibility of business, economic and management historians called for providing a framework of reference for social accountability within which welfare capitalism were supposed to work (Wilson 1958). Later on, historical reviews of the development of social responsibility of businesses were provided (e.g. Carroll 1999; Carroll 2008). However, there have been only a few attempts to provide a historical review of CSR literature in line with the surrounding atmosphere that has influenced the evolution of the concept (e.g. Whetten, Rands & Godfrey 2001).

In this Chapter, the roots of CSR are explored in order to understand its evolutionary course that has led to the vague understanding of the concept in our days. Therefore, a historical approach is followed for the review of the literature. Furthermore, this approach is based on an assumption that there is a supply-demand relationship between CSR literature and the surrounding circumstances during the different phases of development of the concept. Such an assumption has recently been made by Lockett, Moon & Visser (2006) based on the demand for and supply of CSR education and the salience of CSR knowledge, where the authors reviewed the literature on the concept published in ten 'management' journals (seven academic and three practitioners) during the period 1992-2002.

Within this chapter, a good deal of the literature available during the initial and formative stages¹⁸ of the development of the concept of CSR is reviewed in chronological order of publication. Thus, a good understanding of the evolution of the concept is likely to be achieved, in addition to the identification of the key theories and approaches concerning the relationship between business and society and the implementation of CSR by businesses. Moreover, the review of literature in this chapter takes into account the epistemological considerations and the ontological positions as well as theories and values adopted by CSR researchers (Bryman & Bell 2007).

3.2. The dilemma of CSR theory

CSR may be a noble idea. However, it is interpreted from viewpoints that differ in terms of the methods used to construct CSR in specific contexts rather than the end results of implementation. Votaw (1973) articulated the concern that many writers have with CSR (Carroll 2008, p.25) as follows:

“The term [social responsibility] is a brilliant one; it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others it means social responsible behaviour in an ethical sense; to still others, the meaning transmitted is that of ‘responsible for’, in a casual mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for ‘legitimacy’, in the context of ‘belonging’ or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behaviour on businessmen than on citizens at large”.

In this paragraph, Votaw gives several indications of the theoretical grounds on which CSR has been based. However, empirical research is also affected by the mushrooming of theories that attempt to clarify what exactly constitutes CSR, because measuring something that is not defined leads to findings that cannot be accepted in consensus (McWilliams & Siegel 2001; Argandoña 2006).

¹⁸ Initial stages of modern CSR are the 1950s and 1960s; whilst formation stage is assumed to be during the 1970s when businesses accepted to integrate social responsibility within management.

3.2.1. First debates on CSR

Researchers have different opinions regarding the first debates on CSR. Some authors traced the evolution of the CSR construct beginning in the 1950s (Windsor 2001; Garriga & Melé 2004; McWilliams, Siegel & Wright 2006; Carroll 2008; Melé 2008). Carroll (2008) considers Howard R. Bowen's book *Social Responsibilities of the Businessman* (Bowen 1953) as a landmark and starting point of the modern literature on the subject. Other authors support Carroll's opinion regarding Bowen (e.g. Windsor 2001; Garriga and Melé 2004; Melé 2008). Actually, Bowen was considered as a leader of a moral school that intended to create generations of businessmen who took into consideration social values and morals as a basis for their ethical business behaviour (Adizes & Weston 1973).

However, McWilliams, Siegel & Wright (2006) give credit for setting the agenda for the debate on the social responsibility of business to Theodor Levitt. In *The Dangers of Social Responsibility* (1958), Levitt cautioned that a distinction should be made between the job of governments and that of businesses. Levitt (1958) took the classical economic view that limited the responsibility of businesses to wealth creation; thus, the role businesses might play in social welfare would negatively affect the liberal social order, democracy, and capitalism.

To other authors, the origins of debate on the topic lie in the first half of the twentieth century. Cochran (2007) considers Harvard professor E. Merrick Dodd to be among the first academic writers to start the debate around CSR, in a series of articles featured in the *Harvard Law Review*. Dodd (1932) argued that business managers were responsible to the public as a whole because the law gave permission and coverage to firms in order to serve the community rather than achieve profits for their owners.

Whetten, Rands & Godfrey (2001) consider that the pioneering management scholar Henry Gantt was amongst the first to advocate that companies should serve society, in

response to criticism by muckrakers¹⁹ and consequent government regulations to curb business abuse and scandalous practices proposed by Progressive Reformers²⁰ at the time.

The various monitoring results can be considered as a signal on the differences between viewpoints of researchers when dealing with the phenomenon. This has led CSR to be constructed in various theoretical contexts that are different from one another. Moreover, this has made the classification of those theories a complicated matter.

3.2.2. The classification of CSR theories

Some authors classify CSR theories based on the group of theories in which CSR has been dealt with by other authors. In this regard, CSR theory is considered to be related to four major groups of theories (Garriga & Melé 2004): (1) instrumental theories; (2) integrative theories; (3) political theories; and (4) ethical theories. Such a classification is based respectively on whether a theory is mainly focused on: (1) achieving long-term profits, (2) integrating social demands that are generally considered to be the way in which society interacts with business and gives it a certain legitimacy and prestige, (3) using power in a responsible way, and (4) doing what is ethically correct.

Following an ontological positioning approach, Klonoski (1991) classifies CSR theories based on how corporation personality is viewed. Accordingly, he distinguishes three types of theories. The first type considers corporations as ‘amoral’. He calls this group of theories ‘fundamentalism’, in that corporations are considered as legal entities that have only one responsibility: to increase profits in compliance with law. The second type of theory considers corporations as ‘personal’. In this group of theories, corporations are considered to embody moral personhood and agency, which lead them to be held

¹⁹ Muckrakers are writers directed their criticisms against the trusts (oil, beef and tobacco), prison conditions, the exploitation of natural resources, the tax system, the insurance industry, pension practices and food processing, among others. The term is closely associated with a number of important writers who emerged in the 1890s through the 1930s, a period roughly concurrent with the Progressive Era in the United States. (See <http://www.u-s-history.com/pages/h920.html>)

²⁰ In response to muckrakers, Progressivism era was prevailing during (1890-1920). The term applied to a variety of responses to the economic and social problems rapid industrialization introduced to America. Progressivism began as a social movement and grew into a political movement. The early progressives rejected Social Darwinism. In other words, they were people who believed that the problems society faced (poverty, violence, greed, racism, class warfare) could best be addressed by providing good education, a safe environment, and an efficient workplace. (See <http://www.nps.gov/archive/elro/glossary/progressive-era.htm>)

responsible for their actions. The third group of theories see corporations as ‘social institutions’, taking into consideration their social dimensions based on political and ethical theoretical roots.

Windsor (2006) claims that there are three key approaches to CSR. Firstly, ethical responsibility theory advocates strong corporate self-restraint and duties of altruism along with expansive public policy strengthening stakeholder rights. Secondly, economic responsibility theory advocates wealth creation subject only to minimal public policy and perhaps customary business ethics, and finally the discourse of corporate citizenship invokes a political metaphor providing neither true intermediate positioning nor theoretical synthesis (Windsor 2006).

Melé (2008) considers that there are four major theories of CSR: (1) corporate citizenship theory, which is based on political studies; (2) stakeholder theory, which originally involved normative ethics and combined ethical responsibility and sociology; (3) shareholder value theory (or fiduciary capitalism), which is grounded in a particular economic theory; and (4) corporate social performance theory, which the author views as basically grounded in sociology.

Based on the epistemological position taken, CSR research has been classified as either empirical (quantitative and qualitative) or theoretical (normative and non-normative) (Lockett, Moon & Visser 2006). Other researchers see the classification as being based on ‘how’ and ‘why’ CSR should be implemented (Melé 2006; McWilliam, Siegel & Wright 2006). Here the ‘how’ refers to descriptive or instrumental approaches which rely on empirical data to explain CSR and how firms implement CSR policies from different perspectives; whereas the ‘why’ refers to normative or perspective approaches which rely on principles based on rationality or internal consistency, thus explaining why firms ought to implement CSR (Donaldson and Preston 1995).

3.2.3. A brilliant idea with different perspectives

The use of different theories to study CSR as well as the philosophical considerations of ontological worldviews and epistemology has made it hard to understand and define the boundaries of CSR (e.g. Garriga & Melé 2004; Argandoña 2006; Lockett, Moon & Visser 2006; McWilliams, Siegel & Wright 2006; Haigh and Jones 2007). Moreover, the diversity of CSR theory leads CSR to have the meaning of something but not the same thing for everybody (e.g. Mintzberg 1983; Matten & Moon 2008; Okoye 2009).

Consequently, a key question which should be raised is why CSR is viewed from so many different angles. Answers to this question can be found by reviewing the historical evolution of CSR along with contextual factors related to the changes occurring in capitalism (i.e. the macro factors affecting CSR discussed in Chapter 2).

3.3. A historical backdrop to modern CSR

As discussed in Chapter 2, criticism of capitalist's abuse and scandals after the Second World War were amongst the key factors affecting the growing status of the idea of social responsibility along with a weak faith in the role that free enterprise could play in public welfare (Gordon 1946; Heald 1957). Other key factors, however, were the increasing power of social movements as well as government intervention in the free market (Gordon 1946; Heald 1957; Wilson 1958). Government intervention in the free market was one of the labels of the embedded liberalism era.

At the time, the proponents of social responsibility targeted the individual businessman in terms of integrating his ethics with management in a way that fit wider social norms and values (Paul 1987, cited in Whetten, Rands & Godfrey 2001)²¹. In 1953, Howard R. Bowen²², the 'father of CSR' (Carroll 2008), viewed the social responsibility of businessmen in terms of “obligatory” policies, decisions, and actions that are desirable in

²¹ As noticed by (Paul 1987), the integration of personal values in management was the focus of a series of articles in Harvard Business Review during 1952-1958 (Whetten, Rands & Godfrey 2001 p. 375).

²² Howard Bowen is considered to be the 'Father' of CSR and his book *Social Responsibilities of businessman* is the landmark that best marks the beginning of modern period of literature of the subject (Carroll 2008).

terms of the values of the society (Wartick & Cochran 1985; Carroll 2008). By that, Bowen²³ set up the ethical reasoning of social responsibility (Windsor 2006). Frederick (1960) was also a follower of that “school of moral change” which tended to re-orient the values of businessmen to be guided by comprehensive goals (Adizes & Weston 1973, p. 115). The views of the proponents of CSR were considered as a modification of the classical open market model, because the socio-economic political goals should be taken into consideration by businesses before entering into the competitive market which was limited and regulated.

In practice, the shift of socio-economic and political goals from being seen as an input rather than an output of competitive market mechanisms (as discussed in Chapter 2) requires a level of interaction between different powers with different interests: social movements, businesses, and governments. Such interaction has been a recurring theme in the CSR literature (Gordon 1946; Sid 1952; Levitt 1953; Heald 1957; Wilson 1958; Davis 1960; Mintzberg 1983; Carroll 1991).

Naturally, when there is a dispute between different parties with different interests, the power of the each party is at stake. Davis²⁴ (1960) highlighted the concept of power in the CSR from businessmen viewpoint. According to him, the social responsibility of businessmen was linked to the amount of power they had based on a claim that there would be negative consequences if that power was not used (Davis 1960 p. 73):

“To the extent that businessmen do not accept social-responsibility opportunities as they arise, other groups will step in to assume these responsibilities. Historically, government and labor have been more active in the role of diluting business, and probably they will be the principal challenging groups”

Davis established what he called the “Iron Law of Responsibility”, which held that the “social responsibilities of businessmen need to be commensurate with their social power” (Davis 1960, p.71). Besides that, he related CSR to the businessmen’s decisions and

²³ One of the key contributions of Bowen was his inquiry: “what responsibilities to society may businessmen reasonably be expected to assume?” This question is still asked today by those who are dealing with CSR (Melé 2008; Windsor 2001).

²⁴ Keith Davis is considered as “the runner off the father of CSR” (i.e. the follower of Bowen) (Carroll 2008).

actions, some of which could be beyond direct technical or economic interest, while others could be justified by a long and complicated process of reasoning as having a good chance of bringing long-run economic gain to the firm (Davis 1960). Such a viewpoint concerning CSR, and especially the part associated with long-run economic gain, is considered to be one of the pillars of the instrumental group of theories (Garriga & Melé 2004) which make the business case for CSR (e.g. Cochran & Wood 1984; Murray & Montanari 1986; Zahra & LaTour 1987; Burke & Logsdon 1996; McWilliams & Siegel 2001; Maignan & Ferrell 2004; David, Kline & Dai 2005; Weber 2008).

Other attempts to mitigate the tension in the relationships between corporations and other groups were noticed during the late 1960s. In 1967, Clarence C. Walton argued that CSR had been based on the intimacy of the relationship between the corporation and other relevant groups (Carroll 2008), and introduced for the first time the notion of 'voluntarism' which linked CSR with the need for corporations to voluntarily accept social responsibility (Carroll 2008).

While the attempts by proponents of CSR still focused on the normative moral approach and ethical reasoning to define social responsibility, its opponents viewed the concept as inconsistent with the economic responsibilities of business based on the individual as self-interest as the ontological worldview of capitalism (e.g. Levitt 1958; Friedman 1962). The argument against social responsibility was based on classical economics in which the role of business is wealth creation.

3.4. The emergence of CSR theoretical grounds

The debate against social responsibility continued in the 1970s with cautions by classical economists about changing capitalism in such a way that made it only a step away from socialism (Friedman 1970), along with extended clarifications of economic responsibility (Haas 1979, cited in Wartick & Cochran 1985). Davis (1973) summarised the cases for and against CSR and provided several motivations salient to the ontological worldview of capitalism (i.e. self interest) supporting the argument for CSR. Amongst these were: a long-run self interest that is also associated with profit interest for corporations, public

image, the viability of business, avoidance of government regulations, and meeting socio-cultural norms. In fact, he provided justifications for CSR based on political, social, moral, economic, and business grounds. Davis (1973) is also considered to be amongst the first (Melé 2008) to introduce the idea of viewing corporations as ‘good citizens’ if they only would abide by minimum legal requirements. He, therefore, considered socially responsible corporations as those which went further to meet social obligations beyond the demands of the law. This concept was later further developed to yield corporate citizenship theory, as explained below.

Advocates of the notion of public responsibility, which was introduced as a substitute for social responsibility, were seemingly influenced by the vague definitions of the latter term (Votaw 1973, cited in Carroll 2008). The concept of public responsibility entailed a secondary involvement of corporations at a macro level, where they should take into consideration laws, regulations, public opinion, and emerging issues. The primary involvement of corporations, meanwhile is in economic activities driven by the market. Therefore, corporations would enter into processes of the analysis and evaluation of both public policy and market concerns (Preston & Post 1975, cited in Wartick & Cochran 1985; Buchholz 1977, cited in Wartick & Cochran 1985).

During the early 1970s, government controls resulting from pressure exerted by social movements continued to be noted,²⁵ in addition to new calls for the incorporation within the legal system of new values and new responsibilities in the corporate system; whilst the power of social movements continued to grow (Whetten, Rands & Godfrey 2001; Carroll 2008). Therefore, corporate executives were devoting more effort to achieving a balance between their commitments to stockholders and other stakeholders (Carroll 1991; Whetten, Rands & Godfrey 2001), as well as assuming social responsibility as a source of power to pursue their interests (Mintzberg 1983).²⁶ Accordingly, some non-governmental gatherings in which businessmen participated directly or indirectly were noted which addressed the role of business in society, such as the Committee for

²⁵ Such as the Environmental Protection Agency EPA, the Occupational Health and Safety Administration OSHA, the Equal Employment Opportunity Commission EEOC, and the Consumer Product Safety Commission CPSC (Carroll 1991).

²⁶ Henry Mintzberg explained that political view to CSR from businessmen’s position in a very eloquent way: “If we are not good, they will move in – Ralph Nader, the government, whoever” (Mintzberg 1983, p.4).

Economic Development CED²⁷ (Carroll 2008) and the American Assembly²⁸ (Mintzberg 1983).

With the growing acceptance of social responsibility by corporations, the decade of the 1970s witnessed a variety of CSR literature devoted to the integration of the concept within management in the form of responding to social expectations, while taking into consideration the relationship between corporations and other relevant groups. Thus, a change in the social contract between business and society was registered (Anshen 1970). The CED (1971) noted that the ‘social contract’ between business and society was changing substantially and, accordingly, “In as much as business exists to serve society, its future will depend on the quality of management’s response to the changing expectations of the public” (Carroll 2008, p. 29).

Johnson (1971) named the ‘related groups’ to a corporation as “employees, suppliers, dealers, local communities and the nation”, while emphasising that management should achieve a balance between the interests of each of them (Carroll 2008, p.28). Such a viewpoint then developed into what is known today as ‘stakeholder theory’ (Harrison & Freeman 1999), which is now considered to be one of the most significant theories underpinning CSR both normatively and instrumentally (e.g. Clarkson 1995; Branco & Rodrigues 2007; Vélaz, Sison & Fontrodona 2007; Dusuki 2008; Jamali 2008).

Therefore the idea of CSR was transformed from a normative view into attempts to identify a set of social responsibilities via descriptive processes enabling corporations to respond to social issues (Whetten, Rands & Godfrey 2001); hence, the emergence of instrumental approaches to CSR. Prominent publications at the time employed different thoughts and concepts, but almost all focused on the integration of social responsibility within business practice. For example, it was suggested that social affairs departments be set up within corporations to deal with social issues (Mazis & Green 1971, cited in

²⁷ CED is non-profit, non-partisan business led public policy organisation. CED is dedicated to policy research on major economic and social issues and the implementation of its recommendations by the public and private sectors. Membership is made up of some 200 senior corporate executives and university leaders who lead CED’s research and outreach efforts (see <http://www.ced.org>).

²⁸ The American Assembly, a national, non-partisan public affairs forum, illuminates issues of public policy by commissioning and issuing research and publications and sponsoring meetings (see <http://americanassembly.org>). Henry Mintzberg described the gathering of the American Assembly at the time as a group of “friends to large corporations” (Mintzberg 1983, p. 4).

Whetten, Rands & Godfrey 2001). Accordingly, there would be a need for qualified social responsibility officers (Eilbirt & Parket 1973, cited in Whetten, Rands & Godfrey 2001) and the setting up of social reporting (Butcher 1973b, cited in Whetten, Rands & Godfrey 2001), and calls were made for social auditing (Carroll & Beiler 1975; Bauer 1973; Butcher 1973a), changes in organisational structure (Steiner, 1975), reforms of corporate governance (Blumberg 1974), and ways of managing socially responsible corporations (Anshen 1974, cited in Whetten, Rands & Godfrey 2001). All of these innovations were deemed necessary to cater for social responsibility practices within corporations (Whetten, Rands & Godfrey 2001).

Two major theoretical concepts influenced the CSR literature in the 1970s. The first concept was the moral agency ²⁹ of corporations, which is associated with the social contract between corporations and society. That concept was positioned in the relation between corporations and society by stating that businesses were like individual persons; and therefore they should behave in ways that fit with social values (French 1979; Ozar 1979; Rawls 1999), hence the logic of business ethics (Wartick & Cochran 1985).

The second concept was social responsiveness (e.g. Ackerman 1973; Paluszek 1973 cited in Whetten, Rands & Godfrey 2001; Ackerman & Bauer 1976, cited in Whetten, Rands & Godfrey 2001) which was a shift from the obligatory responsibility of businessmen to social responsiveness processes (Wartick & Cochran 1985). However, social responsiveness was addressed separately from social responsibility (e.g. Sethi 1975).

Attempts to integrate social responsiveness and the ethical dimension of management with corporate social responsibility to meet social expectations led to the birth of the corporate social performance (CSP) model, which is one of the key models of integrating the normative view of CSR with management practices (Watrack & Cochran 1985). Amongst the first to attempt such an integrative approach was Carroll (1979). He argued that, for managers or firms to engage with CSP, they needed to have a basic definition of

²⁹ Such a notion is still under considerable moral and legal philosophical debate on how it might be applied to the groups and their members- 'collective responsibility' (Smiley, 2005) which is part of the complicated case of the responsibility of business organisations. The core question of the debate is how business organisations can be held responsible as a group away from their individuals? This question has imposed (Risser 2004) a conflict between methodological individualists and methodological holists.

CSR that identified the different types of responsibility of the business. Secondly they should have an understanding of the issues for which the social responsibility existed; and thirdly a specification of the philosophy of responsiveness to the issue. Since then, the term corporate social performance (CSP) has been introduced, which includes three issues (Strand 1983): (1) corporate social responsibility, concerning what society expects from business organisations; (2) corporate social responsiveness, which involves the organisational processes needed to interpret and process those expectations; and (3) corporate social responses to the expectations and the results of those responses. Other concepts were then introduced to the CSP model, such as stakeholder management (Freeman 1984) and social issue management (Wartick & Cochran, 1985). Subsequent researchers proposed re-organising (Wood 1991) and theoretically re-orienting CSP models (Swanson 1995), leading to a “brand new brand” of the model (Rowley & Berman 2000).

The social contract theory was developed based on moral and ethical grounding later on. Anshen (1983, cited in Klonoski 1991) argued that there was a social contract for business and that this was an "evolving document" (Klonoski 1991, p. 12). The social contract, however, was divided into micro contracts and macro contracts (Donaldson and Dunfee 1994; Donaldson and Dunfee, 1999, 2000 cited in Donaldson and Dunfee 1994), and this is now considered to be one of the most influential approaches to business ethics (Scherer & Palazzo 2007). Stemming from approaches to business ethics as well as political science roots, the concept of corporate citizenship attracted the attention of businesses in the 1990s due to certain factors that have had an impact on the relationship between business and society, such as globalisation, the crisis of the welfare state, and the power of large multinational companies (Melé 2008). In addition to the deregulation processes of neo-liberalism, these developments have all meant that some large multinational companies have greater economic and social power than some governments (Garriga & Melé 2004). However, academic work on corporate citizenship began in the late 1990s with a focus on both empirical and conceptual dimensions (Melé 2008) and the subject continues to attract academic interest (e.g. Marsden & Andriof 1998; Fombrun, Gardberg & Barnett 2000; Matten & Crane 2003; Moon, Crane & Matten 2005). However, some

CSR scholars consider the concept of corporate citizenship as a rival to CSR (e.g. Carroll 2008), while it is considered by others as itself a theory of CSR (e.g. Melé 2004) or as a key approach to CSR (e.g. Windsor 2006).

Although corporate legitimacy and CSR are multidimensional constructs that are difficult to measure in their full complexity (Claasen & Roloff 2012), the concept of linking CSR to corporate legitimacy has been aroused by several authors (e.g. Palazzo & Scherer 2006; Aguilera et al. 2007; Porter and Kramer 2011; Claasen & Roloff 2012; Bhattacharyya 2015) since the new millennium. Most of those studies have followed Suchman's (1995) re-definition and classification of legitimacy. Suchman conducts an intensive literature review of the concept and re-defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574). Furthermore, Suchman (1995) identifies three types of legitimacy. Pragmatic legitimacy rests on the self-interested calculations of an organisation's most immediate audiences (p. 576). Moral legitimacy, which he coined as "Sociotropic" rests not on judgments about whether a given activity benefits the evaluator, but rather on judgments about whether the activity is "the right thing to do." (p.579). Cognitive legitimacy is the "affirmative backing of an organization or mere acceptance of the organization as necessary or inevitable based on some taken-for-granted cultural account" (p. 582).

Corporate legitimacy is linked to the group of social integrative theories of CSR (Garriga & Melé 2004). However, it incorporates an instrumental dimension to implement the socially responsible behaviour (Aguilera et al. 2007). Dowling & Pfeffer (1975, cited in Claasen & Roloff 2012, p. 381) describe three ways of becoming a legitimate organisation:

"First, the organization can adapt its output, goals, and methods of operation to conform to prevailing definitions of legitimacy. Second, the organization can attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organization's present practices, output, and values. Finally, the organization can attempt, again through communication, to become

identified with symbols, values, or institutions which have a strong base of social legitimacy.”

It is clear that, at least, the first way has something in common with the CSP model (Carroll 1997; Wood 1991) that has influenced the major international standards addressing CSR implementation (e.g. ISO 26000; AccountAbility and GRI) as will be explained in 3.6.

In the 1990s and 2000s new complementary concepts have been added to the branches of the CSR tree, such as sustainability and environmental protection (e.g. Koellner et.al. 2005; Lee & Faff 2009), and corporate governance (e.g. Aguilera et. al. 2006; Sacconi 2006). Simultaneously, CSR was gaining international status due to globalisation and the entrance into the arena of intergovernmental bodies, NGOs, and multi-stakeholder organisations, as reflected for example in the OECD³⁰ Guidelines for Multi-national Enterprises (2000) , the United Nation’s Principles for Responsible Investing³¹ (2005), Global Reporting Initiative³² (1999), The United Nations Global Compact³³ (1999), Social Accountability International³⁴ (1998), and the UNEP³⁵ Finance Initiative (1992).

3.5. The business case for CSR

Theories addressing CSR have clearly been developed and strengthened since the shift from Keynesianism to neo-classical economics due to the factors explained in Chapter 2. However, the voluntary implementation of CSR by businesses requires a compromise between the different (and most probably contradictory) interests of stakeholders in specific contexts.

Determining what leads corporations to be motivated to engage with CSR has been the aim of several studies over the past three decades (e.g. Vogel 2005; Weber 2008). The

³⁰ Organisation for Economic Co-Operation and Development, www.oecd.org

³¹ www.unpri.org

³² www.globalreporting.org

³³ www.unglobalcompact.org

³⁴ www.sa-intl.org

³⁵ The United Nations Environment Program www.unepfi.org

general label for such motivation is usually associated with the so-called ‘business case for CSR’ (an in-depth literature review on this can be found in Salzmann, Ionescu-Somers & Steger 2005). From a managerial perspective, the business case concerns the engagement of a firm in a project for which the expected yield exceeds the expenditure (Kurucz, Colbert & Wheeler 2008). Based on this, dozens of theoretical and empirical studies have been undertaken on the relationship between corporate social performance (CSP) and corporate financial performance (CFP) (Salzmann, Ionescu-Somers & Steger 2005). Theoretical studies provide topologies of the CSP-CFP relationship based on hypotheses about factors influencing it and affecting the implementation of CSR by firms (e.g. Preston & O’Bannon 1997; McWilliams & Siegel 2001; Moore 2001). The empirical research can either be qualitative (case studies, examples of best practices) or quantitative (portfolio studies, event studies, multiple regression studies) (Weber 2008). The aim of empirical studies is to test the relationship between CSP and CFP as hypothesised in theoretical studies (Salzmann, Ionescu-Somers & Steger 2005). These studies use two major approaches: (1) measuring the casual links between CSP and CFP (e.g. Preston & O’Bannon 1997); and, (2) investigating the performance of socially screened funds in comparison to non-screened funds (e.g. Barnett & Salomon 2006) based on the fact that fund performance is influenced by the performance of the firms in which the fund invests.

The findings of these studies draw contrasting conclusions about the CSP-CFP relationship (e.g. Derwall et. al. 2005 found a positive relationship and Barnett & Salomon 2006 found negative or neutral relationships). Margolis & Walsh (2001) reviewed 80 studies examining the relationship between social and financial performance. According to them, 42 of the investigated studies found positive CSP-CFP relationships, 19 found no relationship, 15 reported mixed results, and only four studies found negative relationships. However, the authors stated that there are major methodological problems associated with such studies.

Meta-analysis studies have also indicated a slight positive link between CSP and CFP. Orlitzky, Schmidt & Rynes (2003) conduct a meta-analysis of 52 studies examining the link between social and financial performance. They found a positive association between

corporate social and environmental performance and corporate financial performance. The authors concluded that the relationship between social and financial performance is reciprocal rather than one-dimensional; they affect each other through a “virtuous cycle.” To them, this means that financially successful firms spend more on social performance because they can afford it; while social performance helps the firms become more financially successful.

Margolis and Walsh (2003) conducted a meta-investigation of 127 multiple regression studies that analysed the relationship between CSP and CFP between 1972 and 2002. The authors concluded that a positive relationship predominates. However, they also found contrasting results and thus they criticized the inconsistent use of variables and methodologies used in the research.

The contrasting results concerning the CSP-CFP relationship may appear to create suspicions about building an irrefutable CSR business case based on solid CSP-CFP links. They also have led some scholars to be sceptical about the real motivation for firms to be involved in CSR practices because of the lack of a more generalized business model for implementation (e.g. Vogel 2005; Margolis and Walsh 2001). Thus, there is a need for establishing the business case on a basis that is not restricted to economic arguments (Kurucz, Colbert & Wheeler 2008).

3.5.1. Business benefits from implementing CSR

There are growing calls for businesses to hold wider range of social and environmental responsibilities. Nonetheless, the mixed results of empirical studies have created a paradox (Kurucz, Colbert & Wheeler 2008) that motivated authors to convince unbelievers (Weiser & Zadek 2005) in the benefits that can be achieved by businesses through implementing CSR.

Weber (2005) conducted a review of a sample of 11 studies in which the business benefits of CSR have been highlighted. From Table 3.1 it is clear that businesses can reap a range of quantitative and qualitative benefits by implementing CSR, regardless of the type of

study conducted. Quantitative benefits are usually represented by cost-risk reduction, financial gains, and better stock prices, which correspond to what Margolis and Walsh (2003) classified as accounting and market variables representing CSP.

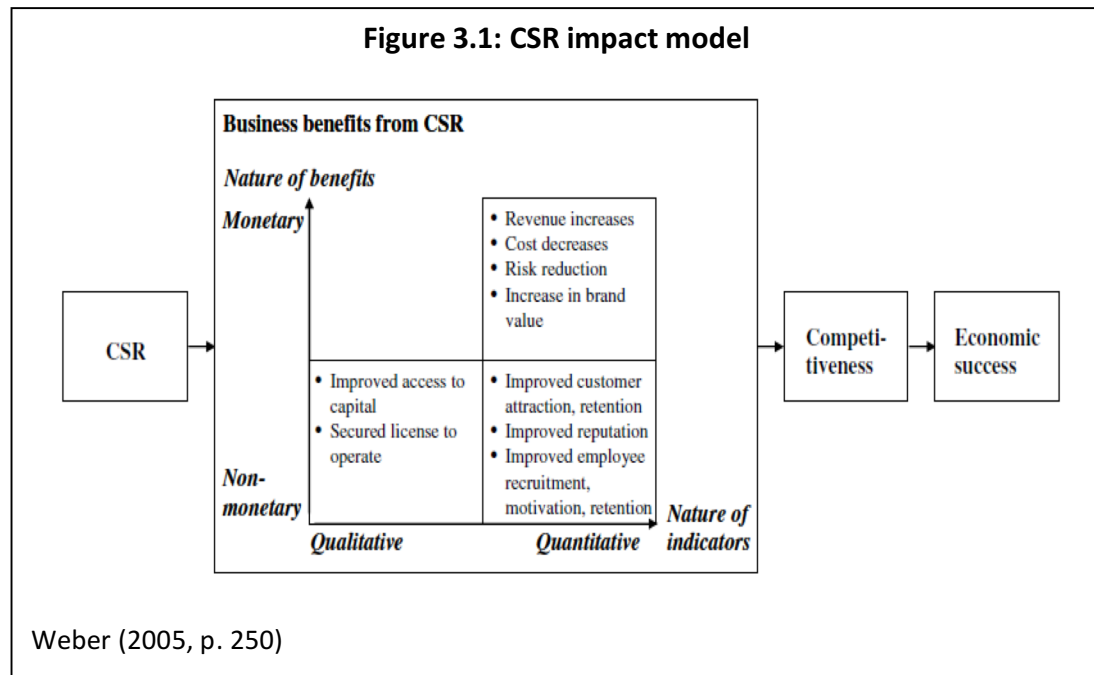
Table 3.1: Examples of CSR business benefits cited in recent research

Type of research	Author(s)	CSR Business benefits
Theoretical research	Schaltegger & Burritt (2005)	Risk management; cost reduction; differentiation; positive influence on shareholder value; improved reputation & brand value; maintaining the license to operate.
Theoretical research	Schaltegger & Figge (2000)	Efficiency gains; differentiation; tax advantages; financing advantages; risk reduction.
Theoretical research with case examples	Heal (2005)	Risk management; efficiency gains; improved relations to regulators; improved brand value; improved employee productivity; reduced capital costs.
Theoretical research with case examples	Nielinger (2003)	Market and product development; increased recruitment potential; risk management; image improvement.
Theoretical research with case examples	Porter & van der Linde (1998)	Increased competitiveness through process and product benefits; e.g., more efficient resource use, waste reduction
Case study research	Kong et al. (2002)	Market development; cost reduction; market share protection; long-term survival.
Case study research	Rondinelli & London (2002)	Efficiency gains and cost reduction; improved competitiveness; resource preservation; image improvements; product development.
Meta study of empirical research	Hansen (2004)	Reputation improvement with positive influence on customer acquisition and retention, employee attraction/motivation/retention, access to capital, license to operate; risk management; positive influence on stock price, return and revenues; cost decrease.
Quantitative empirical research	Bertelsmann Stiftung (2005)	Employee motivation; improved reputation; meeting shareholder expectations; customer development.
Quantitative (& qualitative) empirical research	Epstein & Roy (2001)	Avoidance of negative press, consumer boycotts and negative market influences; employee motivation; improved image and reputation; positive relations with regulators and stakeholders; efficiency gains and cost reductions; better capital access; increased market share.
Quantitative empirical research	Turban & Greening (1997)	Increased company attractiveness for potential employees.

Weber (2005 p. 249)

Qualitative benefits are represented by reputation, legitimacy, branding, employee issues and product process and development. Based on these results, Weber (2005) listed five business benefits of CSR (see Table 3.1) and accordingly built a CSR business impact model (Figure 3.1). To Weber (2005), CSR can result in both monetary and non-monetary benefits that can influence business competitiveness and economic success. Weber (2005) attempted to provide a framework for the quantitative measurement of the

business impact of CSR, viewing non-monetary impacts as drivers of monetary benefits. To her, non-monetary benefits can also be measured using quantitative indicators that include further effects on customer attraction and retention, reputation, and employee recruitment, motivation and retention.



Knox & Maklan (2004, pp 509-510) critically reviewed the arguments and assertions about ‘doing well by doing good’. They identified five ‘beliefs’ that they view as “anecdotal and questionable”. Table 3.2 shows the result of the literature review in terms of the business benefits on CSR. Clearly, the dominant benefits are related to risk and return a matter that reflects the philosophy of capitalis.

Table 3.2: Sample business benefits of CSR in the literature

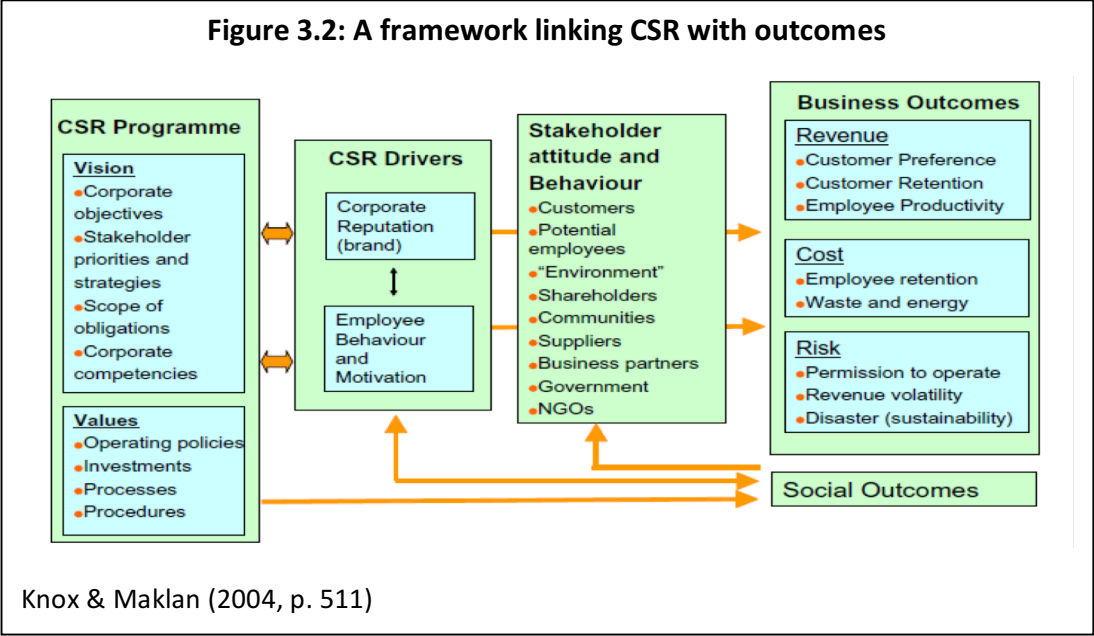
Author(s)	CSR business benefits reviewed and identified
Kurucz, Colbert & Wheeler (2008)	<ol style="list-style-type: none"> 1. Cost risk reduction. 2. Profit maximisation and competitive advantage. 3. Reputation and legitimacy. 4. Synergic value creation.
Weber (2005)	<ol style="list-style-type: none"> 1. Positive effects on company image and reputation. 2. Positive effects on employee motivation, retention, and recruitment. 3. Cost savings. 4. Revenue increases from higher sales and market share. 5. CSR-related risk reduction or management.
Weiser & Zadek (2005)	<ol style="list-style-type: none"> 1. Overall business effects: <ol style="list-style-type: none"> a. Positive effect on stock price and financial performance.

	<ul style="list-style-type: none"> b. Positive effects on reputation. c. Risk management. d. Government relation/regulatory oversight. <p>2. Effects on business functions:</p> <ul style="list-style-type: none"> a. Positive effects on human resources. b. Work force diversity. c. Marketing and sales. d. Innovation and learning. e. Diversity in purchasing.
Industry Canada (2005)	<ul style="list-style-type: none"> 1. Better anticipation and management of an ever-expanding spectrum of risk. 2. Improved reputation management. 3. Enhanced ability to recruit, develop and retain staff. 4. Improved competitiveness and market positioning. 5. Enhanced operational efficiencies and cost savings. 6. Improved ability to attract and build effective and efficient supply-chain relationships.
Knox & Maklan (2004)	<ul style="list-style-type: none"> 1. Consumer preferences will increasingly favour products and services from socially responsible, transparent and trustworthy firms. 2. Investors will increasingly favour responsible companies and irresponsible companies will find their cost of borrowing rises. 3. Potential employees will be attracted only to responsible companies and others risk skill shortages. 4. Engaging with stakeholders encourages innovation. 5. Being trusted by stakeholders and pursuing socially responsible policies reduces risks arising from safety issues.

Author's own, based on reviewed literature

Building on Clarkson (1995),³⁶ Knox & Maklan (2004) aimed to contribute to the development of instrumental CSR theory. They provided a framework for linking CSR programmes to business outcomes in such a way that maximises those outcomes (see Figure 3.2). What is important here is that the outcomes identified by the authors are economic-oriented with a focus on how to maximise them using CSR programmes and drivers and stakeholder attitudes.

³⁶ Clarkson (1995) concluded that researchers should concentrate on how firms actually manage their stakeholders rather than upon empirically validating inherently untestable frameworks of social responsiveness.



Weiser & Zadek (2005) brought together quantitative evidence for the hypothesis that addressing social challenges can help businesses improve their financial bottom lines. The authors reviewed evidence showing when and how corporate engagement (CE) with local communities creates business as well as societal benefits. They provided detailed sets of the effects of CE on businesses and classified these into ‘overall business effects’ and ‘effects on business functions’.

Taking the business case of CSR to a wider arena that includes the economic, social, and political roles of corporations, Kurucz, Colbert & Wheeler (2008) have identified four types of value that can be created for businesses when implementing CSR (see Table 3.3). The authors provide a unique classification of the business benefits of CSR. Their classification synthesises all the paradoxes and conflicts underlying CSR theories. However, they recognised three problems as critical issues to be addressed in formulating research into the business case for CSR: level of theory; logic; and grounds of justification (Kurucz, Colbert & Wheeler 2008 p. 100), claiming that “These problems are at some level irresolvable, and are exacerbated by the construct of CSR itself”.

Table 3.3: Four types of business case value creation

	Cost and risk reduction	Competitive advantage	Reputation and legitimacy	Synergetic value creation
Key value proposition	Trading: engaging in CSR to reduce costs and risks to the firm.	Adapting: a strategic approach to CSR to build relative competitive advantage.	Aligning: exploiting CSR activities to build value through gains in firm reputation and legitimacy.	Relating: integrating stakeholder interests to create value on multiple fronts.
Central role of business	Economic actor	Economic actor	Political actor	Social actor
Level of theory	organisation	Industry	Political and cultural system	societal
Assumed nature of interaction	Linear	Complicated	complex	Self-organizing
Dominant logic	Normative economic	Normative economic	Normative political	Cognitive social
Ontological stance	Unequivocal	Unequivocal	Equivocal	Equivocal
Epistemological stance	Positivism	Post-positivism	Social construction (Structuaralist to interactionist)	Pragmatism

Kurucz, Colbert & Wheeler (2008, p. 93)

3.5.2. Hypotheses concerning the business case of CSR

Apparently, there are varied business benefits from the implementation of CSR. Nonetheless, the results of measuring the impact of those business benefits are also varied because there is no unified construct of CSR (Kurucz, Colbert & Wheeler 2008) that leads to variant variables used to represent CSR (Salzmann, Ionescu-Somers & Steger 2005) in relation to the impact on or from pure economic variables mainly represented by profitability. Within those limitations, CSP³⁷-CFP³⁸ relation is dominant in the literature of the business case of CSR.

Accordingly, hypotheses can be proposed theoretically and tested empirically to investigate the CSP-CFP relationship. Preston & O'Bannon (1997) provided a topology and analysis of this relationship. The authors designed their study using two major criteria: the direction of the CSP-CFP relationship (positive, negative or neutral), and the casual link between them (CSP influences CFP, CFP influences CSP, or the relationship is synergetic). After reviewing the relevant literature, they identified six hypotheses concerning the CSP-CFP relationship as explained in Table 3.4.

³⁷ Corporate social performance

³⁸ Corporate financial performance

Table 3.4: Typology of possible social-financial performance relationships

Casual Sequence	Direction	
	Positive	Negative
SP Leads to FP	Social impact hypothesis.	Trade-off hypothesis.
FP Leads to SP	Available funding hypothesis.	Opportunism hypothesis.
SP and FP are synergetic	Positive synergy hypothesis.	Negative synergy hypothesis.

Adapted from Preston and O'Bannon (1997, p. 422)

The social impact hypothesis is based on stakeholder theory (Freeman 1984, cited in Preston and O'Bannon 1997). Proponents of this hypothesis usually state that meeting the needs of various stakeholders will lead to better financial performance, and vice versa. Empirical tests have provided evidences for this hypothesis (e.g. Pava and Krausz 1996; Preston and O'Bannon 1997).

The trade-off hypothesis is based on the work of Friedman (1962, 1970), who believed that corporate executives should only meet the expectations of shareholders. Accordingly, expenditure incurred in social activities will reduce profitability and negatively affect the taxes which are the main sources of social good. This hypothesis has been empirically tested and proved (Vance 1975; Aupperle, Carroll & Hatfield 1985; Preston and O'Bannon 1997).

The available funding hypothesis has also been empirically proven (Waddock & Graves 1997; Kraft & Hage 1990). This hypothesis rests on the assumption that the relationship is led by financial performance and lagged by social performance. Therefore, when organisations enjoy superior financial performance (or slack resources) they are able to decide to incur the additional costs resulting from social performance (Preston and O'Bannon 1997).

The managerial opportunism hypothesis proposes that managers will reduce social costs in order to maximise their own gains. In other words, managers may tend not to spend on social issues but to 'cash in' when the company experiences superior profits in order to maximise their own bonuses (Preston and O'Bannon 1997). This hypothesis has been statistically proven by Alkhafaji (1989), Posner and Schmidt (1992) and Salzman et. al. (2005).

A continuous lead-lag relationship is the basis of positive or negative synergy hypotheses. In the positive case, it is possible that social performance may lead to better financial performance that might be used in additional social investment. Negative synergy, on the other hand, implies that social performance may negatively affect financial performance which will not lead the organisation to invest more in social issues (Preston and O'Bannon 1997). However, the existence of positive synergy might be statistically justified according to the findings of Preston and O'Bannon (1997).

Although the six hypotheses clearly conflict with each other (causally and directionally), empirical evidence has provided support for each of them. This is in addition to conflicts that may arise within the hypothesis itself. For example, with managerial opportunism there is another possibility where managers may tend to invest in social responsibility when the organisation experiences low profits in order for managers to justify these low profits, or in order to improve their individual social reputations, and such an effect can be explained in terms of agency theory (Friedman 1970). Another possibility may arise which affects the trade-off hypothesis, where trade-off decisions are taken in favour of a CSR issue to reduce a certain type of risk. Such situations can be explained by instrumental stakeholder theory (Donaldson & Preston 1995). Additionally, the available funding hypothesis may be faced with a situation in which the funds are available but the organisation is not willing to invest in social issues because the stakeholders are voiceless, or because the managers do not believe in CSR.

Complicated situations may occur when there is a probability of the occurrence of two hypotheses with different directions (e.g. the available funding and managerial opportunism). Also, complicated situations may occur since any given CSR issue may involve a compromise between the interests of different stakeholders in a particular situation. Accordingly, the relationships proposed by Preston and O'Bannon (1997) do not specifically allow for non-linear results (Salzmann et. al 2005). Statistically, this means that there are other possible relationships with different shapes of the curve. In this regard, the inverted U shape can justify the relationship between CSP and CFP based on an optimal level of social investments for which financial gains (where risks and costs

are reduced), at least, are not affected (Bowman & Haire 1975; Sturdivant & Ginter 1977, cited in Salzmänn et. al. 2005; Lankoski 2000). In fact, the inverted U shape relationship appears to be logical. For example, there is an optimal level of emissions reduction above which the company starts to lose money (Salzmänn, et. al. 2005). However, the inverted U shape relationship theoretically occurs at the organisation level and its results may be different from one firm to another based on the specificity and weight of the variables under consideration.

Another theoretical argument states that there is a neutral relationship between CSP and CFP. McWilliams & Siegel (2001) based such an argument on a supply and demand approach to CSR within a firm perspective. By limiting CSR to issues that are implemented by businesses beyond the law, they concluded that there is an ideal level of CSR, which managers can determine via cost-benefit analysis. Accordingly, a firm meets the demands of relevant stakeholders—both those that demand CSR (consumers, employees, community) and those that own the firm (shareholders) while maximising profits. They base their argument for the neutral CSP-CFP relationship on the assumption that firms providing CSR will have higher costs than firms not providing CSR, but they will each have the same rate of profit.

Apparently, both the U shape and neutral relationship can answer the question about the optimal level of social investment in relation to profit maximisation or risk reduction. However, all of the CSP-CFP relationships explained in this section have a common denominator, viewing the firm as an economic actor that interacts with the demands of stakeholders in order to maximise shareholder value. In other words, they are classified in the instrumental group of theories of CSR (Gariga and Melé 2004) and are influenced by the neo-classical economics perspectives which centres on the maximisation of shareholder value through the use of stakeholder management tools (Bowie 1991).

3.6. The implementation of CSR in business organisations

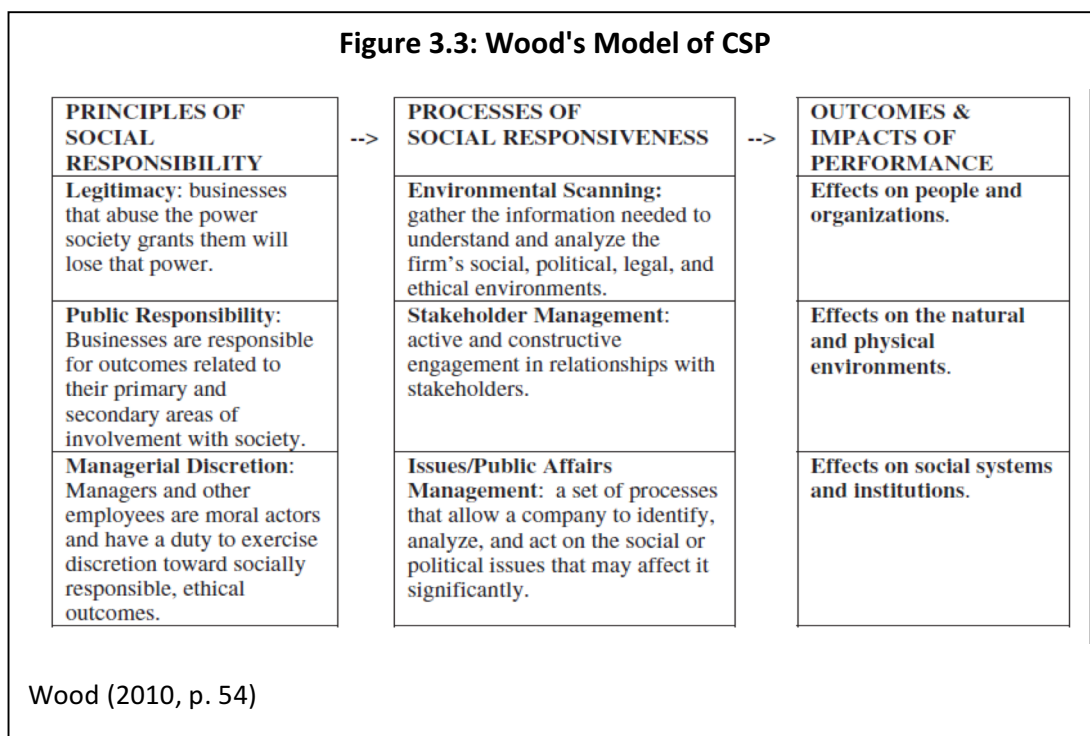
Organisational behaviour has evolved to integrate more systematically social and environmental concerns (Lindgreen, Swaen & Maon 2009). Nonetheless, CSR

implementation is linked to the business case of CSR as indicated in the literature on the business benefits of CSR implementation (see section 3.5). Business incentives are always important to companies to implement CSR. Some of those incentives are strategic while others are defensive although altruistic reasons may exist (Vogel 2005). However, CSR programs developed and implemented are acknowledged as a win-win process for the organisation and the surrounding community (Lindgreen, Swaen & Maon 2009). Obviously, the implementation of CSR is sometimes linked to the voluntary practices or programmes about environmental concerns in specific contexts (Rondinelli & Berry 2000, cited in Lindgreen, Swaen & Maon 2009). Other times, it is linked to the stakeholder engagement process (Clarkson 1995; Branco & Rodrigues 2007; Vélaz, Sison & Fontrodona 2007; Dusuki 2008; Jamali 2008). However, in certain cases, CSR is linked to developing new products and services that are market driven with a social or environmental added value (Jenkins 2009). Notwithstanding, CSR implementation is understood as a process that can be integrated in the managerial systems of organisations while incorporating all the mentioned types of implementation.

The rationale of considering CSR as a process to be integrated within the managerial systems is supported by the following reasons. Firstly, there is a difficulty in reaching consensus on what constitutes socially responsible behaviour. Thus, CSR can be viewed as a process (Jones 1980). In spite of the fact that there is no consensus on what constitutes CSR, Dahlsrud (2006) finds objectively that the most generally accepted definition of CSR is the one initiated by the Commission of the European Communities (2001) (this is also explained in details in Chapter 2): “A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (Dahlsrud 2006, p.7). In this definition, it is clear that CSR is a process of integrating CSR within the managerial systems.

Secondly, the implementation of CSR as a process is linked academically to the corporate social performance model CSP (Carroll 1979; Wood 1990). The CSP model is considered as a theoretical framework that caters for the implementation of CSR through the process of social responsiveness (Wood 2010). In Wood (1994, cited in Wood 2010) the literature

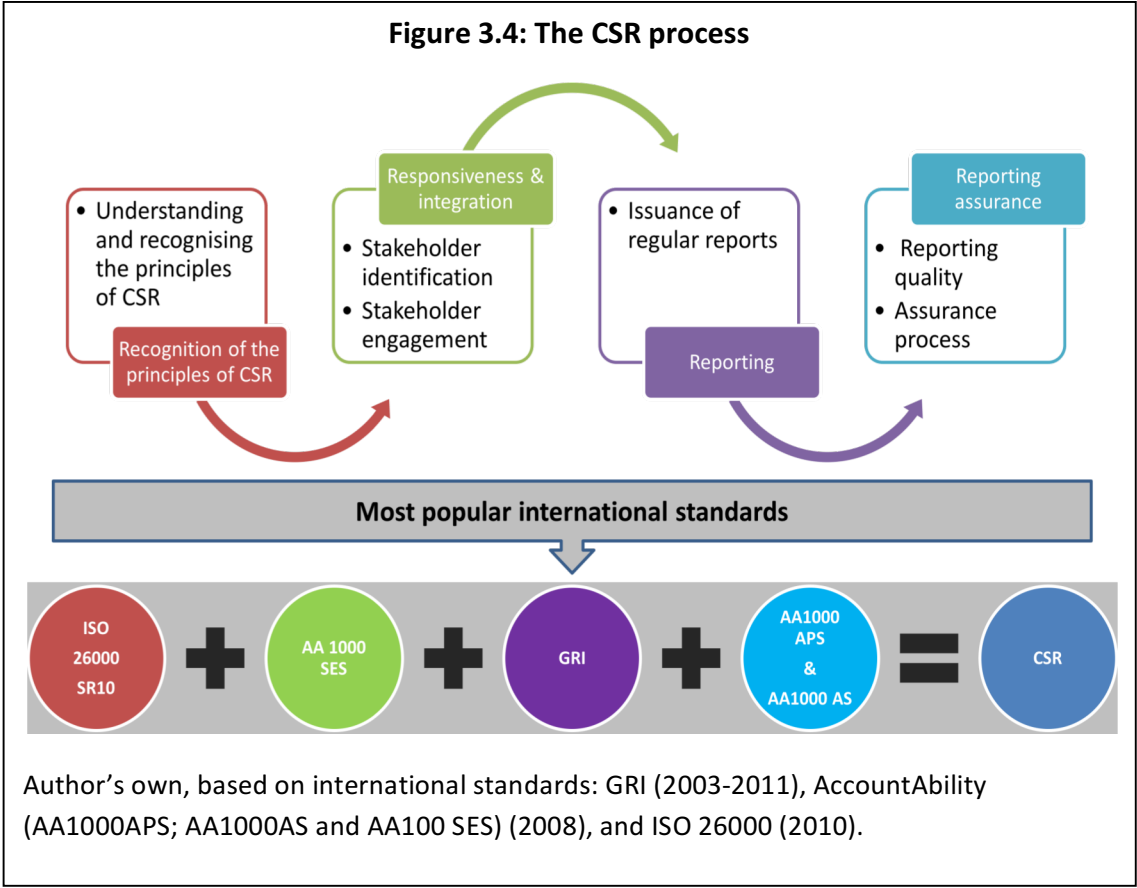
on CSP was organised into three clusters as a revision to Wood's CSP model originally presented in Wood (1991). The three clusters are: (1) the input, which includes structural principles of responsibility; (2) the process, which includes environmental scanning, stakeholder management, and issue management; and (3) the outcomes, represented by the effects on people and organisations, the environment, and the social system and institutions (Wood 2010). Figure 3.3 illustrates Wood's Model of CSP.



Lastly, for the real practice of CSR there are several international standards that have been developed in accordance with the inputs, process and outputs of CSR. For example, the ISO Guidance on Social Responsibility (2010), which is known as ISO 26000, covers the principles of social responsibility, the recognition of social responsibility and stakeholder engagement, and the integration of social responsibility throughout organisations. It is worth mentioning here that ISO 2600 was developed was developed in an international multi-stakeholder dialogue by 450 participating experts and 210 observers (see www.iso.org). The Global Reporting Initiative (GRI) promotes sustainability in organisations through sustainable reporting. The Guidelines of the GRI

(2003-2011), which are used by more than 4000³⁹ organisations worldwide, includes not only guidance for reporting but also on the process of achieving sustainability through stakeholder engagement, and commitment to sustainability indicators. The AccountAbility standards (2008) for promoting sustainability cover stakeholder engagement, principles of sustainability, and sustainability assurance.

Although the above-mentioned international standards are not unified in terms of their issuers, all of them revolve around the process of implementing CSR. Such a process, illustrated in Figure 3.4, has several things in common with the general structure of Wood’s model of CSP, except for the issues of reporting and assurance.



³⁹ Based on the database on corporate sustainability reporting: www.corporateregister.com. The search was conducted on May 15 2011.

The process of CSR illustrated in Figure 3.4 starts from the understanding and recognising the principles of CSR. This incorporates the awareness about the general principles that are included within the realm of CSR such as accountability, transparency, ethical behaviour, respect for stakeholder interests, and respect for the rule of law, respect for international norms of behaviour, and respect for human rights (ISO 2600). The next phase in the process of CSR is the responsiveness and engagement. This incorporates identifying stakeholders, engaging them and responding to their concerns (AccountAbility AA 1000); furthermore, this phase is normally followed by integrating the stakeholders' concerns and interests within the managerial systems of firms embracing CSR. The third phase is represented by the reporting to stakeholders through a process of structured reporting that includes the disclosure on what has happened in terms of the process of the CSR and what has been achieved in terms of the key indicators initially set up by the company (GRI 2003-2011). The last phase incorporates the assurance on the reporting. In fact, it is the assurance on the achievement of what has the company promised its stakeholders. The assurance process is similar to the auditing but for economic, social and environmental issues (Accountability AA 1000, APS and AA1000 AS). Furthermore, the assurance is normally a result of feedback and data collected during the operations and measured against pre-identified KPIs, hence a continuous improvement is foreseen in the form of a cycle between the phases of the CSR process.

3.6.1. The need for tool to integrate CSR in the management systems

The most frequently used definition of CSR (CEC 2001 cited in Dahlsrud 2006) is general enough to leave the implementation of CSR to the contexts in which companies exist, the nature of their operations, and the levels of legal enforcement of aspects related to CSR. Accordingly, the implementation of CSR differs from one company to another and from one industry to another. This is because what is considered as socially responsible behaviour for one company or industry may or may not be seen as socially responsible behaviour for another company or industry. Moreover, the CEC definition requires two dynamic types of action to be performed by companies: (1) the integration of CSR concerns into business operations; and, (2) interaction with stakeholders. Both of them

exist amongst the procedural steps formulating the process of implementing CSR (see, for example, ISO 26000 (2010); the Global Reporting Initiative (GRI) (2003-2011); and the AccountAbility Standards (2008). Nevertheless, the availability of international standards and the simplicity of the management systems are not yet enough for organisations to translate their social and environmental aspirations into their strategies and implementations (Maas & Reniers 2013).

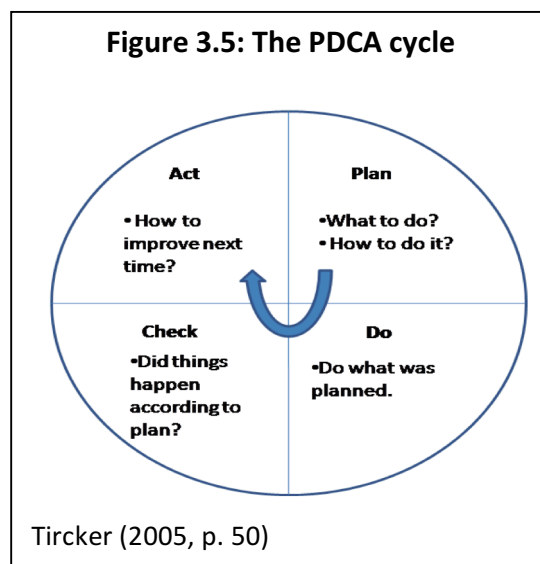
Integrating CSR into management systems is a requirement that has not yet been intensively addressed in the CSR literature (Asif et.al. 2010). There is a need for a framework of implementation that reflects the changing role of business in society and integrates it into corporate strategy and performance measurement (Panayiotou, Aravossis & Moschou 2009).

Whalley (2009) has conducted a survey on 17 contemporary studies about the requirements for the management system to integrate CSR. To Whalley, if a company has an instrumental approach to CR (stakeholder satisfaction driven) then CR systems need to be implemented into existing management systems with as little disruption as possible. The findings of Whalley indicate the top five requirements were all embedded in the Plan-Do-Check-Act PDCA cycle. In fact, PDCA has been used in several studies dealing with the implementation of CSR (e.g. Kumar 2006; Gill 2007; Kralj, Šmon & Kropce 2007; Myskova 2009; Whalley 2009; Kubenka & Asif et. al. 2011; Drieniková & Psakál 2012; Chen 2012)

3.6.2. The usage of the PDCA cycle for CSR implementation

The PDCA cycle has been widely used in the field of quality improvement, process control, innovation and learning (Bader et. al. 2003; Tricker 2005). Furthermore, the PDCA is the core philosophy around which the ISO standards and their management systems, and especially ISO 9000, revolve (Lee, Leung & Chan 1999; Piskar & Dolinsek 2006).

The most distinctive feature of the PDCA cycle as used by researchers is that there is no ‘one size fits all’ model in terms of the details underlying each step (Tricker 2005). In other words, the PDCA cycle is used for different research and application purposes; and accordingly the details under each phase of the cycle vary from one researcher to another (e.g. Marquis 2009; Asif et. al. 2011; Chen 2012). Nonetheless, the general description of each phase can be summarised as in Figure 3.5. According to Tricker (2005), the four steps include what to do and how to do it; to do what was planned, to make sure those things happen according to plan, and to improve the next time.



3.6.2.1. The scientific method and the PDCA cycle

According to Speroff & O'Connor (2004), the scientific method involves a process of proposing a study, designing an experiment to collect evidence, arranging the observations to test a hypothesis, and interpreting the results. This may include the use of the hypothetico-deductive method in which the researcher takes an existing hypothesis or theory and indirectly tests it by deriving from it one or more observational predictions that are themselves directly tested (Goldhaber & Nieto 2010; Haig 2011).

Introducing the natural scientific method into the arena of business, Shewhart's *Statistical Method from the Viewpoint of Quality Control* (1939) introduced the concepts of

specification, production and inspection as a straight-line three-step scientific process, which later on he changed to be a cyclical process where specification, production and inspection correspond to hypothesizing, carrying out an experiment and testing the hypothesis (Moen & Norman 2010).

William Edwards Deming, a student of Shewhart, modified Shewhart's proposal and introduced the idea of the constant action among four steps of design, production, sales, and research. Deming presented his cycle during a seminar organised by the Japanese Union of Scientists and Engineers (JUSE) in 1950 (Tsutsui 1996; Moen & Norman 2010).

Later on, Deming developed his cycle to include the actions of to plan, do, study, and act (PDSA) (Speroff & O'Connor 2004; Moen & Norman 2010); whilst the Japanese⁴⁰ amended this to plan, do, check, and act (PDCA) (Tsutsui 1996; Moen & Norman 2010).

According to Deming, organisations using the real-time scientific method will then develop more profound knowledge as multiple studies accumulate over time (Martensen & Dahlgaard 1998; Speroff & O'Connor 2004), while the PDCA cycle was developed to aiming for the prevention of errors by establishing standards and ongoing modifications to those standards (Moen & Norman 2010).

3.6.2.2.Literature on PDCA for CSR implementation

At the level of application by business organisations, Gill (2007) found that PDCA is used by Japanese companies to formulate CSR policies to be cascaded to all employees while being guided by principles of justice, integrity, fairness and equity in productivity gains and transparency in accounting in order to respond to the Social Productivity Index (SPI). Kumar (2006) highlights the fact that PDCA is used as the basis for the management system for the Social Responsibility Standard SA 8000. Moreover, PDCA is used as the basis for ISO 14001 concerning the environmental management system and The EU Eco-Management and Audit Scheme EMAS (Whalley 2009). Chen (2012) found

⁴⁰According to Masaaki Imai (1986), Japanese executives recast the Deming wheel into PDCA cycle. He did not provide details on how the PDCA was developed and who developed it, but nobody disputed Imai's claims, nor claimed the ownership of the PDCA (Moen & Norman 2010).

that PDCA is used by Chinese textile and clothing companies when involved in training for the CSC9000T Chinese social standard. Furthermore, the PDCA cycle is used as the core of the new standard (SR10) and the accompanying management system for CSR (IQ Net 2011). The SR10 is itself based on the ISO 26000 Guidance on Social Responsibility.

At the theoretical level, the PDCA cycle has been proposed by authors for use in order to improve CSR activities and integrate them within the management systems of organisations (e.g. Kralj, Šmon & Kroppe 2007; Kubenka & Myskova 2009; Asif et. al. 2011; Chen 2012; Drieniková & Psakál 2012). Nonetheless, the usage of PDCA in CSR also varies from author to another in terms of the details of each step, which depend on the purpose of the study. For example, Kralj, Šmon & Kroppe (2007) used the PDCA cycle to improve leadership and the involvement of people as part of a business excellence model for sustainability development. Thus, their details of the PDCA for leadership are different from those for the involvement of people. Drieniková & Psakál (2012), meanwhile, used the PDCA in stakeholder engagement for CSR strategy implementation.

The rationale of using PDCA as a tool to integrate CSR within the managerial systems stems from the fact that PDCA already formulates the basis for implementing a good deal of international standards, as explained earlier, addressing CSR and sustainability issues. A distinctive feature of PDCA is that it focuses on the continuous improvement that is linked to the long term objectives of organisations rather than the short term goals related to the operations (Whalley 2009). In fact, CSR as a process has long term objectives and cyclical relationship between the phases that makes it in a need for the continuous improvement (Asif et.al 2011). Furthermore, the theoretical basis of the PDCA is the scientific method which helps accumulate knowledge produced by actual operations of organisation (Moen & Norman 2010). Such knowledge can be produced and shifted from tacit into explicit over the time to enrich the employees, a matter that is needed when it comes to CSR and sustainability.

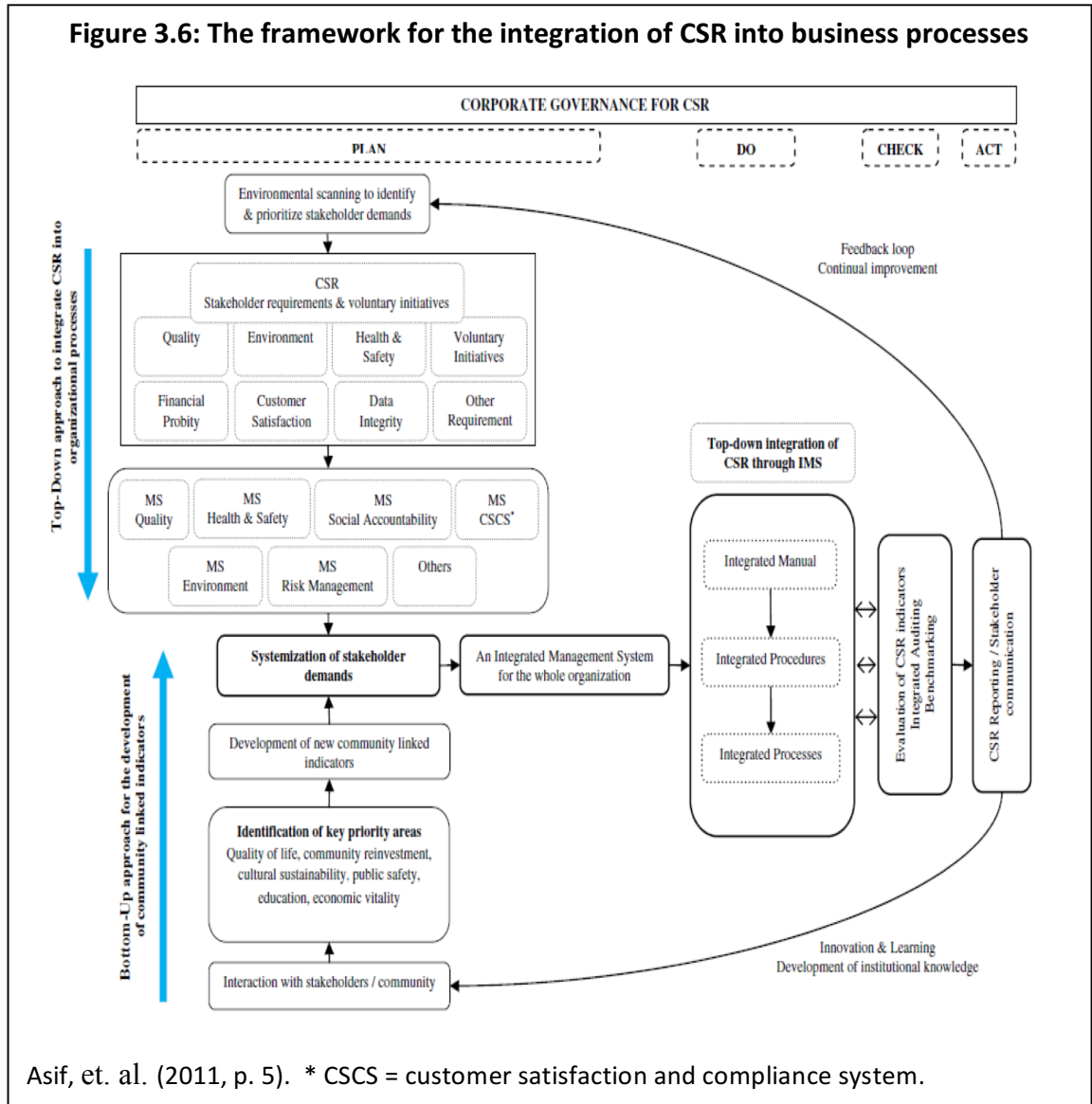
Making use of the PDCA cycle with its rationale to be used in CSR implementation, Asif et. al. (2011) has developed an integrated management system (IMS) through ‘top-down integration’ and ‘bottom-up community-related indicators development’ approaches to

CSR. According to Asif et. al. (2011), top-down IMS provides a systematic approach for translating strategic CSR goals and integrating different stakeholder requirements into business processes. This is to be achieved through the introduction of the required structures at all organisational levels, the definition of CSR responsibilities, and systematic communication and information flow. As for the 'bottom-up community-related indicators', the approach of Asif et. al. (2011) focuses on consultation with stakeholders in the community and the development of indicators linked to community needs. As explained in Figure 3.6, the framework provided by of Asif et. al. (2011) rests upon the cornerstone of the systemization of stakeholder demands through the management systems of the different aspects of CSR requirements already anticipated by the organisation's top management (i.e. at the planning phase). This systemization leads to an integrated management system for the whole organisation which is to implement that system through integrated manuals, procedures and processes (i.e. the 'do' phase). The framework indicates that the check phase consists of integrated auditing to evaluate the CSR indicators already developed through the 'bottom up' approach. This is followed by the 'act' phase of CSR reporting and stakeholder communication that provide a continuous loop of feedback for both top management and stakeholders (i.e. continual improvement, innovation, and learning).

The framework of Asif et. al. (2011, p. 5) is similar to the broader steps of the corporate social performance (CSP) model of Carroll (1979)⁴¹ and his followers (e.g. Wood 2010). However, the use of PDCA gives the framework of Asif et. al. (2011) a more structured approach to the integration of CSR within the management system.

⁴¹Carroll (1979) argued that for managers or firms to engage in CSP they needed to have (1) basic definition of CSR that identified the different types of CSR businesses had, (2) an understanding of the issues for which the social responsibility existed, (3) a specification of the philosophy of responsiveness to the issue.

Figure 3.6: The framework for the integration of CSR into business processes



3.7. Linking macro factors to theoretical perspectives

In Chapter 2, the relation between CSR and capitalism has been explored. CSR is required if the motivation of those who are integral parts of the accumulation process of capitalism is to be retained; and additionally it is politically needed to shift responsibility from government to the market. Accordingly, it can be argued that the relationship between CSR and capitalism has the following features. Firstly, CSR is strengthened and needed whenever there are criticisms of capitalism and capitalists. Secondly, CSR requires a change in the classical open market model, and thirdly, CSR is usually viewed as a tool

to undermine government intervention and retain the self-regulation of the market. Fourthly, CSR is the output of interaction (such as conflict, dispute, conciliation, dialogue ... etc.) between key stakeholders, and finally CSR is implemented by corporations in ways that maximise shareholder value and protect their interests (see Table 3.5).

CSR in its modern form emerged during the era of Keynesianism economics, and has been further developed, advanced, and accepted by the private sector after the acceptance of neo-liberalism since the early 1980s. Deregulation, criticism, and the rise of the power of civil society institutions have encouraged the acceptance of CSR, and the globalisation of neo-liberalism and democracy has given CSR an international status. Based on the assumption that there is a supply-demand relationship between the CSR literature and the surrounding circumstances (i.e. political, social and economic) during the different phases of the development of the concept, those features of CSR-capitalism relationship has influenced the CSR literature since its modern emergence in the 1950s and led it to be more fragmented in our days.

As explained in Table 3.5, social responsibility of business started as a moral movement aiming at raising the awareness among businessmen of a comprehensive public interest. The moral CSR movement of the 1950s and 1960s was normative, involving more lecturing by CSR activists and less action on the part of businessmen (Carroll 2008).

The moral movement for CSR can be viewed as a main trunk of a tree with different branches, for which the ground was very fertile in the 1970s onwards because corporations started to accept and implement CSR. Meanwhile Keynesianism economic policies were becoming exhausted and the neoliberals were preparing their ideology (see Chapter 2). Thus, the climate was suitable for the growth of new branches on the trunk of moral CSR to cater for the new features of the relationship between CSR and capitalism. The ethical reasoning, however, developed consequently based on the different approaches to business ethics.

The theoretical moral-ethical positioning of CSR required changes in the classical open market model, combining socio-economic goals with the pure economic goals of

corporations. Such changes were opposed by classical economists who view the economic responsibility of the maximisation of shareholder value to be the only responsibility of businesses. Therefore, agency theory was introduced by the opponents of CSR. Caring about the maximisation of the economic value of shareholder, some proponents of CSR justified the need for the change in terms of the long-run economic goals of corporations when implementing CSR. Accordingly, instrumental approaches were developed to achieve a compromise between shareholder value maximisation and the implementation of CSR; whilst the voluntary implementation of CSR can mitigate any possible changes in the open market model.

Governmental intervention is the last thing wished for in the open market model, but has been one of the drivers for CSR along with the growing power of social movements, civil society and NGOs. Therefore, if corporations want the market to be self-regulated, they will have to deal with CSR issues politically with governments and ethically with socially related groups. In this regard, corporate citizenship theory can cater for the ethical-political requirements, while stakeholder theory can enrich corporations with strategies to deal with different parties in order to provide solutions away from governmental intervention for a social issue. Instrumental approaches, however, may be used to create business cases for the social issues at stake while protecting the economic interests of corporations.

Table 3.5: Linking CSR theories to macro-factors related to capitalism

Features of CSR-capitalism relationship	Theoretical background	Justifications in the initial stages of CSR	Examples on theories/approaches developed later on
CSR is strengthened and needed whenever there are criticisms to capitalisms and capitalists.	Normative moral and ethical reasoning.	Convincing businesses about changes in the morals and values of the society (e.g. Bowen, 1953; Fredrick 1960; Davis 1960; Walton 1967).	Ethical group of theories: e.g. the social contract (Donaldson and Dunfee 1994, 1999, 2000), Kantian duty ethics (e.g. Bowie 1999) and Aristotelian virtue ethics (e.g. Solomon, 1992).
CSR requires a change in the classical open market model.	Normative moral and ethical reasoning. Classical economic (against the change). Justifying the change from economic viewpoint	Change is needed to keep up with changes in social morals and values (e.g. Bowen, 1953; Davis 1960; Fredrick 1960). The role of business is wealth creation, while welfare is the concern of government and both should use a classical open market model (e.g. Levitt 1958; Friedman 1962; Friedman 1970). CSR can bring corporations a long-run economic gain (e.g. Davis 1960)	Shareholder value maximisation is the core of instrumental approaches to CSR: e.g. agency theory (Friedman 1970), strategic and competitive advantages (e.g. Teece, Pisano & Shuen 1997; Porter & Kramer 2002), cause-related social marketing (e.g. Varadarajan & Menon 1988), theory of the firm perspective (McWilliams & Siegel 2001) and the CSP model (e.g. Carroll 1979; Strand 1983; Wood 1991; Swanson 1995).
CSR is usually viewed as a tool to undermine governmental intervention and keep the market self-regulated.	Political concept of power. Normative moral and ethical reasoning.	“Social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum because this is what any good citizen would do” (Davis 1973, p.313) Businessmen should remain free of governmental constraints so that they can maintain the initiative in satisfying market and social demands (e.g. Davis 1973). If CSR is not implemented, governments or social movements will step in (e.g. Davis 1960; the American Assembly 1978).	Corporate citizenship theory (e.g. Matten & Crane 2003; Moon, Crane & Matten 2005; Gardberg & Fombrun 2006). Instrumental approaches to CSR Stakeholder theory (Freeman 1984, cited in Carroll 2008; Harrison & Freeman 1999; Freeman & McVea 2001).
CSR is the output of the interaction (i.e. conflict, dispute, conciliation, dialogue...etc.) between key stakeholders.	Normative moral and ethical reasoning. Political concept of power. Corporate responsiveness to social expectations.	Corporations should take care of the concerns of the related groups (e.g. Walton 1967; Johnson 1970, cited in Carroll 2008). If CSR is not implemented, corporations will lose power to the benefit of other stakeholders (e.g. Davis 1960; American Assembly 1975). Corporations should respond to social concerns and build policies for implementation (e.g. Ackerman 1973; Ackerman & Bauer 1976).	Stakeholder theory. Corporate citizenship. Instrumental approaches to CSR.

CSR is implemented by corporations in ways that maximise the long and/or short-run shareholder value and keep their interests.	All of the above.	All of the above.	All of the above.
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Author's own based on literature reviewed.

The process of moral-ethical change required by CSR is not the responsibility of one party in a liberal democratic society. It is the result of interaction between different stakeholders in the issues of CSR. Based on that, normative stakeholder theory (Freeman 1984, cited in Carroll 2008) was developed on an ethical grounding. Moreover, the existence of government as a stakeholder gives CSR some political aspects, because other stakeholders will use their bargaining powers to achieve the best benefits for themselves. Following that, corporate citizenship theory was developed based on an ethical and political grounding.

In all cases, the motivation for corporations to implement CSR is to protect the shareholders' interests in ways that minimize social, political, legal, and economic risks and maximise shareholder value. This means that any moral, ethical, political or managerial approaches can be used based on the specific CSR issue at stake.

3.8. The theoretical gap

There is a mismatch between the objectives of CSR from a macro viewpoint and those from a micro perspective. This was highlighted more than 50 years ago when Levitt (1958) launched various cautions against CSR, one of the most significant of which is still valid: the limitation of wider social welfare to the extent of narrower economic objectives and plans of corporations.

Such a mismatch has been dealt with within two broad theoretical perspectives. Firstly, CSR can be said to require a substance change in the open market model (e.g. Dubbink 2004) which may make CSR displace capitalism (e.g. Ventura & Vieira 2007); or, alternatively, CSR is seen as a product of capitalism that helps it to sustain itself (e.g. Kazmi, Leca & Naccache 2008).

For the latter perspective, there have been different theoretical attempts to fill this gap normatively (political, moral and ethical). But, the implementation of CSR is still linked to the narrow economic perspectives of corporations through instrumental theories that focus on the business case for CSR. As for the first perspective, however, few studies have suggested alternative market models (e.g. Dubbink 2004), perhaps because capitalism is the dominant economic system in the world.

The present literature review indicates that capitalism and neo-classical economics are sufficiently well institutionalised that the supply of CSR literature is pragmatically dominated by the instrumental approaches, with a rare focus on the social role of business organisations that may well contribute to the desired contribution to the public interest within capitalism. Consequently, taking the business case for CSR to a wider arena that includes the social roles of corporations requires an integrative definition of CSR that includes successive value creation. According to Kurucz et. al. (2008), this can be achieved through creating simultaneous value for organisations and society based on a pragmatic framework for the business case for CSR that extends beyond the economic business case. Consequently, CSR “would attempt to connect the identity of the organisation and of individual members, and it would be an argument of a more richly and deeply conceived notion of value creation” (Kurucz et. al. 2008, p. 106).

Such an argument is intuitively appealing. However, questions of “why, and to what extent the ‘voluntary’ role of corporations in the society should take place” (Matten et. al. 2003, p. 111) remain open. Pragmatically, these issues might be investigated from a behavioural perspective at the organisational level, especially when taking into consideration the fact that business organisations work in liberal open markets and are requested to practice CSR voluntarily. In particular, trying to answer these questions in terms of the institutional conditions that influence organisational behaviour is rare in the CSR literature (Campbell 2006; 2007) and that concerning social issues in management in general (Walsh et. al. 2003). Institutional conditions in this regard include the schemata, rules, norms, and routines that have become established as authoritative guidelines for social behaviour (Scott 2005, pp. 408-414). If CSR is viewed from an

institutional angle, the ‘why’ question can be better understood and consequently facilitate answers to the ‘how’ and ‘to what extent’ questions related to the role of business organisations in society from the viewpoint of the behaviour of the organisation (Campbell 2006; 2007).

Despite representing a theoretical gap in the study of CSR, the mismatch between the macro objectives of society and the micro objectives of organisations is clearly treated in the theory of *maqasid al-Sharia* (objectives of Islamic law) which provides solutions for the behavioural aspects of *Sharia*-compliant organisations through the methods of *Sharia* jurisprudence, and hence the balance between macro and micro objectives is governed by *Sharia* rulings. Furthermore, the theory of *maqasid al-Sharia* and the accompanying method of jurisprudence facilitate an institutionalised Islamic corporate social responsibility (ICSR) as explained in Chapters 4 and 6.

3.9. Conclusion

In the present chapter, the theoretical development of CSR has been reviewed in relation to the accompanying social and economic circumstances. CSR has been dealt with based on different social, economic and political theoretical grounds. Nonetheless, the dominant approach to CSR proposes instrumental theories that link CSR (and mainly the CSP model) to the business case when business organisations implement CSR voluntarily. Additionally, the present chapter has reviewed the theory of the implementation of CSR by business organisations, focusing in particular on the PDCA cycle as a managerial procedure used for implementing CSR.

A key finding in the literature review in the present chapter is that the business case for CSR cannot solve the mismatch between the macro objectives of society and the micro objectives of business organisations. This will continue to dominate discussions of CSR implementation as long as it is deemed to be implemented voluntarily. This major gap in CSR theory is considered to be the starting point of the present research in terms of introducing the theory of *maqasid al-Sharia* as the grounding for Islamic corporate social responsibility (ICSR).

CHAPTER 4: THE FOUNDATIONAL PHILOSOPHY OF ISLAMIC CSR

4.1. Introduction

Any economic system has a foundational philosophy around which its paradigm revolves (Arif 1985a). In Chapter 2, the relevant literature has been reviewed in order to provide an understanding of the philosophy of capitalism and the paradigms within which CSR has developed. The pursuit of individual self-interest based on the 'laissez faire' principle has led to a need for more social responsibility to be assumed by corporations. That need was translated into a moral movement that called for CSR in the 1950s, which then developed within different theoretical arenas in order to cater to demand. The findings of the literature review in Chapter 3 indicate that most of the available literature indicates that conflict with self-interest will occur when CSR is implemented in the open market.

The aim of this chapter is to explore the philosophy of Islamic CSR by firstly explaining the ontological worldview of and epistemological considerations concerning Islamic economics. This is because the concept of CSR originated in the context of capitalism and thus it should be compared in philosophical terms to Islamic CSR from an Islamic economic perspective.

Islamic financial institutions (IFIs) are taken as examples, in some cases, when arguments are made about Islamic CSR. This is because IFIs are considered to be the major outcome of the efforts of Islamic economists beginning in the mid-twentieth century, and because they are incorporated as compliant with *Sharia* (Islamic law) according to their articles of associations. Thus, Islamic CSR can be linked in practice to the real-world behaviour of IFIs.

The starting point of the current chapter is a review of the status of research which addresses Islamic CSR (ICSR). This facilitates an exploration of the ways in which different authors discuss the ontological worldview and epistemology of Islamic economics when addressing Islamic CSR and how they relate it to conventional CSR and

capitalism. Additionally, some theoretical gaps in the field of the study of Islamic CSR are identified in order to indicate the contribution of the present research.

The ontological worldview and epistemology of Islamic economics are investigated to provide an understanding of the relationship between Islamic CSR and Islamic economics through an explanation of the mechanisms governing the market from an Islamic perspective. Accordingly, a definition of Islamic CSR at a macro level is then provided. The philosophical foundations of Islamic CSR are subsequently presented in terms of ontology and epistemology in order to address the issues of the trade-off between the interests of different stakeholders in a *Sharia*-compliant method.

4.2. The current status of the research on Islamic CSR

Islamic financial institutions (IFIs) exist in many countries across the world, with a total number of fully-fledged IFIs exceeding 400 (CIBAFI 2011). The concept of Islamic CSR has recently emerged, accompanying the global interest in the taking on more responsibility by business organisations (Farook 2007; Dusuki 2008a). Efforts by IFIs to embrace CSR are, however, still in their initial stages. The concept of Islamic CSR is still practiced as voluntary charitable efforts and *zakat* (Asutay 2007a), with clear lack of the social reporting, social auditing and stakeholder engagement which could meet the disclosure requirements of international standards (Maali, Casson & Napier 2006; Haniffa & Hudaib 2007; Hassan & Harahap 2010). For example, the Kuwait Finance House (KFH) is the second-largest Islamic bank in the world, and is amongst the few IFIs that issue independent CSR reports. A review of the KFH Corporate Social Responsibility Reports (2009; 2010) supports the above description of the status of CSR of IFIs.⁴²

⁴² In mid September 2011, the KFH announced the launch of the first sustainability report according to the GRI Index. On September 19th 2011, the present author telephoned KFH to ask for a copy of that report but was informed that it is not yet ready for publication.

If it is assumed that there is a supply-demand relationship between CSR research efforts and CSR practices (Lockett, Moon & Visser 2006), thus research into Islamic CSR can also be assumed to be in its early stages.

4.2.1. The theoretical side

Despite their scarcity, the few research studies dealing with Islamic CSR (ICSR) suffer from fragmentation (Mohammed 2007), with no clear classification of the theories and methodologies involved. In fact, the status of the present ICSR literature is similar to that of conventional CSR in the 1950s and 1960s. In other words, it is still in a nascent, subjective and normative stage with clear shortages in practical and empirical research. A summary of the literature on CSR reviewed in this chapter is provided in Table 4.2.

Research efforts dedicated to establishing an Islamic concept of CSR can be classified into two high-level approaches. Firstly, proposals for an Islamic adjusted CSR are devoted to making use of the convergences between Islamic and conventional CSR and to accordingly synthesize Islamic ethics with conventional CSR frameworks (e.g. Sairally 2007; Ullah & Jamali 2010; Williams & Zinkin 2010; Khan & Karim 2011). Secondly, those following the innate Islamic CSR approach are devoted to contributing to a stand-alone Islamic CSR theory that is different from the conventional perspectives and frameworks (e.g. Asutay 2007, Dusuki & Abdullah 2007; Farook 2007; Dusuki 2008a, b).

4.2.1.1. The Islamic adjusted CSR approach

This approach might appear to be pragmatic, since Islamic profitable organisations will most probably work in a form of the capitalism system in which CSR originated. This is because the theory of Islamic economics is neither accepted in mainstream economics (Chapra 1995), nor has it been practiced and tested (Nienhaus 1989; Kuran 1995). In this regard, this approach to Islamic CSR implicitly considers profitable Islamic organisations (mainly IFIs) as part of capitalism as the dominant economic system; therefore, they try to respond to contemporary issues around CSR by appropriately adjusting Islamic ethics.

For example, Ullah & Jamali (2010) list three major categories of Islamic "ethical" principles (i.e. unity, justice, and trusteeship) and then link these to Freeman's normative stakeholder theory in order to provide an Islamic perspective on the rights and obligations of different stakeholder groups. Khan & Karim (2011) partially build on Ullah & Jamali's (2010) Islamic ethical principles and extend the argument to include the Islamic tenets of business transactions. Additionally, Khan & Karim (2011) compare conventional and Islamic views on CSR with regard to human resources, human rights, the environment and philanthropy, along with their implementation within Freeman's normative stakeholder theory.

Sairally (2007) insists on the socio-economic role embedded in the *maqasid al-Sharia* (objectives of *Sharia*), arguing that there is a divergence between the current practices of IFIs and their initial objective of targeting human wellbeing. Therefore, Sairally (2007) proposes a framework for measuring the social performance of IFIs based on the corporate social performance (CSP) model mainly developed by Carroll (1979) and Wood (1991). Sairally (2007) seems keen to urge IFIs to make use of the "Western" practices of socially responsible investing in order to enhance their social responsibility practices. However, using the CSP model as a framework to measure the practices of IFIs might be considered paradoxical within a *Sharia* context, because CSP takes into account social expectations which might not correspond to *Sharia* principles. For example, what if the stakeholder engagement of an IFI with its non-Muslim clients resulted in identifying locked profit rate on their deposits as a major need and concern because they do not want to be partners in *mudarabah* contracts? Furthermore, as CSP is stakeholder oriented, identifying CSR issues by engaging with voiceless or weak stakeholders may reduce the moral obligations of an IFI. A good example on that the case of Vodafone who engaged with stakeholders in Germany regarding the locations of the broadcasting towers while they did not do the same in Egypt because of voiceless stakeholders (see the sustainability report of Vodafone 2009).

Williams & Zinkin (2010) provide a comparison between the tenets of Islam and the ten principles of CSR included in the United Nations' Global Compact ⁴³ and conclude that there is no divergence between them. Most significantly, Williams & Zinkin (2010) argue that Islam has a clear and codified ethical system as well as enforcement mechanisms. Moreover, Williams & Zinkin (2010) argue that the concept of the legal personality of a corporation could undermine the concept of CSR, and thus they view Islam as being in an advantageous position regarding the focus on personal responsibility accompanying the non-recognition of the corporation as a legal person.

The four studies mentioned above (Ullah & Jamali 2010; Khan & Karim (2011); Williams & Zinkin 2010; Saillary 2007) represent notable contributions to extend the normative theoretical perspective of Islamic CSR from the static position of pure ethical principles in order to bear comparison to the contemporary concepts and principles of conventional CSR. However, these studies do not take into consideration the fact that conventional CSR principles and practices vary widely and have mushroomed in such a way that there is no consensus on what constitutes socially responsible behaviour. Therefore contemporary CSR must be viewed as a process (Jones 1980) which depends mainly on the CSP model used, with noticeable inefficiencies in implementation caused by the situation of trade-offs between the interests of shareholders and stakeholders (see Chapter 3). In other words, it is the business case for CSR that determines the level of engagement of an organisation in CSR practices (e.g. Crane et.al. 2008). Moreover, in spite of arguments about the differences between the ethics of Islam and those of capitalism, those four studies neither attempt to explain the fact that CSR is found only in capitalism (and not in socialism or communism), nor discuss whether or not specific theories of CSR could be accepted in the philosophy of Islamic economics given the latter's ontological worldview and epistemological considerations.

⁴³ The UN Global Compact's ten principles cover the areas of human rights, labour, the environment and anti-corruption. More information about UN Global Compact is provided at <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>

4.2.1.2. The innate Islamic CSR approach

The innate Islamic CSR approach appears to be keener to rely on the socio-economic principles and objectives of Islam. This would provide a unique nature of the business organisation in terms of objectives and the means to achieve those objectives. Thus, the aim of this approach is to lead profitable Islamic organisations (with IFIs as the main example) share the aspirations of Islamic economics that is based on a unique ontological worldview and epistemological considerations.

Linking social responsibility to the innate business model of IFIs and the normative Islamic political economy, Asutay (2007a) argues that IFIs pragmatically and implicitly adhere to a neo-classical paradigm of managing wealth; accordingly, they deviate from the foundational ethical axioms upon which the Islamic financial system was meant to be built. According to Asutay (2007a), the theoretical business model of IFIs is inherently socially responsible and governed by Islamic ethics based on the unique ontological worldview and epistemology of Islamic economics. However, the practices of IFIs are not consistent with that model, and this makes IFIs face failure in catering for social objectives. Some of Asutay's (2007a) arguments might be taken seriously, because calls for CSR usually arise in parallel with criticisms of businesses (e.g. Snider, Hill & Martin 2003; Fombrun & Foss 2004; Scherer & Palazzo 2007). Thus, prominent criticisms of the practices of IFIs⁴⁴ (e.g. Zaman & Asutay 2009; Sairally 2007; Maali, Casson & Napier 2006; Badr El Din 2006) may boost demands for Islamic CSR. However, Asutay's (2007a) critique is normative, lacking alternative viable practical solutions that would lead IFIs to be socially responsible while they are working within capitalism as it is in reality.⁴⁵

⁴⁴ See for example Investment Dar's case with Blom Bank on <http://www.arabianbusiness.com/investment-dar-gets-sharia-board-blow-blom-case-282707.html>, the Dubai Islamic Bank's case <http://www.youm7.com/News.asp?NewsID=234268&SecID=24&IssueID=82>, Al Madina's case <http://www.alqabas.com.kw/Article.aspx?id=709698&date=06062011>, and Arif's case <http://www.alwatansudan.com/index.php?type=3&id=17932>.

⁴⁵ Asutay (2007a) proposes the social banking model as the solution for economic and social development. However, his arguments are at a macro level because setting up a social banking system is the responsibility of government. As for CSR and ICSR they are related to the micro frameworks that can be implemented by IFIs to contribute to the achievement of macro objectives.

Dusuki (2008a) has critically reviewed major theories of CSR, and provided an Islamic *Taqwa* (consciousness of God) paradigm as an ethical basis governing the Muslim manager in an Islamic organisation. The *Taqwa* paradigm (Dusuki 2008a) revolves around the ontological worldview of *Sharia* regarding individual humans and their relationship to society. According to Dusuki (2008a), an organisation which claims to be Islamic is assumed to be inherently socially responsible. Nevertheless, the concept of *Taqwa* that forms the core of Dusuki's paradigm is very flexible when it comes to practice. In other words, God consciousness is something that moves up and down depending on the context in which the behaviour of the human individual is at stake (Quran, 18:13; 19:76; 33:22; 47:17; 48:4; 74:31). Additionally, the findings of Dusuki (2008b) indicate that a group of individuals belonging to the Malay race (mainly Muslims) in Malaysia have heterogeneous viewpoints not only in terms of their level of religiosity, but also in terms of prioritising the economic, legal, ethical, and philanthropic responsibilities of business organisations.

Asutay (2007a) and Dusuki (2008a) provide normative arguments as to what Islamic social responsibility 'ought to' be. Nonetheless, their proposals lack practical frameworks within which IFIs can design their behaviour. To remedy this, Dusuki & Abdullah (2007) have provided a framework of *Sharia*-based legal-ethical reasoning to deal with CSR situations from an Islamic perspective. Based on *maqasid al-Sharia* (Islamic law objectives) and *maslaha* (*Sharia* interest), the 'framework of preventing harm' (Dusuki & Abdullah 2007) provides *Sharia* rules that could be used to regulate different situations in which harm (*darar*) occurs (See Table 4.1). Although the authors state that their study "fills important gap in CSR literature" (p.27) in terms of providing ethical reasoning for likely CSR situations, Dusuki & Abdullah's framework can be viewed as an alternative to CSR due to its reliance on Islamic socio-economic principles since it is based on legal axioms originally stated in '*Majalat Al-Ahkam Al-Adliyah*' (the Ottomani Islamic law code). Additionally, the framework lacks a 'rights'⁴⁶ perspective complementing the 'harm' side of Islamic legal responsibility. Thus, building a framework of CSR based on

⁴⁶ The author of the present research owes the argument concerning the 'rights' perspective of legal responsibility in Islam to Prof. Habib Ahmed. 'Rights' relate to guaranteeing the 'rights' of individuals when they are transacting with each other even though no harm is foreseen.

maqasid Al-sharia may be extended to include moral responsibility as well, because there are non-compulsory behaviours that can also serve the *Sharia* objectives.

Table 4.1: The Islamic maxims in preventing harm

Islamic maxim	Explanation
Harm is repelled as far as possible	Any potential harm to society has to be prevented as far as possible.
Harm is ended	Any harm must be stopped or abolished, after which one must rectify the damage.
Harm cannot be ended by its like	In the attempt to remove harm, another type of harm, either to the same degree or worse, must not be invoked.
Sever harm is avoided by lighter harm	If harm is not avoidable, one must choose the lighter harm.
To repel a public harm, a private harm is preferred	One has to absorb a private harm in order to prevent social harm.
Repelling harm is preferable to attaining benefit	If there is a conflict between harm and benefit, the harm must be repelled first, even if doing so removes the benefit.
Harm must not be sustained	Anything that may cause harm must be abolished, regardless if whether it is old or new.

Adapted from Dusuki & Abdullah (2007, pp 39-40)

Dusuki & Abdullah's (2007) framework of preventing harm has made a significant contribution to Islamic CSR. However, it does not take into consideration the *Sharia* method of jurisprudence which leads to the *Sharia* rulings governing the rules of harm on the basis of *Sharia* objectives and interests. In other words, Dusuki & Abdullah (2007) provide the axioms and their explanations (with examples) but do not explain the assessment of harm in terms of the *maslaha* ranking of *maqasid al-Sharia* by linking the assessment of harm to the *Sharia* rulings (*al-ahkam al-taklifiyyah*). Moreover, Dusuki & Abdullah (2007) do not consider the achievement of *masalih* (interests). In other words, they focus only on the negative side of the practices of organisations (i.e. harm) without taking into account the positive side of achieving good results (i.e. *masalih*).

As a principal writer in the field of the standards of social responsibility of the AAOIFI⁴⁷, Farook (2007) starts from the principle of '*fard al-kifaya*' (i.e. that the CSR of IFIs is a responsibility that cannot be performed by Muslims individually) to highlight the extent of obligation imposed on IFIs when it comes to their social responsibility, and

⁴⁷ The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) is an autonomous international Islamic not-for-profit corporate body that prepares accounting, auditing, governance, ethics and *Sharia* standards for Islamic financial institutions and industry. See www.aoifi.com.

accordingly sets out mandatory and recommended forms of CSR for IFIs. However, Farook (2007) significantly lacks adequate citations⁴⁸ to support his normative arguments. Furthermore, to clarify the fields in which mandatory CSR can be implemented, Farook (2007) adopts the general principles of Islamic finance that are assumed to be implemented either voluntarily or compulsorily by IFIs in order for them to be considered as IFIs. In other words, what Farook proposes are the same practices that IFIs are assumed to be implementing these days. Those practices have been criticised by others as being not sufficient to achieve social responsibility of IFIs (e.g. Badr El Din 2006; Maali, Casson & Napier 2006; Asutay 2007a; Sairally 2007; Zaman & Asutay 2009).

Mohammed (2007) proposes a framework of Islamic CSR based on four Islamic moral values (unity, equilibrium, free-will, and responsibility) that he views as the foundation of the Islamic socio-economic system. From each core moral value, the author derives an Islamic ethical principle (i.e. trustee from unity, distributive justice from equilibrium, freedom of choice from free-will, and accountability from responsibility). Actually, according to Asutay's (2007b) review, a great deal of Mohammed's (2007) framework is found in the works of Islamic economists (e.g. Ahmad 1980, 1994, 2003; Naqvi 1981, 1994; Siddiqi 1981; Arif 1985a; Al-Habshi 1987; Khan 1987; Chapra 1991 1992, 1995, 2000; El-Ghazali 1994, Sirageldin 2002; Choudhury & Hussain 2005). Mohammed (2007) contributes to re-organising these axioms into moral values and ethical principles, but his framework reflects these ethical principles and moral values in business transactions (i.e. practices of business) in terms of those which are *halal* (permitted) and *haram* (prohibited). This means that the practices of commercial Islamic organisations can either be black (wrong) or white (right); whereas grey is generally recognised in Islamic jurisprudence. In fact, legal-ethical reasoning in Islam can also provide recommended and non-recommended behaviours, as indicated by Imam Al-Shatibi (Al-Raysuni 2006).

⁴⁸ Only five citations have been supplied for such an important argument that forms the basis of a CSR standard for IFIs.

4.2.2. The empirical side

The fragmentation of theoretical efforts dedicated to Islamic CSR weakens empirical efforts, because measuring something that is not properly established and defined may lead to unreliable results. For example, contrary to Asutay’s (2007a) argument, Mohammed (2007) concluded that Islamic banks are socially responsible in spite of the lack of a framework for Islamic CSR. His study proposed a framework of social responsibility from an Islamic perspective and measured the level of responsibility shown by Islamic banks by conducting semi-structured interviews with 6 senior Islamic bankers and 6 members of *Sharia* advisory boards. Methodologically, Mohammed’s (2007) findings may not be convincing because of the qualitative nature of the study and the sample surveyed. Similarly, the findings of Dinar Standard & Dar Al Istithmar (2010) can be criticized in terms of the aspects of social responsibility of IFIs upon which the study is built.⁴⁹ Furthermore, the wording of questions included in their survey was deficient, being centred on ‘do you do?’ rather than ‘how do you do?’ specific practices related to Islamic CSR.

Contrary to the findings of Dinar Standard & Dar Al Istithmar (2010) and Mohammed (2007), other empirical research has indicated that the concept of CSR in IFIs is still not yet mature (Sairally 2007), with a shortage of social reporting and communication (Maali, Casson & Napier 2006; Haniffa & Hudaib 2007; Abul Hassan & Harahap 2010).

Table 4.2: Review of a sample of literature on Islamic CSR

Author(s)	Type of Research	Area	Key conclusions
Beekun & Badawi (2005)	Theoretical	Stakeholder needs and Islamic ethics	The Islamic approach to business ethics is centered around criteria that are in common with stakeholder theory such as justice and balance, and includes unique additional criteria such as trust and benevolence.
Maali, Casson & Napier (2006)	Theoretical - empirical	Social reporting of Islamic Banks	Social reporting by Islamic banks falls significantly short of the expectations.
Asutay (2007a)	Theoretical	Islamic economics and social responsibility	There is a divergence between the aspiration of Islamic economics and the world of Islamic banking and finance. IBF needs to institutionalise social banking as a solution for overcoming the social failure of IBF.

⁴⁹ The variables measured in this study are based on the argument of Farook (2008,2007).

Dusuki & Abdullah (2007)	Theoretical	A framework for implementing CSR in light of <i>Maqasid al-Sharia</i> and <i>maslaha</i>	The self-interest ontology of capitalism that causes problems of trade-off when implementing CSR can be solved by implementing <i>maqasid al-Sharia</i> and <i>maslaha</i> which in turn make the trade-off governed by not harming the society.
Farook (2007)	Theoretical	Islamic CSR for IFIs	IFIs have status as financial institutions fulfilling a collective religious obligation and their exemplary positions a financial intermediary. Specific responsibilities within this dual role are framed allowing for a clear structured logic for IFIs to implement CSR policies.
Mohammed (2007)	Theoretical-qualitative	Islamic CSR for IFIs + a framework for Islamic CSR	Despite the lack of a systemized framework which causes obstacles in implementing Islamic CSR, many current practices of Islamic banks mirror the practices expected according to the proposed Islamic framework (i.e. ethical principles of unity, equilibrium, free-will and responsibility).
Haniffa & Hudaib (2007)	Theoretical empirical	Ethical identity through disclosers of Islamic banks	There is a gap between the communicated identity and ideal ethical of Islamic banks
Sairally (2007)	Theoretical - empirical	Framework for measuring CSR of IFIs	IFIs need to learn from the experiences of the western socially responsible investing
Dusuki (2008a)	Theoretical	CSR and Islam	Sharia can solve the problems resulting from the inefficient implementation of conventional CSR; hence Islamic CSR is the alternative.
Dusuki (2008b)	Empirical	Stakeholder perceptions on Carroll's Pyramid of CSR	Malaysian stakeholders ranked the four dimensions as economic, ethical, legal and philanthropic accordingly. Their rankings were slightly different from those of the idealized model, suggesting that cultural factors had an effect.
Dinar Standard & Dar Al Istithmar (2010)	Empirical	Survey of CSR in IFIs	Despite wide variations between institutions, IFIs do have a good start on most aspects of social responsibility, contrary to criticisms levelled at the industry.
Hassan & Harahap (2010)	Theoretical - empirical	Social reporting of Islamic banks	Issues of CSR are not of major concern for most Islamic banks
Ullah & Jamali (2010)	Theoretical	CSR and Islam	Both Islam and CSR have humanitarian underpinnings, and the linking of the two concepts will result in positive synergies.
Williams & Zinkin (2010)	Theoretical	CSR and Islam	There is no divergence between the tenets of the Islam and the principles of the UN Global Compact.
Khan & Karim (2011)	Theoretical	CSR and Islam	the synthesis of the characters of traditional CSR systems with Islamic values as accountability, transparency, social justice, and trustworthiness, help companies to attract investment and improve their performance

Author's own

Being not specifically related to Islamic CSR but genuinely based on *maqasid al-Sharia*, some other studies have tried to develop models for measuring the performance of IFIs. The performance, in this regard, is extended to include the financial performance as well as the other dimensions of *maqasid al-Sharia*.

Mohammed, Abdul Razak & Taib (2008) have proposed a *maqasid*-based model to measure the performance for Islamic banks. They identify three broad objectives of *Sharia* that could proxy for performance, namely *tahdhib annafs* (individuals' education and discipline), *adl* (justice), and *masalah* (public interest). The authors claim they have adopted Abu Zahra's classification as well as Ibn Ashur's' definition of *maqasid*. Using Sekaran's method, the authors operationally define Abu Zahra's three broad *Sharia* objectives: educating individuals, establishing justice and *maslaha*. Each of these objectives or concepts is then translated into broad dimensions and finally into measurable behaviours or elements. For example the objective of "educating individual" is translated into two dimensions: advancement of knowledge and research which are then measured respectively by the ratios of education grant to total income and research expenses to total expenses.

The study of Mohammed, Abdul Razak & Taib (2008) is a good contribution to the operationalisation of *maqasid al-Sharia* in terms of the simplicity of the Sekaran's method. This is in addition to the fact that Mohammed, Abdul Razak & Taib (2008) has been amongst the first attempts to take the performance measurement of Islamic banks from pure financial indicators to ethical indicators represented by proxies to *maqasid al-Sharia*. However, there are some arguments that can be made with regard the theoretical framework of the study. For example, the authors have mentioned they are following the definition of Ibn Ashour for *maqasid al-Sharia* (i.e. "the general objectives of al-Sharia'ah, which are to promote welfare (Jalb al-Masalih) and avoid vices (Dara' al-Mafasid) (Mohammed, Abdul Razak & 2008, p.4); nonetheless, they have not discussed further how this definition shall influence their operationalised model. In fact, the definition of Ibn Ashour is very important and is approved by preceding scholars. According to Al-Shatibi, *Sharia* rests upon "the principle that it is obligatory to realize and perfect human interests and minimize and neutralize that which causes harm and corruption" (Al-Raysuni, 2006, p.34). This is also emphasized by Imam Izz Al-Din Ibn Abd Al-Salam: "The entire Law [*Sharia*] consists of interests: either it prevents that which would cause harm, or achieves that which would bring benefit" (Al-Raysuni 2006, p.32). Given this, it is important to explain that, in any case, behaviour or a group of

behaviours that are controlled by *Sharia* rulings shall lead to either avoidance of harm or promoting benefit; hence the ethical dimension of *Sharia*. Accordingly, understanding the context in which the *Sharia* ruling is going to be implemented shall lead to the achievement of proper *maqasid* linked to that ruling (same is approved by *usul al-fiqh* scholars, e.g. Al-Shatibi in Al-Raysuni 2006; Abu Zahra 1997; Al-Najar 2006). For example, if a person is thirsty and would lose her life in a place where no liquid to drink except wine, shall she drink wine or not? In this case, there are two contradicting rulings with two objectives: the first is the prohibition of wine which aims at the preservation of human mind; the second is the allowance of drinking wine in this specific case in order to achieve a higher objective represented by preserving human life. In fact, Mohammed, Abdul Razak & Taib (2008) does not consider the principles of *maqasid* ranking and prioritization that are based on the definition of Ibn Ashour which their study claims it follows. Furthermore, those *maqasid* ranks and prioritisation based on *maslaha* are explained explicitly in the major reference of the study (see Abu Zahra 1997 pp. 370-379). However, the current research shall explain these principles later in this chapter.

Additionally, Mohammed, Abdul Razak & Taib (2008) have misunderstood Abu Zahra's classification of *maqasid* in several occasions. Firstly, they have misunderstood "*tahdhib annafs*" as educating individuals. Notwithstanding, the actual text of Abu Zahra in Arabic language indicates that *tahdhib* is much more related to discipline. The actual text was about instilling discipline through *ibadat* (the five worships of Islam) but not *mu'amalat* (transactions), because Abu Zahra viewed *ibadat* as the sources of instilling good manners and discipline in individuals (Abu Zahra 1997, p.364). Therefore, research and advancement of knowledge cannot be elements of *tahdhib annafs* if Abu Zahra's classification of *maqasid* is under consideration. Secondly, under the objective of establishing justice, faire dealing is identified as the dimension followed by faire income as the element of that dimension. However, the performance measure was the ratio of profit to total income. In this regard, all Islamic banks being criticized for not being in good compliance with *maqasid* will be achieving high scores in this ratio as proxy of establishing justice. In fact, the justice as identified by Abu Zahra (1997, p.364) is classified into three types: justice in rulings, judgements and testimonies; justice in

transactions; and, social justice. Thirdly, the authors consider the *maslaha* of Abu Zahra as public interest. However, Abu Zahra did not mention public interest in that section at all. In fact, Abu Zahra (1997, pp. 366-367) emphasized the importance of the considerable *maslaha* (*al-maslaha al-mu'tabara*) which means explicitly the preservation of the five *Sharia* objectives identified by Al-Gazali, Al-Shatibi, and Al-Qurtibi in accordance with the three *maslaha* ranks (i.e. necessities, embellishments, and exigencies) of those *maqasid* so that they can be reflected into *Sharia* rulings to be implemented in different contexts. Therefore, the dimensions, elements and performance ratios of the "public interest" of Mohammed, Abdul Razak & Taib (2008) are inconsistent with Abu Zahra's definition of *maslaha*. Fourthly, whether the operationalised *maqasid* of the authors are measured by representative proxies or not, the authors limit the *maqasid* in a short finite list while the challenge facing Islamic economists is to achieve justice and equity through the achievement of contemporary infinite list of *maqasid* through reasoning (Siddiqi 2004, cited in Asutay 2007b).

However, Mohammed & Taib (2010, 2015) enhanced the model of Mohammed, Abdul Razak & Taib (2008) in terms of changing some the elements representing the three groups of *maqasid* and some of the performance ratios that measure them. Antonio, Sanrega, and Taufiq (2012) has used the same index developed by Mohammed & Taib (2010) to analyse the performance of two Islamic banks from Indonesia and another two Islamic banks in Jordan. However, no attempt has been made to investigate the actual text of Abu Zahra (1997) and its relevance to the model proposed originally by Mohammed, Abdul Razak & Taib (2008).

Based on Bedoui (2012), Bedoui & Mansour (2015) claim to provide an elaborative model for gauging Islamic business ethics based on *maqasid al-Sharia*. They argue that their model facilitates a new quantitative measure that is based on a five-pillar (i.e. the five *Sharia* objectives as identified by al-Gazali) approach and structured through a pentagon-shaped scheme. They have extended the five objectives of Al-Ghazali into eight by adding ecology, social entity and human rights from the classification of Al-Najar

(2006); and then proposed a mathematical measure capturing global performance (GP) in the light of *maqasid al-Sharia*.

Bedoui & Mansour (2015) is a unique model in measuring *maqasid al-Sharia*; however, the authors themselves have stated that their model has two limitations. The first one is the value measure as a proxy to ethical measurement. Thus, it is "unfair to claim that the quantitative measure is exhaustive and perfectly reflects the ethical performance. Indeed, "values" alone cannot be used perfectly for valuation issues" (p. 570). The second limitation is related to the personal characteristics – particularly religiosity level- of decision makers within organisations. Accordingly, Bedoui & Mansour view there will be an interaction between individuals and organisations in which the personal aspects of top management can bias the measurement of the ethical aspect of the performance.

The limitations of Bedoui & Mansour (2015) are very important in terms of *maqasid* measurement. However, those limitations logically lead to other limitations. The first is the focus on the end result of the ethical or *maqasid* aspect rather than on how and why that aspect has been achieved or not. This limitation exists partially in Dusuki & Abdullah 2007, fully in Mohammed, Abdul Razak & Taib (2008) and the followers of their model. Actually, *Sharia*, as a way of life, consists of a lot of *Sharia* rulings concerning every aspect of human life. The implementation of those *Sharia* rulings shall lead to *maqasid*, otherwise, *maqasid* shall never be achieved. In this regard, measuring something without knowing how it has been achieved (or not) shall lead to unreliable results. For example, Bedoui & Mansour (2015) mention an imaginary case where an Islamic bank would finance a rich person to buy a luxurious yacht. The authors conclude that "this contract is lawful and cannot be forbidden but it cannot generate social benefits" (p. 570). In fact, according to *maqasid* scholars (see the two chapters on *maqasid* realization in Al-Najar (2006) which Bedoui & Mansour have relied on), such a conclusion is invalid as long as the specific context of the fatwa of the *Sharia* advisory board SAB is not analysed and investigated in terms of what has made the SAB approve that transaction. Another good example that supports the above argument is represented by a case where a person is starving in a place where no food is available except swine flesh. In this regard, there are

two contradicting rulings: the first is not to eat swine because the prohibition of swine shall lead to the objective of preserving human life from bad diseases. The second is to eat swine in this specific context in order to achieve a higher priority and rank in preserving the present individual's life. In this regard, how *maqasid* can be gauged based on the final behaviour if the person has eaten swine to save her life? The answer is that there must be an analysis on the context where the *fatwa* has been taken.

Given the two examples above, *maqasid* themselves must be ranked and prioritised in specific context. Thus, the second limitation of gauging the final ethical value is represented by the unfairness of gauging a value without knowing the context and the external factors that have influenced the organisation. Thus, *Sharia* jurisprudence scholars are very keen to understand and analyse the factors that have led to those values. Nevertheless, this rational way of judgement identified by *Sharia* scholars hundreds of years ago is already recognised by researchers in measuring conventional CSR. This considered as the limitation of “context dependence of moral action” that may affect the norms and values by making them “not fixed” (Graafland, Eijffinger & Smid Johan 2004).

The analysis of *fatwa* to judge or even gauge the achievement of *maqasid* consists of two major steps. The first one is the analysis of *maqasid* themselves in terms of their types, ranks, and priorities. The second is the analysis related to the projection of the *Sharia* ruling in terms of whether or not it will achieve the specific *maqasid* when it is implemented. This concept is discussed in details by Al-Najar (2006, pp 237-287). When those two steps are implemented in a context of Islamic economics, the first step is purely conducted by knowledgeable jurists; whilst the second one is done with the help of Islamic economists in order to project the reality (Al-Suwailem 2013).

As for the *maqasid* aspects that might be linked to CSR attributes, the present research follows the rationale of Bedoui & Mansour (2015) by classifying *maqasid* into the five higher *Sharia* objectives of Al-Ghazali and Al-Shatibi in addition to ecology, social entity and human rights as the other three higher objectives provided by the contemporary scholar Al-Najar (2006). Nonetheless, the present research shall not attempt to measure

those higher objectives, but to investigate the processes of IFIs for reaching to those higher objectives and their sub-ordinate objectives included in the contemporary concepts of the “triple bottom line”: social, environmental and economic responsibilities of organisations. Thus, to establish the foundations of Islamic CSR, the dynamic of *Sharia* rulings in terms of the flexibility in implementation according to the context are explained in section 4.1.1 and the sub-sections.

4.2.3. The theoretical gaps

Apparently, the majority of research efforts dedicated to Islamic CSR stand on the common ground of *maqasid al-Sharia* and the Islamic moral values and ethical principles that are assumed to govern all aspects of the behaviour of Muslim individuals (e.g. Beekun & Badawi 2005; Asutay 2007, Dusuki & Abdullah 2007; Farook 2007; Dusuki 2008a, 2008b; Ullah & Jamali 2010; Williams & Zinkin 2010; Khan & Karim 2011). This may indicate that authors on Islamic CSR explicitly or implicitly depart from an Islamic ontological worldview to describe individual human reality, which has important implications for Islamic CSR. Additionally, all of these authors have another common ground regarding the source and nature of knowledge from which they extend their arguments: Islamic moral values and ethical principles from the different sources of *Sharia*.

Perhaps paradoxically, the common grounding of worldview and epistemology also causes some divergence between approaches to Islamic CSR. From the point of view of those who contribute a stand-alone Islamic CSR model (mainly Asutay 2007a and Dusuki & Abdullah 2007), the differences between Islamic worldviews and epistemology and those of neoclassical capitalism and conventional CSR lead Islamic CSR to be a self-reliant explanatory model or conceptual framework. On the other side, according to the viewpoint of those who would adjust Islamic moral values and ethical principles to conventional CSR (mainly Ullah & Jamali 2010; Williams & Zinkin 2010; and Khan & Karim 2011), Islamic CSR is seen as having common ground with conventional CSR and thus each can contribute in terms of moral-ethical dimensions.

Such a divergence between the two approaches to Islamic CSR can be viewed as an extension of the differences between the schools of thought regarding Islamic economics; specifically, between the concept of an adjusted capitalism and Arif's (1985a) notion of a stand-alone Islamic economic paradigm.⁵⁰ According to Arif, the former recognises fundamental principles in common between Islamic economics and capitalism, and calls for certain adjustments in capitalism to bring it into conformity with Islamic economics. Based on this view, followers of the adjusted Islamic CSR approach may consciously or unconsciously subscribe to the adjusted capitalism school. On the other hand, followers of the stand-alone Islamic CSR approach might be considered as subscribers to the stand-alone Islamic economics school of thought (e.g. Asutay 2007a, b; Zaman & Asutay 2009).

In chapter two, the relationship between CSR and capitalism has been extensively discussed. The concept of CSR is related to capitalism (e.g. Gordon 1946; Heald 1957; Adizes & Weston 1973; Shamir 2004; Corvellec & Bevan 2005; Blowfield & Murray 2008; Hanlon 2008; Kerr 2008), and any attempt to understand CSR in isolation from capitalism will lead to difficulties in grasping a comprehensive understanding of the concept and its implementation within a capitalist economic system. In addition this affects the understanding of why or how some aspects of CSR can or cannot be implemented within capitalism or alternative economic systems (Blowfield & Murray 2008). On the one hand, however, if CSR is viewed from an instrumental theoretical perspective, then it can be considered to represent a 'brand new spirit of capitalism' (Kazmi, Leca & Naccache 2008). On the other hand, if CSR is viewed from an institutional theoretical perspective, it can be considered to be a "movement to displace capitalism" (Ventura & Vieira 2007). Given the fact that the instrumental approach to CSR is the dominant practical framework (e.g. in the UN Global Reporting Initiative (GRI) and AA 1000 standards), and in the light of the argument of Boltanski & Chiapello (2005) about periodic changes in the spirit of capitalism, the practices of CSR are not relevant to socio-economics. In fact, they aim at creating roles for businesses in societies within the paradigm of capitalism that does not have those roles principally (Levitt 1956;

⁵⁰ Arif (1985a) named it as the 'Sharia paradigm for Islamic economics', but the context of his argument supports the idea of stand-alone Islamic economic paradigm.

Friedman 1962, 1970). This indicates that the orthodox approaches to CSR (e.g. the CSP model and the business case for CSR) are linked to the orthodox school of economics (i.e. neoclassical economics).

Conversely, Islamic CSR can be said to be implicitly at the heart of the philosophy of Islamic economics that is considered to be under the umbrella of the heterodox schools of economics. Therefore, understanding Islamic CSR is related to the understanding of the philosophy of Islamic economics. Consequently, relating Islamic CSR to instrumental CSR (e.g. Sairally 2008) might give unreliable results unless that relationship is philosophically justified. Moreover, relating Islamic CSR to normative theories of CSR might give mixed results based on the approximation of the epistemology and ontological worldview of Islamic economics and the compared CSR theory (e.g. Ullah and Jamali's 2010 comparison to stakeholder theory).

Consequently, the key theoretical gap in the field of Islamic CSR is represented by the justification of the comparison with and usage of the conceptual frameworks of conventional CSR at the foundational philosophical level. This indicates that having a theory of stand-alone Islamic CSR is not an end in itself, but that the aim is to achieve Islamic socio-economic objectives (*maqasid al-Sharia*) based on the philosophical foundations of Islamic economics.

The second theoretical gap concerns the specification of methodologies that are relevant to the ontological worldview and epistemological characteristics of Islamic CSR. In this regard, Islamic jurisprudence alone might not be sufficient (e.g. the framework of harm of Dusuki & Abdullah 2007), and neither might be a critical methodology (e.g. Asutay 2007a), a hermeneutical approach to interpreting the 'Quran' and 'Sunna' (e.g. Farook 2007), nor an arithmetic description method (e.g. Sairally 2008).

Further theoretical gaps concern the lack of frameworks for the practical implementation of Islamic CSR or for measuring it. In fact, these are basically dependent on the aforementioned philosophical and methodological problems, because developing a framework of Islamic CSR and measuring the practices of Islamic CSR are dependent on

the fundamental philosophy that governs knowledge production in Islamic economics with its unique ontological worldview and epistemological characteristics. Thus, some of the studies reviewed in the present chapter contribute to providing frameworks for the principles of Islamic CSR (e.g. Farook 2007; Mohammed 2007; Ullah & Jamalli 2010) but only Dusuki & Abdullah (2007) contribute to a viable framework for implementation. Additionally, apart from Sairally (2008), none contribute to the development of a framework for measuring the practices of Islamic CSR.

The philosophy of Islamic economics is reviewed next, an understanding of which is necessary to explain the relationship between Islamic CSR and Islamic economics as well as that between Islamic CSR and capitalism.

4.3. The philosophical foundations of Islamic economics

Islamic economics emerged as a discipline in the second half of the twentieth century. The aim of the research efforts of Islamic economists was initially to develop an approach that is independent from conventional economics (i.e. capitalism and socialism) (Nienhaus 1989). Up to 1975, 406 authors published 700 articles and books addressing Islamic economics in three languages: Arabic, English and Urdu (Siddiqi 1978), and 80 studies of the economic philosophy of Islam were documented (Siddiqi 1978). After 1975, according to a review by Asutay (2007b), many studies dealt exclusively or partly with the philosophy of Islamic economics (e.g. Ahmad 1980, 1994, 2003; Naqvi 1981, 1994; Siddiqi 1981; Arif 1985a; Al-habshi 1987; Khan 1987; Chapra 1991, 1992, 1995, 2000; El-Ghazali 1994, Sirageldin 2002; Choudhury & Hussain 2005). These studies have established the philosophy of Islamic economics.

However, what is meant by ‘philosophy’ in the current context is not the moral values and ethical principles of Islamic economics, as proposed by some authors on Islamic economics and Islamic CSR (e.g. Asutay 2007a; Zaman & Asutay 2009), but the ontological worldviews and epistemological considerations that underpin the philosophy (Pluta 1989) and lead to knowledge production in a particular school of thought. Such a distinction is important because some moral values and ethical principles may be the same

for all schools of thought in a discipline, while being ontologically and epistemologically (i.e. fundamentally) different.⁵¹

Elaborating on the epistemology and ontology⁵² as major ingredients of the foundational philosophy of any economic paradigm, Pluta (1989) argues that an economic paradigm requires two sub-models: one which describes the reality of the economic object (i.e. ontology); and another which defines the economic discipline (i.e. epistemology). According to Pluta, the ontology of an economic paradigm revolves around the micro reality (i.e. human nature), macro reality (i.e. human society), and the intermediate level of reality in which the micro and the macro integrate as a coherent whole. As for the epistemology of an economic paradigm, Pluta (1989) identifies three elements: specifications of the character and properties of economic knowledge as well as of the subject matter of the discipline, and the development of appropriate methodologies consistent with those specifications (Pluta 1989, pp. 6-10).

In the following, the philosophy of Islamic economics is reviewed and then compared with neoclassical philosophy following the work of Pluta (1989), and this is summarised in Table 4.3. Note that, due to the unique epistemology of Islam, the discussion of the epistemology of Islamic economics precedes that of its ontology.

4.3.1. The epistemology of Islamic economics

Every scientific idea or belief system is driven by a foundational epistemology. Knowledge has a more inclusive meaning than science because the former is what has been accumulated in any “general field of information as well as the facts that are based on physical sense, material observations, philosophical contemplation or result from organised intellectual efforts” (Ahmad 2002 p. 20). The nature of the accumulated knowledge in a specific field is governed by the beliefs of people contributing to this

⁵¹ For example, there is no doubt that the idea that cheating is unethical practice is generally accepted as a principle in all economic schools of thought, but the method of reaching this principle epistemologically and ontologically may differ. Accordingly, definitions of cheating and avoiding it might also differ.

⁵² Pluta (1989) uses the word 'ontology' as a synonym for ontological worldview.

knowledge, truth that objectively validates these beliefs, and the justification through which a factual belief is arrived at (Truncellito 2007).

For Muslims, the core of belief is represented by *tawhid* (the Unity of God), the Creator and Sustainer of everything, including knowledge. Therefore, *tawhid* implies that the source of all knowledge is only the Creator (Arif 1987; Moten 1990; Mir 1999; Choudhury 2000). The Quran emphasizes this on several occasions (e.g. 2:31; 6:38). For this knowledge to be sustained and distributed to mankind, God chose his prophets and messengers (Asutay 2007b) and taught them (Quran, 4:113). Accordingly, Muslims believe that *Quran* and *Sunnah* (the sayings and deeds of the Prophet *Muhammad*) are the main sources of knowledge (Khan 1987; Choudhury 2000) that comprise the divine law according to which all of the universe is organised in cosmic of laws.

The role of the individual human, in this regard, is not limited to understanding divine law, but linking the different phenomena in the universe to the Unity of God through reasoning (Al-Tabari Interpretation for Quran: 3:191). In fact, this implies for Muslims that: (1) everything in divine law is ‘true’; and (2) if there is a conflict between divine law and human endeavour in terms of proving a phenomenon, then either the latter must be wrong or the interpretation of divine law is incomplete (a similar argument is provided by Al-Faruki, cited in Safi (1993)). This is because human knowledge is imperfect in comparison to God’s knowledge (Khan 1987).

There is a difference between the absolute truth of the Creator of knowledge and the objective truth of the human (Biraima 1998; Khan 1987), because mankind has limited capabilities (Khan 1987; Nienhaus 1989). Thus, the justification of facts is at the centre of Islamic epistemology and receives careful attention by scholars of Islamic revelation and jurisprudence on the one hand, and scientists in other fields of knowledge on the other hand. In other words, according to Islamic epistemology it is important that knowledge resulting from the interpretation and revelation of the divine law, in addition to knowledge resulting from human reason about real phenomena, is consistent with divine law. A similar argument is provided by Al-Faruki as cited in Safi (1993).

Islamic philosophers consider the Unity of God and knowledge to be the fundamental cognitive orientation of a Muslim individual or Muslim society, encompassing the entirety of the Muslim individual's or Muslim society's knowledge. Islamic economists are no exception in this regard, according to Asutay's (2007b) review (e.g. Ahmad 1980, 1994, 2003; Naqvi 1981, 1994; Siddiqi 1981; Arif 1985a; Al-Habshi 1987; Khan 1987; El-Ghazali 1994, Chapra 1995, 1991 1992, 2000; Sirageldin 2002; Choudhury & Hussain 2005). This means that the specifications of the character and properties of knowledge (Pluta 1989) in Islamic economics, as in any other field of Islamized knowledge, is set on two pillars: (1) divine law; and (2) the rationality of Islamic jurists and economists in justifying economic phenomena in accordance with divine law (Al-Suwailem 2013). In essence, this is unlike the characteristics of knowledge in neoclassical economics that is based only on human rationality as the source of knowledge (Nienhaus 1989) (see the comparison in Table 4.3).

Development that leads to economic growth and social wellbeing is the ultimate objective in the writings of Islamic economists when attempting to identify the needs and wants of Islamic economics as a science dealing with solving problems in reality (e.g. Khan 1984; Arif 1985a; Chapra 1995, 2000). Social wellbeing at the micro-level is recognised as *falah*, which is the ultimate goal of an Islamic economic agent (Siddiqi 1979, cited in Yusof & Amin 2007; Sattar 1988; Abbas 1995). This means achieving material and spiritual interests both in this life and the hereafter (Chapra 1995). Reaching a level of *falah* requires rules for proper economic conduct (Yusof & Amin 2007), and consequently, Islamic economists strive to solve economic problems in such a way that satisfies the materialistic and spiritual needs of both individual and society (e.g. Al-Arif 1985a; Habshi 1987; Khan 1987; Chapra 1995, 1991; Choudhury & Hussain 2005). Accordingly, the subject matter of the Islamic economics differs from that of neoclassical economics (see Table 4.3)

Table 4.3: The philosophical foundations of Islamic and neoclassical economics

Philosophical foundations	Neoclassical Economies	Islamic economics
Ontology		
Micro reality (human individual)	Human individual is free with Self-interest. i.e. Selfish economic man.	Human individual is vicegerent of God on earth who plays the role of free-willed individual in society with both spiritual and material interests.
Macro reality (human society)	Society is a sum of individual materialistic interests that are achieved mechanically in accordance with the social Darwinism (Amable 2011; Giroux 2004; Brenner 2000).	Society consists of social classes that are beneficent, brotherhood-based, coordinated, and harmonised in a just order to reach unified religious, social, political and economic macro objectives.
Intermediate reality (integrating the macro and micro)	Liaise-fare free market with the metaphor of invisible hand.	A market is free, 'Sharia'-based, and ethical and should integrate both the materialistic and spiritual interests of individuals and society in order to achieve social well-being and economic growth.
Epistemology		
Specifications and characters of the economic knowledge	Scientific economic law.	The divine law and human rationalism consistent with the divine law.
The subject matter of the discipline i.e. The central problem	Man's conduct of the business part of his life.	Development leading to economic growth and the well-being of society.
Methodologies consists with the two aspects above	Positivism, value-free judgment.	Value judgments and positive judgments.

The first and second columns are based on Pluta (1989).

Given the two pillars of Islamic epistemology of divine law and human reasoning consistent with it, the methodologies of Islamic economics give due prominence to both value judgments and positive judgments in making generalizations about an ideal Islamic economy (Khan 1987; Chapra 1995; Naqvi & Qadir 1997). This implies that methodology in Islamic economics has both a normative and a positive basis (Nienhaus 1989). However, the case is different in neoclassical economics which rely on positivism and value-free judgment (see Table 4.3) The following section explains the method of *Sharia* jurisprudence in terms of its inclusion of both inductive and deductive approaches reflecting the Islamic epistemology discussed in the present section.

4.3.1.1. The *Sharia* jurisprudence method

In his book '*Research Methods of Islamic Thinkers and the Discovery of the Scientific Method in the Islamic World*'⁵³, elaborates extensively on the methods of Islamic jurisprudence used to produce *Sharia* rulings related to different phenomena in actual human life. According to Al-Nashar, Islamic epistemology provides the underlying logic and methods used for knowledge production in accordance with *Sharia* jurisprudence. It is based on the actual life of mankind and has nothing to do with metaphysics. In other words, it consists of pragmatic methods that are used to induce and deduce the *Sharia* rulings that are related to social (including economic and political) phenomena.

Scholars of the theory of Islamic jurisprudence (*usul al-fiqh*) use jurisprudential analogy⁵⁴ (*qiyas fiqhi*) according to scientific induction that is based on two rules. The first is the law of universal causation (*al-illiyah*), which means that the *Sharia* ruling is approved because of a legal cause (*illah*). This means that whenever the *illah* exists, the *Sharia* ruling exists, and the same applies in the case of its non-existence. For example, the *illah* of the prohibition of alcohol is intoxication. The second rule is the law of the uniformity of nature (*al-ittiradh*), which means that when an *illah* exists in similar circumstances then the same *Sharia* ruling applies. For example, if intoxication exists with a beverage other than alcohol, then the *Sharia* ruling for that beverage is prohibition (Al-Nashar, pp. 112-113).

Thus, scholars of *usul al-fiqh* had based the jurisprudential analogy upon the same two laws that the British Philosopher and political economist John Stuart Mill (1843) based his system of scientific induction on (Al-Nashar, p. 113). Mill⁵⁵ considered induction as “a process of inference; it proceeds from the known to the unknown; and any operation involving no inference, any process in which what seems the conclusion is no wider than the premises from which it is drawn, does not fall within the meaning of the term” (cited

⁵³ This book is in Arabic language with the title : “Manahij Al-Bahth Inda Mufakkeri Al-Islam Wa Iktishaf Al-Manhaj Al-Ilmi Fi Al-Alam Al-Islami”

⁵⁴ To provide a *Sharia* ruling for a current case or phenomenon based on an approved case that has the same legal cause (*illah*).

⁵⁵ The reference here is for the collected works of John Stuart Mill (1843) that were edited and re-published in 1974.

in Robson 1974, p.266). However, scholars of *usul al-fiqh* had stricter conditions for considering *illah*⁵⁶.

Building on Al-Nashar (1984) and referring to several references in *usul al-fiqh*, Al-Suwailem (2013) summarises the four *illah* conditions into two aspects and links them to the method of theorization used by Islamic economists in accordance with the epistemology of Islamic economics. The first condition is the appropriateness of *illah* to the *Sharia* ruling; in other words, the *maslaha* (interest) that is achieved when a *Sharia* ruling is implemented because of an appropriate *illah*. Thus, when the *Sharia* ruling is not implemented even though the *illah* exists, a *mafsada* (harm) against the *Sharia* objective occurs. The second condition is gyration, which means that the *Sharia* ruling exists if the *illah* exists and ruling does not exist if the *illah* does not exist or is prevented from existing by a deterrent (Al-Suwailem 2013, p. 47).

According to Al-Suwailem (2013), the first feature gives the *illah* the ability of explanation: to interpret phenomena or *Sharia* rulings in such a way that makes *Sharia* rulings integrated, consistent and compatible. The second feature gives the cause the ability of prediction; that is, to predict the verdict of a new event based on an established one. Thus, the ruling of every contemporary event can be detected by analogy if the *illah* exists. The combination of these two features leads *illah* to become “complete or ideal”, which combines both prediction and explanation.

From the perspective of Islamic economics, the inference of the suitable *illah* includes both jurisprudence and economics analysis. This is because gyration, which is the correlation between ruling and *illah*, requires the induction of various *Sharia* rulings, and this is, in essence, a jurisprudence analysis. Additionally, the appropriateness (i.e. the

⁵⁶ Al-Nashar (1984) provides the conditions of the *illah* based on the methods of *fiqh* induction of the scholars of *usul al-fiqh*: (1) *Illah* must affect the *Sharia* ruling because the *Sharia* ruling is caused by that *illah* (al-Zarkashi in his book *Al-Bahr Al Muheet*, cited by Al-Nashar 1984, p. 116); (2) *Illah* must be described accurately without any confusion (Al-Shawkani in his book *Irshad Al-Fohoul Ila Tahqiq Al-Haq Min Ilm Al-Usul*, cited by Al-Nashar 1984, p. 117); (3) *Illah* must have a regular relationship of existence with the *Sharia* ruling, in other words; it must exist whenever the *Sharia* ruling exists (Al-Telmisani in his book *Miftah Al-Wusul Ila Ilm Al-Usul* cited by Al-Nashar (1984, p. 118), which is similar to Mill’s method of agreement between the cause and effect; and (4) *Illah* must not exist when the *Sharia* ruling does not exist (Al-Telmisani in his book *Miftah Al-Wusul Ila Ilm Al-Usul* cited by Al-Nashar (1984, p. 118).

ranking of the *Sharia* benefit or *maslaha* resulting from the implementation of the ruling justified by *illah*) is, in essence, an economic analysis (Al-Suwailem 2013).

Al-Suwailem (2013) is here merely concerned with theorization in Islamic economics. However, the other part of the scientific method of *Sharia* is represented by the acknowledgement of the deductive approach to test the real gyration relationship between *illah* and the *Sharia* ruling for phenomena in actual situations. Thus, proving the relationship of gyration between *illah* and the *Sharia* ruling is recognised by scholars of *usul al-fiqh* to be based on experiment: “in fact, it [gyration] is a mere experiment. The more experiments proving the gyration [between the *illah* and the *Sharia* ruling], the more the induction becomes a case of certainty” (Al-Qarafi in his manuscript ‘Nafae’s Al-Usul Fi Sharh Al-Mahsul’, cited by Al-Nashar 1984, p.126).

Hence, the inductive-deductive cycle of the scientific method is fully reflected in the *Sharia* method of jurisprudence. In fact, for describing and analysing phenomena this method is similar to the scientific method of Sir Francis Bacon (1561–1626) who insisted that scientists should proceed through inductive reasoning, from observations to axiom to law, in order to complete the interplay between deductive and inductive logic that underlies how knowledge is advanced (Moen & Norman 2010; Ullmer 2011).

4.3.2. The ontological worldviews of Islamic economics

Philosophically, the account of economic reality is principally based on the reality of the major ingredients of an economic system: the individual human, the society, and the tools with which the two are integrated economically (Pluta 1998). However, there is a direct link between epistemological considerations and ontological positions not only in terms of the design of a research paradigm (Burrell & Morgan 1979), but also in terms of the interchangeable influence of the characteristics of knowledge (Pluta 1989) and the ontological worldview.

In the neoclassical paradigm, social beliefs and methodology rest upon the premise of rationalism. The ontological worldview of Islamic economics is derived from divine law

as the main source of knowledge. This influences the view of the reality of the human individual, human society, and the medium in which they interact economically (i.e. the market). The comparison between the ontological worldviews of Islamic economics and those of neoclassical economics are summarized in Table 4.3.

4.3.2.1. The reality of human individual and human society

As an integral part of the *tawhid* (Unity of God), *rububiyah* is an important axiom of Islamic economic ontology. *Rububiyah* implies that God is the only Creator and the Sustainer. This means that “everything created by *Him* has a purpose” (Chapra 1995, p. 202; see also Arif 1985a; Khan 1987) accompanied by “divine arrangements for nourishment, sustenance and directing things towards their perfection” (Ahmad 1979, cited in Asutay 2007, p. 8; and a similar argument is provided by Al-Faruki, cited in Safi (1993). *Rububiyah* implies that the purpose of creating human beings is to be His vicegerents on earth: “Behold, thy Lord said to the angels: I will create a vicegerent on earth...” (Quran, 2:30). Imam Al Tabari interpreted the vicegerency of human beings on Earth as to “live in and develop it” and to “represent God in terms of obeying Him and ruling His creatures in a just way” (as also argued in Arif 1985a; Al-Habshi 1987; and Chapra 1991, 1995). Therefore, vicegerency, as the human’s mission on Earth, has to be accomplished both spiritually and materially (Khan 1984; Choudhury 1986; Al-Habshi 1987; Khan 1987; Chapra 1991; Biraima 1998). In fact, God has ensured the availability of the material⁵⁷ and spiritual⁵⁸ for this mission to be accomplished within a framework of individual free-will (Al-Habshi 1987, Arif 1987; Chapra 1991, 1995; Kahf 2000; Dusuki 2008a). Economically, humans are fully authorised over their own property and there are no limitations on human behaviour except those imposed by God (Kahf 2000). Nonetheless, Islam urges a balance in human behaviour between the satisfaction of spiritual and materialistic needs:

⁵⁷ “It is We Who have placed you with authority on earth, and provided you therein with means for the fulfilment of your life...” (Quran, 7:1057).

⁵⁸ It is He Who sent down to thee (step by step), in truth, the Book, confirming what went before it; and He sent down the Law (of Musa) and the Gospel (of 'Isa). Before this, as a guide to mankind, and He sent down the Criterion (of judgment between right and wrong).... (Quran, 3:3-4).

“There are men who say: "Our Lord! Give us (Thy bounties) in this world!" But they will have no portion in the Hereafter. And there are men who say: "Our Lord! Give us good in this world and good in the Hereafter, and defend us from the torment of the Fire! To these will be allotted what they have earned; and Allah is quick in account." (Quran, 2:200-202).

Also the same is emphasized in Quran, 62:9-10:

“O ye who believe! When the call is proclaimed to prayer on Friday (the Day of Assembly), hasten earnestly to the Remembrance of Allah, and leave off business (and traffic): that is best for you if ye but knew! And when the Prayer is finished, then may ye disperse through the land, and seek of the Bounty of Allah: and celebrate the Praises of Allah often (and without stint): that ye may prosper.”

Within this belief, “all human beings are equal in being Allah’s vicegerents on earth and His dependents, and cannot feel inner happiness and tranquillity until the real well-being of all has been attained through the satisfaction of both spiritual and material needs” (Chapra 1995, p. 7; also in Al-Habshi 1987). This highlights the “necessity of sustainable economic growth and development in terms of having harmony between various components of economic and social life” (Asutay 2007b, p. 8).

Thus, the view of Islamic economists about the human individual, as a micro component of economic reality, is as a vicegerent of God on earth with the free-will to achieve both spiritual and materialistic interests. Nonetheless, those interests cannot be achieved individually. They are part of the role of an individual in society (Arif 1985a; Choudhury 1986; Al-Habshi 1987; Khan 1987; Chapra 1995b; Mehmet 1997b; Hasan 2005) which has macro objectives. This is clearly different from the neoclassical worldview of the human individual as economic, selfish, self-interested free man (see table 4.3).

Sharia, as a divine law, has its own objectives (*maqasid al-Sharia*) that take into account both the materialistic and spiritual aspects of a vicegerent’s mission on Earth. Therefore, the *maqasid al-Sharia* provide “the legal-rational framework within which Islamic economic activities should be conducted” (Asutay 2007, p.8). Imam Al Ghazali

incorporates in the *maqasid* everything that is considered “necessary to preserve and enrich faith, life, intellect, posterity and wealth” (Chapra 1995b, p. 7). Imam Al-Shatibi also cites the same five *maqasid* (Al-Raysuni 2006). The sequence of the five macro objectives of *Sharia* provides a logical understanding of how Islam promotes social wellbeing in this life and winning in the afterlife while providing a balance between them.

Faith is the first objective, because it provides the foundations for the interaction between human beings. It also provides moral filtering processes for all human actions and relations on the basis of justice, brotherhood (Chapra 1995b), beneficence and solidarity (the same view was originally held by Imam Al-Ghazali; see Mehmet 1997). When taking into consideration the fact that an economic action is an integral part of worship, and has spiritual and material aspects, a socially agreed moral filter is added to individual preferences and prices as measures of efficiency and equity (Chapra 1995b). It is clear that life, intellect and posterity are all related to wellbeing. Preserving life is a logical requirement for preserving and enriching intellect, whilst posterity is needed to sustain both of them. Wealth, however, is not considered as an end in itself (Chapra 1995b), but is considered to be an indispensable measure to achieve well-being. If wealth is considered as an end in itself, it will lead to an imbalance between satisfying the needs of the individual interest and the well-being of members of the current and future generations.

Society, from an Islamic viewpoint, consists of classes: “... It is We Who portion out between them their livelihood in the life of this world: and We raise some of them above others in ranks, so that some may command work from others...” (Quran, 43:32). Nonetheless, social classes are brotherhood-based, coordinated, and harmonised in a just order in order to achieve unified religious, social, political and economic macro objectives (Al-Habshi 1987; Chapra 1991, 1995b). In other words, it is matter of preserving and enriching the micro objectives in a way that is consistent with the macro objectives as explained in detail by Imam Al-Shatibi (Al-Raysuni 2006).

Given the Islamic view of the human individual and human society, it appears that Islamic economics has an ontological worldview different from that of mainstream economics

(see Table 4.2). The latter (Pluta 1989) views the economic reality of the human individual as separate from other aspects of human nature (mainly society), it is the 'economic man' who is selfish in nature to achieve his individual interests (see Table 4.3)

4.3.2.2. The reality of the market

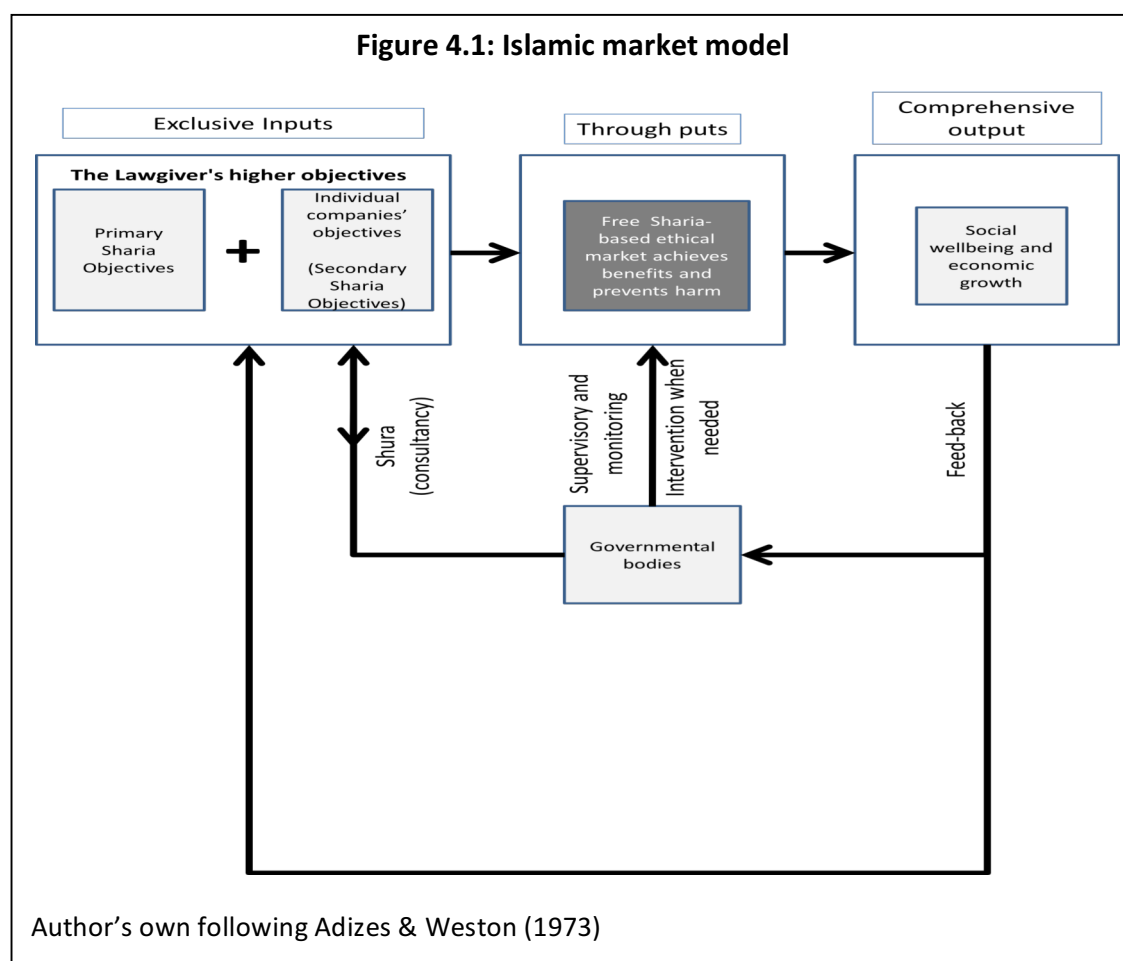
Private ownership, means of production, and freedom of enterprise are granted in Islam. This is in addition to competitiveness and the free operation of market forces (Chapra 1995a; Kahf 2000).

Achieving social well-being and economic growth (*falah*), required as the vicegerents' role on Earth, is governed by predetermined socio-economic and political objectives which not only comply with *Sharia* but also stem from its objectives. The objectives of *Sharia* (*maqasid al- Sharia*) are considered to be the core of the exclusive input in the Islamic market model (see Figure 4.1). Furthermore, Islam recognises the micro objectives of individuals and institutions.

As explained in section 4.3.2, the ultimate objectives of Islamic economics are social well-being and economic growth. This is assumed to be achieved through the black box model of the market, as explained in Figure 4.1. This is the processor in which *Sharia*-based homogeneous and heterogeneous objectives are ethically integrated to achieve social wellbeing and economic growth. This provides a morally based filter mechanism linked to a competitive market (Chapra 1995a). The moral filter not only governs the types of transactions and their subject matter, it also includes the mechanism according to which the trade-off between different objectives is applied. In this regard it is the *maslaha* (interests that the *Sharia* targets when achieving its objectives) that are achieved through the methods of jurisprudence explained in section 4.3.1.1.

In all cases of trade-off, the micro and macro objectives should be consistent with the original necessary macro *Sharia* objectives (i.e. the five *maqasid*) (Al-Habshi 1987; Chapra 1995a; Kahf 2000; Khan 2002; Dusuki & AboZaid 2007; Laldin 2010). This is why socio-political economic objectives are considered as the first input in the Islamic

market model, followed by individual companies' micro objectives. Thus, "social, economic and political goals are taken up together with the financial ones" which "together comprise the totality of the social, economic and political development issues of an Islamic society" (Choudhury & Hussain 2005, p.204). Additionally, this is why Islamic financial institutions are urged to incorporate *maqasid* within their strategic objectives in order to be socially responsible (e.g. Asutay 2007a, b; Dusuki & Abozaid 2007; Dusuki 2008a; Othman 2011).



The role of the government in such a model (explained in Figure 4.1) is to ensure compliance with *Sharia* (Khan 1984) and in such a way that guarantee the achievement of micro and macro objectives. However, governmental intervention is not a rule in such a free market as long as the market operates in accordance with *Sharia*, and achieves and promotes its objectives (*maqasid*) (Chapra 1991; Choudhury 2000; Kahf 2000; Hasan

2005). This is achieved through keeping the market free in order to promote the private sector and to help it achieve its objectives, supervising and monitoring the private sector's activities, and maintaining socio-economic balance⁵⁹ while promoting socio-economic justice, and protecting and promoting the moral framework of *Sharia* as set for economic activities (Kahf 2000). Thus, government intervention is viewed to be in its minimum extent; to be used only when necessary. Additionally, government intervention or regulation is viewed in the framework of *Shura* (consultancy) along with the private sector and society at large because government in Islam is delegated by the people (Kahf 2000).

Thus, unlike in neoclassical capitalism, from an Islamic perspective the market is not considered to be a mere economic institution, but a social institution (Hasan 2005) which morally integrates homogeneous and heterogeneous socio-political economic objectives and goals in order to achieve social well-being and economic growth (see Table 4.3).

4.4. Islamic CSR and the Islamic philosophy

Based on the previous arguments concerning Islamic ontological worldview and epistemology, it can be said that Islamic CSR is built into the Islamic model of economics. The moral dimension of Islamic CSR is highlighted in the reality of all economic ingredients (i.e. the individual, society, and market). The Islamic market model itself (see Figure 4.1) is a framework for identifying and implementing corporate responsibility. The Islamic market is the facilitator for the settlements between the different interests and objectives of different parties in compliance with the *Sharia* objectives. Thus, business entities enter the market with their economic interests and objectives, the settlement of those interests should be in compliance with *Sharia* rulings which will lead definitely to the achievement of the higher *Sharia* objectives. A good example on this is an IFI who is going to finance an oil extracting project that may affect the health of the surrounding community. In this regard, the IFI has an economic interest and objective. The oil extracting project has a macro objective that is good for the wealth of the nation. Those

⁵⁹ Imbalance may result from the conflict of interests of homogeneous and heterogeneous objectives mentioned earlier.

two objectives are projected to be in conflict with the objective of protecting the health of the community. The three objectives are definitely *Sharia* compliant, but they cannot meet in the same context. The role of *Sharia* ruling produced by scholars is to determine which is the predominant objective based on the strength of considerable *Sharia* benefit (*maslaha*), or how harm (*mafsada*) can be avoided or reduced. After that, the predominant objective is said to be an achievement of the higher *Sharia* objectives (for more details on rules of predominating *Sharia* objectives, see Al-Najar 2006; Abu Zahra 1997). Accordingly, if higher *Sharia* objectives are considered to be the macro socio-economic political objectives of the society which are achieved by Islamic CSR, then this research is attempting to define Islamic CSR as:

Integrating socio-economic political objectives (macro maqasid) within companies' objectives (micro objectives) and interacting in the market in compliance with Sharia considerable benefits (masalih) to achieve social well-being and economic growth.

This definition implies the Islamic moral axioms, ontological worldviews and epistemology. Ontologically, the Islamic view of the individual and society underlies macro and micro objectives. However, 'integration' is ontologically governed by the Islamic view of the market and the epistemology responsible for providing the required rules governing the balanced achievement of micro and macro objectives. In the following sections, Islamic CSR is discussed with regard to the Islamic worldview and epistemology.

4.4.1. Islamic worldview and the moral principles of Islamic CSR

“The term morality can be used descriptively to refer to some codes of conduct put forward by a society, or, some other group, such as a religion, or accepted by an individual for her own behaviour” (Gert 2011⁶⁰). Furthermore, morality can normatively be referred to as “a code of conduct that, given specified conditions, would be put forward by all rational persons” (Gert 2011; see also Gyekye 2011). The character of Islamic

⁶⁰ Page number cannot be provided because this is an online source.

knowledge, as explained earlier in this chapter, leads moral rules to be provided by jurisprudence in accordance with *Sharia*. In other words, it is *Sharia* that provides the moral principles, and moral rules can be extracted and developed based on human reasoning from *Sharia* principles. Furthermore, as *Sharia* is considered to be divine law, all *Sharia* principles are considered as moral; whilst some of them are legally binding in a *Sharia* context. This means that every legal *Sharia* principle or ruling is moral in general. Thus, because of the unity of *Sharia* as a source of knowledge, there will be no conflict between moral principles and legal principles in an Islamic context. However, such conflict can, of course, exist between the moral and legal principles developed in modern secular societies (Somerville & Wood 2008).

When *Sharia* is implemented, a Muslim society does have a unified generally accepted moral code of conduct provided by *Sharia*. Therefore, the moral foundation of Islamic economics is an integral part of the moral foundation of a Muslim society. This results from the Islamic ontological worldview regarding the human individual and human society as the basis for the *Sharia* method of jurisprudence (i.e. epistemology) to produce *Sharia* rulings which facilitate the achievement of socio-economic objectives (i.e. *Sharia* objectives).

Asutay (2007b) provides a review for a reputable number of the work of Islamic economists (Ahmad 1980, 1994, 2003; Chapra 1992, 2000; El-Ghazali 1994; Naqvi 1981 1994; Siddiqi 1981; and Sirageldin 2002) concerning the moral axioms of the conceptual foundations of Islamic economics. Asutay provides several major axioms from which he derives minor axioms of the ethical Islamic economic conduct. To Asutay, one of those axioms indicate vertical ethical dimensions of Islamic economics, while others indicate horizontal dimensions (Asutay 2007a). The vertical ethical dimension is represented by the axiom of *tawhid* (the oneness of God), which has been explained earlier in this chapter as part of the Islamic philosophy. *Tawhid* establishes the links between the imperfect and finite social institutions with the Perfect and Infinite Being” (Naqvi 1994, cited in Asutay 2007b, p. 7). Thus, individuals are equal in terms of their relationship with God and accordingly there approximation to Him (Quran 49:13). Consequently, *tawhid*,

encourages the individual free-will that is viewed as an integral part of the whole (Asutay 2007b) while emphasizing the system of accountability based on the divine law (Ahmad 2003, cited in Asutay 2007b). Although it is embedded as a consequence of *tawhid*, free-will (*Ikhtiyar*) is another axiom that is identified by Asutay (2007b). In this regard, humans are endowed with free-will that is “both unrestricted and voluntary” (Naqvi 1994, cited in Asutay 2007b). In fact, this the specific context of the text of the Quran (91: 7-10) that links free-will with accountability. Furthermore, Austay (2007b) has identified the axiom of responsibility that stems from *tawhid*. To him, responsibility is voluntary, but it must be recognised by individuals and society as an obligation for the public good.

Another axiom identified by Asutay (2007b) is *rububiyyah* (see the Islamic worldview explained earlier in this chapter). This axiom implies the importance of sustainable economic growth and the development of Earth in terms of harmonizing the various components of economics and social life (Asutay 2007b). The development of Earth is the role of human beings according to Ibn Katheer’s interpretation of the Quranic verse 11:61. However, Austay (2007b) has identified the axiom of *khilafa or istikhlaf* (vicegerency) that indicates that *Allah* created human beings with the role of being His vicegerents on Earth. Accordingly a vicegerent role is described as "*istikhlaf*, that is fulfilling God’s will on earth, promoting what is good, forbidding what is wrong, establishing justice (*’adl*) and promoting beneficence (*ihsan*), resulting in attaining high levels of good life (*hayat al-tayyebah*), both individual and collective” [Ahmad 2003, cited in Austay 2007b). Imam Al Tabari provides an interpretation of vicegerency of human beings on Earth as to live in and develop it in a just way. In his view, vicegerency is linked to justice when it comes to the level of interaction between individuals in a society. Imam Al-Shatibi affirms such a linkage between vicegerency and justice, stating that human beings “are required to stand in the stead of the One [God] who appointed them to fulfil this role, putting into effect His rulings and intentions” (Al-Raysuni 2006, p. 129).

Although Asutay (2007b) has embedded *Al-’adl wa ’l-ihsan* (justice and beneficence) in the axiom of *istikhlaf* (Vicegerency), he has identified it as a separate axiom as well. To

Asutay, this axiom provides the horizontal dimension of equality, hence the virtues of social institutions – legal, political and economic. “In this intra-and inter-generational equality, human beings and societies are expected to establish a balance between the needs of present and future generations, develop policies to fulfil the needs of individuals, enable them to earn a respectable source of living, develop policies for an equitable distribution of wealth and provide for growth and stability-oriented policies” (Asutay 2007b, p. 8).

While axiom of justice and beneficence implies “giving everyone their due” (Ahmad 2003, cited in Asutay 2007b, p.8), the axiom of *tazkiyah* is “concerned with growth towards perfection through purification of attitudes and relationships” (Ahmad 1994, cited in Austay 2007, p. 8). In fact, Austay views the axiom of *tazkiyah* as a natural consequence of *tawhid*, *adl*, and responsibility. Thus, the result of *tazkiyah* is *falah* (prosperity of the and hereafter).

The last axiom identified by Asutay (2007b) is *maqasid al-Sharia*. While this axiom provides the framework of the legal rationale for the economic activities, it aims to keep the economic activity in line with the human wellbeing.

Building on the argument of Asutay (2007a, b) in addition to the argument on the Islamic philosophy (worldviews and epistemology) in section 4.3, the aim of the current section is to identify the moral framework of Islamic CSR based on the ontological worldviews, and to identify the functions of those worldviews and moral principles within the legal framework that lead to wellbeing (i.e. *maqasid al-Sharia*).

Philosophically, the views of the human individual and human society are foundational in terms of determining ethical⁶¹ responsibility in an economic system. In neo-classical capitalism, this worldview is based on the doctrine of the ‘economic man’ who struggles with others to achieve his individual interests, most probably within a framework of social Darwinism (e.g. Brenner 2000; Giroux 2004; Amable 2011). Accordingly, the only

⁶¹ According to Gyekye (2011), “the two terms, morality and ethics, refer essentially to the same moral phenomenon—human conduct—and, thus, can be used interchangeably”.

responsibility of a corporation is to maximize shareholders' value (Friedman 1962, 1970). This is why the implementation of CSR needs to incorporate changes in the open market model of capitalism (see Chapter 2). In Islam, however, the human individual is viewed as a vicegerent of God on earth with free-will. The human individual is an integral part of society according to the Islamic worldview. Therefore, the human individual lives in a society on the bases of justice, beneficence, and brotherhood. Based on this, Islamic CSR is principally based on what are promoted from these five worldviews explained in Table (4.3) (i.e. Vicegerency, free-will, justice, beneficence and brotherhood). From these worldviews, several moral axioms can be derived and the moral attributes of business responsibility formulated accordingly.

4.4.1.1. The principle of vicegerency

The unity axiom (*tawhid*) implies that all humans are God's vicegerents on earth. The material side of vicegerency is related to the development of the earth (e.g. Quran, 11:61). This implies "the necessity of sustainable economic growth and development in terms of having harmony between various components of economic and social life" (Asutay 2007b, p. 8). However, profitability for a *Sharia*-compliant firm is an individual objective within a macro objective of sustainability, including economic growth.

Within the vicegerency principle, the human individual is considered to be a trustee of God's resources. Chapra (1995, p. 207) explains that this God-man trusteeship does not imply a negation of private property, but instead the equitable utility, rightful acquisition and fair disposal of resources and a ban on destruction and waste in ways that are good for the well-being of others. This explanation can be interpreted as a summary of the concept of sustainability with its triple bottom line: economic, social and environmental (see also Arslan 2008). Furthermore, economic, social, and environmental issues are the major concerns of corporate responsibility practices according to international standards (GRI 2000-2011; ISO 26000 2010; Accountability 2008). Thus, vicegerency is related to the duties of human individuals when transacting with other humans, creatures, and resources on Earth. In fact, God-man trusteeship is extended to shape the relations of man-man trusteeship not only in terms of conduct in business, but also in everyday life.

Given the axiom that resources are owned by God, man manages other men's properties based on this relationship. Therefore, such a relationship of trusteeship leads to another important attribute of vicegerency: governance. From a business viewpoint, the value of trusteeship influences the corporate governance structure of Islamic financial institutions (IFIs) and groups of stakeholders⁶² (Anjum 2005) which in turn contribute to shaping unique business models for the different IFIs. According to *hadith* number 901 narrated by Abdullah Bin Omar in the *Book of Friday Prayer of Al-Bukhari* (not dated), Prophet Muhammad emphasized the governance attribute of responsibility:

“All of you are guardians and responsible for your wards and the things under your care. The Imam (i.e. ruler) is the guardian of his subjects and is responsible for them and a man is the guardian of his family and is responsible for them. A woman is the guardian of her husband's house and is responsible for it. A servant is the guardian of his master's belongings and is responsible for them...”

Taking the attributes of vicegerency (i.e. economic, social and environmental issues, trusteeship, and governance) into consideration, profitability of business firms is considered as an integral part of vicegerency. In fact, Islam urges human beings to conduct profitable business and considers such a conduct as a collective responsibility as indicated by Imam Al-Shatibi (Al-Raysuni 2006, p. 152).

4.4.1.2. The principle of free-will

Free-will is granted by God to his vicegerents (Quran, 91:7-8). Although humans are equal, it is free-will that differentiates them from each other and holds them accountable for their deeds (e.g. Quran, 91:9-10). Accordingly, a vicegerent “is free, and also able to think and reason, to choose between right and wrong, fair and unfair, and to change the conditions of his life, his society and the course of history” (Chapra 1995, p.202). Free-will is bounded by broad guidelines (e.g. Quran, 4:59) that help Muslims practice freedom within social contexts and adapt to the needs of changing times (Naqvi 1994 cited in

⁶²For example, depositors who put their money under the trusteeship of the bank are categorised according to the type of the contract that governs their relation with the bank. In this regard, a *mudarabah* contract for deposits differs from agency and *qard al hassan* contracts in terms of the rights/duties of both parties.

Asutay 2007b). Thus, the functional norms of economic activities are constituted (Asutay 2007b) in such a way that makes economic agents accountable for their deeds. Accordingly, accountability is an attribute of responsibility in Islam that emerges from the obligations of free-will.

Accountability implies that a Muslim is accountable for an action and its consequences, not only for himself (e.g. Quran, 6:164; 17:15; 18:35; 7:39) but for all others affected by the action (e.g. Quran, 5:33; 5:38). This also implies that accountability has spiritual and material aspects, since accountability to *Allah* and to society is central to Islam (Lewis 2006). The spiritual aspect is related to *Allah* (Quran, 21:1; 50:18) and *He* is the only one who can forgive if a person asks for forgiveness (e.g. Quran: 3:89; 5:39; 5:74; 9:102); whilst the material/physical aspect is related to the rights of others affected by an action, and therefore accountability in this regard implies compensation for and removal of the bad consequences of the action in this life (e.g. Quran 5:45). This understanding of accountability and its implications for CSR is much broader than how it is understood in conventional CSR. According to ISO 26000 Guidance, accountability means the “responsibility of an organization for its decisions and activities, and state of being answerable to its governing bodies, legal authorities and, more broadly, its other stakeholders regarding these decisions and activities” (Para 2.1.1)

Accountability in Islam also implies transparency in honestly disclosing what has been done in terms of the actions and the reasons behind them (e.g. Quran, 9:102). Transparency in a business context related to CSR means “openness about decisions and activities that affect society, the economy and the environment” (ISO 26000 2010, Para 2.1.24). Thus, faire disclosure about business activities impacting the CSR issues of stakeholders is an implication of transparency and free-will consequently.

Implied by free-will, accountability and transparency are Islamic CSR attributes that require IFIs to be always proactive in terms of economic transactions with others, and the social and environmental concerns that might be triggered by those transactions.

Moreover, accountability and transparency are considered amongst the principles of CSR according to ISO 26000 Guidelines.

Moreover, free-will leads to competitiveness in both the spiritual and material aspects of human lives in order to achieve well-being (Quran, 11:15) in this life and winning in the afterlife (Quran, 17:19; 83:26). Thus, businesses are encouraged to compete in order to increase their material as well as spiritual gains.

At the level of business transactions, free-will is reflected in the formulation of contracts as long as they are *Sharia*-compliant (Lewis 2006); hence the market as a mediation medium is also free and competitive in accordance with *Sharia* (Kahf 2000; Chapra 1995a). However, such a competition is *faire* because it is governed by the ethical system of *Sharia* that provides the moral filter of transactions in the market (Chapra 1995a). However, *faire* competitiveness is part of the *faire* operation practices of CSR in ISO 26000.

4.4.1.3. The principle of justice

Justice is a commandment of God in Islam (Quran 4:58; 16:90), and is part of the Islamic worldview of society. According to Austay (2007a, b), justice – and, in fact, beneficence – provide the horizontal dimension of the moral axioms of Islamic economic. This is because they both provide the ethical guidance of human-human transaction. Thus, they are both considered as the worldview of the society: just and beneficent. Seemingly, justice and beneficence have the implication of how to achieve the attributes of Islamic CSR implied in vicegerency and free-will. However, justice is always related to binding rulings that are ranked as *wajeb* or *muharram* (must or must not do) as explained in section 4.4.2.3.

Imam Al Ghazali stated that “justice demands that a person should not act against the interest of a fellow Muslim” (Umaruddin 1977, cited in Yusof & Amin 2007, p.4). Therefore, justice can be achieved through the implementation of all economic activities (production and transactions) in compliance with the rules of *Sharia*. This is because

justice is at the top of the tenet of *Sharia* (Ahmad 2002). In this regard, justice implies the legal (i.e. binding) side of economic transactions. In conventional CSR, Carroll (1979) viewed this as the legal responsibility that is achieved by the compliance with the rule of law. In this regard, issues like fair operation practices, organisational governance, labour practices, human rights, and consumer issues are all implied under justice when they are governed by rulings that are *wajeb* or *muharram*. For example, it is obligatory in *Sharia* that a labour is to be paid immediately after finishing their work.

Moreover, justice brings about a balance between the rights of individuals and their duties and responsibilities towards others (Parvez 2000, cited in Dusuki 2008a), and between self-interest and altruistic values (Naqvi 2003, cited in Dusuki 2008a). Islam recognizes self-interest as a natural motivating force in all human life. But self-interest has to be linked to the overall concept of goodness and justice (Dusuki 2008a). This leads to socio-economic justice, which entails a balance between material and spiritual interests via the moral filter (Chapra 1995b, pp. 6-7) resulting from the balance between primary (i.e. collective) and secondary (i.e. individual) *maqasid* (objectives of *Sharia*). Accordingly, justice can be achieved through the incorporation of *maqasid al Sharia* within the legal rulings governing economic transactions in order to cater for social needs (Ahmed 2011b). Justice in its legal sense accompanied by beneficence (as explained below) should lead to a desired status of socio-economic justice and the well-being of all.

4.4.1.4. The principle of beneficence

Beneficence (*ihsan*) is also commanded by God in Islam (Quran 19:90). However, it has several interpretations in accordance with the behaviour of members of society. Imam Al Ghazali viewed *ihsan* as an “act which benefits persons other than those from whom the act proceeds without any obligation” (Umaruddin 1970, cited in Yusof & Amin 2007 p.4). In this regard, beneficence is equal to benevolence, and is linked to charity and good manners. From Imam Al Ghazali’s definition, it is understood that *ihsan* is related to good manners that are recommended (*mandoub*) to be done with the negative is represented by the recommendation of refraining from doing bad manners (*makrouh*). Combined with the view that *ihsan* with *adl* are the horizontal dimension of the moral

axioms in Islamic economics (Asutay 2007 a, b), they are considered as the source of ranking the behaviours of IFIs according to *Sharia* rulings governing their transaction especially when it comes to the Islamic CSR implications of vicegerency and free-will.

In addition to benevolence, *ihsan* also implies a proficiency, which requires qualifications, practical experience, and the acquisition of religious knowledge (AAOIFI 2007c) in any profession in the economy. Moreover, *ihsan* implies consciousness of God, which leads to internal auditing. In the Second Hadith of *the Forty Hadiths of Imam An-Nawawi* (not dated), the Prophet Muhammad explains *ihsan* as “to worship Allah as though you are seeing Him not yet truly He sees you”. In this regard, *ihsan* is an integral part of unity. *Allah* has created human beings in order to worship no one but Him (Quran: 51:56). The concept of worship is not limited to regular prayers. It is more comprehensive and extends to every single deed of a Muslim even when lawfully satisfying sexual desire. Consequently, Al-Shatibi states that every human activity, including economic activity, is worship of God provided that it is accompanied by intention (Al-Raysuni 2006).

Based on the second *hadith* of the Forty Nawawi *Hadiths*, Zaman & Austay (2009) links *ihsan* to *eaman* and Islam as the stages of development from an Islamic perspective. Thus, Zaman & Asutay views *ihsan* as the end point of the journey starts from Islam through *eaman*. To the authors, *ihsan* is the actualization of the development in Islamic terms. Furthermore, the authors have interpreted the link between worship and *ihsan* from the mentioned *hadith* (i.e. *ihsan* is to worship Allah as though you are seeing Him not yet truly He sees you) in a way that makes *ihsan* implies dynamism and change represented by the outward actions of worship. Accordingly, *ihsan* implies the fulfilment of wider actions and responsibilities related to the role of human beings as vicegerents of God on earth. Furthermore, “worship articulates the qualities, nature and the corresponding action in every realm of life rather than being a ritual and function” (Zaman & Asutay 2009, p. 84).

4.4.1.5. The principle of brotherhood

Brotherhood is God's description of a Muslim society (Quran 49:10), and is the desired form of relationship between members of the society. It can be described as a bond that ties people together within *Sharia* in order to achieve well-being for all. This means that it is a double-faced coin. On the one side, brotherhood is a desired attribute of society. According to *Hadith* Number 6079 narrated by No'man Bin Bashir in the *Book of Good Manners of Sahih Al-Bukhari* (not dated), brotherhood can be described as said by Prophet Muhammad:

"You see the believers as regards their being merciful among themselves and showing love among themselves and being kind, resembling one body, so that, if any part of the body is not well then the whole body shares the sleeplessness (insomnia) and fever with it."

On the other side of the coin, brotherhood includes the conduct by which that status can be achieved. According to *Hadith* number 2482 narrated by Abdullah Bin Omar in *the Book of Oppressions of Sahih Al-Bukhari* (not dated), the Prophet Muhammad said that:

"A Muslim is a brother of another Muslim, so he should not oppress him, nor should he hand him over to an oppressor. Whoever fulfilled the needs of his brother, Allah will fulfil his needs; whoever brought his (Muslim) brother out of a discomfort, Allah will bring him out of the discomforts of the Day of Resurrection, and whoever screened a Muslim, Allah will screen him on the Day of Resurrection."

From both of these sayings of the Prophet Muhammad, brotherhood can imply both responsiveness and solidarity at a collective level. In fact, *Sharia* recognises collectivity as an attribute of responsibility. Via the concept of collectivity, *Sharia* ensures that a group, a community, a society or even a nation is responsible for not only stopping wrongdoing committed by any of their members, but also for preventing collective interests from being harmed by that wrongdoing. The Holy Quran clearly emphasises collective responsibility under a well-known concept called "*al amr bil maa'ruf wan nahi an almunkar*" (to enjoin good deeds and forbid bad deeds) (Quran, 3:110). According to

Hadith number 2484 narrated by Anas Bin Malik in the *Book of Oppressions of Sahih Al-Bukhari* (not dated), the Prophet Muhammad also emphasises this attribute of responsibility:

"Help your brother, whether he is an oppressor or he is an oppressed one. People asked, "O Allah's Apostle! It is all right to help him if he is oppressed, but how should we help him if he is an oppressor?" The Prophet said, "By preventing him from oppressing others."

In business context, brotherhood as an attribute of the society can be achieved through *al adl wa ihsan* (justice and beneficence) when reflected on the *Sharia* rulings governing the economic transactions. In this regard, it is important to clarify that a good manner or charity has, in fact, a *Sharia* ruling that is ranked as recommended or not recommended (Imam Al-Shatibi as explained in Al-Raysuni 2006)"

4.4.2. Islamic epistemology and Islamic CSR

Islamic epistemology involves the general characteristics of the production of knowledge which complies with *Sharia*. In the context of Islamic CSR, *Sharia*-compliant knowledge is mainly related to *Sharia* rulings governing behaviour when interacting with market forces. The *Sharia* jurisprudence method (explained in section 4.3.1.1.) is the tool used to produce *Sharia* rulings on the basis of *Sharia* interest (*maslaha*) to achieve *Sharia* objectives (*maqasid al-Sharia*). In other words, *Sharia* rulings produced by the *Sharia* jurisprudence method are used to settle different *Sharia*-compliant interests in the market in accordance with *Sharia* objectives; hence, the achievement of ICSR.

4.4.2.1. *Sharia* objectives: definitions and classifications

Most of the literature on *Sharia* objectives (*maqasid al-Sharia*) and their pursuit within IFIs usually consider the *maqasid al-Sharia* to be the preservation of the five essentials (i.e. religion, human life, progeny, material wealth and human reason) (e.g. Chapra 1995b; Masud 1999, cited in Khan 2002; Dusuki 2008b). This definition was originally provided by Al-Ghazali (505 AD). However, those five *Sharia* objectives were approved

by scholars like Al-Shatibi (1373, cited in Al-Raysuni 2006) and Al-Qurtubi (1240, cited in Bedoui & Mansour 2015).

Relying on that definition, that classification of the *Sharia* objectives has recently been criticised for not being able to be operationalised and then cover the contemporary needs (e.g. Mohammed, Abdul Razak & Taib 2008; Siddiqi 2004, cited in Asutay 2007b). To Siddiqi (2004) *maqasid* should be re-interpreted to provide a more dynamic understanding of the objectives of Islam as a way of life rather than the objectives of *Sharia* as a law. Seemingly, Siddiqi's argument stems from the viewpoint that *maqasid* should not be limited to preservation or protection from harm (i.e. as indicated by Al-Ghazali's definition), but they should be extended to include what ensures welfare through justice and equity as asserted by Ibn Al-Qayyim. Furthermore, Siddiqi emphasises that justice and equity cannot be limited to a finite list (i.e. the five *Sharia* objectives defined by Al-Ghazali). Thus, to Siddiqi, justice and equity in changing circumstances can be ensured by the guidance of reason (Asutay 2007b).

The argument of Siddiqi is valid because Islam is a way of life and is believed to be viable anytime in anywhere. Nevertheless, the argument of Siddiqi is not fully sound because it focuses only on one definition of *maqasid* while there are other definitions and classifications that when combined can provide the answers to all Siddiqi's concerns especially the required dynamic status of *Sharia* that regulates the Islamic way of life.

Ibn Ashur (1945) states that *Sharia* aims at promoting welfare (*jalb al-masalih*) and avoiding evils (*dar'a al-mafasid*) (Ibn Ashur 1945, cited in Bedoui & Mansour 2015, p. 556). Allal Al-Fasi also considers *maqasid al-sharia* as the purposes of *Sharia* and the secrets of the Lawgiver in each *Sharia* ruling" (Al-Najar 2006, p.16). Furthermore, Ibn Ashour considers the general *Sharia* objectives as "the Lawgiver's noted meanings and wisdoms in all or most circumstances" (Al-Najar 2006, p.16). In fact, Al-Najar (2006) defines the general *Sharia* objectives as "the purposes for which the *Sharia*, in its macro and micro elements, was established in order to facilitate the lives of the humans, who receive *Sharia*, in what is beneficial and useful for them" (p.16). Nonetheless, Al-Najar (2006) distinguishes between the definition of the general *Sharia* objectives and the

higher *Sharia* objective. To him, the higher *Sharia* objective is “empowering human beings with what is useful and beneficial for them through the achievement of the purpose of their existence as God’s vicegerents on Earth” (p.17). He also cites a definition of the higher *Sharia* objective originated by Ibn Ashour as “the preservation and sustainability of the usefulness of the Umma’s system through the righteousness of mankind as the dominator on that system” p.17. Moreover, Al-Gazali, to whom the definition of the five *Sharia* objectives belongs, had a specific definition to the ultimate *Sharia* objective as “to achieve the benefits of mankind on earth” (Bedoui & Mansour 2015, p. 560).

With all these definitions, some of the researchers in Islamic economics and finance get confused in terms of what to adopt as a definition of the *Sharia* objectives. Apparently, each of Al-Gazali, Ibn Ashour and Al-Najar has two definitions for *maqasid al-Sharia*. However, the relationship between those definitions is complementary rather than contradictory because those scholars, as well as Al-Shatibi (as indicated by Al-Raysuni 2006), distinguish between the general *Sharia* objectives and the higher *Sharia* objectives and classify *maqasid al-Sharia* in several ways according to different criteria; hence, different definitions for different categories. Furthermore, scholars always provide the methods to achieve *maqasid al-sharia* rather than focusing on the *maqasid* themselves (see for example, Al-Najar 2006; Al-Shatibi as in Al-Raysuni 2006; Abu Zahra 1997). However, this is not the case of some researchers in Islamic economics and finance (e.g. Bedoui & Mansour 2015; Mohammed Abdul Razak & Taib 2008) who focus only on identifying and measuring the *maqasid* without focusing on how they have been achieved or not.

Understanding the classification of *maqasid* is very important to determine their validity, rank, and priority and accordingly decide what and when to implement the related *Sharia* rulings. Al-Najar (2006) classifies *maqasid al-Sharia* according to five criteria. He provides procedural steps for ranking *maqasid* and prioritising them to be implemented in their contexts. The first criterion is the classification according to the strength of the evidence on *maqasid* from *Quran* and *Sunnah*. In this regard, some of the *maqasid* are strongly proved *maqasid* by holy texts; other *maqasid* might be assumed to be *maqasid*

according to the inductions of scholars; whilst another might be delusively considered by non-knowledgeable persons. Thus, an approved *maqсад* (singular of *maqasid*) shall be with a higher rank than an assumed *maqсад*, while a delusive *maqсад* shall be eliminated. The second criterion is the classification of *maqasid* according to their anchor (*manat*) (i.e. macro, specific and micro *maqasid*). The third classification is according to *maqasid* coverage (i.e. general *maqasid* and individual or group specific *maqasid*). The general *maqasid* are the general *Sharia* objectives with public benefits that each individual *maqasid* shall lead to; whilst the group specific *maqasid* are those that pertain to a specific group of rulings that address a specific aspect of human lives. For example, the prohibition of *riba* (interest) and *gharar* (deception) are individual *Sharia* rulings with individual *maqasid* that belong to the group of *maqasid* covering the commercial aspect of human lives. Thus, those *maqasid* as a group shall lead to the general objective of *Sharia*, which is vicegerency of God on Earth (Al-Najar 2006). The fourth is the classification according to their fundamental purposes (i.e. *primary maqasid (maqasid asliyyah)* with no inclination and human desire foreseen in those *maqasid* (e.g. preserving faith); and, *secondary maqasid (maqasid tabai'yyah)* within which human desire and inclination is foreseen). For example, the primary objective of brotherhood is reached through the exchange of social visits between families which is a secondary objective with human inclination (Al-Najar 2006). The fifth classification, which is very important to rank different *maqasid* when they meet in a specific context, is based on the strength of *maslaha* (interest or benefit). Thus, a *maqasid* with essential *maslaha* is prior and higher in rank than a *maqasid* with exigency or embellishment *maslaha*. Distinguished scholars like Al-Shatibi (in Al-Raysuni 2006) and Abu Zahra (1997) in addition to others as cited by Al-Najar (2006) consider this kind of classification as important to rank the objectives of *Sharia* in specific contexts.

Another type of *maqasid* classification is seen in Al-Shatibi's theory of *maqasid al-Sharia*. Al-Shatibi classified the objectives of *Sharia* into two general categories containing, firstly, the higher objectives of the Lawgiver; and secondly the objectives of those accountable before the Law. He then sub-divided the higher objectives of the Lawgiver into those: (1) establishing the Law; (2) establishing the Law for people's

understanding; (3) establishing the Law as a standard of conduct; and (4) bringing human beings under the Law's jurisdiction (Al-Raysuni 2006, p. 107). While the classification of Al-Najar (2008) is detailed and simplified, it has almost the same meaning of the classification of Al-Shatibi's classification.

The classification of *maqasid* indicates that they have levels of validity, ranks, and priorities. Thus, the knowledge of the classification of *maqasid al-Sharia* is the first step towards the realisation of *maqasid al-Sharia* in what can be consistent with the contemporary needs. The second step, however, is the knowledge on how to project the implementation of those *maqasid* in ways that achieve the desired end results (*ma'alat*) (Al-Najar 2006). To Al-Najar, the first step of *maqasid* realisation is called the investigation of the entity of *maqasid*. This includes the determination of the rank of *maqasid* according to their validity; and then, the determination of the priorities of *maqasid* according to their *maslaha* ranks, the outbalancing of *maqasid* according to the strength and prevailing of their impacts (Al-Najar 2006). For example, if someone is drowning. Shall he be helped by another person who cannot swim? There are two rulings in this case. The first is to help because there is an objective of saving a human life. The second is not to help because the helper will definitely drown as he doesn't know how to swim. In this regard, the objective of the ruling of not offering the help shall predominate the objective of the ruling of help because saving one life is stronger objective than losing two lives.

The second step of *maqasid* realisation is called the investigation of the end results (*ma'alat*) of *maqasid*. Al-Najar (2006) emphasizes the importance of projecting the factors that might affect the end results of *maqasid*. This step is of great importance because *maqasid al-Sharia* of some rulings might not have the desired end results in some specific times, places and traditions. For example, financing the rich person to buy a yacht (The example given in Bedoui & Mansour 2015) has the objective of preservation and enriching wealth. Nonetheless, the end results of that financing should be investigated in terms of time, place and tradition. Suppose for example, that the bank is in Qatar, which is one of the richest countries globally with no poor citizens, would the judgment of

Bedoui & Mansour be valid to consider this financing as not achieving *maqasid* because of not caring about the poor? On the contrary, if the bank is in Indonesia or Sudan, would the *Sharia* objective of enriching wealth be achieved? The indication here is that *maqasid* realisation is totally depended on the context.

The knowledge and practice of the first step is pure jurisprudential because knowing the *maqasid*, their classification, and accordingly ranking and prioritising them in specific contexts are all related *fiqh* scholars. The second step needs scholars and experts in the field of knowledge that is related to the ruling (Al-Suwailem 2013). For example, granting *qard al-hassan* (interest free loan) by an IFI to members of the community is a decision that needs to be analysed by the *Sharia* advisory board. The analysis should be based on the considerable *maqasid* of the *qard al-hassan*; then the implementation of that decision in reality shall require the managements' as well as scholars' projection of the expected end results in relation with other decisions. After that, the decision shall be taken according to the combined *maqasid* and end results after ranking the benefits of each *maqasid* and prioritizing them. Following that, *qard al-hassan*, which has an appealing end results to many Islamic economic researchers, may or may not be suitable for implementation in specific context and time.

By doing this, the higher *Sharia* objective of avoiding harm and bringing benefit can be achieved; and the dynamic status of the infinite list of *maqasid* (Siddiqi 2004, cited in Asutay 2007b) can be addressed. In fact, scholars of *usul al-fiqh* (The fundamentals of *Sharia* jurisprudence) have explained the dynamic status of *Sharia* in details. Al-Shatibi asserted that *Sharia* facilitates the lives of those who are accountable to it through the tendency toward moderation. Such moderation is not static, but rather is dynamic enough to facilitate the achievement of interests/benefits (*masalih* which is plural of *maslaha*) and the avoidance or removal of harm. In this regard, Al-Shatibi emphasized the reactivity and pro-activity of *Sharia*: “if you observe a tendency toward one or another extreme, this is because it [*Sharia*] is countering some present or anticipated tendency toward the opposite extreme” (Al-Raysuni 2006, p. 118). Al-Shatibi then explained the dynamic status of the moderation of *Sharia* as moving between the two extremes:

“the extreme of austerity – and in general, anything, that would fall within the realm of threat, intimidation, and rebuke is intended to confront those who are tending toward laxness and decadence in the religion. Conversely, the extreme of lenience or mitigation – and, generally, anything which falls under the rubric of encouragement, enticement and allowances – is intended to respond to those who tend in the direction of severity and inflexibility. In all other situations, however, you will find it palpably moderate. This is the foundation to which the Law always returns and the stronghold in which it takes refuge” (Al-Raysuni 2006, pp. 118-119).

In essence, it is logical to say that everybody interacts with others aiming at achieving self-interest and avoiding harm. The role of *Sharia* as a code of conduct is to bring benefit and avoid harm not only for the doer of the action, but also for those who are affected by it individually and collectively the way same as *maqasid* classified. According to Al-Shatibi, *Sharia* rests upon “the principle that it is obligatory to realize and perfect human interests and minimize and neutralize that which causes harm and corruption” (Al-Raysuni, 2006, p.34). This is also emphasized by Imam Izz Al-Din Ibn Abd Al-Salam: “The entire Law [*Sharia*] consists of interests: either it prevents that which would cause harm, or achieves that which would bring benefit” (Al-Raysuni 2006, p.32). Nonetheless, what is of greater importance is the link between human interests (*masalih*) and the objectives of the Lawgiver. “This link is found consistently in all rulings of Islamic law, and most of all in the rulings having to do with customs and daily transactions” (Al-Raysuni 2006, p. 46).

Al-Shatibi is very keen to take into consideration those human interests and preferences which are sometimes incompatible even though they are compliant with *Sharia*. Al-Raysuni (2006, p.132) explains the argument of Al-Shatibi under the title 'The law of incompatibility and preference among people's interests', where Al-Shatibi presented two major cases and six sub-cases of various types of conflict among individuals' interests based on the action-intention parity. The first case represents a person who is “seeking to benefit himself or protect himself from harm intends to cause harm to someone else, as in the case of someone who lowers the prices of his merchandise in order to make a living

with the intention of hurting others” (Al-Raysuni 2006, p.132). Of course, such a case leads to an invalid action because the intention is not consistent with the Lawgiver’s intention and objectives. The second case, however, has more details based on the intention and the type of harm caused in terms of its individual-collective aspects and the frequency of harm (i.e. rare, occasional, often, and most of the time).

Clearly, there are types of *maqasid* that vary from micro, to group specific, to macro levels. Thus, those *maqasid* cannot be achieved without the implementation of *Sharia* rulings. This is because the implementation of a rightly decided *Sharia* ruling shall definitely lead to the achievement of *maqasid* at the different levels. Thus, when those *Sharia* rulings are combined they shall formulate *Sharia* as a way of life. Accordingly, any attempt to measure *maqasid al-Sharia* without understanding the production process of the rulings that have led to them shall be misleading and unfair. This is because a number of rulings with different *maqasid* may exist in a specific context; thus, predominating the *maqasid* of each of those rulings shall definitely lead to achieve a *maqsad* which might not be considered as reputable *maqsad* in quantitative research. Therefore, the behaviours of IFIs are all controlled by *Sharia* rulings that lead to achieve *maqasid* if, and only if, the right jurisprudence method is implemented by the *Sharia* advisory board, and if the top managements follow them accordingly. This is a key factor upon which the present research develops the framework of ICSR in Chapter 6 and accordingly tests it descriptively and inferentially.

However, in the next subsection, the relation between *maqasid*, *maslaha* and *Sharia* rulings is presented to shed more light on the harmony of the fundamentals of *Sharia* as a way of life.

4.4.2.2. The harmony between *Sharia* rulings, *maslaha* and *maqasid*

Sharia rulings (*al-ahkam al-taklifiyyah*) regarding *Sharia*-compliant behaviour are not arbitrary in their nature, but are generated through methodologies of jurisprudence (*fiqh*) that guarantee fair settlements between human interests in accordance with the higher objectives (*maqasid*) of the *Sharia*, especially when those rulings are related to

transactions between humans. This is because “the obligations named by the Law [*Sharia*] are intended for the purpose of fulfilling its objectives among human beings” (Al-Raysuni 2006, p. 108).

In essence, it is logical to say that everybody interacts with others aiming at achieving self-interest and avoiding harm. The role of *Sharia* as a code of conduct is to bring benefit and avoid harm not only for the doer of the action, but also for those who are affected by it. According to Imam Izz Al-Din Ibn Abd Al-Salam: “The entire Law [*Sharia*] consists of interests: either it prevents that which would cause harm, or achieves that which would bring benefit” (Al-Raysuni 2006, p.32). Nonetheless, what is of greater importance is the link between human interests and the objectives of the Lawgiver, as explained in the previous section. “This link is found consistently in all rulings of Islamic law, and most of all in the rulings having to do with customs and daily transactions” (Al-Raysuni 2006, p. 46).

As explained earlier, *Sharia* interest (*maslaha*) is divided into three levels of priority in relation to the Lawgiver’s higher objectives of *Sharia* (i.e. the five *maqasid al-Sharia*): (1) the essentials (*daruriyyat*); (2) the exigencies (*hajiyyat*); and, (3) the embellishments (*tahsiniyyat*). The legal rulings (*al-ahkam al-taklifiyyah*) are also ranked in accordance with the three levels of *maslaha*, and consequently they are not of the same priority and importance. This is very clearly stated by Imam Al Shatibi:

“Commands pertaining to essentials are not to be considered equal to those that pertain to exigencies or embellishments. Nor are those entities which serve to complete the essentials on the same level as essentials themselves. On the contrary, there is a recognized disproportion between them, and, in fact, even matters which pertain to the essentials are not of equal weight” (Al-Raysuni 2006, p. 144).

Based on the above, *Sharia* commands are neither all of the same order nor do they all yield the same ruling, and the same is true for its prohibitions. Even commands which indicate that the action concerned is obligatory are of varying degrees of importance, as

are prohibitions which communicate that the action concerned is forbidden, for obligations and prohibitions in Islam differ in degree and importance (Al-Raysuni 2006, p. 145). Thus, *Sharia* rulings are divided into four major categories based on their relevance to *maslaha*: (1) that which must be done (*wajib*); (2) that which is recommended to be done (*mandoub*); (3) that which must not be done (*haram*); and (4) that which is recommended not to be done (*makrouh*). These rulings are four out of the five *Sharia* rulings known as ‘*al-ahkam al-taklifiyah*’, the fifth one being *mubah* (permissible) (e.g. Al Zuhayli 2003, cited in Ahmed 2011b; Imam Al-Shatibi, cited by Al-Raysuni 2006, p.129).

Within this harmonisation between the *Sharia* rulings (*al-ahkam al-taklifiyya*), interest (*maslaha*) and the *Sharia* objectives (*maqasid al-sharia*), the fifth *Sharia* ruling, which is that something is permissible (*mubah*), appears to be neutral not only in terms of commands and prohibitions, but also in terms of its linkage with *maslaha* and *maqasid*. According to Imam Al-Shatibi, “that which is permissible, in so far as it is permissible, is something which one is neither required to do nor required to refrain from” (Al-Raysuni 2006, p. 148). Al-Raysuni further highlighted that “scholars have described actions falling into this category as neutral in the sense that there is an equal preference for performing them or refraining from them; and that one is free to choose between these two options”. Moreover, Al-Shatibi emphasized the neutrality of *mubah* where *maqasid al-Sharia* is concerned: “as far as the Lawgiver’s intention is concerned, it makes no difference whether one performs such an action or refrains from it” (Al-Raysuni 2006, p. 148).

Clearly, this is the essential meaning of *mubah*, because the *mubah* action is sensitive to other factors that may convert *mubah* to one of the other four categories of *al-ahkam al-taklifiyah* (Al-Raysuni 2006, P. 149). The most important of these factors is the end result (*ma’al*) to which a *mubah* action leads. In this regard, a *mubah* action that distracts the doer from a superior action, or causes the doer to fall into *Sharia* dangers is no longer considered as *mubah* because it has become a means to other ends. This is because it is recognised by *Sharia* scholars that means fall under the scope of objectives. Al-Shatibi

clearly indicates the link between means and objectives: “It is recognized that means fall under the rubric of intentions or objectives, and that the ruling thereon is influenced accordingly” (Al Raysuni 2006, p. 150). Therefore, Al-Shatibi viewed a *mubah* action as *mubah* in and of itself; or otherwise it will change to become one of the other four categories of *al-ahkam al-taklifiyya* based on the function of *mubah* in the daily lives of individuals and society. Al-Shatibi recognised the sensitivity of a *mubah* action to two major factors that lead to a change in its end result: (1) the repetitiveness of *mubah*; and, (2) the individual-collective link. Thus, a *mubah* action is divided into four categories, as Imam Al-Shatibi explained: (1) permissible (*mubah*) individually, collectively recommended; (2) permissible individually, collectively obligatory; (3) permissible in moderation, undesirable in excess; and (4) permissible in moderation, forbidden in excess (Al-Raysuni 2006, p. 152).

It is clear that Al-Shatibi was eager to link the *Sharia* rulings to the objectives through the *maslaha* ranking. Moreover, he was also eager to focus the attention of scholars to the outcomes of permissible actions in relation to their unexpected outcomes. In this regard, he states that: “unexpected outcomes of doing that which is permissible, just as they may be blameworthy and therefore render the permissible action blameworthy, may also be praiseworthy, thereby rendering the permissible act praiseworthy as well” (Al-Raysuni 2006, p.150). Logically, Al-Shatibi’s concern about ‘unexpected outcomes’ indicates that the latter are discovered after the permissible action is conducted; otherwise they would have been expected. Therefore, how can a scholar discover the unexpected outcomes of the action? From a managerial viewpoint and in a business context, there methods should exist of checking this, especially when taking into consideration that an organisation’s actions may affect or be affected by at least one group of stakeholders.

Another factor that is significant when taking into consideration not only permissible actions but also all *Sharia* rulings, is the intention of the doer of the action. In this regard, *Sharia* scholars emphasize that an intention must accompany the action so that it is classified as one of the *Sharia* rulings (*al-ahkam al-taklifiyah*) (Al-Raysuni 2006, p. 148). In fact, the intentions of those who are accountable before *Sharia* are very important when

it comes to the linkage between *Sharia* objectives and actions. In this regard, Al-Shatibi affirms an intuitive religious truth, namely that “actions are inseparable from intentions, and objectives are to be taken into consideration when judging behaviour, whether in the realm of worship or mundane transactions and activities” (Al-Raysuni 2006, p. 129). Accordingly, it is preferable that an intention for an action in the service of the secondary objectives of human beings should be in accordance with the achievement of the primary *Sharia* objectives, exigencies or embellishments.

4.4.2.3. Contextual responsibility and the trade-off between interests

The harmony of *Sharia* objectives, interests, and legal rulings is extended to include the Islamic worldview of the human individual and human society because it is based solely on the sources of *Sharia* as an integral part of the character of Islamic knowledge (i.e. part of Islamic epistemology). Therefore, the levels of responsibility of Islamic firms explained in this section stem from the harmonisation of *Sharia* (as law) with its philosophical foundations through the combination of worldview and epistemology.

The behaviours of agents in an economic system are driven from broad philosophical foundations (Arif 1985b; Choudhury 1986; Asutay 2007b) that provide the moral values according to which legal/ethical reasoning can be enforced within a society. Consequently, human endeavour is not value-free and economic reality is then socially constructed (Asutay 2007b). Therefore, social and cultural factors are amongst those which influence the level of economic development (Bornstein 1979, p. 7, cited in Asutay 2007b). Thus, incorporating and implementing unity (*tawhid*) leads to well-being (*falah*) in this life and in the hereafter⁶³. ‘*Falah*’ is recognised as the ultimate goal of an Islamic economic agent (Siddiqi, 1979, cited in Yusof & Amin 2007; Sattar, 1988; Abbas, 1995). Reaching a level of ‘*falah*’ requires rules for proper economic conduct (Yusof & Amin 2007), and Imam Al-Ghazali listed these rules as fair dealing, justice, and beneficence/benevolence (Umaruddin 1977, cited in Mehmet 1997). Moudodi’s (1984, cited in Yusof & Amin 2007) objectives of economic order can be added as guiding

⁶³ i.e. ‘*falah*’ is a spiritual-materialistic goal.

principles: preserving individual free-will to an extent compatible with the common good of humanity, developing the morality of man so that individuals are able to conduct voluntary virtues, and upholding human unity and brotherhood (Yusof & Amin 2007).

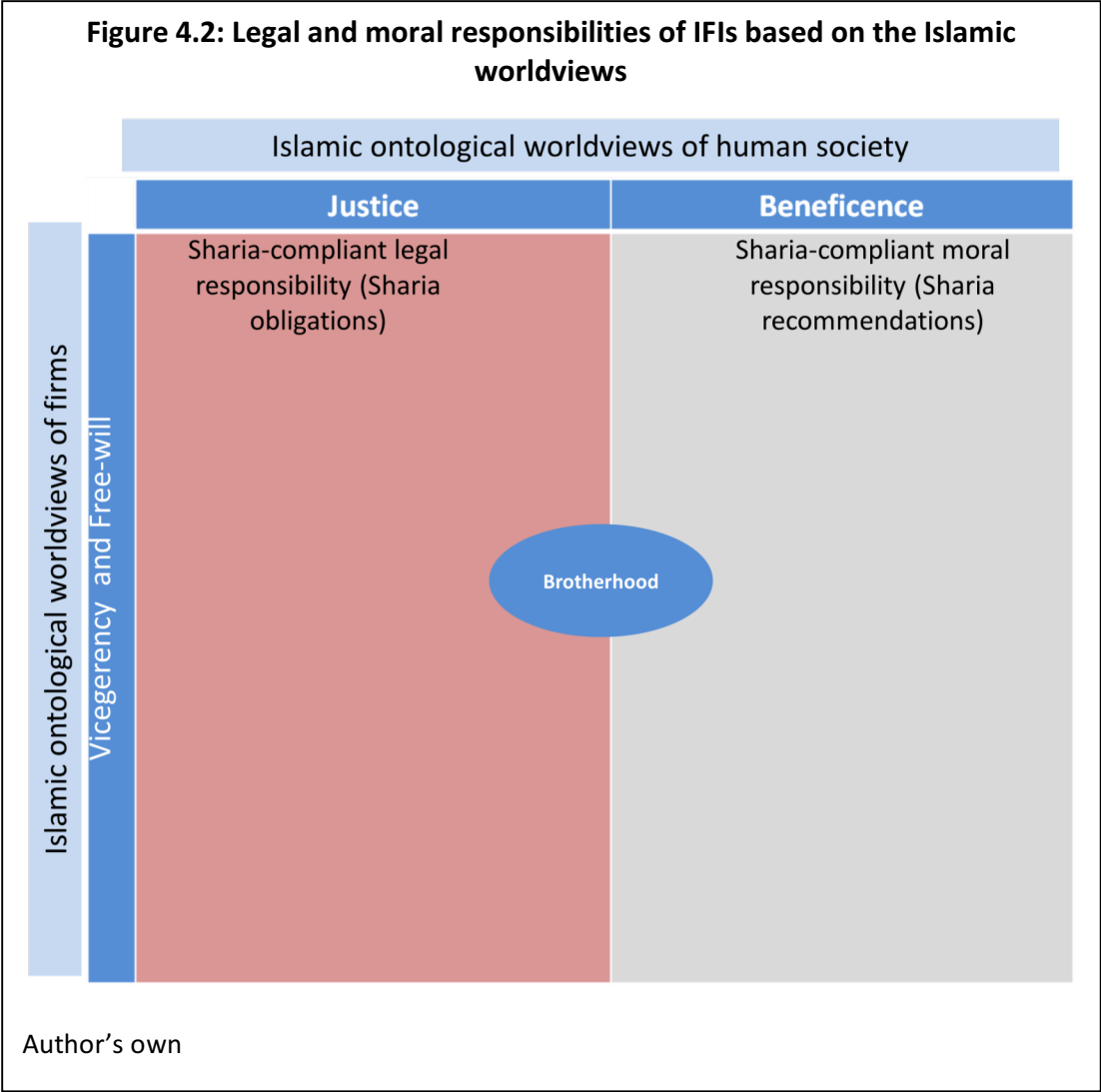
Al Ghazali's rule of 'fair dealing' can be implied by the 'justice' rule whilst Moudodi's rule of 'moral development' can be viewed in terms of what Imam Al Ghazali considers to be the knowledge which needs "to be acquired in order to discriminate between fair and unfair dealings" (Umaruddin 1977, cited in Yusof & Amin 2007, p.4). The rules laid down by Imam Al Ghazali and Moudodi are, in fact, part of the Islamic ontological worldview of the human individual and human society.

The starting point of explaining the levels of Islamic CSR is an understanding of the linkages between the ontological worldview concerning human individuals and human society (i.e. the principles of Islamic responsibility explained in section 4.4.1). Imam Al Tabari provides an interpretation of vicegerency of human beings on Earth as to live in and develop it in a just way. In his view, vicegerency is linked to justice when it comes to the level of interaction between individuals in a society. Imam Al-Shatibi affirms such a linkage between vicegerency and justice, stating that human beings "are required to stand in the stead of the One [God] who appointed them to fulfil this role, putting into effect His rulings and intentions" (Al-Raysuni 2006, p. 129). Furthermore, justice is mentioned in the Quran as a commandment accompanied by beneficence (*ihsan*) (Quran, 16:90).

Accordingly, a vicegerent with free-will is commanded to behave in accordance with justice and beneficence (*al-adl wal ihsan*). Moreover, free-will implies that individuals shall behave in compliance with what is generally accepted by the society (Wilson 2006; Arslan 2009), which is related to justice and beneficence (*al adl wal-ihsan*) in the case of Muslim society. When combined, the vicegerents' behaviours in accordance with *al-adl* and those of *al-ihsan* shall lead to *falah* not only at an individual level but also at a collective level. Here it is worth to clarify that any *Sharia* compliant behaviour of an IFI shall not be out of the realm of either *al-adl* (i.e. all what is binding by *Sharia* and is

considered as must (*wajeb*) or must not do (*muharram*) or *al-ihsan* (i.e. all what is either recommended (*mandoub*) or not recommended (*makrouh*) by *Sharia*).

As explained in Figure 4.2, the behaviour of a vicegerent with free-will can be categorised either in the realm of justice or beneficence when combining the Islamic ontological worldview of the individual and society.

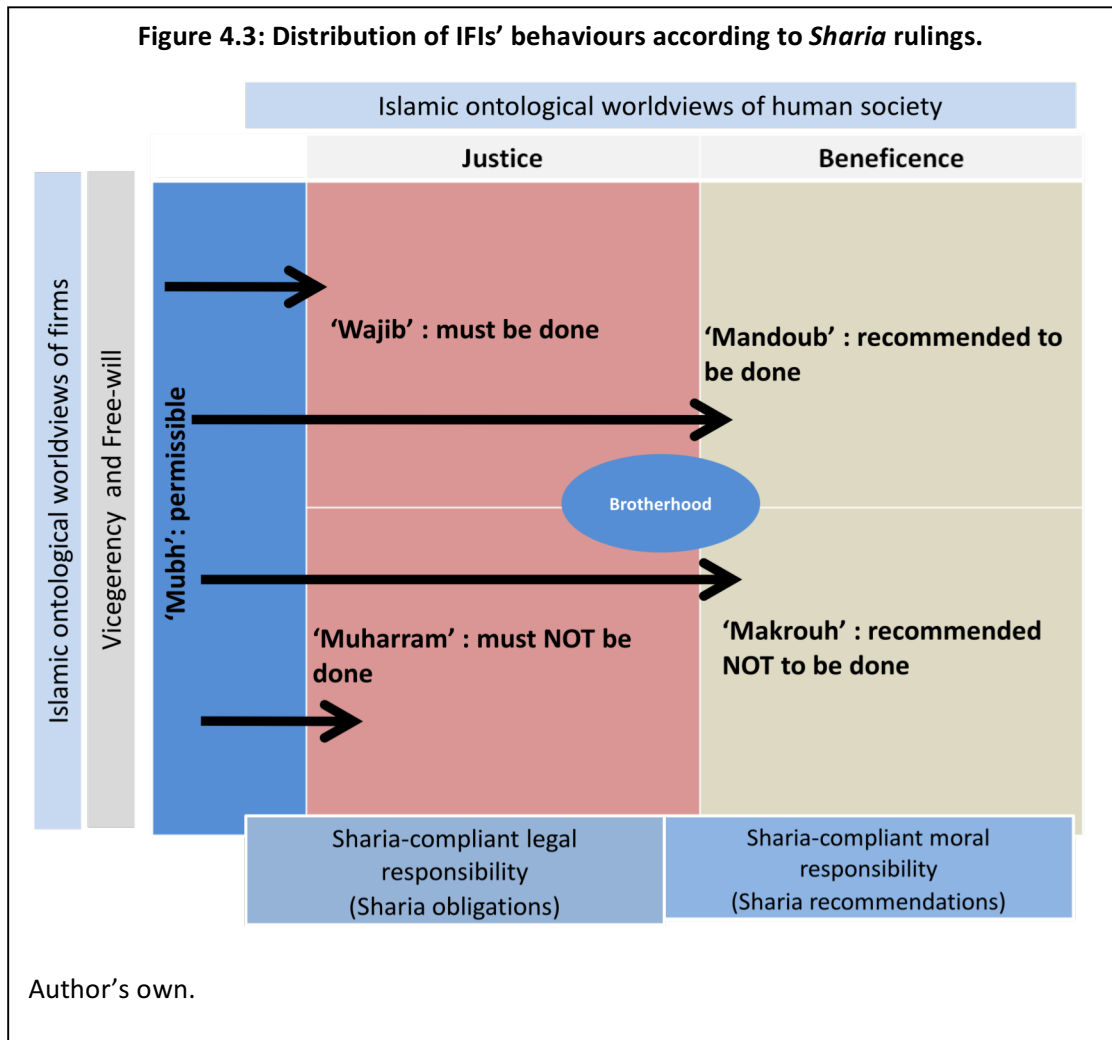


The boundary between justice and beneficence as Islamic ontological views of human society can be further discussed in the realms of legal responsibility and moral responsibility within a *Sharia* context, hence the providence of two levels of

responsibility in terms of enforceability. Brotherhood, however, can be viewed as an attribute of the society within which its members, as vicegerents with free-will, interact according to justice and beneficence. Consequently, some of the practices leading to brotherhood might be in the realm of legal responsibility, while others might be in the realm of moral responsibility as explained in Figure 4.2. In terms of economic conduct, *Sharia*-compliant firms, namely IFIs, shall behave and practise their business as vicegerents with free-will while having legal responsibility (*Sharia* obligations) and moral responsibility (*Sharia* recommendations).

However, a controversial question might be raised here: is it acceptable to apply the ontological worldview related to the human individual to corporations? One answer is provided by classical economists (e.g. Levitt 1958; Friedman 1962, 1970) who claim that corporations have no responsibility except the generation of profit. This is a normal and logical reflection of the view of the human individual as ‘economic man’ in capitalism. Thus, the responsibility of corporations in Islam is a logical reflection of the Islamic worldview of the human individual and society, and consequently the behaviour and actions of IFIs are a pure reflection of their responsibilities. *Sharia* rulings decide whether a specific action or behaviour is an obligation or a recommendation. This is achieved through Islamic jurisprudence (*fiqh*) which consequently produces rulings, which are either legal obligations or moral recommendations (Ahmed 2011b). This is because *Sharia* is considered by Muslims to be a way of life that provides not only laws, but also norms, values, and ethics (Rahman 1983; Reinhart 1983; Dusuki 2008a).

The four *Sharia* rulings explained in the previous section represent legal and moral responsibility. *Wajib* and *muharram* are in the realm of legal responsibility because they are considered as obligatory, whilst, *mandoub* and *makrouh* are considered to lie in the realm of moral responsibility as they are considered to be recommendations. Figure 4.3 shows the four possibilities of the practices of an Islamic firm (namely an IFI) distributed among the four *Sharia* rulings (*al-ahkam al-taklifiyyah*).



As shown in Figure 4.3, permissible (*mubah*) action does not exist within the four *Sharia* rulings of the possibilities of IFI behaviour because such a ruling is considered as neutral and is not included in the obligations or recommendations as explained in section 4.4.2.2. Nonetheless, behaviours, which are permissible for IFIs, are represented in the majority of their contracts (Yusof & Khan 2010) and are only reviewed at the structural level of the contract in order to ensure that they are permissible in and of themselves (i.e. without taking into consideration their end results).

An imaginary example on the shift of *mubah* action into one of the other legal rulings can be represented by *Sharia*-compliant credit cards. Once an Islamic bank decides to offer credit card services to its clients, the *Sharia* structuring of that service may shift the new

Islamic mode of financing contract from *mubah* in and of itself to either *wajib* or *mandoub*, because there is an expected *maslaha* to be achieved in facilitating human life through the use of credit cards. Nevertheless, if the credit card holder uses the card in prohibited transactions, the *mandoub* or *wajib* underlying the contract of the credit card agreement may be converted into *muharram* because the end result of the originally *mubah* action has led to a prohibited action that is against the *maslaha* in achieving the *maqasid al Sharia*. Moreover, if *Sharia*-compliant credit cards are used excessively by clients to purchase unnecessary goods and services to the extents of profusion on the one hand, and leading to an exaggeration of the gap between debt and real economic activity on the other hand, the permissibility underlying the contract for the credit card may become not recommended or even prohibited based on the *Sharia* interest of the whole society and the higher *Sharia* objective of preserving wealth.

Of course, the legal rulings of any of the four actions, in addition to those that shift permissible actions to one of the other four is based on *Sharia* interest (*maslaha*), with its three levels (i.e. essentials, exigencies, and embellishments), to achieve the objectives of *Sharia* (i.e. the primary objectives of the society and the secondary objectives of IFIs). This is conducted through the *Sharia* jurisprudence method.

In fact, *maslaha* facilitates a reasonable shift of the legal rulings based on the priority of the three levels; thus, the trade-off between the interests of the different stakeholders in the market is not arbitrary or based on a materialistic business case, but on achieving the three levels of *maslaha*. An example of the trade-off interests can be explained in the *qard al-hassan* (QAH) (interest free loan), which is classified as a *mubah* in and of itself. When an IFI thinks of granting a QAH to facilitate the lives of some members of the community, there would be a trade-off between the interests of the shareholders and those members of the community. Thus, the legal ruling of QAH might be shifted from *mubah* into another *Sharia* ruling. For example, if the IFI does have sufficient funds to grant QAH without affecting the interests of the shareholders, then the *mubah* status of that QAH may shift to being recommended (i.e. *Ihsan* or beneficence). If, however, the IFI does not have enough cash for the QAH, then its operations might be negatively affected

and consequently so would the interests of the shareholders. In this case, granting QAH, which is permissible in and of itself, might shift to a *makrouh* (not recommended) or even *muharram* (forbidden) action because the economic interests of the shareholders might be negatively affected on the one hand, and the macroeconomic interests of the society might also be affected if such a permissible action was practiced in excess. In all cases, it is the *Sharia* jurisprudence method that is responsible for producing the appropriate rulings in accordance with *maslaha* and *maqasid*.

4.5. Conclusion

In the present chapter, the foundational philosophy of Islamic economics has been discussed. Islamic economics is fundamentally different from capitalism in terms of its ontological worldview and epistemology. Thus, the academic efforts in dealing with Islamic CSR are fragmented because CSR itself is a feature of capitalism. However, the review of the literature on Islamic CSR has helped in identifying four theoretical gaps relating to the ontological worldview and epistemology of Islamic economics. Furthermore, the literature on Islamic philosophy and its relevance to Islamic CSR is reviewed ontologically and epistemologically. Thus, *Sharia*-compliant levels of responsibility and trade-offs of interests are explained based on the harmonisation between the Islamic worldview and epistemology.

Chapter 6 of the present research is intended to contribute to the theoretical gaps while taking into consideration the philosophy of Islamic economics along with a focus on the *Sharia* jurisprudence method as the basis for developing a framework of implementing and measuring Islamic CSR.

CHAPTER 5: RESEARCH METHODOLOGY

5.1. Introduction

One way to define research methodology is to provide a definition of research and a definition of methodology. The Oxford Dictionary provides two definitions for research: "the systematic investigation into and study of materials and sources in order to establish facts and reach new conclusions"; and "a system of methods used in a particular area of study or activity." However, Saunders, Lewis & Thornhill (2007, p.610) define research as "the systematic collection and interpretation of information with a clear purpose, to find things out." Burns & Burns (2008, p.5) define research as "a process of systematic enquiry or investigation into a specific problem or issue that leads to new or improved knowledge". Burns & Burns (2008) also clarify that "systematic investigation" can follow various approaches and methods. Apparently, the word 'systematic' has a lot to do with methodology, which facilitates the simple conclusion that there is no academic research without methodology.

As for methodology, the Oxford Dictionary defines it as "a system of methods used in a particular area of study or activity." Therefore, if research is to be conducted, it should be done in accordance with a methodology. Saunders, Lewis & Thornhill (2007, p.602) define methodology as "the theory of how research should be undertaken, including theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted". This leads to the question of how research can be designed in a systematic way (i.e. methodology) in order to answer the research questions asked.

Saunders, Lewis & Thornhill (2007) explain research design by synthesizing the research purpose, theoretical assumptions, philosophy, approach, strategies, methods and techniques. Accordingly, the aim of this chapter is to explain how all those components are systematically synthesized in order to address the research questions that have been outlined in Chapter 1.

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5.2. Research philosophies and paradigms

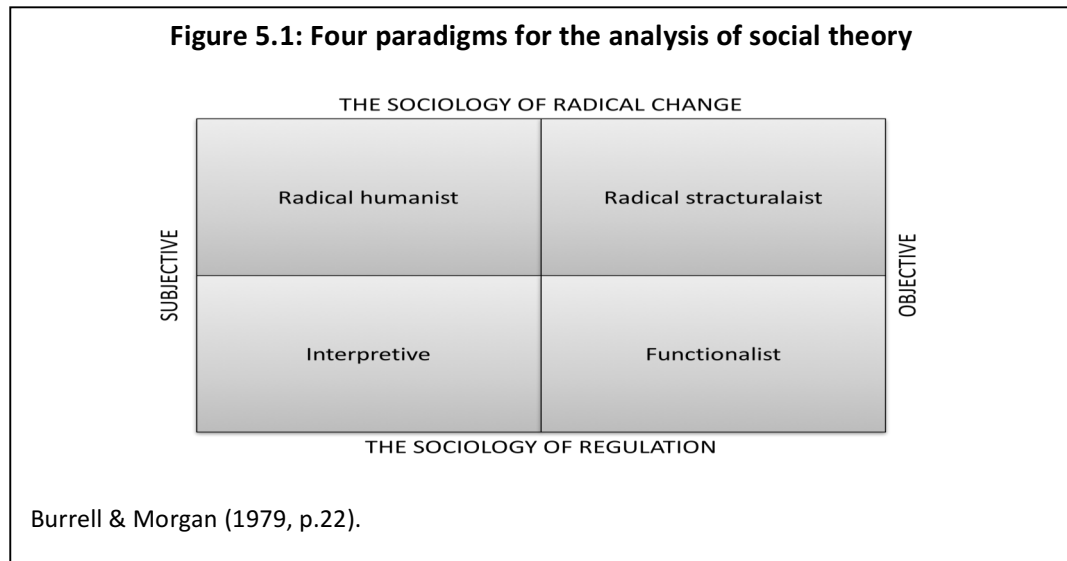
Research philosophy is considered as the basis upon which a research paradigm is set up. Guba & Lincoln (1994, p.105) view a research paradigm as "the basic belief system or worldview that guides the investigation, not only in choices of method but in ontologically and epistemologically fundamental ways." In other words, ontology and epistemology are major ingredients of a philosophy that governs the research paradigm (Pluta 1989). Addressing how researchers understand their research philosophy, Saunders, Lewis & Thornhill (2007) postulate that the research philosophy adopted contains important assumptions about the way in which the researcher views the world, because the philosophy a researcher adopts will underpin the strategy and methods of their research. Burns & Burns (2008) relate ontology and epistemology as key components of the philosophy of the research paradigm.

However, one of the most distinctive sources on philosophy and research paradigms in organisational analysis is Burrell & Morgan (1979) (Bryman & Bell 2007; Saunders, Lewis & Thornhill 2007). Burrell & Morgan argued that philosophy in the social sciences, when related to organisational analysis, is based on the researchers' assumptions about

the nature of the social world – with organisations being part of that world – and the way in which it may be investigated. Therefore, philosophy contains ontological and epistemological assumptions in addition to the researchers' assumptions on human nature and methodology.

Combining ontological and epistemological assumptions, Burrell & Morgan (1979, p.3) provide a scheme with two dimensions: the subjectivist and objectivist approaches to the social sciences. Burrell & Morgan (1979) add another dimension to the subjectivist-objectivist dimension in order to formulate four paradigms for research in social sciences. This other dimension is related to the assumptions a researcher makes about the nature of society. Starting from re-evaluating the debate on order–conflict theories of society, they provide a dimension which they call theories of regulatory-radical change. The sociology of regulation refers to "the sociology which is essentially concerned with the need for regulation in human affairs ... it attempts to explain why society tends to hold together rather than fall apart" (Burrell & Morgan 1979, p.17). On the other hand, the sociology of radical change has a main concern to find explanations for change and is "essentially concerned with man's emancipation from the structures which limit and stunt his potential for development" (Burrell & Morgan 1979, p.17).

Combining the two dimensions of subjective-objective and regulation-radical change, Burrell & Morgan (1979, p.22) provide a matrix of four paradigms for the analysis of social theory at an organisational level as illustrated in Figure 5.1.



As shown in Figure 5.1, the interpretive paradigm, which is regulatory-subjective, seeks to explain regulation within organisations based on the experiences of those who work within them (Burrell & Morgan 1979, pp.28-32). The radical humanist paradigm, which is radical change-subjective, seeks to subjectively explain the need to change social arrangements inside organisations in order to achieve development (Burrell & Morgan 1979, pp.32-33). The radical structuralist paradigm, which is radical change-objective, seeks to objectively explain the structure of power and the conflicts associated with it within organisations (Burrell & Morgan 1979, pp.33-35). The functionalist paradigm, which is regulatory-objective, seeks to explain what is happening inside organisations while providing solutions to problems based on the products of hard knowledge that is external to those who are inside the organisations (Burrell & Morgan 1979, pp.25-28).

5.2.1. The position of the present research

The current research is conducted within the functionalist paradigm, which is considered to be the dominant in the field of management research (Bryman & Bell 2007). This is consistent with the research questions presented in Chapter 1, on the one hand, and in contributing to filling the theoretical gaps identified in Chapter 4 on the other hand.

The literature review in Chapter 4 has revealed that there is a lack of frameworks for developing, implementing and measuring an Islamic CSR that is based on the Islamic ontological worldview and epistemology. In essence, the current research can be categorized within instrumental studies that aim to identify and provide solutions for the problems IFIs encounter when they intend to implement Islamic CSR. Several studies in the realm of instrumental models used to implement CSR have been discussed in Chapter 3 (e.g. the CSP models of Carroll 1979, Strand 1983, Wartick & Cochran 1985, Wood 1991, and Swanson 1995) which are considered to lie within the functionalist paradigm (Scherer & Palazzo 2007).

The framework of Islamic CSR developed in Chapter 6 needs to be supported by rational and objective explanations about the relationship between the components of that framework while providing an objective descriptive analysis of the status quo of the implementation of Islamic CSR by Islamic financial institutions. Furthermore, some of the relationships between the *Sharia* practices within the framework of implementing Islamic CSR and the explicit knowledge of *maqasid al-Sharia* and CSR need to be objectively explained. This will contribute objective knowledge about the implementation of the *Sharia* jurisprudence method that can lead to the achievement of *Sharia* objectives and interests by IFIs. Thus, the knowledge that will be produced is based on the assumption that IFIs comprise of consistently real processes and structures that determine the work behaviour of their employees.

5.3. Research approaches

A research approach is the approach a researcher follows in order to be consistent with the philosophical assumptions already adopted. However, there are two major approaches to research: deductive and inductive (Bryman & Bell 2007; Saunders, Lewis & Thornhill 2007). An inductive approach understands a problem by collecting data, and the result of analysing such data would be the formulation of a theory hypothesizing patterns and observations. A deductive approach is alternatively used to test hypotheses specifying the implementation of a general theory in specific contexts (Bryman & Bell 2007; Saunders, Lewis & Thornhill 2007). Nonetheless, grounded theory can be considered as an

approach because it is based on hypothesizing from a theory inductively and testing it deductively in the same research (Saunders, Lewis & Thornhill 2007).

The choice between deductive and inductive approaches is determined by the nature of the research and the questions it wishes to answer. However, when there is already a sufficient literature covering the topic of research, the deductive approach seems to be much more suitable; whilst the inductive approach is suitable when not enough prior research on the topic of the research has yet been conducted, and hence new theories and hypotheses are needed (Creswell 1994).

The type of data collected in deductive and inductive approaches depends upon the type and purpose of the research and the philosophical assumptions made (Bryman & Bell 2007; Saunders, Lewis and Thornhill 2007). Therefore, the inductive approach mainly depends upon collecting data of a subjective nature, although objective data can be used to induce new hypotheses and theories. Meanwhile, the deductive approach depends mainly on data of an objective nature, while subjective data can be used to give further explanations of the findings from the analysis of the objective data (Bryman & Bell 2007; Saunders, Lewis and Thornhill 2007). The research design, including strategies, methods and analytical techniques used, depends mainly on the approach used in the research (Creswell 1994; Bryman & Bell 2007; Saunders, Lewis & Thornhill 2007).

5.3.1. The approaches of the present research

As discussed earlier, the current research is positioned within the functionalist paradigm. One of its purposes is to provide objective judgments on hypotheses derived from the PDCA model and the underlying *Sharia* jurisprudence method as the basis for a framework for Islamic CSR. Therefore, the present research follows a deductive approach. Additionally, it also follows an inductive approach to answer specific research questions related to the relationship between *maqasid* knowledge and CSR knowledge, and the influence of individual and organisational differences among *Sharia* employees and their IFIs on both types of knowledge.

5.4. Research designs and strategies

Research design provides a framework for the collection and analysis of data (Bryman & Bell 2007). That framework is adopted in order to provide guidance in all aspects of the study, starting from the assessment of the general philosophical ideas underlying the inquiry and ending with the detailed procedure used for data collection and analysis (Creswell 1994).

Saunders, Lewis & Thornhill (2007) explain the major components of research design as strategies, methods, time horizons and techniques of analysis. To these authors, a research strategy is a general plan of how the research question will be answered. Accordingly, they identify 7 research strategies: experiment, survey, case study, action research, grounded theory, ethnography and archival research.

Bryman & Bell (2007) identify a range of dimensions of the research process to be prioritized when choosing a research design: causal connections between variables; generalizing facts from the smaller group of individuals being investigated to larger groups; understanding behaviour and its meaning in a specific social context; and investigating social phenomena and their interaction over time. Accordingly, the authors list 5 types of research design: experimental, cross-sectional, longitudinal, case study and comparative. Each of these designs can be used in both quantitative and qualitative research according to the different strategies and methods chosen.

Experimental design

In the classical form of experimental research, two groups of variables are set up: the control group and the treatment group. A manipulation of the independent variables is conducted and then the dependent variable is measured before and after treatment. A comparison is then made between the treatment group and the control group to study the impact of the manipulated variable on the treatment group (Bryman & Bell 2007; Saunders, Lewis & Thornhill 2007). Experimental design originates in the natural sciences. However, it can be used in psychological research within the realm of social

sciences research (Saunders, Lewis & Thornhill 2007). Such a design requires a level of control when dealing with organisational behaviour, and so it is rarely used in business and management research (Bryman & Bell 2007). Therefore, such a design is not consistent with the present research.

Cross-sectional design

This type of design is based on the collection of data on a group of cases at a single period of time. The data collected can be of a quantitative or qualitative nature and is related to a group of variables. The aim of such a design is to study the patterns of association between the variables. The best quantitative strategies associated with a cross-sectional design are social survey research or structured observation on a sample at a single point of time. The best qualitative strategies associated with cross-sectional design are interviews or focus groups at a single point of time (Bryman & Bell 2007).

Longitudinal design

When there is a need to study changes in specific social phenomena over time, a longitudinal design can be a good option for the research. This is because such a design contributes to the stock of knowledge in terms of vertical and horizontal development happening over time. The best quantitative strategy associated with such a design is the social survey on a sample on more than one occasion. The best qualitative strategies associated with longitudinal design are ethnographic research over a long period, qualitative interviews conducted on two or more occasions, or qualitative content analysis of documents relating to different time periods (Bryman & Bell 2007).

Case study design

This design entails a detailed analysis of a single case. A case study design enables the researcher to get more in-depth explanations resulting from the intensive study of the case. The term 'case', is most commonly associated with location. In business the location might be a factory, a plant, or an organisation. Nonetheless, a case might be used to denote

a person or an event under study, and the case is always chosen for examination because of its uniqueness regardless of time. Although the case study is always associated with qualitative strategies of ethnography or qualitative interviewing of a single case, the quantitative strategy of social surveys of a sample within a single organisation can also be used (Bryman & Bell 2007).

Comparative design

This design entails the study of two or more cases using the logic of comparison. The distinctive feature of such a design is that social phenomena can be understood better when they are compared in accordance with two or more contrasting cases. The quantitative strategy most often associated with such a research design is the social survey, in which there is a direct comparison between two or more cases, including in cross-cultural research (Bryman & Bell 2007).

5.4.1. The design and strategy of the present research

The present research, with its specific nature, purpose, and questions, can be designed in accordance with cross-sectional, longitudinal or comparative methods. However, longitudinal and comparative studies would be impractical due to the time and cost involved. A comparative design would require data to be collected from IFIs from other geographical regions and other regulatory, economic, and cultural environments than the Gulf Cooperation Council (GCC) region. Similarly, a longitudinal design would need a longer period of time to study the development of the concepts and practices under investigation.

Nonetheless, it is worth noting here that the present research was originally planned to follow a comparative design when two structured telephone interviews were launched to collect data from two groups of employees in GCC IFIs: *Sharia* employees; and, employees in the CSR or planning departments. Unfortunately, the response rate of the employees in the CSR or planning departments was very low. Only three successful interviews were collected from the first 13 contacted IFIs from which 13 successful

interviews with *Sharia* employees were collected. The reason for that was that most IFIs did not have CSR departments, planning departments, or even persons in charge of planning or CSR. This affected the design of the present research to be cross-sectional. Furthermore, the cross-sectional design is consistent with the purpose, nature and questions of the research while mitigating the limitations of time and cost.

Along with a cross-sectional design, the current research adopts the strategy of a telephone administered structured interviews covering a sample of Islamic financial institutions in the GCC region.

5.5. Research method

A research method is a technique for collecting data (Creswell 1994; Bryman & Bell 2007), which can be of a qualitative or quantitative nature or both. Accordingly, the research can use a single method or multiple methods (Saunders, Lewis & Thornhill 2007). The former will be either quantitative or qualitative, whereas multiple-method research comprises of more than one quantitative or qualitative method, or a mix of at least one qualitative and one quantitative method (Saunders, Lewis & Thornhill 2007).

Qualitative data can be collected through methods such as semi-structured interviews, focus groups, case studies, and written content. Quantitative data can be collected through self-completion questionnaires, structured interviews and structured observation (Creswell 1994; Bryman & Bell 2007).

5.5.1. The method used in the present research

It was originally intended that the current research would use a multiple quantitative method targeting two groups of employees in IFIs with different questionnaires. The first group would comprise of *Sharia* employees, and the second employees from the departments of planning or CSR under the condition that for each *Sharia* employee interviewed there should be a planning or CSR employee to be interviewed in the same

IFI. However, finding respondents in charge of planning or CSR was a challenge in the present research, as explained below, and hence a single quantitative method was used.

Although mixed quantitative and qualitative methods have been increasingly used in business research (Saunders, Lewis & Thornhill 2007), the present research did not combine a qualitative method with a quantitative method for the reasons given below:

Limitations related to the nature of the qualitative data collection methods.

Qualitative data collection methods vary to include semi-structured interviews, focus groups, case studies, and written content (Creswell 1994; Bryman & Bell 2007). A focus group method was not considered in this research because having representatives from 5 GCC countries at the same time and place was not financially affordable and timely manageable. Similarly, semi-structured interview was not a good choice because of the cost of travel and accommodation to the 5 GCC countries in addition to the limitations of the timeframe of the study. As for the case study method, the source of data would be either related persons to be interviewed, or written content to be analysed. The interviews were limited by cost and time as explained; whilst the written content was not really available at that time. However, an attempt to collect written content form annual reports of the targeted IFIs was conducted. The findings indicated that the *Sharia* reports included in the annual reports were just in the form of one page informing the stakeholders whether the IFI had been *Sharia* compliant in their operations or not. In other words, the *Sharia* reports did not provide any indication about the process of achieving *maqasid al-Sharia* as indication of Islamic CSR, which is the core of this study. For example, the annual reports of Kuwait Finance House for the years 2014 and 2015 had the same *Sharia* report template with almost the same content that would not be consistent with the purpose of this study.

Philosophical and methodological limitations

The philosophical assumptions upon which the present research is based are not consistent with the use of qualitative methods. As explained in Section 5.2.1, the present

research is based on the assumption that IFIs comprise of consistently real processes and structures that are practiced by employees; therefore, employees are determined by those structures and processes and they do not have the free-will to behave in ways which are inconsistent with them. Such a philosophy is at the heart of the PDCA cycle upon which the framework of implementing Islamic CSR is developed. The PDCA cycle is a system of management that produces knowledge from practice. Part of that knowledge is tacit knowledge that is defined as being acquired outside of the cognition of employees (Nonaka, Toyama & Konno 2000). Therefore, the data collected in the present research cannot be of a subjective nature, and when it is mixed with qualitative data, the results are expected to be misleading.

Furthermore, the concept of CSR is itself subjective. However, CSR could not be implemented and measured until it had been put into an instrumental framework, such as the CSP model upon which various international standards and guidelines were built. Similarly, Islamic CSR revolves around the *maqasid al-Sharia* and the processes needed to achieve them based on the Sharia jurisprudence method, and needs to be transformed from the subjective nature into the implementation nature in order to be measured.

Time and cost limitations

Assuming that the philosophical and methodological limitations can be overcome, the time that would be spent in collecting and analysing qualitative data would exceed the timeframe of the current research. This is in addition to the fact that the quantitative data collection by questionnaire lasted for more than seven months due to the sensitivity of the topic and the unwillingness of the *Sharia* employees to take part in the survey. In addition to the time constraints, the cost of using such a qualitative method of data collection would be beyond the reach of this self-funded research.

5.5.1.1. Data collection

Social survey methods for data collection are of different types. The main difference between them concerns the mode of administration. For example, a questionnaire is

always self-administered, meaning that it is completed by the respondent in a place and at a time of their choosing. A structured interview is administered by an interviewer to gain answers from the respondent at an agreed place and time. Therefore, some authors consider the structured interview to be a method of data collection that is different from a questionnaire even though both are quantitative survey methods with closed-ended questions (Bryman & Bell 2007), while others consider structured interviews to be of a type similar to questionnaires (e.g. De Vaus 2002; Fowler 2009; Groves et.al. 2009). However, Saunders, Lewis & Thornhill (2007) consider a structured interview to differ from telephone questionnaires, although both are administered by interviewers.

Groves et al, (2009, p.40) identify two major characteristics of a good quality survey: "(1) Answers people give must accurately describe the characteristics of the respondents; and (2) the subset of persons participating in a survey must have characteristics similar to those in a larger population." The former concerns the quality of the survey design, questions, and administration, while the latter mainly involves the type of sampling used, but also concerns administration of the survey in terms of guaranteeing that answers are collected from appropriate respondents in each case. Therefore, applying due diligence to those elements will contribute to reducing errors in the survey results.

In the present research, ensuring that appropriate respondents answer the questions in the questionnaire is critical. This is because the data needs to be collected from employees in the targeted IFIs of *Sharia* departments or those charged with *Sharia* coordination in cases where there is no dedicated *Sharia* department. In order to be able to control which persons answer the questionnaire, a telephone questionnaire administered by an interviewer was the method used to conduct the survey in the present research. This also gave the data collection process the added value of reducing the non-response rate (Groves et al. 2009) so that it was guaranteed that answers to all of the questions in the questionnaire were given by all respondents. Furthermore, the use of an interview method could help ensure that all interviewees experienced the same level of interview stimulus (Bryman & Bell 2007), which was deemed important in the current survey. In fact, research into Islamic CSR and its connection with *maqasid al-Sharia* is considered to be

in its initial stages; therefore, some of the questions in the questionnaire needed to be explained citing pre-determined examples and cases, hence the use of the interview method.

As explained below, the sample of respondents in the present research was distributed across 5 countries. Thus, for reasons of time, cost and logistics, the interviews were conducted by telephone.

5.5.1.2. Operationalisation of the variables of Islamic CSR, *maqasid* knowledge, and CSR knowledge

Operationalisation is the transformation of ideas and concepts into tangible indicators of their existence (Saunders, Lewis & Thornhill 2007). It entails "turning concepts into measurable variables by defining the variable in terms of the procedure used to measure it." (Burns & Burns 2008, p. 76). In the present research, the framework for implementing Islamic CSR needs to be operationalised in order to derive quantitative variables to be used in statistical analysis. The operationalised variables are then used to conduct inferential analysis to test the research hypotheses. This is in addition to the descriptive analysis that concerns the measurement of the extent of implementation of Islamic CSR within IFIs.

5.5.1.2.1. The design of the questionnaire

The questionnaire was designed in such a way as to attempt to mitigate all the methodological challenges explained in the previous section. The questionnaire sought three broad categories of information concerning respondents' knowledge of *maqasid al-Sharia*, CSR, and the process of implementing Islamic CSR. An additional section sought personal and organisational information about the respondents.

5.5.1.2.1.1. Personal and organisational information

The section on personal and organisational information was designed to collect data to be used to determine demographic and organisational differences between the respondents.

Questions related to personal information about the respondents included queries about their age, years of experience, field of specialisation, level of education, exposure to *maqasid* knowledge during education, and the department in which they worked if there was no *Sharia* control department within their organisations. Questions related to organisational information concerned the country in which the IFI was based, the type of IFI (i.e. bank, finance or investment institution, or *takaful* operator), the existence of a *Sharia* department in the IFI, and the number of employees in charge of *Sharia* issues. Such data was used in descriptive (Chapter 7) and inferential analysis (Chapter 8).

5.5.1.2.1.2. The level of *maqasid* knowledge

The aim of this category was to measure the level of general knowledge of the respondents of *maqasid al-Sharia*. Four questions were included, each representing one of the major concepts of the Al-Shatibi's theory of *maqasid al-Sharia*. In the first question, respondents were given the first higher objective of *maqasid al-Sharia* and then asked to name the remaining 4. A score of 2 was given to those who named all of the other 4, a score of 1 for naming 2-3, and a score of 0 for naming 1 or none. In the second question, respondents were given the first of the three ranks of *maslaha* and then asked to name the other two ranks. A score of 2 was given for naming the other two ranks, a score of 1 for naming one other rank, and a score of 0 for naming none. In the third question, respondents were given one of the five *Sharia* rulings (*al-ahkam al-taklifiyyah*) and then asked to name the other four. A score of 2 was given to those who named all of the other 4, a score of 1 for naming 2-3, and a score of 0 for naming one or none. The fourth question was designed to elicit the respondent's opinions about the impact of external factors on changing a *mubah* ruling to one of the other 4 *Sharia* rulings. Therefore, respondents were asked to judge whether the anticipation of the external factors surrounding a *mubah* ruling was considered to be part of the *Sharia* judgment on that *mubah*. Accordingly, respondents were given three options to choose from: yes, sometimes, or no. A score of 2 was allocated for yes, a score of 1 for sometimes, and a score of 0 was allocated for no.

5.5.1.2.1.3. The level of CSR knowledge

The aim of this category was to measure the level of knowledge of the respondents concerning CSR. Four questions were included representing general international issues around CSR. In the first question, respondents were given an example of international standards dealing with CSR (i.e. ISO 26000) and then asked to mention two other international standards. A score of 2 was given to those who named 2 standards, a score of 1 for those who named one standard, and a score of 0 for naming none. In the second question, respondents were given an example of the core subjects of CSR (i.e. human rights) and then asked to mention another two subjects. A score of 2 was given to those who named 2 subjects, a score of 1 for those who named one subject, and a score of 0 for naming none. The third question gave an example of managerial practices that help in integrating CSR within the organisational system of a business, and then respondents were asked to mention another two practices. A score of 2 was given to those who named 2 practices, a score of 1 for those who named one practice, and a score of 0 for naming none. In the fourth question, respondents were asked to name three of the stakeholder groups of any organisation in general. A score of 2 was allocated for those who named 3 groups of stakeholders, a score of 1 for those who named 1-2, and a score of 0 for naming none.

5.5.1.2.1.4. The level of implementing Islamic CSR

The section on implementing Islamic CSR (i.e. the ICSR framework) included 5 clusters, each reflecting a phase in the same process as discussed in Chapter 6 (i.e. stakeholder engagement, planning, implementation, assurance, and improvement), so that the link between the conceptual framework and empirical analysis could be achieved. In each cluster, there were 4 questions with closed-end answers of always, sometimes, and rarely which were given scores of 2, 1, and 0 respectively. The maximum sum of the scores which each respondent could achieve for each cluster was 8 and the minimum 0. Furthermore, the sum of the scores of the questions in each cluster represented a single variable for the relevant phase in the ICSR framework. In other words, each cluster was designed to measure to what extent the IFIs implemented specific practices that, in sum,

represented one phase in the process of implementing Islamic CSR. Furthermore, the ICSR framework is based on the PDCA model and the underlying *Sharia* jurisprudence method. Thus the phases of planning and stakeholder engagement represent the induction stage in the *Sharia* jurisprudence method, whilst the phases of implementation and assurance represent its induction stage.

The cluster of stakeholder engagement

The aim of this cluster was to collect data about the extent to which GCC IFIs complied with *maqasid al-Sharia* when interacting with their stakeholders. Four practices of stakeholder engagement were included in this cluster: the reliance on *maslaha* when identifying stakeholders, consultation (i.e. dialogue) with stakeholders to identify their interests that might affect or be affected by the operations of an IFI, assessing these interests in accordance with *al-masalaha al-shariyyah*, and the programmes IFIs conducted to raise the awareness of their stakeholders concerning the nature of Islamic financial business.

The cluster of planning

The aim of this cluster was to collect data about the extent to which GCC IFIs complied with *maqasid al-Sharia* by taking into consideration the information that was needed to formulate *Sharia* rulings underlying their products, services and operations when conducting their planning. Four practices of planning were included in this cluster: the integration of social/environmental with economic *masalih/mafasid* when conducting environmental scanning, the refinement of strategic objectives in order to meet social and environmental *masalih*, the inclusiveness of social and environmental indicators within the managerial and financial key performance indicators KPIs of the IFI, and the development of products and services that contributed to meeting social and environmental *masalih* in addition to economic *masalih*.

The cluster of implementation

The aim of this cluster was to collect data about the extent to which GCC IFIs complied with what they had planned in accordance with *maqasid al-Sharia* during their operations. Four practices were included in this cluster: operating in accordance with *Sharia* compliant manuals and codes of conduct, maintaining records of the incidents where the *masalih* of others was harmed, designing and implementing products and services that contributed to social and environmental *masalih*, and analysing social and environmental risks in addition to materialistic risks.

The cluster of assurance

The aim of this cluster was to collect data about the extent to which GCC IFIs provided assurance about and checking their compliance with the *maqasid al-Sharia* that had been identified during the planning phase. Four practices of planning were included in this cluster: abiding by *Sharia* standards or rulings issued by AAOIFI and Islamic *fiqh* academies, being subject to external independent *Sharia* auditing, including the monitoring of social and environmental *mafasiid/masalih* in internal auditing, and reporting to stakeholders about commitment to and compliance with *maqasid al-Sharia*.

The cluster of improvement

The aim of this cluster was to collect data about the extent to which GCC IFIs improved their commitment to and compliance with *maqasid al-Sharia*. Four practices of improvement were included in this cluster, concerning the use of feedback from internal and external auditing to improve: (1) the *Sharia* structures of the products and services; (2) the *overall Sharia* compliance system; and (3) the compliance with *maqasid al-Sharia*; and (4) conducting research about achieving *maqasid al-Sharia* in their business.

5.5.1.2.2. Pre-testing questionnaire evaluation

Pre-testing usually involves implementing the practices and procedures researchers will follow to evaluate the survey before starting to collect data. Groves, et al. (2009) identify three standards that all survey questions should meet concerning content, cognitive level,

and usability. The content standard is related to ensuring that the questions of the survey are asking about the appropriate thing. The cognitive standard relates to the respondents' understanding of and capability to answer the questions, and usability concerns their ability (and that of the interviewers in the present research) to complete the questionnaire easily. The procedure followed to satisfy the three standards in the questionnaire in the present research is explained below.

In order to ensure the quality of the questions included in the questionnaire, several procedural steps were followed. First of all, based on the researcher's experience in translation, the questionnaire was translated into Arabic, which is the first language of almost all *Sharia* employees in GCC IFIs.

The questionnaire in the Arabic language was then sent to an expert (PhD holder) in polling and public opinion in the GCC region⁶⁴ who provided comments on the questionnaire concerning: (1) its length in comparison to the time it was supposed to take to administer to a respondent; (2) the wording of questions; and (3) the questions in the two knowledge scales. Accordingly, the questionnaire was then amended as follows. A section on the perspective of respondents concerning the general level of implementation in GCC IFIs was considered to be redundant, the removal of which reduced administration time to 18-22 minutes. Some questions were re-worded to meet certain Arabic language requirements, and a short introductory sentence with an example to provide a clue as to what was required was added to each question on the two scales of knowledge. Corresponding amendments were then made to the English language version of the questionnaire.

A pilot test was conducted over the telephone with 5 experts in *Sharia* control in Islamic financial institutions in the GCC Region. The aims of the pilot test were to record the reactions of the respondents regarding their understanding of the questions and the average time spent on the telephone with each respondent, and to further check the suitability of the wording of the questions. The major findings of the pilot test were that:

⁶⁴ Dr. Samir Abu Rumman is the Managing Director of Gulf Opinions Centre for Polls and Statistics – Kuwait. www.Gulfopinions.com.

(1) the average time spent with each respondent was 23 minutes; (2) three of the respondents reacted negatively when asked the questions in the two knowledge scales, saying that they felt as if they were being tested even though they knew the answers; and (3) two respondents asked for real-world examples in order to understand some of the questions. Accordingly, the questionnaire order was rearranged so that the questions on the process of implementing Islamic CSR were asked before those concerning *maqasid* and CSR knowledge, and a short introduction was added before the latter sections. This introduction informed respondents that they were contributing to research that might add to the stock of knowledge concerning *maqasid al-Sharia* and Islamic CSR. Moreover, some real life examples to support the understanding of some questions were developed to be used by the interviewers, as explained below.

5.5.1.2.3. The administration of the questionnaire

Having explained the reasons for deciding that interviewers would administer the questionnaire over the telephone, the current section describes the process of administration and the steps that were followed to control the administration process and ensure quality.

The services of the call centre of a specialised private polling and public opinion service in the GCC region⁶⁵ were used. Two experienced social surveyors under the supervision of the manager of the call centre conducted the interviews. The present researcher held a 3-hour session with the manager discussing the subject of the questionnaire, the questions, and the target population. The manager then prepared a preliminary plan for conducting the interviews using the facilities of the call centre. The researcher conducted a training session with the manager and the two surveyors in order to ensure their understanding of the topic of the research, the specifics of the questions, the results of the pilot test, the nature of Islamic financial institutions and target respondents, and the geographical distribution of the target population.

⁶⁵ www.Gulfopinions.com

After that, the surveyors, under the supervision of the manager, conducted three interviews as another form of pilot testing. In fact, the surveyors were not informed that they were conducting these interviews as tests. The interviewees were researchers themselves, and another two *Sharia* experts were asked to give feedback on the way the surveyors managed the interviews. The feedback included the following major issues: (1) in some cases, the surveyors relied on their understanding of questions and read them from memory, but not as they were written in the questionnaire; (2) one surveyor was noted to have ignored the punctuation in some questions; and (3) the manager, who listened to the interviews, recorded four mistakes made by the surveyors in recording the answers of the respondents. Based on that, the following corrective actions were embedded in the procedure of the interviews: (1) the surveyors were instructed to read the questions exactly as they were written in the questionnaire while taking care with punctuation; and (2) while one surveyor was conducting an interview, the other surveyor would listen and record the answers.

Finally, as a further check, the present researcher was interviewed over the telephone by each surveyor separately. The researcher recorded his own answers, while the other non-interviewing surveyor did the same, and the two transcripts were subsequently compared. The challenges of reading exactly what was written were overcome, and the attitudes of the surveyors in facilitating a communicative environment were judged to be very good.

The process of pre-testing and data collection started on February 12th 2013 and ended on September 27th 2013.

5.5.1.2.4. Sample frame, sample and response rate

Sampling is the process of selecting a set of individual cases from a population with the aim that any statistical inferences conducted on the data collected from the sample can be generalised to the population (Brymand & Bell 2007; Saunders, Lewis & Thornhill 2007). Sampling is conducted when it is impossible to include all of the population in the study. This is due to factors such as cost, time, and logistics, especially when the population is distributed in different geographical locations (Saunders, Lewis & Thornhill 2007). In

this regard, if the whole population is included in a study, it is considered to be a census (Brymand & Bell 2007; Saunders, Lewis & Thornhill 2007).

Two main types of sampling can be used in research: probability sampling and non-probability sampling. In a probability samples, the chance or probability of each case being selected from the population is pre-determined and is usually equal for all cases (Saunders, Lewis & Thornhill 2007). In non-probability sampling, selection is a question of judgement and therefore the chances of cases being selected from the population are unequal (Brymand & Bell 2007). For that reason, it is inadvisable to use non-probability sampling in research aiming to generalise statistical inferences from the data collected from the sample to the population from which it has been taken (Saunders, Lewis & Thornhill 2007).

According to Saunders, Lewis & Thornhill (2007), the first step in sampling is to identify a suitable sample frame, which is a list of all units in the population from which the sample will be selected. The second step is to decide a suitable sample size, which is affected by several factors such as the level of certainty that the data collected from the sample will represent the population, the margin of error that can be tolerated, the type of statistical analysis that will be conducted, and the total size of the population. The third step is to select the most appropriate sampling technique to obtain a suitable sample.

The population of the present research comprises of all Islamic financial institutions (IFIs) operating on land in all GCC countries excluding Oman. In fact, Oman had no single Islamic financial institution before 2012, and when data was collected for the present research, only one Islamic bank and one *takaful* operator were in the set-up phase in Oman.

There were no reliable formal up-to-date lists of GCC IFIs at the time the sample frame was prepared, and so a list was prepared by the researcher based on information collected from two different sources: (1) the Directory of Islamic Finance of the General Council for Islamic Banks and Financial Institutions (CIBAFI 2011); and (2) the database of Al-

Mashora and Al-Raya for Islamic Finance Consulting, Kuwait. The result was an initial list of 139 fully-fledged GCC IFIs.

However, further checks were conducted in order to determine the eligibility of the IFIs to be included in the survey. First of all, it was necessary to ensure that an IFI included in the initial list really was a financial institution; that is, either a commercial/universal bank or an investment, finance or *takaful* institution. In this regard, every IFI was checked to see if it was listed in the website of the central bank of the GCC country in which it was operating. The central banks of Kuwait, Qatar and UAE had lists of IFIs operating onshore and licensed by them. The Saudi Arabian Monetary Agency and the Central Bank of Bahrain, however, had not published such lists. Therefore, the websites of the stock exchanges in Bahrain and Saudi Arabia were checked in order to get more information about the IFIs operating there. This check was very demanding, because IFIs were not listed in the stock exchanges as a separate sector; therefore a visit to the online profile of each financial institution listed in these stock exchanges was made to get information about the nature of the financial institutions and the availability of information stating that it worked in compliance with *Sharia* and had a *Sharia* supervisory board, in addition to the regulatory body under which the IFI operated. After conducting these checks, the list was reduced to 102 GCC IFIs. The last check for eligibility was the contact details of each IFI. In fact, in surveys dealing with individuals, a case in a sample frame that does not have contact details is considered as "out of reach" rather than ineligible (Saunders, Lewis & Thornhill 2007). Nonetheless, at an organisational level, a financial institution with a reputable impact on stakeholders should have at least up-to-date contact information on the internet or in the directories of specialised services. Accordingly, in the present research, a financial institution without such information on the internet or which did not have a website was considered to be ineligible. Consequently, after an intensive search using the Google, Yahoo, and Bing search engines for those IFIs that did not have contact information, the final list of the sample frame consisted of 77 GCC IFIs eligible for inclusion in the survey. The geographical distribution of cases in the sample frame is shown in Table 5.1.

Table 5.1: Geographical distribution of the sample

Country	Percentage	Number of IFIs
Bahrain	10	8
Kuwait	49	38
Qatar	14	11
Saudi Arabia	13	10
UAE	13	10
Total	100	77

Author's own.

With this small sample frame, it was decided that all of the GCC IFIs in the sample frame would be included in the survey. In other words, it was decided to give each GCC IFI included in the sample frame the same chance to be represented in the survey. In fact, that was also the underlying reason for deciding that the questionnaire would be administered by experienced surveyors over the telephone as explained above. Moreover, including all of the eligible cases in the sample frame in a telephone questionnaire survey allowed more reliable and controlled data to be collected while increasing the response rate.

Previous surveys on global IFIs have reported low response rates. For example, Ahmed (2011) sent a questionnaire to collect data about product development practices to 177 IFIs globally and received only 20 complete replies, a response rate of 11%. Dinar Standard & Dar Al Istithmar (2010) sent questionnaires to 154 IFIs globally to measure social responsibility practices and received only 29 completed replies, a response rate of 19%.

In the present research, all 77 GCC IFIs listed in the sample frame were contacted and a total of 27 (36%) completed questionnaires were obtained from *Sharia* employees. Non-responses were distributed as follows: 3 of the respondents refused to participate, another 2 refused to continue (i.e. the interviews broke down), 5 of the respondents were on leave, 9 were reported by their colleagues to be busy or unavailable, 29 did not pick up the telephone, and 2 IFIs were considered to be ineligible because they had neither *Sharia* departments nor employees in charge of *Sharia* work. It is worth noting that, for each of those who were reported to be unavailable or did not answer the telephone, 4 separate attempts had been made to call them over a period of 4 months before they were considered to be non-respondents.

The total of 27 *Sharia* respondents gives a response rate of 36%⁶⁶ which is high in comparison to previous studies related to IFIs with a margin of error of $\pm 12.75\%$ at a confidence level of 90%⁶⁷.

Nonetheless, for the first 17 responding *Sharia* employees representing 17 IFIs, there were only 3 equivalent planning or CSR employees. To be more specific, only 3 of these IFIs had planning departments in their organisation, while none of the 17 had CSR departments or persons in charge of CSR.

5.5.1.2.5. Reliability and validity of the questionnaire data

Reliability and validity are separate concepts but they both related to the value of data (Creswell 1994; Pallant 2011). Pallant (2011, p.7) views the validity of a scale as "the degree to which it measures what it is supposed to measure" while postulating that there is no single clear-cut indicator of scale validity. There are three major types of validity: content validity, criterion validity, and construct validity (Pallant 2011).

Content validity is related to whether or not the items in the questionnaire measure the content they were intended to measure (Creswell 1994). In other words, "it is the adequacy with which a measure or a scale has sampled from the intended universe or domain of content" (Pallant 2011, p.7). Criterion validity is related to whether or not the scores of a scale correlate with other results or whether they create a criterion measure (Creswell 1994). This concerns the relationship between the scores of a scale and a pre-determined measurable criterion (Pallant 2011). Construct validity entails that the items in a scale measure a hypothetical construct of underlying theory (Creswell 1994; Pallant 2011).

Reliability, on the other hand, involves the consistency of the answers from individual cases to the questions in the questionnaire (Fowler 2009; Groves et.al 2009). It gives an indication on how free from random error the data of a scale is, assessed using two

⁶⁶ The response rate is calculated by dividing the total number of responses by the total number of the cases in the sample minus the ineligible cases Therefore, the response rate of the present research is: $\frac{27}{77-2} = 36\%$

⁶⁷ Based on the online calculator available at <http://www.raosoft.com/samplesize.html>

frequently used measures: test-retest reliability and internal consistency (Pallant 2011). Test-retest reliability involves testing the same respondents on two different occasions and determining the correlation between the results, where the higher the correlation, the higher the reliability of the scale (Creswell 1994; Pallant 2011). Internal consistency is a measure of the extent to which the items in a scale can be taken together to measure the underlying attribute. The most commonly used statistical tool to measure the internal consistency between items in a scale is Cronbach's coefficient alpha (Pallant 2011).

In the present research, the content validity was qualitatively checked in the pre-testing stage by gaining the opinions and comments of experts in *Sharia* and polls and public opinion as explained in section 5.5.1.1.3. Construct and criterion validity are explained below, because they are related to the research hypotheses of the study and the analysis of data respectively. To test reliability, Cronbach's alpha is used to measure the consistency between the items in each of the three scales included in the questionnaire.

Cronbach's alpha provides the average correlation between the items in a scale (Pallant 2011). Values of the Cronbach's alpha statistic range from 0 to 1 (Gliem & Gliem 2003), and a value of 0.9 or over is considered to indicate an excellent level of internal consistency of a scale. A value between 0.8- 0.89 is deemed good, 0.7-0.79 acceptable, and 0.6-0.69 questionable (George & Mallery 2003, cited in Gliem & Gliem 2003). In fact, the value of Cronbach's alpha is partly dependent on the number of items in a scale and the mean inter-item correlation (Gliem & Gliem 2003; Pallant 2011); therefore, scales with fewer items than 10 may have small values. In such a case, it is important for the scale to have a mean inter-item correlation between 0.2 and 0.4 (Briggs & Cheek 1986, cited in Pallant 2011).

Using SPSS software, Cronbach's alpha statistic was estimated to test the reliability of the three scales included in the questionnaire in the present research. The Cronbach's alpha for the scale of the process of implementing Islamic CSR is 0.787 and for the scale of *maqasid* knowledge it is 0.864, whilst it is 0.587 for the scale of CSR knowledge but with an "optimal" mean inter-item correlation of 0.324 as recommended by Briggs & Cheek (1986, cited in Pallant 2011, p.6) for scales that consist of less than 10 items.

5.6. Modelling the research hypotheses

There are two types of hypothesis researchers can model based on the underlying theories of their research: the null hypothesis and the alternative hypothesis. The choice between them is determined by several factors, including the research questions, the type of data collected, and the size of the sample. Frick (1996) argues that the most important reason to use the null hypothesis is that the researcher will not measure the size of the effect resulting from the association between variables. Thus, the null hypothesis is used when the researcher wants to prove the existence or nonexistence of a specified order of conditions underlying an ordinal claim. Based on this, null hypothesis testing enables the researcher to determine the existence or nonexistence of an effect, but not the size of the effect, between two variables (Frick 1996). Nonetheless, it is important to note that null hypothesis testing is used to establish sufficient evidence to support an ordinal claim. The sufficiency of the evidence is governed by the criterion a researcher defines in relation to the level of probability significance of the testing, which is usually defined as $P < 0.05$ (Frick 1996). Therefore, the rejection of a null hypothesis does not mean that quantitative evidence has been established, but paves the way for testing the alternative hypothesis to quantitatively estimate the size of the effect resulting from the association between variables (Frick 1996). Moreover, the acceptance of the null hypothesis does not indicate the rejection of the relationship between the variables; but it gives an indication that the null hypothesis may still hold true until proven otherwise.

In the present research, the null hypothesis is used as the basis for testing the relationships between the modelled variables, aiming to provide the basis for further research to test the resulting alternative hypotheses, if any. Moreover, the use of null hypothesis testing aims to provide evidence for the claim that the framework of implementing Islamic CSR can describe reality through the ordinal relations between its components. The level of statistical significance required is set at the probability level of $P < 0.05$.

It is important to note that, as far as the present researcher is aware, the hypotheses developed in this chapter have never previously been tested. However, their development

was based on the theory of the PDCA model and the underlying *Sharia* jurisprudence method.

As indicated, the framework for Islamic CSR as theorized in Chapter 6 is based on the PDCA model as a managerial process guided by the *Sharia* jurisprudence method. The first phase of the *Sharia* jurisprudence method is to find a normative ruling (i.e. standardised, in the case of IFIs) that is proven in Quranic or *Sunnah* texts or by *Ijmaa* (consensus), and then to project it onto the real situation for which the normative ruling is going to be implemented. The 'rationale' of the standardised ruling requires information to be collected in order to project the end results (*ma'alat*) of the *Sharia* ruling when it is implemented. Therefore, a *Sharia* ruling that is projected to avoid harm and achieve benefit in accordance with the *maslaha* of *maqasid al-Sharia* is considered to be valid (Al-Suwailem 2013). The information required in this regard is collected from the scanning of the environment in which IFIs operate in addition to engaging with stakeholders. The information is then processed and synthesized in the planning phase. Therefore, there is a hypothesised relationship between those two variables. Accordingly, the first hypothesis is:

H₀₁: There is no significant relationship between the stakeholder engagement phase and the planning phase in the framework of implementing Islamic CSR.

The planning and stakeholder engagement phases provide the basis for the *Sharia* rulings according to which products, services, and operations in general are designed. Therefore, this stage is equivalent to the induction stage in the *Sharia* jurisprudence method which includes the second stage of deduction. In this regard, the implementation and assurance phases in the framework of implementing Islamic CSR are considered together as a stage of deduction. Accordingly, a relationship between the induction and deduction stages can be hypothesised, as in the second hypothesis.

H₀₂: There is no significant relationship between the planning-stakeholder engagement stage (i.e. induction stage in the Sharia jurisprudence method) and the implementation-

assurance stage (i.e. deductive (testing) stage of the Sharia jurisprudence method) in the framework of implementing Islamic CSR.

The results of the deduction stage (i.e. implementation-assurance) of the *Sharia* method underlying the framework for implementing Islamic CSR are then used in the improvement phase in order to improve the *Sharia* structures of the products and services as well as the projection of the 'positive ruling' that is related to the environment in which the rulings have been implemented. In other words, the results of the deduction stage are used to refine, amend, or confirm the *Sharia* rulings about the underlying products and services that have been developed. Thus, the third and fourth hypotheses are:

H₃: There is no significant relationship between the implementation-assurance stage (i.e. deductive (testing) stage of the Sharia jurisprudence method) and the improvement phase in the framework of implementing Islamic CSR.

H₄: There is no significant relationship between the improvement phase and planning-stakeholder engagement stage (i.e. inductive stage in the Sharia jurisprudence method) in the framework of implementing Islamic CSR.

The PDCA is a 'one size fits all' model (Tricker 2005). This means that, when it is implemented by organisations, it will be adapted in accordance with the nature and size of each organisation. Similarly, the framework for implementing Islamic CSR is hypothesised to be implemented by GCC IFIs in ways that differ according to their size and the nature of their business. For example, a large commercial bank with thousands of daily transactions is not expected to have the same extent of implementation as a small investment company with limited numbers of daily transactions. Thus, the fifth and sixth hypotheses are:

H₅: There is no significant difference between the extents to which the framework of Islamic CSR is implemented by GCC IFIs according to the sizes of the Sharia departments.

H₀₆: There is no significant difference between the extents to which the framework of Islamic CSR is implemented by GCC IFIs according to their nature of businesses.

Being based on the scientific method, the PDCA cycle can generate profound knowledge for organisations. Additionally, it has been proven to correlate with organisational learning (Sun, Ho & Ni 2008), which subsequently increases the level of the knowledge of the organisation and employees. Similarly, when it is the basis of a PDCA model, the *Sharia* jurisprudence method is hypothesised to produce knowledge that is used both for improving the *Sharia*-compliant implementation of products and services, on the one hand, and the understanding of the reality of the implementation of standardised *Sharia* rulings on the other hand. The whole process of the *Sharia* jurisprudence method is conducted to link the implementation of the *Sharia* ruling with *maqasid al-Sharia* in accordance with the three ranks of *maslaha*. In this regard, a relationship between the *Sharia* employees' knowledge of *maqasid al-Sharia* and the framework for implementing Islamic CSR is assumed to exist. Thus, the seventh hypothesis is:

H₀₇: There is no significant relationship between the extents to which the framework of Islamic CSR is implemented by GCC IFIs and their Sharia employees' levels of knowledge on maqasid al-Sharia.

Furthermore, if GCC IFIs follow the *Sharia* jurisprudence method accurately when operating, then it is hypothesised that the *maqasid* knowledge will be acquired by experience by *Sharia* employees over time regardless of their educational background. Thus, the eighth and ninth hypotheses are:

H₀₈: There is no significant difference between the GCC IFIs Sharia employees' levels of knowledge on maqasid al-Sharia according to the Sharia employees' fields of education.

H₀₉: There is no significant difference between the GCC IFIs Sharia employees' levels of knowledge on maqasid al-Sharia according to the Sharia employees' years of experience.

5.7. Inducing non-theorized statistical patterns

In Chapter 4, the review of the literature on Islamic CSR showed that most researchers consider *maqasid al-Sharia* to be a main ingredient of Islamic CSR. However, in spite of the limited number of studies, the empirical literature provides contradictory results concerning whether or not IFIs are socially responsible. In the present research, the framework for implementing and measuring Islamic CSR (see Chapter 6) considers the achievement of *maqasid al-Sharia* as a normal result of the accurate implementation of the *Sharia* jurisprudence method. Therefore, the framework for implementing Islamic CSR takes into consideration the managerial *Sharia* practices that represent different steps in the *Sharia* jurisprudence method. Given this, the analysis of the extent to which Islamic CSR is implemented by GCC IFIs is expected to show that there are some practices that are more likely to be collectively implemented by the sample. Accordingly, one of the objectives of the inductive approach in the present research is to explore the relationship between the different groups of those practices, on the one hand, and the relationship between each group of practices and the levels of *maqasid* knowledge on the other hand.

Moreover, the inductive approach aims to explore the relationship between the knowledge of *maqasid* and of CSR among *Sharia* employees of GCC IFIs. In addition to that, the inductive approach aims to explore the influence of organisational and individual differences among GCC IFIs and their *Sharia* employees on both *maqasid* and CSR knowledge.

5.8. Data Analysis

The statistical analysis of the data collected usually starts with a descriptive analysis which enables the researcher to determine the characteristics of the sample from which the data has been collected, and to check the appropriateness of the data in terms of what type of inferential analysis is suitable for it, and what statistical tools should be used for this purpose (Pallant 2011). Furthermore, the descriptive analysis of the data can be used to answer certain types of research questions. Thus, descriptive analysis is conducted

using specific types of statistical tools such as mean, standard deviation, kurtosis, skewness, frequency, and graphical methods to measure the central tendencies of the statistics, in addition to the sums of the scores of the scales being measured (Pallant 2011).

Although descriptive statistics can be used to answer some research questions, other statistical tools are usually employed to make inferences from the data sample to the population and to test hypotheses. These statistical techniques are categorised into two major types: parametric and non-parametric. According to Field (2009) there are four assumptions which should be satisfied for data to be analysed by parametric techniques: it should be normally distributed, the variance should be homogenous, it should involve interval data and observations should be independent from one another. On the other hand, non-parametric tests are used when those assumptions cannot be met (Field 2009). Pallant (2011) explains that non-parametric statistical techniques are used when the sample size is small and when the data does not meet the stringent requirements for the use of parametric techniques.

The present research is exploratory in nature. This is due to the paucity of existing research on the topic of Islamic CSR and the nature of the research problem. Thus, null hypotheses have been used to operationalise the research. In addition, due to the nature of the data collected and the sample size of 27 cases, non-parametric statistical tools are used to conduct inferential analysis. Thus the following statistical techniques are used in the present research.

Descriptive analysis

Descriptive analysis is conducted to achieve an overall understanding of the data collected via the questionnaire, and to answer the research question: to what extent do GCC IFIs implement Islamic CSR, where CSR is based on a built-in compliance with *maqasid al-Sharia*? Summations, frequencies in the three scales and percentages of distribution are used to determine the level of Islamic CSR implementation; whilst means and standard deviations are used to understand the central tendencies of the scores. Furthermore, cross-tabulation is used to describe the distributions of the scores in the two

scales according to the demographic and organisational characteristics of the respondents. The descriptive analysis is conducted in Chapter 7.

Spearman's rho correlation

Spearman's *rho* correlation is a non-parametric tool that is used to explore the existence of a relationship between two continuous variables (Pallant 2011). It is interpreted and reported in terms of three aspects. The first is the strength of the relationship (r), which lies between 0 and 1. According to Cohen (1988, cited in Pallant 2011, p.134) there are three ranges of the strength of the relationship: $r = 0.10-0.29$ indicates a weak relationship, $r = 0.30-0.49$ indicates a moderate relationship, and $r = 0.50-1.0$ indicates a strong relationship. The second aspect is the direction of the relationship, which may be positive (+) or negative (-). The third aspect is the level of confidence, which is indicated by α or p indicating the statistical significance of the relationship according to which a null hypothesis can be rejected or accepted (Field 2009; Pallant 2011).

Kruskal-Wallis Test

This is a non-parametric technique used to test the difference in an attribute between different categorical groups (Field 2009). This test allows the scores of continuous variables in different groups to be compared by converting scores into ranks and then comparing the mean ranks of the groups (Pallant 2011). The Kruskal-Wallis test is interpreted and reported in terms of the value of Chi-Square, the mean rank for the groups, degrees of freedom and statistical significance.

5.9. Difficulties and limitations

The sample size of the present research has imposed limitations in terms of the statistical techniques to be used for data analysis. The size of the effect of the relationships between the variables could not be used in order to test the hypotheses. This is due to the fact the response rate in studies targeting IFIs is usually low, as shown in previous studies.

The low response rate might be explained by confidentiality and competitiveness issues related to IFIs as well as their recent rapid growth in different countries across the world. In fact, one of the most important challenges that faced the researcher during data collection was confidentiality, on that part of both the respondents and their IFIs. For example, one of the *Sharia* employees who refused to participate in the questionnaire survey expressed his concerns about data being abused to "libel" IFIs and their *Sharia* compliance. However, such a challenge was to an extent mitigated by convincing the respondents that neither their identities nor those of their organisations would be disclosed, while emphasizing the importance of the research in improving the work of IFIs. That contributed to the response rate of the present research being higher than those in previous studies targeting IFIs.

Furthermore, the data collection phase of the present research was limited by time and cost considerations. The timeframe of this self-funded research was extended in order to increase the response rate as much as possible while collecting data from organisations in five different countries with the help of a specialist polling centre.

5.10. Conclusion

In this chapter, the methodology of the present research is explained. This includes the integration of the research philosophy, paradigm, design, approach, and methods, as well as the operationalisation of its variables and hypotheses. The starting point is the philosophical assumptions that position the research within the functionalist paradigm; hence the quantitative approach with a cross-sectional design was used. The telephone questionnaire is explained as a method for the collection of data from GCC IFIs that represented the sample frame of the research. The questionnaire design is explained in terms of its relevance to the research questions and theoretical framework, after a discussion of the methodological challenges involved in operationalising the variables and how these were overcome.

The pre-testing procedures for evaluating the questionnaire are also explained in addition to the procedures followed in the administration of the questionnaire by a specialist call

centre in the field of polling and public opinion in the GCC region. The reliability and validity of the questionnaire is discussed with the use of Cronbach's alpha as the statistical test for reliability.

Hypotheses are also developed and operationalised in order to answer the relevant research questions. The null hypothesis is used as the basis for hypothesis testing in order to pave the way for further quantitative research related to the framework developed for implementing Islamic CSR. The statistical techniques used and the reasons for their choice are explained. For inferential analysis, Spearman's rho correlation and the Kruskal-Wallis test are the best options to answer the research questions and test the hypotheses. This is due to the challenges and limitations faced by the researcher in terms of the sample size and response rate.

CHAPTER 6: A CONCEPTUAL FRAMEWORK FOR IMPLEMENTING ISLAMIC CORPORATE SOCIAL RESPONSIBILITY

6.1. Introduction

The literature on Islamic CSR, reviewed in Chapter 4 in accordance with the Islamic philosophy and in comparison to the philosophy of capitalism, has revealed foundational differences between Islamic and conventional CSR. Promoted by the Islamic philosophy, the normative foundations concerning Islamic CSR have been also addressed in Chapter 4 to cover both why and how Islamic financial institutions ought to behave in accordance with the Islamic ontological worldview, including concepts of vicegerency, free-will, justice and beneficence, and Islamic epistemology in terms of the *Sharia* jurisprudence method in order to produce *al-ahkam al-taklifiyah* (*Sharia* rulings) linked to *maqasid al-Sharia* (*Sharia* objectives), and *maslaha* (interests). The epistemological issues are based on Al-Shatibi's theory of *maqasid al-Sharia* and its relevance to *Sharia* rulings through *maslaha* and *ma'alat*.

The current chapter concerns 'putting words into actions' using a conceptual approach to the development of a framework for implementing Islamic CSR. According to Neilimo & Nāsi (1980), "the conceptual approach to research is used to develop new concepts and conceptual systems to theoretically understand a phenomenon by the tools of reasoning and argumentation" (cited in Lankoski 2000, p.6).

A key gap identified when reviewing the literature on Islamic CSR (Chapter 4) is the justification of the comparison with and usage of conventional CSR frameworks at the philosophical foundational level. In the current chapter, the framework for implementing Islamic CSR makes use of some of the frameworks and international standards of conventional CSR which are adapted to fit Islamic philosophy. Therefore, the Islamic ontological worldview and its epistemological foundations are used to generate concepts that are applied in the procedural steps of some generally accepted frameworks and standards of conventional CSR.

The next section provides an overview of the *Sharia* system in IFIs. This includes the organs and functions of the *Sharia* system in accordance with the relevant standards of the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The roles of the different organs related to the *Sharia* systems within IFIs are explained, in addition to the reflection of the roles of the *Sharia* advisory boards on the *Sharia* jurisprudence method.

The moral framework of Islamic CSR and the *Sharia* jurisprudence method are then conceptually developed in sections 6.3 and 6.4 to cover both the ontological worldview and epistemology of Islamic CSR. These two discussions pave the way for an illustration of the key concepts underlying the conceptual approach used to develop the framework for Islamic CSR. Thus, section 6.5 provides arguments on the rationale of the concepts used to develop the framework for implementing Islamic CSR. That section explains the different concepts underlying the links between the process of Islamic CSR, the usage of PDCA as a managerial tool for implementing Islamic CSR, and the viability of relying on the *Sharia* jurisprudence method as the method underlying the PDCA.

The PDCA framework of Islamic CSR is subsequently developed in section 6.6. Assumptions made about the implementation of the framework of Islamic CSR in IFIs are provided in accordance with principles from Al-Shatibi's theory of *maqasid al-Sharia*. This is followed by the argument for the development of the framework of Islamic CSR in accordance with the procedural steps of the international standards dealing with CSR. The resulting framework for implementing Islamic CSR is a combination of the steps of the PDCA on which the stages of CSR (i.e. stakeholder engagement, planning, implementation, assurance and improvement) are based, while considering the *Sharia* jurisprudence method as the underlying method in the framework.

6.2. IFIs, *Sharia* practices, and the *Sharia* system

Before setting out the framework for the implementation of Islamic CSR in IFIs, it is worth considering the different types of IFIs based on the nature of their business, and the *Sharia* practices used in order to provide *Sharia*-compliant products, services, and

contracts. Furthermore, a general description is given of the *Sharia* system responsible for *Sharia* compliance functions in IFIs.

6.2.1. IFIs and the *Sharia* practices: an overview

Islamic financial institutions (IFIs) are firms involved in the provision of *Sharia*-compliant financial services. The types of IFIs vary according to the nature of their business and the licences granted by regulatory authorities. According to the IDB & IFSB's Ten-Year Framework and Strategies (2007, p. 22), profit-making Islamic financial institutions are classified based on the nature of their business into the following four types. Firstly, Islamic banks include deposit-taking and financing institutions, fully-fledged Islamic banks, and Islamic subsidiaries and windows⁶⁸ of conventional banks such as onshore and offshore commercial and investment banks. Secondly, Islamic non-bank financial institutions include Islamic leasing and factoring companies, finance companies, *Ijara* (leasing) and *mudarabah* (silent partnership) companies, Islamic housing cooperatives, Islamic microfinance institutions, credit sale subsidiaries and other similar institutions, and private equity/venture capital. The third type includes Islamic insurance (*takaful*) and re-insurance (*re-takaful*) operators; and the fourth are Islamic institutions working in capital markets, such as brokerage houses and investment banks as well as fund management institutions including Islamic asset management companies such as mutual funds/unit trusts, and hedge funds.

IFIs, like their conventional counterparts, play the same two major roles in financial markets. The first role is to provide services to support the market by setting up rules of trading, clearance, and margin logistical approaches; hence, the alleviation of the information asymmetry between buyers and sellers that might cause market failure. The second role is to provide solutions when market failure occurs (El-Gamal 2006).

Fully-fledged IFIs exist in about 40 Muslim and non-Muslim countries across the world (CIBAFI 2011); therefore, IFIs have become an integral part of the global financial

⁶⁸ Islamic window is part of a conventional bank that operates like *Sharia* compliant banks. It is a virtual it is a virtual branch without a separate legal existence (IDB, IRTI & IFSB 2007).

system working under the umbrella of conventional economies and regulatory environments. Given this, the economic practices of IFIs can be described as *Sharia*-structured conventional practices. Actually, this description can be found in several studies that have compared the practices of IFIs with the theory of Islamic economics or to the practices of conventional financial institutions. (e.g. Badr El Din 2006; Asutay 2007a; Sairally 2007). El-Gamal (2006, p.8) explains the practices of IFIs more precisely: “Islamic finance is not constructively built from classical jurisprudence. Rather, Islamic alternatives or modifications of conventional practices are sought whenever the latter are deemed forbidden”. A similar argument is made by Yusof & Kan (2010), who explain that the *Sharia*-compliant practices of IFIs are limited to structuring contracts so as to be permissible without taking into consideration the *maqasid al-Sharia*. Thus, the *Sharia* compliance certification of these contracts is considered by El-Gamal (2006, p.7) to be “the most distinguishing feature of Islamic finance”.

Regardless of the debate on actual *Sharia* practices, IFIs are assumed to build their operations on the basis of Islamic principles according to which they develop their products, services, and eventually contracts. To achieve this, IFIs have a *Sharia* system that is responsible for matching Islamic principles with their operations through *fiqh* (Islamic jurisprudence) methodologies that provide *Sharia* rulings for products, services, and contracts based on *maqasid al-Sharia* (*Sharia* objectives) and *maslaha* (interests) (as explained in Chapter 4).

6.2.2. Organs and functions of the *Sharia* system of IFIs

The articles of associations and licences for operation of Islamic financial institutions (IFIs) state that they are *Sharia*-compliant. In most cases⁶⁹, this is a regulatory obligation where a fully-fledged IFI states clearly that it is a *Sharia*-compliant institution. The main organ of the *Sharia* system is the *Sharia* supervisory board (SSB). Table 6.1 explains some features of the SSB based on the governance standards of the IFSB (2009) and AAOIFI (2007a, b). The SSB is an independent body that consists of members specialised in *fiqh al-mu'amalat* (Islamic commercial law). The size of the SSB depends mainly on

⁶⁹ See for example: Central Bank of Bahrain 2011, Rule Book, Volume 2, HC-1.3.15.

the size and the nature of the business of the IFI; however, the SSB should be composed of three members at a minimum, with the possibility of additional members who are specialised in economics, accounting, law, or other relevant fields. The SSB is appointed by the general assembly of the IFI or by the BOD depending on the regulatory environment; nonetheless, the SSB reports directly to the shareholders about issues related to *Sharia* compliance, and reports administratively to the BOD.

The major role of the SSB is to assure shareholders that the IFI is *Sharia*-compliant through engaging in several roles and duties which revolve mainly about two major functions (IFSB 2009)⁷⁰. The first is the ex-ante advisory review of the design and development of the services, products, and contracts of the IFI. This function is popularly known as: ‘*raqaba*’⁷¹ amongst those involved in Islamic finance in the Gulf Cooperation Council (GCC) region. The second role is the ex-post review or auditing of the offering of products and services to clients and the engagement of the IFI in contracts. This is known in the GCC region as: ‘*tadqiq*’. In other words, the first function is related to formulating *Sharia* rulings that are binding on the IFI; whilst the second function is to ensure that the IFI has complied with the *Sharia* rulings issued.

Table 6.1: Some features of the SSB based on IFSB and AAOIFI

	IFSB	AAOIFI Based on AAOIFI (2007a)
Composition	Based on the size and nature of the business of the IFI (IFSB 2009, Para 14). Minimum of three <i>Sharia</i> scholars in the SSB (IFSB 2009, Para 17). Where appropriate, from different nationalities (Para 17). May engage other professionals (i.e. accountants, economists, and lawyers) in order to assist and advise the SSB (IFSB 2009, Para 19).	Consists of at least three members. May seek the service of consultants who have expertise in business, economics, law, accounting and/or other fields.
Minimum qualifications	As in IFSB (2009, Appendix 4) A bachelor degree from a recognised university in the sciences of <i>Shari`ah</i> , including Islamic transaction/commercial law (<i>Fiqh al Muamalat</i>). Should be able to demonstrate an adequate understanding of finance in general and Islamic finance in particular. Has strong skills in the philosophy of Islamic law (<i>Usul al-Fiqh</i>), as he or she must know exactly the appropriate <i>Fiqh</i> methodologies for deriving juristic opinions.	Specialised jurists in <i>fiqh al muamalat</i> (Islamic commercial jurisprudence). May include a member other than those specialised in <i>fiqh al-muamalat</i> , but who should be an expert in the field of Islamic financial institution and with knowledge in <i>fiqh al-muamalat</i> .

⁷⁰For more explanations about these two functions, see: Paras 15-19 of the IFSB (2009).

⁷¹Based on the Author’s professional experience in Islamic finance in the GCC.

	Has good knowledge of written Arabic, as he or she needs to be conversant with the primary sources of the <i>Shari`ah</i> .	
Roles and duties	As in IFSB (2009, Appendix 1, Para 4) Advising the BOD on <i>Shari`ah</i> -related matters. Reviewing and endorsing <i>Shari`ah</i> -related policies and guidelines. Endorsing and validating relevant documentation for new products and services, including contracts, agreements or other legal documentation used in the IFIS's business transactions. Overseeing the computation and distribution of <i>zakat</i> and any other fund to be channelled to charity. Assisting and advising relevant parties that serve the IFIS, such as its legal counsel, auditor or other consultants, upon request. Putting on record, in written form, any opinion that it gives on <i>Shari`ah</i> -related issues. Adopt any <i>Shari`ah</i> pronouncements/resolutions issued by the Central <i>Shari`ah</i> Body (if it exists) and address any issues arising.	Directing, reviewing and supervising the activities of Islamic financial institution in order to ensure that they are in compliance with <i>Sharia</i> rules and principles.
Position at the hierarchy	Reporting administratively to the BOD (IFSB 2009, Appendix 1, Para 2). Reporting to the shareholders, in the annual reports, for issues related to <i>Sharia</i> compliance (IFSB 2009, Appendix 1, Para 2)	Reporting to the shareholders

The second organ in the *Sharia* system is what IFSB calls the internal *Sharia* compliance unit (ISCU). As explained in Table 6.2, IFIs are strongly recommended to establish such a unit internally; however, the ISCU might be part of the IFI compliance team. The major function of the ISCU is to act as a coordinator between the SSB and the IFI while providing initial *Sharia* advice to management and holding responsibility for the secretarial work of the SSB.

The third organ in the *Sharia* system is, according to the IFSB (2009), the internal *Sharia* review unit ISRU. IFSB (2009) recommends that IFIs have an ISRU in-house; nonetheless, according to the AAOIFI (2007b), the internal *Sharia* audit may be carried out by an external auditing body if it is properly qualified and independent. In both cases, this organ is responsible for conducting the internal *Sharia* review/audit and issuing reports to the SSB and the IFI's management. In this regard, when issuing the annual *Sharia* compliance report to shareholders, the SSB may rely on the internal *Sharia* audit of the IFI or assign the audit to an external auditor as indicated by the IFSB (2009, p. 2).

Table 6.2: Some features of the ISCU based on IFSB (2009)

Composition	Minimum qualifications	Roles and duties	Position at the hierarchy
Sharia officers, no number specified.	Adequate training in Shari`ah. Possession of additional qualifications in the area of finance or other relevant areas; good communication skills to enable them to liaise and work effectively with the Shari`ah board; and good organisational skills to enable them to liaise and work with other units or departments in the IIFS.	As in IFSB (2009) Para, 24. To be the first point of reference for Shari`ah compliance issues, with an advisory or consultancy role delegated by the Shari`ah board. To handle processing and secretarial matters relating to issues to be raised to the Shari`ah board. To provide input for executive decisions to be made by the senior management.	Strongly recommended to be a full unit inside the IFI (Para 24). Might be part of the IFI's compliance team (IFSB 2009, p.2). There should be segregation between the ISCU and ISRU, in terms of processes and procedures.

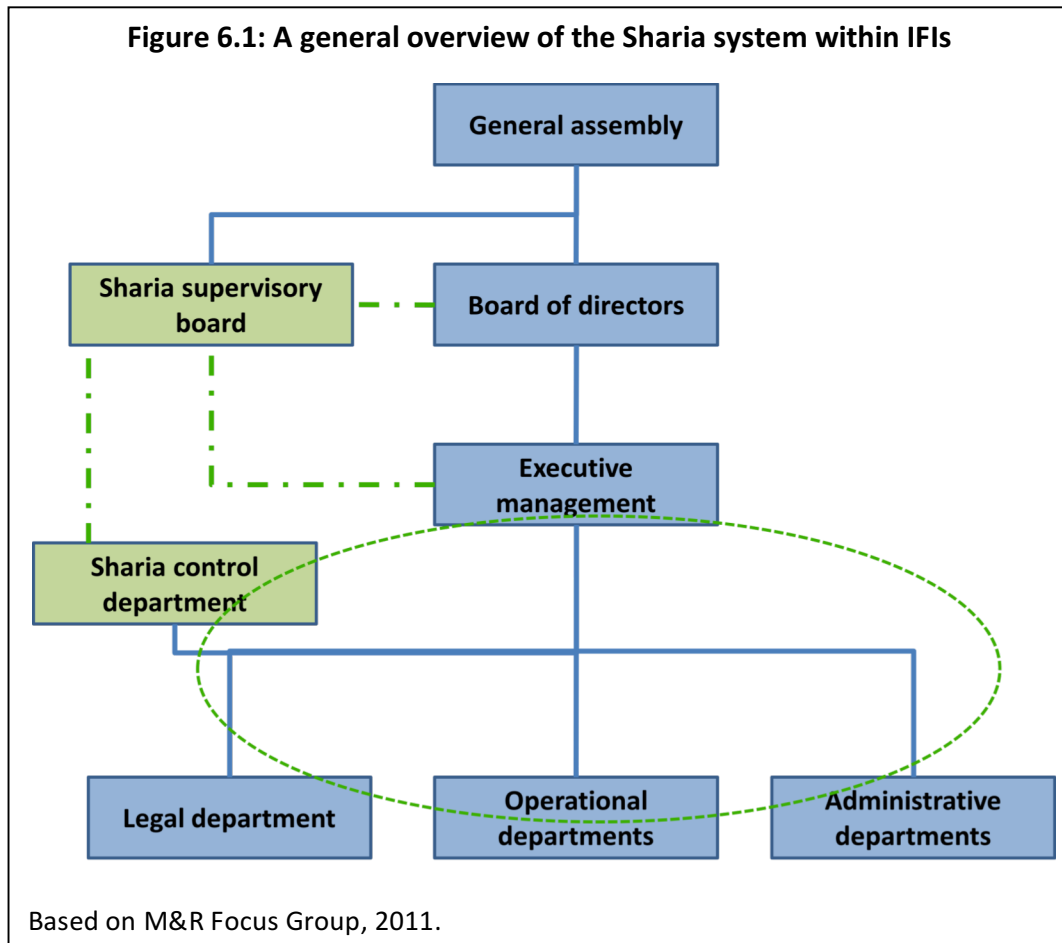
These are the most significant and generally accepted features of the organs and functions of the *Sharia* system within IFIs. Nonetheless, there is a lack of a benchmark for the *Sharia* system in the real practices of IFIs, in spite of the governance standards of the IFSB and AAOIFI. However, a recent focus group to benchmark the *Sharia* system in IFIs⁷² provides some general The SSB is usually appointed by the general assembly of the IFI and is positioned on the organisational structure parallel to the board of directors with linkages to the executive management to conduct the routine *Sharia* supervisory work. In other words, the SSB members are not employees of an IFI, but they are considered as external independent advisors and assurers. In addition to the SSB there is the *idarat al-raqaba al-shariyyah* (*Sharia* control department)⁷³ which is the equivalent to the ISCU of the IFSB. This department consists of *Sharia* officers who work as employees in the IFI. In most cases, especially in the Gulf Cooperation Council region, the *Sharia* control department is the sole responsible body for providing the required internal auditing on operations and products to assure that they are *Sharia*-compliant. Nonetheless, their assurance reports on *Sharia* compliance issued to the general assembly are signed by the SSB members. Some other roles of the *Sharia* control department may include participation in product development within IFIs, *Sharia* training for other

⁷² The focus group was held at the Headquarter of M&R for Islamic Finance Consulting (Sharia advisors) in Kuwait. The participants were Sharia scholars and Sharia auditors from several IFIs. The focus group was held on May 13 2011 and the present author was in attendance.

⁷³ This is a regulatory obligation as indicated by the Central Bank of Bahrain 2011, Rule Book, Volume 2, HC-1.3.15.

departments, *Sharia* research and studies, and coordination with the SSB. This means that this department has the roles of both the ISCU and ISRU of the IFSB (2009).

As explained in Figure 6.1, the SSB has a direct relationship with the general assembly while conducting their work with top executive management and the BOD. The *Sharia* control department is, in fact, part of the organisational structure of an IFI and its work processes overlap with all other departments while reporting to top executive management. Another important finding of the focus group was that there is no independent external *Sharia* auditing, while the reports of the SSB assurance to the general assembly are validated by the SSB based on the auditing of the *Sharia* control department. Furthermore, some IFIs, and especially small-scale firms, outsource the work of the *Sharia* control department to *Sharia* advisory firms who also provide the service of the SSB to those IFIs.



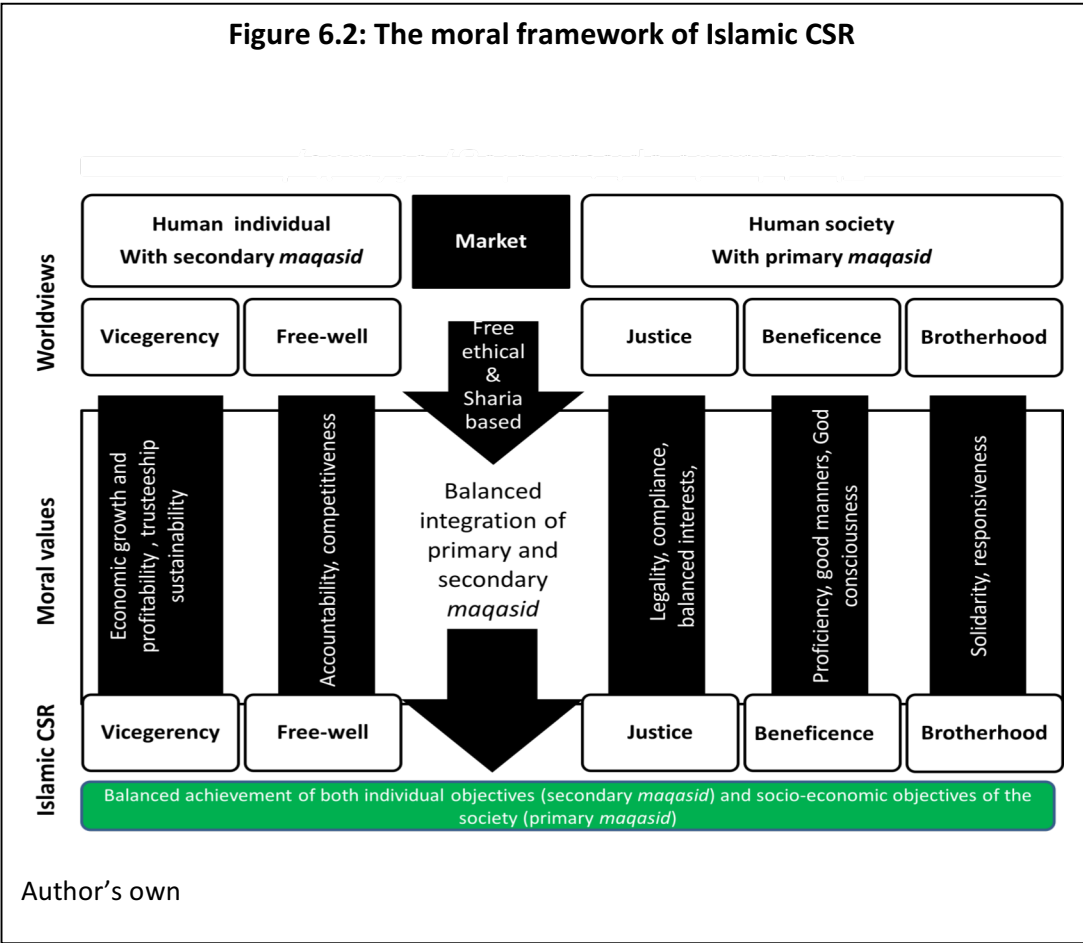
The *Sharia* system explained in Figure 6.1 has no details about how the *Sharia* operations, processes, policies and procedures are set in order for IFIs to be in full compliance with the *Sharia* principles and rulings.

6.3. The moral framework of Islamic CSR

The five Islamic principles of responsibility (vicegerency, free-will, justice, beneficence, and brotherhood) explained in Chapter 4 with their accompanying moral values, are divided into two major categories: (1) those that are related to individuals (i.e. vicegerency and free-will); and, (2) those that are related to human society (i.e. justice, beneficence, and brotherhood). In the market model, the interests and objectives of individuals (secondary *maqasid*: *Sharia*-compliant interests of individuals) are integrated with the higher objectives of society (the primary *maqasid*: the five essentials including

the preservation of faith, life, intellect, offspring and wealth) in an ethical-based, free and *Sharia*-compliant market. From a philosophical viewpoint, such integration not only includes the integration of the Islamic worldviews of the human individual with the Islamic worldviews of society as well as their corresponding moral values, but also Islamic epistemology represented by the *Sharia* jurisprudence method that is used as the tool for that integration.

Figure 6.2 explains the macro view of the integration of the Islamic worldviews of individual and society and the associated moral values in the market. When a *Sharia*-compliant profit-making firm enters the market, that firm is assumed to play the role of vicegerency with the moral values of achieving profitability within economic growth, sustainability, and trusteeship. Additionally, that firm has the free-will to compete in the market based on accountability and transparency.



Taking into consideration that a market has different parties with different interests and secondary objectives (*maqasid*) (i.e. buyers versus sellers, buyers versus buyers, sellers versus sellers, capitalists versus workers, and workers versus workers, etc.), the worldviews of human society (i.e. justice, beneficence and brotherhood) appear here to be very important in terms of being an integral part of the desired moral filter (i.e. the *Sharia* jurisprudence method) that helps achieve both individual objectives (i.e. secondary *maqasid*) and collective socio-economic objectives (i.e. primary *maqasid*). This is represented by the balance between the two types of objectives as in Figure 6.2. For example, a firm entering the market cannot achieve the moral attributes of vicegerency while it lacks, at least, for the moral attributes of justice (i.e. legality, *Sharia*-compliance, balanced interests). Furthermore, if that firm wants to have legitimacy in operating a *Sharia*-compliant business, it should comply with the moral attributes of beneficence (i.e. proficiency, good manners, and consciousness of God) and brotherhood (i.e. solidarity and responsiveness). In this regard, when entering the market, *Sharia*-compliant profit-making firms as vicegerents with free-will should interact based on justice and beneficence to contribute to brotherhood in society, and then contribute to collective socio-economic objectives (see Figure 6.2).

In essence, the moral framework of Islamic CSR explains the moral attributes resulting from the Islamic worldview of human individuals and society. To that extent, the moral framework can provide holistic moral guidance that needs to be implemented through reasonable rulings governing behaviour. The implementation of conventional CSR is usually based on trade-offs between the different interests of stakeholders based on the business case for CSR (see Chapter 3). Nonetheless, the *Sharia*-based implementation of Islamic CSR is supported by a fully harmonised system of decision making that provides fair trade-offs between the different interests and objectives of different stakeholders as well as the higher objectives of *Sharia*. The *Sharia*-compliant decision making system is based on *Sharia* objectives (*maqasid al-sharia*), interests (*maslaha*), and legal rulings (*al-ahkam al taklifiyyah*) which together comprise the rationale of the *Sharia* jurisprudence method.

6.4. The *Sharia* jurisprudence method and Islamic CSR

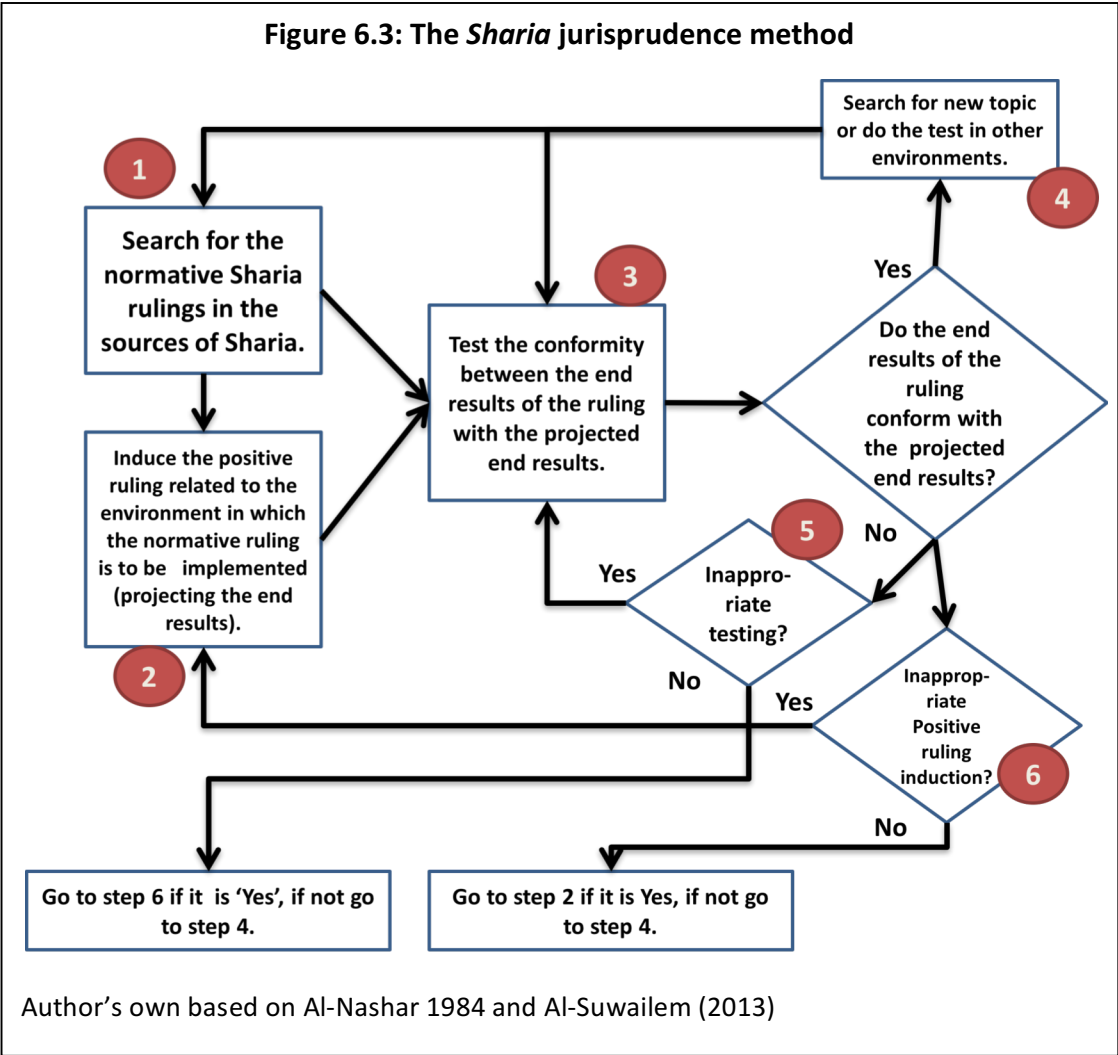
In Chapter 4, the *Sharia* jurisprudence method has been discussed within the realm of Islamic epistemology. This method consists of a loop between inductive and deductive approaches to theorizing economic phenomena, test and then generalise them. The output of the *Sharia* jurisprudence method is *Sharia* rulings related to a phenomenon under consideration. Given that Islamic CSR is built into the business model of a *Sharia*-compliant firm, as well as the fact that Islamic CSR considers the moral foundation of the Islamic ontological worldview, the *Sharia* jurisprudence method arises as a normal epistemological component that provides the appropriate methodology for producing the required *Sharia* rulings. Those *Sharia* rulings are used to settle the trade-offs between the interests of the *Sharia*-compliant firm and those of the stakeholders of that firm, hence the viability of the moral filter in the market that aims eventually to achieve the socio-economic objectives as illustrated earlier in Figure 6.2.

When a *Sharia*-compliant firm (namely an IFI) enters the market, it relies on the standardised *Sharia* rulings that are considered as normative rulings already induced by jurists from the sources of *Sharia*. As explained in Figure 6.3, the search for normative rulings is considered to be the first step in the *Sharia* jurisprudence method. Examples of the normative rulings for IFIs are those related to *murabaha* as a mode of finance which are standardised by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). However, the implementation of *murabaha*, which is permissible in and of itself, should be preceded by projecting the environment in which that *murabaha* is going to be implemented, including the end results of that implementation. Such a projection includes economic⁷⁴, social and environmental issues. Further to the *murabaha* example, what if the *murabaha* is going to be a financing facility for an oil extraction project that may affect the health of the local community? In this regard, social and environmental factors may be projected in the end results and affect the higher *Sharia* objectives (*maqasid –al-Sharia*). The projection of the end results is the positive description that is required for the normative ruling to be rational; that is, to

⁷⁴ Profitability is included in the economic issues.

find the set of economic incentives and market forces under which this ruling will serve the objectives of optimal welfare (Al-Suwailem 2013). However, the positive description of the environment in which the normative ruling is going to be implemented is linked to the legal cause of the ruling (*illah*) as explained in Chapter 4. Thus, if a legal cause is projected to exist in such a way that leads the aforementioned *murabaha* example to have harmful results when implemented, then the normative *Sharia* ruling of *murabaha* as a *mubah* (permissible) contract might be consequently affected.

Step one and step two of the *Sharia* jurisprudence method (see Figure 6.3) are considered to be the theorization process of the method (Al-Suwailem 2013). In fact, they represent the inductive approach of the method (Al-Nashar 1984) as explained in Chapter 4.



Once the ruling is implemented, then the *Sharia* method extends to the deductive approach to test the conformity between the projected end results and the actual end results of the implementation of the *Sharia* ruling. This is explained in step three of the *Sharia* jurisprudence method in Figure 6.3. The question here is: does *Sharia* accept deductive checking? In Chapter 4, it has been explained that proving the appropriateness and the gyration aspects of the legal cause (*illah*)⁷⁵ of a *Sharia* ruling can be based on experiment (Al-Nashar 1984). Furthermore, Islamic economists assert that Islamic knowledge accepts both deductive and inductive approaches when it is related to an economic matter (see the Islamic epistemology explained in Chapter 4). This can be explained by referring to *Al-Shatibi's* view concerning the shift of a permissible (*mubah*) action into other *Sharia* rulings. He stated that a *mubah* action can be permissible in moderation, but undesirable in excess. And, what can be permissible in moderation, is forbidden in excess (Al-Raysuni 2006, p.152). The word 'excess' is subjective if it is left to individual opinion because what is considered as 'excess' for one person may not be the same for another person. In economic and social phenomena, the word 'excess' should be determined objectively, because it touches on the public interest. For example, if economists prove that the excess of '*tawarruq*'⁷⁶ relative to inflation occurs at a certain point in an inverted U shape, should the *Sharia* opinion of the permissibility of '*tawarruq*' be changed? Of course it should, unless the continuity of *tawarruq* achieves another collective interest (*maslaha*) that is higher in rank in comparison to the collective harm (*mafsada*) of inflation. However, a controversial question may be raised here: is it the role of *Sharia* scholars or members of the *Sharia* advisory boards (SSB) of IFIs to conduct deductive testing? The answer can be found in the standards of the IFSB (2009) and AAOIFI (2007 a, b)⁷⁷.

Therefore, when returning to the example of the *murabaha* financing of the oil extraction project, if the positive ruling of the *murabaha* financing was based on projected results

When the legal cause is appropriate and in gyration with the *Sharia* ruling, the end results will definitely be in accordance with *maslaha* and *Sharia* objectives.

⁷⁶ *Tawarruq* is a controversial mode of finance used by IFIs to access or to give cash. Here it is assumed that it is permissible.

⁷⁷ According to these standards, an SSB board may have members who are economists, accountants, lawyers or financiers. Hence, deductive checking is possible.

that the community will not be affected, then the implementation should include checking and assurance related to whether or not what has been projected is true. In the case of nonconformity between the end results and the projected end results, then there are two possibilities: either the testing of conformity has not been appropriate (i.e. step five in Figure 6.3), or the positive ruling has not been properly induced to achieve the rationale of the legal cause (illah) of the *Sharia* ruling (i.e. step six in Figure 6.3). In fact, if the former is true, then a re-test is required. Managerially speaking, the checking and assurance system of an IFI should be enhanced. However, if the latter is true, then the positive ruling is to be re-conducted. In both cases, a reaction or a response must take place accordingly. In the case of a mistake in the projection of the positive ruling, then harm is caused to the stakeholders (i.e. to the health of the community in the aforementioned example of the *murabaha* financing of an oil extraction project). In the case of harm being caused, then corrective measures must be taken place in order to stop the harm. Those corrective measures not only target stakeholders, but also directed to amending the positive ruling.

6.5. Key concepts underlying the framework of implementing Islamic CSR

In section 3.6 (Chapter 3), it has been theoretically and practically argued that implementing CSR is a process that is used to convert principles into outcomes. Theoretically, the CSP model is used as the implementation guide for the process of implementing CSR. In practice, however, the widely accepted international standards (Accountability, GRI, and ISO 26000) provide the procedural steps for the CSR implementation process. Consequently, the first concept underlying the framework for implementing Islamic CSR is that Islamic CSR is a *Sharia*-compliant process that converts Islamic CSR principles into *Sharia*-compliant outcomes. A controversial question might be raised here: are the process, principles, and outcomes of conventional CSR in conflict with *Sharia*? To answer this question, it is important to clarify that the process of CSR has two main components: the procedural steps, and the concepts underlying each step. At the general procedural level, there is nothing to be found which is in conflict with *Sharia*. However, the underlying concepts might be in conflict with

Sharia. For example, one of the concepts underlying the trade-off between stakeholders' interests is the power and urgency of the stakeholders. In *Sharia*, there is nothing against trade-off itself, but it should be based on decisions governed by *Sharia* rulings that are promoted by interest (*maslaha*) to achieve *Sharia* objectives.

The process of CSR, as explained in Figure 3.4 (Chapter 3), starts with the recognition of the principles of CSR by business organisations and ends with assurance reports. Assurance is a matter of checking the level of a company's response to stakeholders' concerns and expectations in accordance with certain indicators (The GRI's Reporting Guidelines 2003-2011; AA1000 Assurance Standard 2008). Actually, this step is not considered to be the final step. In other words, the CSR process is not a straight line, but a cyclical process that consists of a loop between the final step and the first one passing through the steps in the middle. Otherwise, if CSR was a straight line process, the feedback and results of assurance would not be needed by either organisations or stakeholders. In this regard, some researchers and companies in practice use the plan, do, check, and act (PDCA) cycle (explained in Chapter 3) to deal with the CSR process. The PDCA cycle was originally developed on the basis of the scientific method, which starts from the formulation of inductions and hypotheses, the testing of the hypotheses, and then interpreting the results. Consequently, PDCA is used not only to organise the managerial process, but also to accumulate knowledge that is used for further development and improvement.

Given that PDCA is used in implementing the conventional CSR process, PDCA can also be used in implementing Islamic CSR. This is the second concept underlying the framework for implementing Islamic CSR. Nonetheless, the usage of PDCA in implementing Islamic CSR relies on the *Sharia* jurisprudence method explained in Chapter 4 and in section 6.3 above. This method comprises an inductive-deductive loop. It starts from the induction of normative and standardised *Sharia* rulings from *Sharia* sources as well as the projection of the positive rulings, including the end results related to the implementation of the *Sharia* ruling in a specific context. After that, a deductive stage where the end results resulting from the actual implementation of the *Sharia* ruling

are checked to see if they are in conformity with those that have already been projected with regard to achieving *Sharia* interests and objectives. Based on the results of the deductive stage of the *Sharia* jurisprudence method, corrections (when needed) should take place of the implementation of the *Sharia* ruling, the induction of the positive ruling or the methods used to check conformity. Thus, the *Sharia* jurisprudence method can managerially represent the cycle of plan (i.e. the inductive stage), do (i.e. implementation of the *Sharia* ruling), check (i.e. the deductive stage) and act (the correction stage).

Given that Islamic CSR is a *Sharia*-compliant process that can be implemented through a PDCA cycle on the basis of the *Sharia* jurisprudence method, the Islamic worldview and epistemology should be used in such a process. This is the third concept underlying the framework for implementing Islamic CSR. In Chapters 2 and 3, the review of the literature of conventional CSR indicates that it is a voluntary add-on to business operations and the market model of capitalism because of the ontological worldview of economic man and self-interest. This worldview is reflected epistemologically in the methods used for the trade-off between different interests when implementing CSR and the prevailing business case for implementing CSR in accordance with materialistic purposes (as explained in Chapter 3). In Chapter 4, it has been argued that Islamic CSR is built into the business operations of IFIs and Islamic CSR due to the aspects of the Islamic ontological worldview of vicegerency, free-will, justice, beneficence and brotherhood. All of these together theoretically run, in one way or another, counter to the worldview of the selfish man and self-interest. Al-Shatibi notes that the continuous satisfaction of an individual's desire leads to blameworthy selfishness: "Living on the basis of one's desires and whims leads to that which is blameworthy even if it should take a form of that which is praiseworthy" (Al-Raysuni 2006, p.122). Al-Raysuni (2006, p.122) explains this statement as follows: "continuously satisfying one's own personal desires even if one does so by performing deeds which are permissible and charitable, has the potential for stirring up selfish inclinations and causing one to grow accustomed to doing things for the sake of one's own self-satisfaction and without adhering to the limits set out by the Law [*Sharia*]. When this occurs, one's desire may lead one to violate the Law's rulings and enter the realm of the prohibited." Therefore, such a worldview

should be epistemologically reflected in the implementation of Islamic CSR through the use of *maqasid al-Sharia* and *maslaha* in all stages of the implementation.

Given that Islamic CSR is a *Sharia*-compliant process that is built into the business operations, the *Sharia* compliance systems of IFIs do not only consist of the *Sharia* structuring of the products, services, and behaviours of IFIs, but they also extend to linking the *Sharia* rulings to *maqasid* in accordance with *maslaha*, checking that *maslaha* is achieved through compliance with the *Sharia* rulings, and ensuring that the end results in terms of the products, services and behaviours do not deviate from *maslaha*. In this regard, the fourth concept underlying the framework for implementing Islamic CSR is that the implementation of the *Sharia* jurisprudence method leads to the implementation of Islamic CSR. In other words, if *maqasid al-Sharia* and *maslaha* (including social and environmental forms) are taken into consideration in the formulation of the *Sharia* rulings related to products, services and behaviours of IFIs, then Islamic CSR will have been implemented. Accordingly, the role of *Sharia* scholars and the top management of IFIs is not limited to providing and following the permissible normative and standardised *Sharia* structures for products and services, but also projecting the economic, social and environmental *Sharia* concerns related to *maqasid al-Sharia* and *maslaha*, and then checking the conformity of what has been projected with the results of the actual implementation, which is then followed by corrective action.

6.6. A PDCA-based framework for implementing Islamic CSR in IFIs

The Islamic philosophy explained in Chapter 4 means that Islamic CSR is built into the *Sharia*-compliant practices of business organisations. Islamic CSR is defined in Chapter 4 as:

"Integrating socio-economic political objectives (macro *maqasid*) within companies' objectives (micro *maqasid*) and interacting in the market in compliance with *Sharia* interests to achieve social well-being and economic growth".

This definition has been elaborated in chapter 4 to provide the normative foundations of Islamic CSR based on the synthesis between the Islamic worldview and epistemology (i.e. the *Sharia* jurisprudence method that relies on *maqasid al-sharia* and *maslaha* to provide *Sharia* rulings). Therefore, Islamic CSR is implemented and achieved when IFIs integrate the Islamic worldviews along with the *Sharia* jurisprudence method.

However, developing a PDCA-based framework for implementing Islamic CSR requires the integration of the *Sharia* jurisprudence method into the management systems of IFIs, where the *Sharia* jurisprudence method plays the same role as the scientific method upon which PDCA is based.

6.6.1. The *Sharia* jurisprudence method and the PDCA framework

The *Sharia* jurisprudence method has been normatively explained in detail in Chapter 4 and in section 6.4 above. It comprises of two major stages. The inductive (i.e. theorization) stage that includes jurisprudence inductions for the normative *Sharia* rulings, in addition to the projection of the environments (i.e. contexts) in which the *Sharia* rulings are going to be implemented in order to predict the end results of the rulings in accordance with *Sharia* interests (*maslaha*) that contribute to the achievement of the *Sharia* objectives (*maqasid al-Sharia*). The deductive (i.e. testing) stage then provides assurance about the conformity of what has been projected with what has been realised after the actual implementation of the *Sharia* rulings. Between these two stages of the *Sharia* jurisprudence method, there is a phase of amendment if disconformities are proven to occur. Thus, a cycle of knowledge production is achieved.

In IFIs, the *Sharia* supervisory boards (SSBs) have responsibility for giving *Sharia* rulings governing the development and projected implementation of products and services (IFSB 2009). This responsibility, in fact, represents the first stage of the *Sharia* jurisprudence method. However, given that almost all normative *Sharia* rulings governing Islamic finance products and services have already been standardised within the AAOFI *Sharia* Standards and the *fatwas* of Islamic *Fiqh* academies, the role of the SSBs will be mainly directed towards the projection of the contexts in which the already

standardised *Sharia* rulings are going to be implemented and the prediction of the end results that will facilitate the achievement of *Sharia* interests (*maslaha*) leading to the achievement of *Sharia* objectives (*maqasid al-sharia*). Additionally, SSBs have the responsibility for reviewing and auditing the implemented products and services (IFSB 2009). This responsibility represents the second stage of the *Sharia* jurisprudence method in terms of testing the conformity between what have been issued as *Sharia* rulings governing products and services and what has been implemented. In practice, such a stage is achieved through *Sharia* auditing (AAOIFI 2007b). Logically speaking, the results of *Sharia* auditing should provide information not only about the aforementioned conformity, but also about the viability of the projection of the context and the prediction of the end results, the correct implementation of the *Sharia* rulings represented by the correct offering of products and services, and the efficiency of the auditing process. The link between the two responsibilities of the SSBs (i.e. as they represent the two stages of the *Sharia* jurisprudence method) is represented by the *Sharia* reports that are issued by SSBs after auditing⁷⁸. Such These reports are provided to top management and consequently shareholders (AAOIFI 2007b) and stakeholders at large. The *Sharia* reports are used by IFIs to enhance and improve their operations, products, services and planning in general. Thus, the real implementation of the *Sharia* jurisprudence method is merely the production of knowledge for IFIs that is similar to the implementation of the scientific method underlying the PDCA framework.

In a PDCA framework, the ‘plan’ phase is simply represented by answering the question of what to do? And how to do it? (Tricker 2005). Because IFIs are *Sharia*-compliant, they decide what to do and how to do it in accordance with *Sharia*. Those two questions require projections and environmental scanning that are important for the top management decision making process as well as for the SSBs for the projections of the end results of the products and services when implemented. Therefore, the first stage of the *Sharia* jurisprudence method (i.e. the induction stage) underlies the planning phase of the PDCA as indicated in Figure 6.4. As for the search for normative *Sharia* rulings in the sources

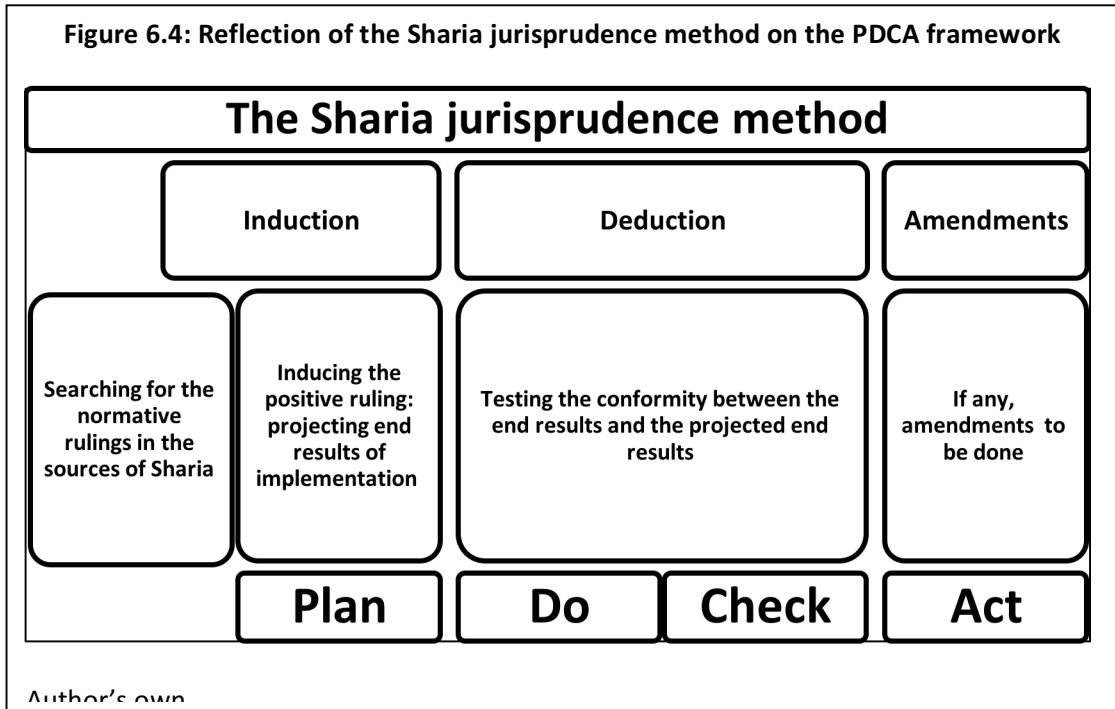
⁷⁸ In the textbook of the Certified Sharia Advisor and Auditor of AAOIFI, statistical sampling techniques for auditing are taught to the candidates. Thus, there is a reliance on quantitative approaches in auditing.

of *Sharia*, this is considered to be outside of the planning phase because the majority of the *Sharia* rulings governing the business of IFIs are standardised.

The second and third phases of the PDCA are ‘do’ and ‘check’. The ‘do’ stage is a mere implementation of what has been planned by management (Tricker 2005) in accordance with what has been induced to be *Sharia*-compliant by the SSB. The ‘check’ phase is related to testing whether or not what has been implemented is in accordance with what had been planned (Tricker 2005). In actual business implementation of the PDCA, however, checking overlaps with implementation, although there is a final auditing because the testing provides real-time data about conformities and nonconformities (Martensen & Dahlgaard 1998; Kotnour 1999; Speroff & O’Connor 2004). Therefore, the deduction stage of the *Sharia* jurisprudence method underlies both the ‘do’ and ‘check’ of the PDCA (see Figure 6.4).

The fourth phase of the PDCA is ‘act’. This phase is related to measures and steps that are to be taken to produce improvement in the future (Tricker 2005). From a *Sharia* viewpoint, this requires, if needed, amendments to the projection of the context in which the *Sharia* ruling has been implemented (i.e. gaining more experimental evidence about the appropriateness of the legal cause with the *Sharia* ruling) and the prediction of the end results of the *Sharia* ruling in accordance with their correspondence to *maslaha* and *Sharia* objectives. Thus, the amendment phase of the *Sharia* jurisprudence method underlies the ‘act’ phase of the PDCA as shown in Figure 6.4.

Figure 6.4: Reflection of the Sharia jurisprudence method on the PDCA framework

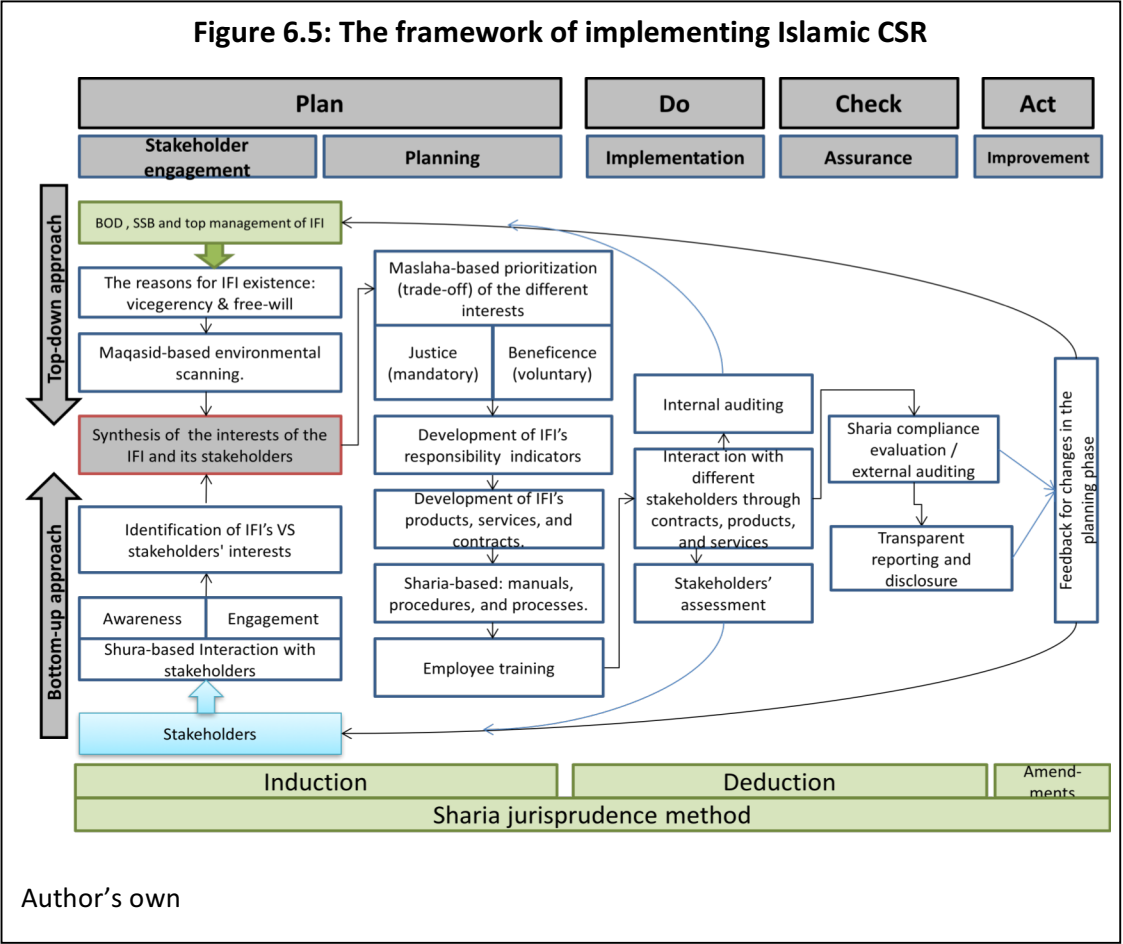


6.6.2. Implementing Islamic CSR in IFIs

The framework for implementing Islamic CSR in IFIs is illustrated in Figure 6.5, and includes a comprehensive *Sharia*-compliant approach to the business of IFIs. Figure 6.5 shows a similar general structure to the framework provided by Asif et.al. (2011) (explained in Chapter 3). Horizontally highlighted, each of the PDCA phases comprises of the vertically illustrated steps that are to be taken by an IFI to implement Islamic CSR.

Nonetheless, Figure 6.5 includes a combination of the Islamic ontological worldview and epistemological considerations in order to achieve consistency between the Islamic philosophy and the knowledge to be produced based on the fact that PDCA is a framework for knowledge production. In other words, relying on approaches that contradict the Islamic philosophy may provide irrelevant managerial results as well as academic knowledge as explained in Chapter 4 and earlier in this chapter. By doing so, the current framework for implementing Islamic CSR contributes to filling two theoretical gaps in the literature (identified in Chapter 4): (1) the philosophical justification for using conventional CSR theories and frameworks in developing Islamic

CSR theory and practice or comparing conventional with Islamic CSR; and (2), the lack of frameworks for the implementation of Islamic CSR.



The framework for implementing Islamic CSR is a reflection of the moral framework of Islamic CSR explained in section 6.3 above. It is based on the PDCA model while the underlying method is the *Sharia* jurisprudence method. Furthermore, five steps in the process of conventional CSR (i.e. stakeholder engagement, planning, implementation, assurance, and improvement) are added which are consistent with the PDCA.

The cornerstone of the framework for implementing Islamic CSR (Figure 6.5) is the synthesis of the results of the IFI and its stakeholders from a top-down management approach and a bottom-up *shura*-based stakeholder identification of interests that are to be dealt with in the business processes of IFIs. This is because *Sharia* rests upon “the

principle that it is obligatory to realize and perfect human interests and minimize and neutralize that which causes harm and corruption” (Al-Shatibi, cited in Al-Raysuni, 2006, p.34). Thus, the role of the *Sharia* jurisprudence method is to bring the Islamic worldview and epistemology together in order to provide settlements of conflicting interests in ways that serve *Sharia* objectives and interests. It is worth mentioning here that *Sharia* recognises individual interests and collective interests and provides for a balance between them for the sake of achieving the objectives that the Lawgiver intended to achieve when deciding *Sharia* as a code of conduct (for more elaboration on this, see chapter 4).

However, since IFIs are organisations which have individual (micro *maqasid*) interests and contribute to collective (macro *maqasid*) objectives as long as they are *Sharia*-compliant, the focus of the framework for Islamic CSR is based on predicting those interests (i.e. the interests of the stakeholders and the shareholders), planning to achieve and settle them when implementing their products and services, and then providing assurance that the implementation has achieved what had been planned while making use of nonconformities, if any, to conduct continuous improvement.

The framework for implementing Islamic CSR shown in Figure 6.5 takes into consideration the ‘harm’ side of the practices of IFIs covered in Dusuki & Abdullah (2007) (reviewed in Chapter 4) and takes into account other issues in fulfilling the ‘principle of preventing harm’. In fact, the framework for implementing Islamic CSR is based on the entire *Sharia* compliance process that should be implemented by IFIs. This comprehensive process is based upon principles that have been derived from Al-Shatibi’s theory of *maqasid al-Sharia* (explained in Chapter 4). Those principles, when reflected in the business reality of IFIs, provide the following assumptions underlying the framework of Islamic CSR:

Principle A: The intention of the doer of the action is a condition for one of the five *Sharia* rulings (i.e. *wajib*, *mandoub*, *mubah*, *muharram*, and *makrouh*). Based on this:

1. IFIs are fully-fledged Islamic financial institutions and their articles of associations state that they are *Sharia*-compliant, thus,

- a) The intention of their shareholders and their top management is to comply with *Sharia* and its objectives and interests.
- b) The intention of IFIs is clearly avoid harming the interests of others.⁷⁹
- c) The five *Sharia* rulings apply to the products, services, and behaviours of IFIs.
- d) The outward performance of their actions (i.e. products, services, and behaviours) is in compliance with *Sharia*.
- e) The *Sharia* rulings governing their actions and issued by members of the SSBs are in accordance with *Sharia* objectives and interests. In other words, *Sharia* rulings are issued in order to as far as possible prevent harm and achieve interests.
- f) The *Sharia* rulings issued by SSBs are produced in accordance with the *Sharia* jurisprudence method.

Principle B: Taking into consideration that the Lawgiver’s higher objectives in establishing the Law as a standard of conduct have two major components represented by the Lawgiver’s objectives and the objectives of those who are accountable before the Law, *Sharia* objectives are divided into two categories: (1) primary objectives (i.e. the preservation of the five essentials that are not based on human desire, choice or inclination), and (2) secondary objectives that are in the service of, and complementary to, the primary objectives (i.e. objectives related to human enjoyment and inclinations so that they can satisfy their desires and experience enjoyment through their licit activities). Based on this:

2. IFIs have their own secondary objectives that are *Sharia*-compliant (e.g. achieving profits), and thus it is preferred that their products, services and behaviours are in accordance with the primary objectives of *Sharia*.

Principle C: *Sharia* as a standard of conduct rests upon the principle that it is obligatory to realize and perfect human interests and minimize and neutralize that which causes harm and corruption. Based on this:

⁷⁹ As explained in chapter 4, business competitiveness is recognised by Islam. However, it is *Sharia* compliant ethical competitiveness. Consequently, fair competition is not considered harmful to other competitors.

3. When developing and implementing their products and services and when acting in markets, IFIs seek to benefit themselves or prevent harm for themselves while serving the Lawgiver's objectives, and thus:

- a) Some IFI's interests might be consistent with some stakeholders' interests.
- b) Some IFI's interests might be in conflict with other stakeholders' interests.

Principle D: For human interests to be achieved, it is important to remain in compliance with *Sharia* and linked to the objectives of the Lawgiver. This is to be achieved via the *Sharia* jurisprudence method to produce the appropriate *Sharia* rulings. Based on this:

4. As interests are related to what is going to be implemented (i.e. products, services and behaviours), those interests and the relevant *Sharia* rulings are ranked in accordance with the three ranks of *maslaha* (i.e. essentials, exigencies, and embellishments).

5. Conflict of interests is not limited to economic interests (for both IFIs and their stakeholders), but includes other social and environmental interests. This implies that the prediction of interests in the planning phase is not limited to economic ones (i.e. profitability).

6. Settlements of conflicting interests in the end results of the operations predicted by IFIs when planning for their operations is part of the *Sharia* jurisprudence method as long as all of the operations of IFIs are acknowledged to be in compliance with *Sharia*. In other words, *Sharia* compliance cannot be divided, nor it can be limited only to the review of the structures of the products and services on paper.

7. End results to be predicted by IFIs are not limited to economic ones (e.g. profitability), but extend to include social and environmental end results that might be produced by the operations.

8. The *Sharia* compliance auditing in IFIs includes the auditing of the end results of the products, services and behaviour of IFIs.

9. The terminology '*Sharia* compliance' is related to actions that are performed in accordance with *Sharia* to serve *Sharia* objectives; thus, Islamic CSR is the greater part of the *Sharia* compliance system.

Principle E: Human beings are God’s vicegerents on earth over themselves, their families, their wealth, and everything which has been placed there for their disposal, and they are required to stand in the stead of the One who appointed them to fulfil this role, putting into effect His rulings and intentions. Based on that:

10. The Islamic ontological worldview of human being and human society is inseparable from the Islamic epistemology in producing *Sharia* compliant knowledge. This *Sharia* compliant knowledge is a normal product of the *Sharia* jurisprudence method when properly implemented.

As explained in section 6.5, the concepts underlying the framework for implementing Islamic CSR, interests should be identified in accordance with the Islamic worldview (vicegerency, free-will, justice and beneficence) and epistemology (*Sharia* jurisprudence method to produce *Sharia* rulings in compliance with *Sharia* objectives and interests, *maqasid al-Sharia*, *maslaha* and *Sharia* rulings) in order to be settled, prioritised and then reflected in the actual implementation of the business of the IFI. To do so, the Islamic framework for implementing Islamic CSR (Figure 6.5) makes use of some international CSR standards and reflects the whole process in a PDCA cycle representing plan, do, check and act phases.

6.6.2.1. The ‘plan’ phase

Being the responsibility of the BOD, top management, and SSB, the top-down approach starts by the recognition of the reason for an IFI's existence (i.e. worldview). Vicegerency and free-will accompanied by their moral values (explained in section 6.3) are central to this step. This is because the Islamic view of vicegerency and free will is considered to be part of the inputs to the whole business process of IFIs, including the CSR process. In fact, they contain part of the principles of Islamic CSR in addition to the principles of justice and beneficence as explained in chapter 4. In this regard, the moral attributes of economic growth, social and environmental roles, trusteeship, governance, accountability, transparency and competitiveness are to be taken into consideration in accordance to their relevance to Islamic philosophy. In fact, the recognition of the reasons

for existence is assumed to be a preliminary part of the incorporation phase of an IFI as long as its articles of association indicate that it is a *Sharia*-compliant firm.

Once the reason for existence is recognised, the second step of *maqasid al-Sharia*⁸⁰-based environmental⁸¹ scanning, as part of the general planning of the IFI, is to be conducted in order to identify the interests of the IFI and accordingly its stakeholders. The identification of the interests of the IFI is not limited to risks and opportunities related to profitability or other materialistic issues, but extends to include the spiritual aspects of achieving *falah* based on the role of the IFI as a vicegerent of God on earth with free-will. Furthermore, identifying interests based on the *maslaha* ranking of the *maqasid al-Sharia* includes the identification of hardship/harm (*mafsada*) because avoiding *mafsada* is part of achieving *maslaha* as explained in Chapter 4.

Table 6.3 provides a matrix that facilitates the identification of the interests of the IFI. The *maslaha*-based ranking of *maqasid al-Sharia* is horizontally illustrated. Each rank of *maqasid al-Sharia* is classified according to anticipated *maslaha* or *mafsada* that would be brought about by the identified interests of the IFI. On the right extreme of the matrix, the general categories of the responsibility of the IFI (i.e. the moral attributes of responsibility, see section 6.3) are provided. The same categories of responsibility are represented on the left extreme of the matrix in order to facilitate the anticipation of interests or *masalih* (plural of *maslaha*) and *mafasid* (plural of *mafsada*) when each category of responsibility on the right is matched to those on the left. Figure 6.6 provides some examples to illustrate the implementation of the matrix of Table 6.3.

⁸⁰ Both primary and secondary *maqasid* are included here.

⁸¹ Environmental scanning means the scanning of the economic, social, environmental surroundings of the IFI (Wheelen & Hunger 2004). As for CSR, environmental scanning is considered as the first step of the CSR process (Wood 2010)

Table 6.3: Matrix for identifying the interests of IFIs

<i>Maqasid al-sharia</i> ranks of interests							
General categories of responsibility	Essentials (daruriyyat)		Exigencies (hajiyyat)		Embellishments (tahsiniyyat)		Matching with other responsibilities
	MS	MF	MS	MF	MS	MF	
Economic							Economic
							Social
							Environmental
							Governance & Trusteeship
							Accountability & Transparency
							Competitiveness
Social							Social
							Environmental
							Governance & Trusteeship
							Accountability & Transparency
							Competitiveness
Environmental							Environmental
							Governance & Trusteeship
							Accountability & Transparency
							Competitiveness
Governance & Trusteeship							Governance & Trusteeship
							Accountability & Transparency
							Competitiveness
Accountability & Transparency							Accountability & Transparency
							Competitiveness
Competitiveness							Competitiveness

Author's own.

MS=*maslaha*; MF=*mafsada*

Figure 6.6: illustrative examples on the matrix for identifying the interests of IFIs

Example1.

The environmental scanning of the IFI identifies that there are good opportunities in financing some industrial projects in the market. Therefore, there would be the following interests for the IFI:

Economic: profitability (*maslaha*), contribution to the economic development of the country (*maslaha*). When these economic interests are matched with the other responsibilities, the following interests might be anticipated:

Social: contributing to job creation (*maslaha*)

Environmental: bad impact on the environment if the projects are not environmentally friendly (*mafsada*)

Trusteeship: profitability for shareholders and investment account holders (*maslaha*)

Governance: Cross holding of shares by the big shareholders of IFI and the industrial projects (*mafsada*)

Competitiveness: fair competitiveness might be affected by internal information (*mafsada*).

Example2.

The environmental scanning of the IFI identifies that the IFI may contribute to its community development through allocating funds to be granted as *qard al-hassan* (QAH)* for some members of the community to start their home business. Therefore, there would be the following interests for the IFI:

Social: contributing to solving social problems (*maslaha*) through contributing to generating income from home businesses. When this social interest is matched to the other responsibilities, the following interests might be anticipated:

Economic: contributing to combating unemployment (*maslaha*); cash status of IFI might be negatively affected (*mafsada*).

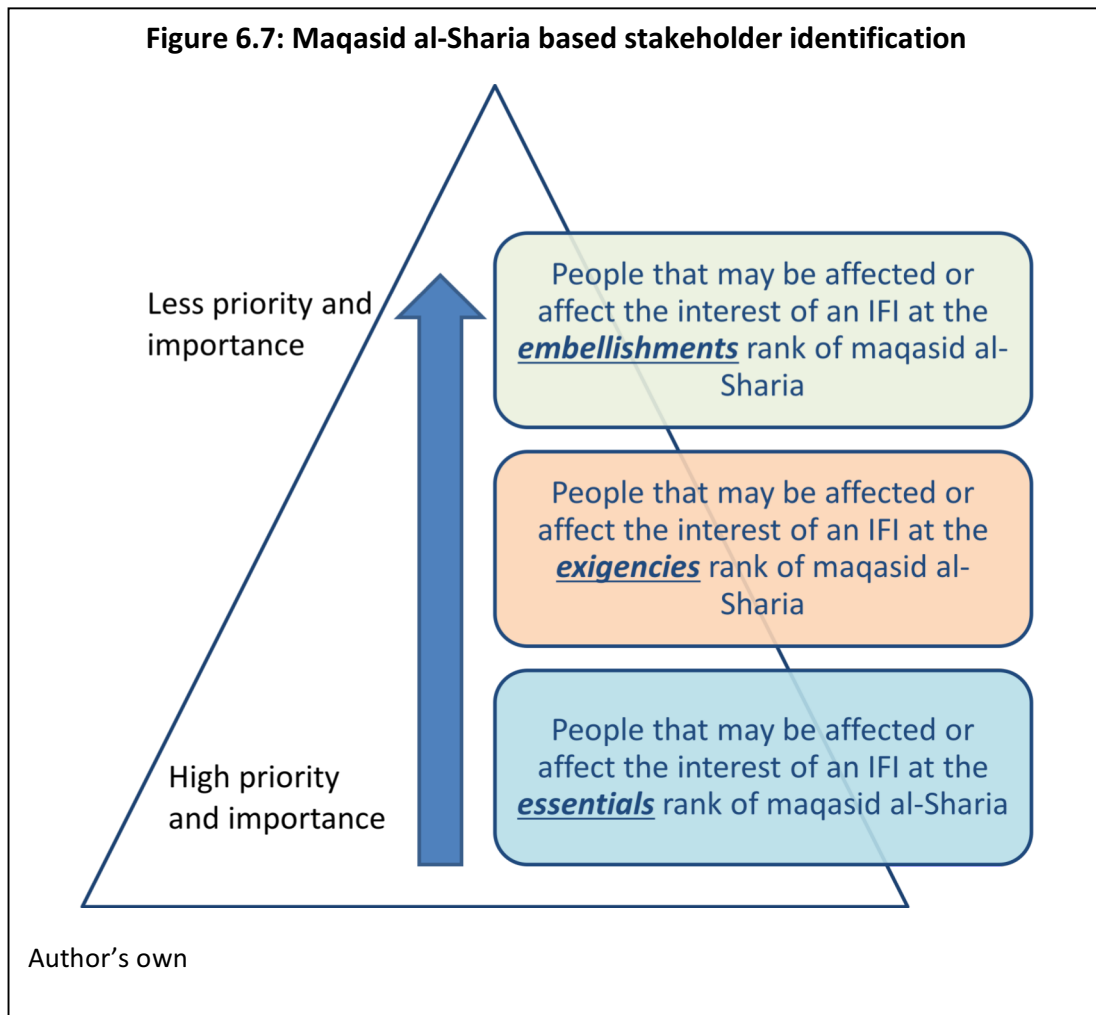
Trusteeship: profitability for shareholders and investment account holders might be affected (*mafsada*).

*Qard al-hassan is an interest free loan.

The positioning of the identified interests in accordance with the ranks of *maqasid al-Sharia* requires certain levels of knowledge of *Sharia* as well as knowledge of the social, economic, environmental issues concerned; therefore, this is an essential role of the members of the SSB with the help of other professionals from the IFI. However, at this stage, interests are to be identified according to an initial *maslaha* ranking of *maqasid al-Sharia*. This means that the prioritisation of *masalih* and *mafasid* to make *Sharia* rulings will be conducted in other steps. This is, in fact, is considered as a key part of the induction stage of the *Sharia* Jurisprudence method.

Once the interests of the IFI are identified and ranked in accordance with *maqasid al-Sharia*, stakeholder identification is a consequent embedded step. In fact, stakeholder identification and engagement is considered to be a good source of information that enriches the induction stage of the *Sharia* jurisprudence method. However, some methods of identifying stakeholders in conventional CSR usually rank stakeholders based on their power, legitimacy and urgency in relation to the organisation (e.g. Mitchell, Agle, & Wood 1997). In this regard, voiceless and powerless stakeholders have the least priority for the organisation. In an international manual for stakeholder engagement (AccountAbility 2005, pp. 24-25), stakeholder identification is based on several dimensions which are summarised in three groups of stakeholders: (1) those that are likely to influence your organisation's performance; (2) those that are affected by your organisation's operations; and (3) those you have legal, financial or operational responsibilities to. The three groups are mapped in three circles where overlapping between them indicates the highest priority; whilst overlapping between any two takes second priority.

Nonetheless, when promoted by Islamic philosophy, stakeholder identification is based on the *maqasid al-Sharia* and its *maslaha* ranking. In other words, *Sharia*-based stakeholder identification aims to achieve the *maslaha* regardless of the power of the stakeholder. The identification of the interests of the IFI using the matrix explained in Table 6.3 helps in identifying their stakeholders because each interest identified is logically linked to one or more groups of stakeholders. Figure 6.7 illustrates stakeholder identification based on *maqasid al-Sharia*. At the bottom of the pyramid, are the highest priority of stakeholders who are affected by or affect the interests of the IFI at the essential rank of *maqasid al-Sharia*, followed by exigencies and embellishments.



To elaborate more on this, let us assume that the environmental *mafsada* identified in Example 1 (explained in Figure 6.6) would affect not only the local community but the whole society in the long run and let us also assume that the SSB has decided that the rank of such a *mafsada* harms the essential (*daruriyyat*) *Sharia* objective of protecting the lives of people. Consequently, the local community should be identified as a prior and direct stakeholder group of the IFI regardless of their power and influence on the IFI. Additionally, if the local community is voiceless and has no representatives, or the government is corrupt, the responsibility of the IFI cannot be discharged or even reduced because of the accountability of the IFI to the Lawgiver.

The ‘bottom-up’ approach (Figure 6.5) starts after the stakeholder identification in the ‘top-down’ approach. Once stakeholders are identified, the IFI should interact with them on the basis of *shura* (consultation). *Shura* is considered to be an institution of knowledge formation (part of Islamic epistemology) to direct social change in the light of *Sharia* (Choudhury 2010, 2000; Addas 2010). This is because vicegerency is not only the role of the IFI, but it is also the role of the stakeholders of the IFI (Hasan 2009). At a microeconomic level, *shura* is considered to be a method of governing business (Hasan 2009). Choudhury & Hoque (2006) provide a *shura* approach based on Islamic epistemology which provides good general governance for an IFI, in addition to guaranteeing that the product of consultation (*shura*) with stakeholders is in compliance with *Sharia*. Social well-being is central to Choudhury & Hoque’s approach because it represents a common objective for both stakeholders and shareholders of the IFI. Therefore, implementing the *shura* includes *Sharia*-based consultation between shareholders, stakeholders, professionals from the IFI, and members of the SSB. This may take several forms, such as questionnaires, focus groups, meetings, or interviews, in the same way they are used in international standards (e.g. AA1000 SE 2008).

The Islamic epistemology governs the products of the *shura* with stakeholders, hence the benefits of stakeholder engagement to the IFI may differ from those resulting from conventional stakeholder engagement. Table 6.4 provides a comparison of the benefits of conventional and Islamic stakeholder engagement.

Table 6.4: Benefits of stakeholder engagement: conventional vs. Islamic

Benefits of conventional stakeholder engagement	Benefits of <i>Shura</i> -based stakeholder engagement
Strengthened ability to assess and manage risks.	Enhanced ability to assess and manage both the materialistic and the spiritual <i>Sharia</i> -compliance risks .
Learning on products and processes.	Accumulating knowledge, based on the Islamic philosophy, which can be used to learn, develop, and enhance products and processes.
Greater credibility amongst stakeholders.	Gaining the credibility of satisfying God by being <i>Sharia</i> compliant is reflected in a credibility amongst stakeholders. ⁸²
Securing the formal and informal license to operate from government, regulators and communities.	Embedded in the previous.
Learning and insights from non-traditional sources.	<i>Shura</i> -based <i>Sharia</i> compliant learning.
Better recruitment and retention of employees.	Better recruitment and retention of employees.
Collaboration to address problems and opportunities, and to change the ‘rules of the game’.	Collaborate to promote social wellbeing in light of <i>maqasid al-Sharia</i> .

Based on: AccountAbility, the United Nations Environment Programme, and Stakeholder Research Associates Canada Inc. (2005, p. 30)

Author’s own

Taking into consideration that stakeholders have several levels of religiosity and heterogeneous viewpoints of the responsibilities of the IFI, as empirically shown by Dusuki (2008b), the *shura*-based interaction with stakeholders requires awareness-raising among the stakeholders identified. However, the awareness-raising process can be conducted simultaneously with engagement as part of the *shura* process of interacting with stakeholders.

The *shura*-based stakeholder engagement will lead the IFI to identify its interests in comparison to those of the stakeholders. At this step, which is the second step of the ‘bottom-up’ approach, the already identified interests of the IFI in the top-down approach might be changed due to the knowledge acquired from the *shura*-based interaction with stakeholders. Consequently, changes in the matrix of *maqasid* rankings of interests (Table 6.3) might be made in order to synthesize the interests of the IFI and its stakeholders.

⁸²The Prophet said, "If Allah loves a person, He calls Gabriel saying, 'Allah loves so-and-so; O Gabriel! Love him.' Gabriel would love him and make an announcement amongst the inhabitants of the Heaven. 'Allah loves so-and-so, therefore you should love him also,' and so all the inhabitants of the Heaven would love him, and then he is granted the pleasure of the people on the earth." Sahih al-Bukhari (not dated), The Book of the Beginning of Creation, Hadith Number:3245, Narrated by: Abu-Huraira.

The top-down and bottom-up approaches are based on *maqasid al-Sharia* and its *maslaha* ranking. The resulting *Sharia*-compliant interests of the IFI and its stakeholders should be traded-off in accordance with *Sharia* obligations (justice) and recommendations (beneficence). As explained in Chapter 4, *al-ahkam al-taklifiyyah* (*Sharia* rulings) provide the prioritisation for the actions to be either obligations or recommendations. The link between a *Sharia* ruling and *maqasid al-Sharia* is *maslaha* according to which the interests of the IFI and its stakeholders should be categorised either as *wajib*, *muharram* (obligations) *mandoub*, or *mubah* (recommendations) (see Chapter 4). Referring to Example 2 (explained in Figure 6.6) to illustrate how an interest can be categorised and prioritised, assuming that⁸³: (1) the providence of the QAH appears to lie with the combined interest of the IFI and its stakeholders; (2) the IFI has extra funds that are not to be used in its operations (i.e. the interests of shareholders will not be affected); and (3) the SSB has already ranked such a social interest as an exigency (*hajjah*) to *maqasid al-sharia*, then the providence of the QAH is to be classified in the recommended (*mandoub*) category. In fact, the providence of QAH before being linked to *maqasid al-sharia* ranking was permissible (*mubah*) in and of itself. Once it has been ranked as affecting *maqasid al-sharia* according to the effect of other factors, it is changed so as to be recommended (*mandoub*). If the IFI, however, promised its stakeholders that QAH would be provided in the amount of X Dinars, then the QAH is changed to an obligation (*wajib*), because it has been linked to a promise unless something out of the IFI's control occurs.

The next step in the planning phase (Figure 6.5) is the development of the responsibility indicators. These are equivalent to the end results (*ma'alat*) that may shift the *Sharia* ruling into one of the other four (as explained in Chapter 4). The indicators to be developed are the normal results of the previous step of the trade-off and prioritisation of the interests of the IFI and its stakeholders. Furthermore, the responsibility indicators to be developed at this stage should be clear, measurable, transparent and timely. Going back to the QAH example, a responsibility indicator might be developed as follows: “We

⁸³ This is an illustrative example for the process of the *Sharia* ruling in relevance to *maqasid* and *maslaha*. Actual *Sharia* ruling may differ based on the rank of *maqasid al-Sharia* provided by knowledgeable *Sharia* scholars.

will grant QAH amounting to 2 million Dinars to deserving members of the community in order to be used in developing home businesses in the year 2012”.

The responsibility indicators are considered as goals to be achieved in the light of *maqasid al-Sharia* and *maslaha*. Therefore, the subsequent step in the planning phase is to develop the means to achieve the goals. In this regard, responsibility indicators are to be matched with products, services, contracts, and charitable projects. At this stage, the *Sharia* structuring of how to implement each one of these is crucial. This is because achieving *maqasid al-Sharia* should be in accordance with *Sharia*. For example, in financing industrial projects (Example 1 in Figure 6.6), if it appears to be within the prioritised interests of the IFI and its stakeholders while being linked to *maqasid al-Sharia*, a *Sharia*-compliant financing product and the required contracts should be developed in accordance with the *Sharia* modes of finance.

The last two steps in the planning phase (Figure 6.5) involve the development of manuals, procedures and processes that provide the ‘know-how’ based on which employees will be trained for the implementation of products, services, contracts, and charitable projects.

The ‘plan’ phase of the PDCA of the Framework of Islamic CSR appears to be equal to the first stage of the *Sharia* jurisprudence method (see Figure 6.4). That stage is related to the projection of the context in which the *Sharia* rulings underlying the products, services and behaviour are going to be implemented. Furthermore, the end results are predicted and developed in the form of responsibility indicators.

6.6.2.2. The ‘do’ phase

The ‘do’ phase (Figure 6.5) is an implementation of all that has been planned. It includes interaction between the IFI and stakeholders through the products, services, contracts, and charitable projects that have been developed in the planning phase. The ‘know-how’ is represented by the already developed manuals, procedures and processes provides the guidance for implementation.

During the actual implementation of plans, internal auditing should be conducted regularly in order to provide real-time information to top management about the strengths, weaknesses, and faults in different parts of the implementation. Furthermore, internal auditing should not be limited to the compliance of the products, services, and contracts implemented with *Sharia* structures, but it should be extended to include the actual achievement of the responsibility indicators in accordance with *maqasid al-Sharia* and *maslaha*. This is because the end results of implementation might deviate from the end results originally anticipated when forming the *Sharia* rulings. Furthermore, during this phase, records for incidents of harming others' *masalih* should be maintained. Thus, The feedback from *Sharia* auditing on the end results of the products, services, and contracts provides IFIs with findings that help accumulate knowledge to be used for both improvement and learning. When interacting with the IFI in the 'do' phase, stakeholders also get some sort of feedback regarding the actual implementation of what has resulted from the *shura* process.

6.6.2.3. The 'check' phase

The 'check' phase in the framework for implementing Islamic CSR (Figure 6.5) is based on external independent *Sharia* compliance auditing. In conventional CSR auditing, sometimes called sustainability assurance (AA 1000 AS Standard 2008), the assurance is conducted by the organisation and aims to evaluate the reliability of specified sustainability performance information on the basis of explicit management assertions about sustainability performance, and it includes a review of its completeness and accuracy (AA 1000 AS Standard 2008). In other words, sustainability assurance is conducted based on what the organisation decides to disclose about its sustainability commitments. Furthermore, sustainability assurance is conducted voluntarily by organisations through an external independent qualified assurer; therefore, there are two levels of assurance (i.e. high and moderate) that have different characteristics based on the objectives, the evidence, and the statement of the assurer (AA 1000 AS Standard 2008).

As for *Sharia* compliance external auditing (review) it is the responsibility of the SSB to conduct such auditing and accordingly issue the *Sharia* compliance report. The SSB may rely on the findings of the internal auditing of the IFI or alternatively may rely on an external auditor (IFSB 2009, p.3). Actually, it is controversial to alternate the sources of the auditing that is used for the SSB report. How can the SSB as an independent *Sharia* compliance assurer rely on the findings of the internal *Sharia* auditing conducted by a department that is on the payroll and part of the managerial structure of the IFI? Can the SSB report be considered as external and independent when it relies only on the findings of internal *Sharia* auditing? The Kuwaiti Capital Market Authority (KCMA) resolved this controversy by proposing an act that requires IFIs to appoint an external *Sharia* auditor⁸⁴.

For the sake of the framework of Islamic CSR, the SSB is considered to be the external *Sharia* auditor regardless of the source of the audit findings. Table 6.5 shows the general characteristics of the external *Sharia* auditing (review). The objective of the *Sharia* external auditing is to provide high levels of assurance about the *Sharia* compliance of the IFI. This is to be based on certain aspects of the evidence to rely on when producing the auditing statement that will draw conclusions on the extent of the *Sharia* compliance of the IFI.

In a similar way to the internal *Sharia* auditing, the external auditing should be based on the actual achievement measured by the responsibility indicators (i.e. the end results or *ma'alat* from a *Sharia* jurisprudence viewpoint) which the IFI is already committed to achieve. It should be extended to include any deviation from the desired end results (*ma'alat*) of the products, services, contracts and charitable projects from those that match the responsibility indicators based on *maqasid al-Sharia*. Furthermore, the external *Sharia* auditing should include the inclusiveness of stakeholders and their *shura*-based engagement. Therefore, the external auditor should be knowledgeable in *Sharia* and its objectives in addition to the *Sharia*-compliant structures of products, services and contracts.

⁸⁴ See for example: <http://www.alanba.com.kw/absolutenmnew/templates/economy2010.aspx?articleid=197241&zoneid=17&m=0>

Table 6.5: General characteristics of the external *Sharia* auditing / review

Objective	The <i>Sharia</i> external auditor is to provide high levels of assurance, where sufficient evidences are obtained, to support their statement on the <i>Sharia</i> compliance of the organisation.
Evidences	<ol style="list-style-type: none">1. Evidences shall be obtained from internal and external sources including stakeholders.2. Evidence gathering shall be conducted at all levels of the IFI.3. Emphasis shall be on the reliability of information.4. Extensive depth of evidence gathering including corroborative evidence and sufficient sampling at lower levels in the IFI.
Issues of the auditing	<ol style="list-style-type: none">1. End results (<i>ma'alat</i>) of the products, services, contracts, and charitable projects in comparison to the responsibility indicators of the IFI.2. Actual implementation of <i>Sharia</i> structures according to their compliance with the SSB judgments.3. Inclusivity of the stakeholders, and the processes of their <i>shura</i>-based engagement.
Auditing statement	Conclusion on the extent of <i>Sharia</i> compliance and the percentage of achievement of quantified responsibility indicators. This is in addition to qualitative opinions regarding the stakeholders' inclusiveness and engagement processes.

Based on Accountability AA1000 AS 2008, p. 11 with amendments according to the nature of the Islamic CSR.

The external *Sharia* auditing should be based on measuring the results of the responsibility indicators both quantitatively and qualitatively. Accordingly, it should not only be based on reviewing representative samples of transactions, but should include interviews with both employees and stakeholders, visiting sites where charitable projects have been implemented, and making sure that the allocated funds and portfolios have been used in their planned areas through the *Sharia* rulings and structures issued.

With conclusions having been drawn from the different sources of auditing data, information on the overall compliance of the IFI with the *Sharia*-based plans developed is to be used as the basis for *Sharia* compliance reporting and disclosure, which is to be used as reliable information for stakeholders who will subsequently contribute again to the next planning phase.

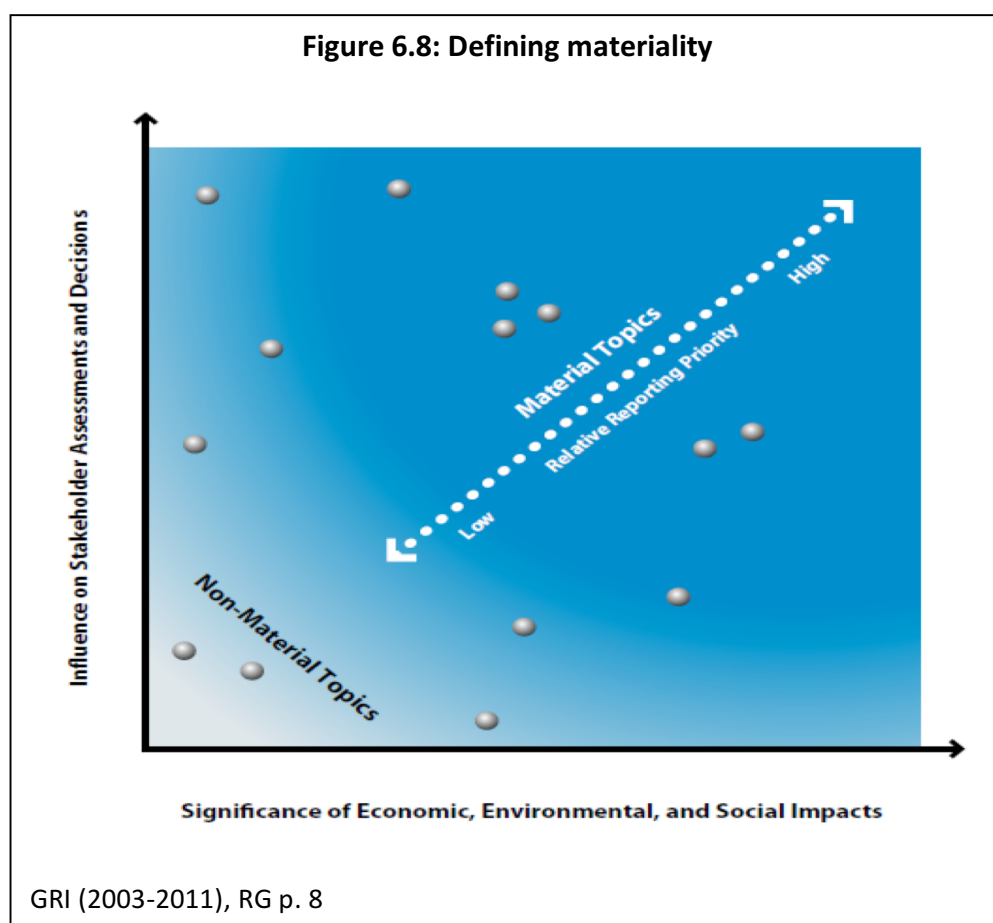
In conventional CSR, the most generally accepted reporting framework is that developed by the Global Reporting Initiative for sustainability reporting. Increasingly used by hundreds of corporations all over the world, the GRI's Reporting Guidelines (RG 2000-2011), Indicator Protocol (IP 2011) and Technical Protocol (TP 2011) provide guidance, principles, indicators, and protocols on how organisations should report, in addition to standard disclosure and sector supplements on what they should report.

In the current section, some aspects of the RG (2000-2011) are used in order to provide general guidance on a framework of reporting for Islamic CSR (i.e. *Sharia* compliance reporting). Taking into consideration that the reporting is itself a way to produce knowledge, the Islamic philosophy (i.e. worldview and epistemology) is taken into consideration in order to customise aspects of the GRI when necessary.

According to the RG (2000-2011), the sustainability reporting is “the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development”. Sustainability, in this regard, is a term synonymous with others used to describe the economic, social, and environmental impacts of the organisation (p.3). As for the framework of implementing Islamic CSR, the issue of measurement is already included in the ‘check’ phase. Therefore, what is meant by reporting is the practice of disclosing and being accountable to internal and external stakeholders for the performance of the IFI towards the goal of comprehensive *Sharia* compliance.

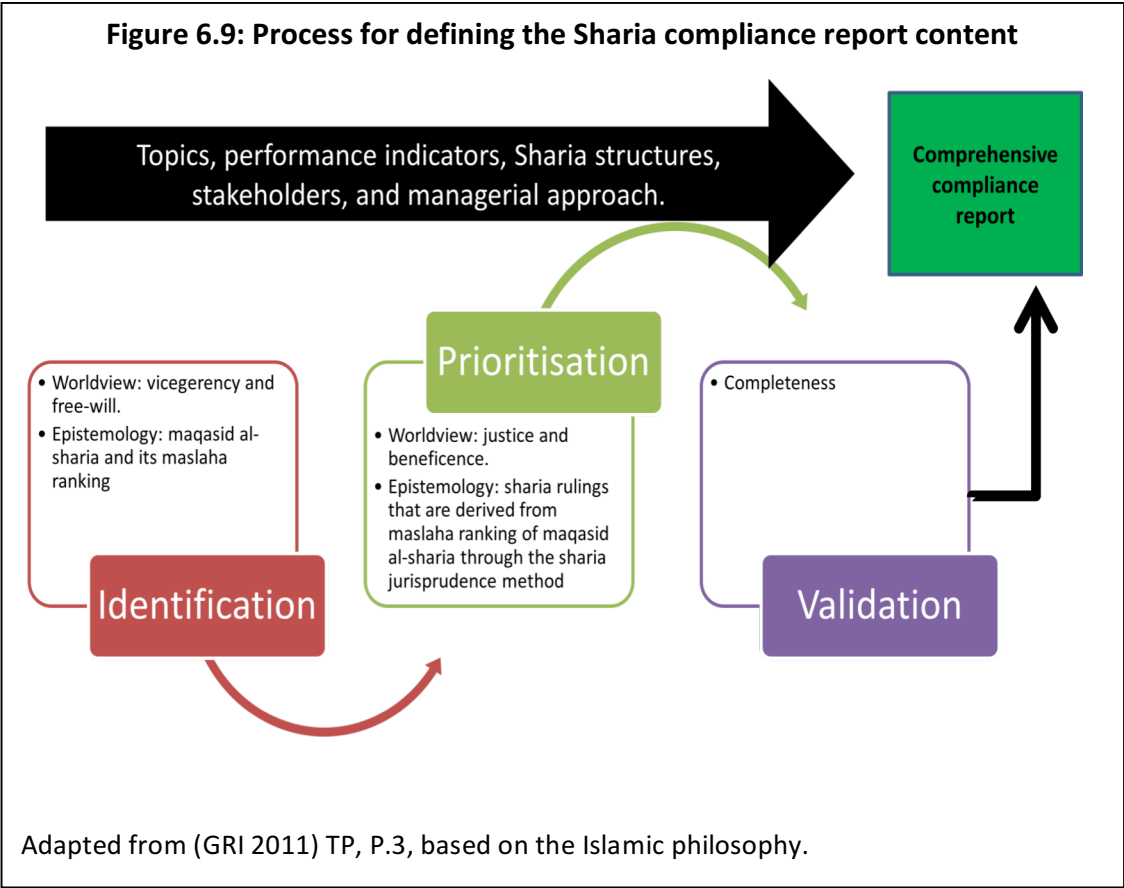
The RG (2000-2011) provides guidance and principles that are used to define content and ensure the quality of the report. These principles represent significant qualitative aspects that help organisations in terms of how to report. The principles are divided into two major groups: those defining the report's content, and those for ensuring the quality of the report. The first principle in defining report content is ‘materiality’, which means that “the information in a report should cover topics and indicators that reflect the organisation’s significant economic, environmental, and social impacts or that would substantively influence the assessments and decisions of stakeholders” (p.8). These two factors, when combined together (Figure 6.8), mean that the material topics are identified in accordance with a scale ranging from high to low. The second principle is ‘stakeholder inclusiveness’ which means that the reporting organisation should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests (p.10). This should include details of the stakeholder identification and engagement processes. The third principle is the ‘sustainability context’ which represents the wider context of sustainability in which the report should present

the performance of the organisation (p.11). The final principle is the ‘completeness’ of the report content. This means that the coverage of the material topics and indicators and the definition of the report's boundaries should be sufficient to reflect the significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organisation’s performance in the reporting period (p.12).



The RG's (2000-2011) principles of defining report content are to be implemented in a three-step approach. The first step is the identification of indicators and topics relevant to the report. Here the principles of stakeholder inclusiveness and the sustainability context are to be taken into consideration. The second step is the prioritisation of the topics selected based on the materiality and stakeholder inclusiveness principles. The third step is to confirm that the information presented in the report is appropriate based on the completeness principle (p.7).

The core of the principles and steps of the RG seems to be the materially prioritised topics and indicators. Based on Islamic philosophy, the process of defining the content of the *Sharia* compliance report (Figure 6.9) should be based on the principles of vicegerency and free-will (ontological worldview), *maqasid al-Sharia* and its *maslaha* ranking (epistemology). The prioritisation of the report topics and indicators should be based on the principles of justice and beneficence (worldviews) and the *Sharia* rulings that are derived from the *maslaha* ranking of *maqasid al-Sharia* (epistemology). By conducting these two steps based on these principles of worldview and epistemology, the last step of validation is to be logically achieved based on the completeness principle.



The identification and prioritisation of the report content have already been completed in the planning phase of implementing Islamic CSR (Figure 6.5). The resulting responsibility indicators of the IFI are prioritised in accordance with *Sharia* rulings based on the *maslaha* ranking of *maqasid al-Sharia*. They include indicators that are relevant to the

Sharia-compliant interests (spiritual and materialistic) of the IFI and its stakeholders as a normal result of the *shura*-based stakeholder engagement.

According to the RG (2000-2011), the standard disclosure of a GRI report shall have three major outcomes: (1) strategy and profile disclosures that set the overall context for understanding organisational performance, such as its strategy, profile, and governance; (2) management approach disclosures that cover how an organisation addresses a given set of topics in order to provide the context for understanding performance in a specific area; and (3) performance indicators which that elicit comparable information on the economic, environmental, and social performance of the organisation (p.5).

The content of the *Sharia* compliance report (Table 6.6) should include the three elements of the RG standard disclosure in addition to the stakeholders and the *shura* process, *Sharia* structures, and the auditing statement. Each element of the content has features that are based on Islamic epistemology. The outcome of the *shura* process of stakeholder engagement is a distinctive feature in the *Sharia* compliance report. *Sharia* structures, however, represent compliance with *Sharia* in the sense that the indicators are disclosed in accordance with the extent of their achievement. The auditing statement of the SSB or the external *Sharia* auditor should be included in the *Sharia* compliance report.

Table 6.6: Content of the *Sharia* compliance report

Content	Features
Strategy and profile	<ul style="list-style-type: none"> • General commitment to being <i>Sharia</i> compliance (identity). • Governance. • Strategy in light of <i>maqasid al-Sharia</i>.
Management approach	<ul style="list-style-type: none"> • The process of identifying the interests IFI and its stakeholders. • The foundations of prioritising interests. • The identified responsibility indicators.
Stakeholders and the <i>shura</i> process	<ul style="list-style-type: none"> • The process of stakeholder identification • The results of the <i>shura</i>-based stakeholder engagement.
<i>Sharia</i> structures	<ul style="list-style-type: none"> • Products, services, contracts and charitable projects that have been developed to respond to the responsibility indicators. • Compliance with the <i>Sharia</i> structures based on the <i>Sharia</i> rulings of the SSB.
Performance indicators	<ul style="list-style-type: none"> • Quantitative and qualitative of the extent of achieving the responsibility indicators representing the achievement of <i>maqasid al-Sharia</i>
Auditing statement	<ul style="list-style-type: none"> • The SSB or external auditing statement.

Based partially on GRI (2011) RG's standard disclosure.

The second group of principles provided by the RG are those related to ensuring the quality of the report. Those principles are fundamental for effective transparency. The first principle is 'balance', which implies that the report should reflect positive and negative aspects of the organisation's performance to enable a reasoned assessment of overall performance (p.13). The second principle is 'comparability', which means presenting the information in such a manner that enables stakeholders to analyse changes in the organisation's performance over time, and could support analysis relative to other organisations (p.14). The third principle is 'accuracy', which means that the information reported should be sufficiently accurate and detailed for stakeholders to assess the reporting organisation's performance (p.15). The fourth principle is 'timeliness', which means that the reporting should occur according to a regular schedule so that information is available in time for stakeholders to make informed decisions (p.16). The fifth and sixth principles are 'clarity' and 'reliability'. Clarity means that information should be made available in a manner that is understandable and accessible to stakeholders using the report (p.16); whilst reliability means that information and processes used in the preparation of a report should be gathered, recorded, compiled, analysed, and disclosed in such a way that could be subject to examination and that establishes the quality and materiality of the information (p.17).

The RG principles for ensuring the quality of the report are generally accepted qualitative measures that can be followed in the *Sharia* compliance reporting. Nonetheless, the reporting IFI should take into consideration that reporting to stakeholders indicates that the IFI is accountable to God before being accountable to its stakeholders. Furthermore, the Islamic ontology and epistemology should be considered in the information to be produced in the report.

The ‘do’ and ‘check’ phases of the PDCA of the framework for implementing Islamic CSR are related to the second stage of the *Sharia* jurisprudence method. That stage comprises of testing for variation between what had been planned to be achieved and the real achievements (end results). More specifically, it is related to assuring that the projection of the context in which the *Sharia* standardised rulings were made was efficient (see Figure 6.4).

6.6.2.4. The ‘act’ phase

The final phase in the loop of implementing Islamic CSR requires the IFI to ‘act’ in accordance with the results of the *Sharia* auditing (see Figure 6.5). The ‘act’ phase involves improving the inputs in the planning phase as well as following corrective actions to ameliorate faults resulting from mistakes in implementation. Furthermore, the act phase is linked to improving the *Sharia* structures, of the products and services in addition to the improvement of the whole *Sharia* compliance system within an IFI. From a *Sharia* jurisprudence perspective, the act phase is represented by amendments to the projections of the contexts and the end results (if needed) (i.e. the inductive stage of the method) in such a way that maintains the *Sharia* rulings in continuous linkage with the *Sharia* objectives.

In fact, because the PDCA is a generator of a profound level of knowledge for organisations, the ‘act’ phase in the framework for implementing Islamic CSR should include research and development based on the outputs of the external and internal *Sharia* auditing in order for IFIs to improve their contribution to the achievement of *Sharia* objectives and interests.

6.7. Conclusion

One of the outcomes of the literature reviewed concerning CSR (chapter 3) was that arguments concerning the difficulty of reaching consensus on what constitute socially responsible behaviour leads CSR to be viewed as a process (Jones 1980). Therefore, the dominant approach to implementing CSR is the CSP model. This is because what is considered as a responsibility indicator in one country might not be in another country based on the stakeholder engagement process and the materiality of their concerns to the organisation. In this regard, the business case for CSR is dominated by a functionalist epistemology in terms of what is to be achieved for the organisation from the implementation of CSR. Additionally, CSR is considered to be something additional to the organisation's normal planning and processes because of the worldview of capitalism (i.e. economic, selfish man) which means that the only responsibility of business is to maximise profits; hence, CSR is usually considered to be implemented voluntarily.

In Islamic CSR, the Islamic ontological worldview and epistemology and their moral and behavioural dimensions lead responsibility to be built into the plans and operations of an IFI as long as it is stated in its articles of association and license that it is *Sharia*-compliant. Accordingly, Islamic CSR is achieved when the comprehensive *Sharia* compliance of the IFI is implemented. Thus, the built-in Islamic CSR is implemented in accordance with both obligatory and voluntary forms determined by the *maqasid al-Sharia* and its *maslaha* ranking through the *Sharia* rulings. This means that Islamic CSR is also a process, but one based on the Islamic ontological worldview and epistemology. In fact, the *Sharia* rulings are sometimes situational because of the variation in the external factors that might be taken into consideration during jurisprudential deliberations to provide legal rulings. This is why “*Sharī’ah* scholars in each locality should arrive at their own opinions that can address appropriately and effectively the specific problems of the *ummah* [nation] within their respective localities” (IFSB 2006, p. 11).

Because Islamic CSR is part of *Sharia* compliance, the latter should not be limited to the compliance of the contracts, products and services in accordance with *Sharia* structures, but should be extended to include the *Sharia* compliant way in which the contracts,

products and services were genuinely developed in order to serve *maqasid al-Sharia*. In other words, *Sharia* rulings governing an IFI's products, services, and contracts should be logical results of *maqasid al-Sharia* and *maslaha* that must be identified prior to the *Sharia* rulings. Furthermore the responsibility indicators of the IFIs are the results of the implementation of *maqasid al-Sharia* and *maslaha*, and not something to be merely added to the business models of IFIs.

Accordingly, the framework for implementing Islamic CSR (Figure 6.5) rests upon the planning, doing, checking, and acting phases that lead the implementation of *Sharia* rules and principles to not be a linear process, but a cyclical one that is originally based on the *Sharia* jurisprudence method which allows for reviewing the *Sharia* rulings of the SSB based on the achievements of *maqasid al-sharia* and *maslaha*.

CHAPTER 7: DESCRIPTIVE ANALYSIS

7.1. Introduction

This chapter presents the descriptive analysis of the data collected from the telephone-administered questionnaire completed by respondents representing GCC IFIs. The next section describes the characteristics of the IFIs covered by the study. Section 8.3 then describes the characteristics of the respondents in terms of age, gender, level of education and specialisation. Sections 8.4 and 8.5 then descriptively analyse the data from the three scales of *maqasid* and CSR knowledge.

The scale of the ICSR framework is analysed in section 8.6 with sub-sections to describe the distribution of scores according to the organisational and individual characteristics of respondents. Section 8.7 then describes and analyses the scores of the ICSR scale according to the five clusters of questions representing ICSR implementation, in addition to describing the distribution of scores for each question.

7.2. IFIs covered in the study

Twenty seven Islamic financial institutions (IFIs) have been covered in the study, with one respondent from each working in the *Sharia* department or with responsibilities related to *Sharia* work participating in answering the questionnaire. The IFIs covered range from Islamic commercial/universal banks and financing and investment companies in addition to one *takaful* (Islamic insurance) operator. In this regard, it is important to highlight that types of Islamic financial institutions differ in accordance with the laws of the regulatory body under which they work. For example, in Kuwait, there is no licensing for investment banks but investment companies do exist, while in Bahrain both investment banks and investment companies exist. However, all Gulf Cooperation Council (GCC) countries allow for Islamic commercial/universal banks to operate. In the following sections, the descriptive statistics on the IFIs included in the study are explained.

7.2.1. Type of IFIs and countries of operation

As indicated in Table 7.1, 13 Islamic commercial / universal banks were included in the survey, representing 48.1 per cent of the total. Islamic investment corporations are the second largest group covered in the survey, with a total number of 10 accounting for 37 per cent of the total. The remaining IFIs are one investment bank, two Islamic financing institutions and one *takaful* operator.

Table 7.1: Distribution of the types of IFIs covered in the survey in accordance with the type of license

Type of IFI	Frequency	Percent	Cumulative Percent
Commercial / universal bank	13	48.1	48.1
Investment bank	1	3.7	51.9
Financing institution	2	7.4	59.3
Investment institution	10	37.0	96.3
Takaful operator	1	3.7	100.0
Total	27	100.0	

As for the distribution of the IFIs covered in the survey in terms of their country of operation and licensing, Kuwait is represented by 13 IFIs accounting for 48.1 per cent of the total, followed by the United Arab Emirates with 5 IFIs, Bahrain with 4, Qatar with 3 and the Kingdom of Saudi Arabia with 2. Table 7.2 displays the distribution of IFIs in the survey based on their country of origin and operation.

Table 7.2: Distribution of IFIs covered in the survey in accordance with the country of operation

Country	Number of IFIs in the survey	Percent of total included in the survey	Cumulative percent of total included in the survey	Total IFIs in the country*	Percent of total IFIs in the country*
Bahrain	4	14.8	14.8	8	50.0
KSA	2	7.4	22.2	10	20.0
Kuwait	13	48.1	70.4	38	34.2
Qatar	3	11.1	81.5	11	27.3
UAE	5	18.5	100.0	10	50.0
Total	27	100		77	35.1

*According to the sample frame of the present study (See Table 5.1 in Chapter 5 for more details).

As explained in section 5.5.1.1.5, Kuwait accounts for the largest number of IFIs in the GCC countries. It has 38 IFIs which were considered to be eligible to be included in the sampling frame of the present research. However, of the total of 77 GCC IFIs included in the sampling frame, Kuwait alone has about 49 per cent. With regard to the data presented in Table 7.2, Kuwait is represented by 13 IFIs in the sample in the present research representing 48.1 per cent of the total included in the survey and 34.2 per cent of the Kuwaiti IFIs included in the sampling frame. The United Arab Emirates (UAE) are represented by 5 IFIs with a proportion of 18.5 per cent of the IFIs included in the survey and 50 per cent of the UAE IFIs included in the sampling frame. Bahrain has 4 IFIs included in the survey (14.8 per cent of IFIs included in the survey and 50 per cent of Bahraini IFIs included in the sampling frame), followed by Qatar with 3 IFIs (11.1 per cent of IFIs included in the survey and 27.3 per cent of Qatari IFIs included in the sampling frame), and finally the Kingdom of Saudi Arabia (KSA) has 2 IFIs (7.4 per cent of IFIs included in the survey and 20 per cent of Saudi IFIs included in the sampling frame).

7.2.2. Existence and size of the *Sharia* control/review departments

Although an IFI must have a *Sharia* advisory board (SSB) in order to be licensed as a *Sharia*-compliant institution, the existence of *Sharia* control/review departments is important for an IFI to facilitate the management and proficiency of *Sharia* work within the organisation (see Chapter 6 for more explanation). Moreover, the existence of a *Sharia* control/review department is crucial for judging compliance with and implementation of *maqasid al-Sharia*; which is a matter of great importance in the current study because the respondents are assumed to work on *Sharia* issues inside the IFIs covered. In this regard, a question in the survey was asked to check the existence of such a department or an equivalent one in the IFIs covered in the survey. The answers of the respondents to that question are illustrated in Table 7.3.

Table 7.3: Existence of *Sharia* control department or any equivalents in the IFIs covered in the survey

Availability	Frequency	Percent
Yes	24	88.9
No	3	11.1
Total	27	100.0

As shown in Table 7.3, Out of the 27 IFIs covered in the survey, 24 did have a *Sharia* control department while three did not have such a department. Therefore, another question was asked to check the reliance on an external professional to deal with the work of *Sharia* control. The answers of the 3 remaining respondents were positive, affirming that their organisations outsourced the work of the *Sharia* control department. Consequently, a third question to these 3 respondents was asked to confirm that they worked as coordinators between their organisations and the provider of the *Sharia* control service. The answers of these three respondents were again positive. It is important here to mention that the 3 IFIs outsourcing the services of the *Sharia* control department were non-banking IFIs based in Kuwait.

The other major question in this section asked about the number of employees working in the *Sharia* control / review department or dealing with *Sharia* work in coordination with the provider of the service. Table 7.4 illustrates the answers of the respondents to that question.

Table 7.4: Number of employees in *Sharia* control/ review work

Number of employees	Frequency	Percent
1-2	7	25.9
3-5	11	40.7
6-8	6	22.2
9 and over	3	11.1
Total	27	100.0

As shown in Table 7.4, the majority of the sample had 3-5 employees in their *Sharia* control departments, whereas 7 IFIs had 1-2 in the *Sharia* control department or dealing

with the work of *Sharia* in coordination with the external service provider. Nonetheless, 9 IFIs had 6 or more employees with 3 of them having 9 or more.

To gain a better understanding of the issue of numbers of employees, a cross-tabulation was conducted to investigate the distribution of number of employees in relation to the type of IFI, as shown in Table 7.5.

Table 7.5: Number of IFI employees involved in *Sharia* control/review work against type of organisation (cross-tabulation)

		Type of organisation					Total
		Commercial/ universal bank	Investme nt bank	Financing institution	Investment institution	Takaful operator	
The number of employees involved in <i>Sharia</i> control and review work	1-2	1	0	2	4	0	7
	3-5	3	1	0	6	1	11
	6-8	6	0	0	0	0	6
	9 and over	3	0	0	0	0	3
Total		13	1	2	10	1	27

It is clear from Table 7.5 that of the IFIs surveyed 11 of 27 had 3-5 employees working in the *Sharia* control review department. There were 1-2 such employees in 7 IFIs and then 6 IFIs had 6-8 employees to work in *Sharia* control and review. When it comes to commercial/universal banks, which are considered the largest IFIs in terms of size, 3 out of 13 Islamic banks had more than 9 employees in their *Sharia* control/review departments while 6 others had 6-8 employees and 3 had 3-5 employees. As for the non-banking IFIs, 6 of 13 had 1-2 employees for *Sharia* control/review work and the remaining 7 had 3-5 employees in their *Sharia* control/review departments.

7.3. Individual characteristics of the respondents

Respondents who agreed to respond to the questionnaire are the cornerstone of the survey, because they expressed their viewpoints on the process of Islamic CSR in their organisations and had the necessary experience inside the organisations to make judgments and answer the questions in the survey. Therefore, data was collected

concerning the demographic characteristics of those participants in terms of their age, education, specialisation and length of experience.

However, an initial personal question was asked to participants to confirm that they had studied *maqasid al-Sharia* and *maslaha* and their relationship to *fiqh and usul al-fiqh* during the course of their education. This question is important, because if a respondent was not aware of *maqasid al-Sharia* or did not have a minimal level of knowledge about it, the interview would not have continued. Accordingly, 22 of the respondents confirmed that they had studied *maqasid* and *maslaha* and their relationship to *fiqh and usul al-fiqh*. The remaining 5 answered that question in the negative, and they were then asked to confirm if they were aware of the topic. All of them confirmed that they were aware of the topic to some extent.

The following sections provide a more in-depth descriptive analysis of the demographic characteristics of the respondents.

7.3.1. Gender and age

Although the targeted IFIs were contacted randomly, by asking the operator to transfer calls to the *Sharia* control departments or those in charge of *Sharia* work, all of the respondents were males. Additionally, all of them opted to be interviewed in Arabic. The distribution of the respondents according to their age is illustrated in Table 7.6.

Table 7.6: Distribution of the respondents according to their age

Age Range	Frequency	Percent	Cumulative percent
24-29	3	11.1	11.1
30-35	8	29.6	40.7
36-41	7	25.9	66.7
42and over	9	33.3	100.0
Total	27	100.0	

According to Table 7.6, only 3 of the respondents, or 11.1 per cent, were considered to be junior in terms of age between 24-29 years old. Additionally, 8 were between 30-35

years old, representing 29.6 per cent of the total. A further 59.2 per cent were 36 years and older, with 7 between 36-41 years old and 9 who were 42 years old and over.

7.3.2. Level of education and field of specialisation

Table 7.7 explains the distribution of the respondents in terms of their level of education and specialisation. It is notable that 20 out of 27 respondents were holders of postgraduate degrees. Eleven were holders of master degrees, 6 being specialised in *Sharia* or one of its branches, 1 in Islamic economics and finance, and 4 in finance and accounting. All 9 PhD holders were specialised in *Sharia* or any of its branches except 2 respondents: one of them is specialised in Islamic economics and finance, and the other is specialised in law. Four of the bachelor degree holders were specialised in *Sharia*, 2 in finance and accounting, and one in business administration.

Table 7.7: Distribution of respondents according to level of education and field of specialisation (cross-tabulation)

		Field of specialisation by education					Total
		Sharia or any of its branches	Islamic economics / finance	Finance and accounting	Business or marketing	Law	
Level of education	Bachelor	4	0	2	1	0	7
	Master	6	1	4	0	0	11
	PhD	7	1	0	0	1	9
Total		17	2	6	1	1	27

In general, respondents who specialised in *Sharia* were the majority, at 17 out of 27. However, it is worth noting that all respondents from Islamic banks (13 commercial banks and 1 investment bank) covered in the survey were specialised in *Sharia* except for one who specialised in Islamic economics and finance which is much closer to the field of *Sharia* review/control. It is also worth mentioning that all respondents who were not specialised in *Sharia* and were in charge of *Sharia* control/review were employees in financing and investment institutions or the *takaful* operator.

7.3.3. Years of experience

Years of experience is another important indicator that describes the characteristics of the respondents. Table 7.8 displays the distribution of the respondents in accordance with their years of experience and the type of organisation.

Table 7.8: Distribution of the respondents according to years of experience and type of organisation (cross-tabulation)

		Years of experience					Total
		1-5	6-10	11-15	16-20	21-25	
Type of organisation	Commercial/ universal bank	0	3	6	4	0	13
	Investment bank	0	1	0	0	0	1
	Financing institution	0	1	0	1	0	2
	Investment institution	1	5	2	1	1	10
	Takaful	0	1	0	0	0	1
Total		1	11	8	6	1	27

According to Table 7.8, respondents with 6-10 years experience in *Sharia* work in IFIs represent the majority (11 of 27). However, while 8 respondents had 11-15 years of experience and 6 had 16-20 years, only 1 had 1-5 years of experience with 1-5 years, and another had 21-25 years of experience.

Three of the 13 respondents from commercial banks had 6-10 years of experience, 6 had 11-15 years, and 4 had 16-20 years. The majority of the respondents from non-commercial banking institutions had 6-10 years of experience (8 out of 14) while 1 respondent each had 21-51 years, 16-20 years, and 1-5 years, and 2 had 11-15 years of experience.

7.4. *Maqasid al-Sharia* knowledge of the respondents

The scale of *maqasid al-Sharia* knowledge was measured using answers to 4 questions as explained in Chapter 5. Each response could receive a maximum score of 2 if answered in full by a respondent, a score of 1 if partially answered, and a minimum of 0 if not answered. Thus, the score for *maqasid* knowledge could vary from a minimum of 0 to a

maximum of 8. Figure 7.1 shows the distribution of the respondents' scores for *maqasid* knowledge.

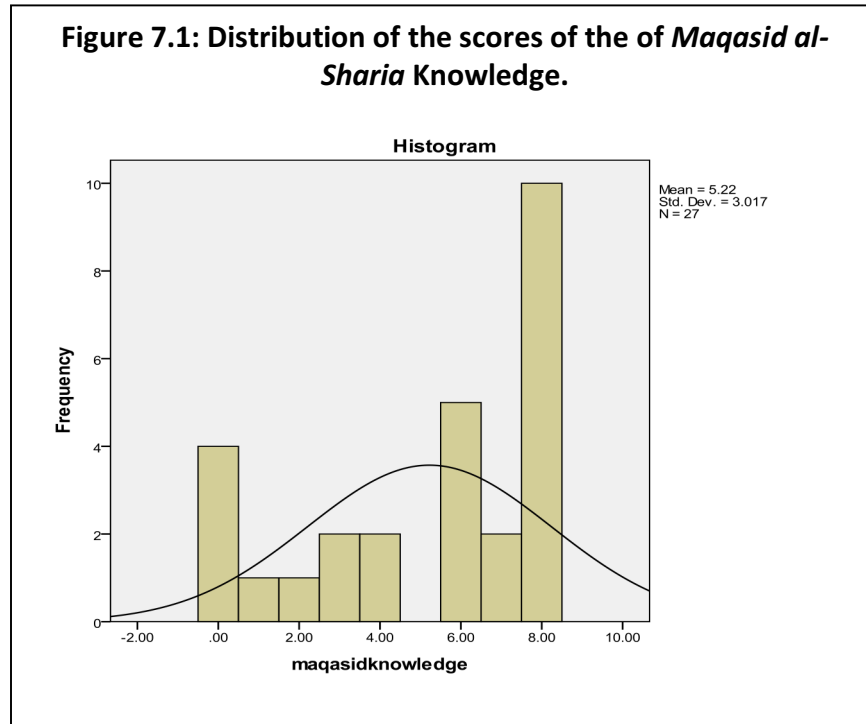


Table 7.9: Descriptive statistics of the scale for *maqasid al-Sharia* knowledge

N	Valid	27
	Missing	0
Mean		5.222
Std. Deviation		3.017
Skewness		-.720
Kurtosis		-.999
Minimum		0.00
Maximum		8.00
Sum		141.00
Sum of possible maximum total score (27×8)		216
Percentage of total achieved score of total possible score		65.3%

As indicated in Figure 7.1, 10 of the respondents had scores of 0-4; whilst the remaining 17 had scores of 6-8. This gives a distribution of the scores a skewness of -0.720 with the tail of the shape towards the lower end of the scores. Moreover, the kurtosis of the distribution is -0.999 giving a flattered shape. As indicated in Table 7.9, the mean score

of the respondents was 5.222 and the standard deviation 3.017, meaning that the majority (23) of the respondents had scores of 2-8 although 4 respondents notably achieved scores of 0. Collectively, the sum of scores for the respondents is 141, which is equal to 65 per cent of the total possible score (i.e. 27×8). Such a total score gives an indication that the level of *maqasid* knowledge is not up to the expectation especially when taking into consideration that the questions asked were of basic requirement to a *Sharia* employee or degree holder. Furthermore, it would provide an initial critical analysis as to what extent the processes of ICSR implemented by IFIs generates *maqasid* knowledge, or makes use of the *maqasid* knowledge originally acquired by participants through education. However, to get more insights on the levels of *maqasid* knowledge, they are analysed, in the following two sub-sections in comparison with the individual and organisational differences of the participants.

7.4.1. *Maqasid al-Sharia* knowledge across individual differences

As explained in the previous section, the total score achieved by all 27 respondents in *maqasid* knowledge was 141. This means that the level of *maqasid* knowledge of *Sharia* employees of GCC IFIs was 65 per cent of the total possible. In this section, the levels of *maqasid* knowledge are descriptively analyzed in terms of individual differences between the respondents as illustrated in Table 7.10.

The first individual feature under consideration is field of specialisation by education. Here, the 17 respondents specialised in *Sharia* or any of its branches had a level of *maqasid* knowledge equals to 86 per cent of the total score possible for them to achieve, and this group contributed 83 per cent of the total score achieved by the sample. This score is high in terms of the weighted average of the *Sharia*-educated respondents of the sample of 63 per cent. Nonetheless, the score is controversial when it is taken into consideration that the questions in the *maqasid* knowledge scale concern basic knowledge for those educated in *Sharia*. The remaining 10 respondents with fields of specialisations other than *Sharia* represent 37 per cent of the sample, and altogether achieved a total score in *maqasid* knowledge of 24, which is 17 per cent of the total score achieved (141) by the sample. The distribution of the score in accordance with the field of education has

strong indication that those who have *Sharia* degrees are much more knowledgeable in the basics of *maqasid al-Sharia* than those who have degrees in other fields of education. This gives another indication that such knowledge has most probably been acquired not as a result of the knowledge accumulated from the implementation of the PDCA and the underlying *Sharia* jurisprudence method. Nonetheless, such an interpretation should be further investigated when considering other individual and organisational differences across which the level of *maqasid* knowledge has been distributed.

Table 7.10: Distribution of *maqasid al-Sharia* knowledge across respondent's individual differences

Individual differences	Individual differences	% of sample	Total achieved score	% of total possible score for the group	% of 141	
Field of specialisation by education	Sharia or any of its branches	17	63.0	117	86.0	83.0
	Islamic economics / finance	2	7.4	7	43.8	5.0
	Finance and accounting	6	22.2	16	33.3	11.3
	Business administration or marketing	1	3.7	0	0.0	0.0
	Law	1	3.7	1	12.5	0.7
Total	27	100.0	141	65.3	100.0	
Level of education	Bachelor	7	25.9	26	46.4	18.4
	Master	11	40.7	53	60.2	37.6
	PhD	9	33.3	62	86.1	44.0
Total	27	100.0	141	65.3	100.0	
Years of experience	1-5	1	3.7	6	75.0	4.3
	6-10	11	40.7	55	62.5	39.0
	11-15	8	29.6	47	73.4	33.3
	16-20	6	22.2	30	62.5	21.3
	21-25	1	3.7	3	37.5	2.1
Total	27	100.0	141	65.3	100.0	

As for the level of education (see Table 7.10), it appears that PhD holders, as a group, have the highest total score in *maqasid* knowledge in comparisons to the groups of master and bachelor holders. Remarkably, PhD holders (9 respondents = 33.3 percent of the sample) contributed to 44 percent of the total *maqasid* knowledge score of the sample. Nonetheless, the total score of PhD holders is only 86.1 percent of the total possible score (i.e. 9 PhD holders × 8 scores of the *maqasid* knowledge scale) although the *maqasid* issues surveyed are assumed to be known as basics for Muslims as indicated by Al-A'alam (1994, p.155). Apparently, the levels of *maqasid* knowledge increase with the level of education. In other words, the higher the education, the higher the level of *maqasid* knowledge is expected. Nevertheless, this should be interpreted together with other individual and organisational differences.

The final indicator of individual differences is years of experience. The results displayed in Table 7.10 that the major group contributing to the total score of *maqasid* knowledge was respondents with experience of 11-15 years. That group comprises 9 respondents (29.6 per cent of the sample) contributing 33.3 per cent of the total score achieved by the sample. Notably, the one respondent (representing 3.7 per cent of the sample) with experience of 1-5 years contributed 4.3 per cent of the total score of the sample, which is relatively higher than the contributions of respondents with experience of 6-10, 16-20, and 21-25 years. Apparently, this indicates that the greater years of experience may not have impact on the level of *maqasid* knowledge of the respondents. However, when taking the three individual differences together it can be descriptively said that *Sharia* as a field of education may have positive impacts on the levels of *maqasid* knowledge. This is accompanied by the level of education, the higher the education the higher the level of *maqasid* knowledge. Nonetheless, the years of experiences appear to have no impact on the level of *maqasid* knowledge of the respondents. The three of them together may indicate that *maqasid* knowledge has been acquired from sources external to the IFIs. In other words, the operations of IFIs that are to follow the PDCA and the underlying *Sharia* jurisprudence method have most probably not been the sources of the *maqasid* knowledge

of the respondents. Additionally, the operations of the IFIs might not have the impact to enrich or refresh *maqasid* knowledge of the respondents over the years of experience of the respondents. This finding at a descriptive level should be further investigated through the distribution of the levels of *maqasid* knowledge across the organisational differences. This is in addition to the investigation of such relationships from an inferential viewpoint.

7.4.2. *Maqasid al-Sharia* knowledge across organisational differences

In this section, the levels of *maqasid* knowledge are descriptively analyzed in terms of the organisational differences between the respondents as illustrated in Table 7.11.

The first organisational feature under consideration is the size of the *Sharia* control department represented by the number of employees. In this regard, respondents who worked at IFIs with 6-8 employees in the *Sharia* departments (6 IFIs, representing 22.2 per cent of the sample) contributed 31.9 per cent of the total score of *maqasid* knowledge achieved by the entire sample. That group of respondents had a total score of 45 represents 93.8 of the maximum possible score for the *maqasid* knowledge scale. However, the major group of 11 respondents representing 40.7 per cent of the sample whose organisations had 3-5 employees in their *Sharia* departments contributed only 36.2 per cent of the total score of the sample. Remarkably, that group has a total score of 51, accounting for only for 58 per cent of the maximum possible score.

Furthermore, the group of respondents working at organisations with 9 or more employees in their *Sharia* departments gained a total score of 16, amounting to 66.7 per cent of the total maximum score that could have been achieved by the group, and representing 11.3 per cent of the total score achieved by the sample. The results of distributing the levels of *maqasid* knowledge across the size of *Sharia* departments seem to be mixed. This is because there is no clear increase of the level of *maqasid* knowledge accompanying the greater size of the *Sharia* departments. Thus, it can be descriptively said there is no clear relation between the size of the *Sharia* departments and the level of *maqasid* knowledge of the respondents.

The other organisational feature is the type of organisation represented by the nature of its business (Table 7.11). In this regard, the major contributor to the *maqasid* knowledge total score of the sample was the group of respondents working for Islamic commercial banks. The 13 respondents from Islamic banks (48.1 per cent of the sample) contributed 66 per cent of the total score achieved by the sample. Furthermore, that group achieved 80.4 per cent of the maximum score that they could have achieved for the *maqasid* knowledge scale.

Table 7.11: Distribution of *maqasid al-Sharia* knowledge across respondents' organisational characteristics

Organisational differences		Number of respondents	% of sample	Total achieved score	% of total possible score for the group	% of 141
Number of employees in the Sharia work	1-2	7	25.9	29	51.8	20.6
	3-5	11	40.7	51	58.0	36.2
	6-8	6	22.2	45	93.8	31.9
	9 and over	3	11.1	16	66.7	11.3
	Total	27	100.0	141	65.3	100.0
Type of organisation	Commercial bank	13	48.1	93	89.4	66.0
	Investment bank	1	3.7	2	25.0	1.4
	Financing institution	2	7.4	7	43.8	5.0
	Investment institution	10	37.0	38	47.5	27.0
	Takaful	1	3.7	1	12.5	0.7
Total	27	100.0	141	65.3	100.0	

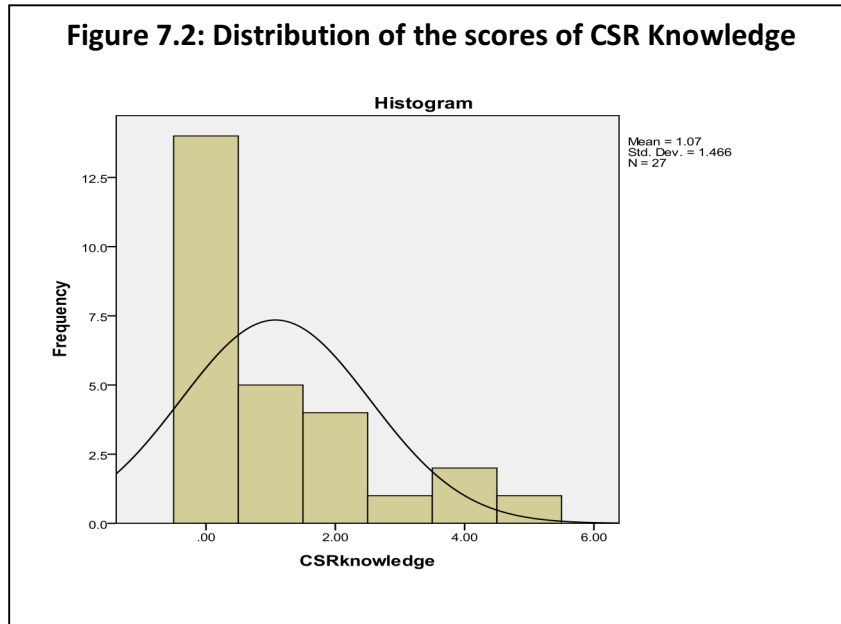
The second major group of IFIs represented in the sample (37 per cent of the sample) were the 10 respondents from investment institutions, whose total score for *maqasid* knowledge was 38, representing only 27 per cent of the total score achieved by the sample and 47.5 per cent of the maximum score that could be achieved by that group (see Table 7.11). It might appear that the participants of commercial/universal banks have levels of *maqasid* knowledge higher than those in the other types of IFIs. Nonetheless, this should

be treated with caution because 12 of the respondents from commercial / universal banks were of *Sharia* education while the 1 of them was a holder of PhD in Islamic economics and finance. Thus, the higher levels of *maqasid* knowledge in commercial /universal banks might be due to individual characteristics rather than organisation characteristics.

The two organisational differences descriptively appear to have no clear associations with the level of *maqasid* knowledge; whilst the field of education (mainly *Sharia*) and the level of education appear to descriptively have that association. Thus, it can be said that the levels of *maqasid* knowledge of the respondents were due to individual factors rather than organisational ones. This finding is important to be combined with other inferential findings in order to investigate whether the operations of the GCC IFIs usually generate organisational knowledge of *maqasid* or not? Or weather IFIs make use of the *maqasid* knowledge of their employees to operate according to the *Sharia* jurisprudence method or not? Those questions are important along with others to investigate whether IFIs actually operate in accordance with the *Sharia* jurisprudence method underlying their managerial systems in order to be socially responsible, where social responsibility of IFIs is built in that method which achieves *maqasid al-sharia* once implemented in the right way.

7.5. CSR knowledge of the respondents

The scale of CSR knowledge was measured using 4 questions as explained in Chapter 5. Each response had a maximum score of 2 if answered in full by a respondent, a score of 1 if partially answered and a minimum of 0 if not answered. Thus, the CSR knowledge score of respondents could again vary from 0 to 8. Figure 7.2 shows the distribution of the scores of respondents for CSR knowledge.



As indicated in Figure 7.2, 13 respondents gained scores of 0. In fact, the scores of 26 respondents (96.3 per cent of the sample) ranged from 0-4. Only one respondent has a maximum score of 5. The mean score of the sample is just above 1.07 and the standard deviation just under 3.02, with the shape of the distribution of the scores having a tail towards the upper end of the scores with the majority of the scores towards the lower end, hence a skewness of 1.367 and a peaked kurtosis of 1.025.

Collectively, the sum of scores of the respondents was 29, which is equal to 13.4 per cent of the total possible score (i.e. 27×8) as illustrated in Table 7.12. Clearly, the level of CSR knowledge of the sample is very low in comparison to the levels of their *maqasid al-Sharia* knowledge; and hence it was not deemed useful to further analyse organisational and individual differences in this regard.

Table 7.12: Descriptive statistics for the scale of CSR knowledge

N	Valid	27
	Missing	0
Mean		1.0741
Std. Deviation		1.46566
Skewness		1.367
Kurtosis		1.025
Minimum		0.00
Maximum		5.00
Sum		29.00
Sum of possible maximum total score (27×8)		216
Percentage of total achieved score of total possible score		13.4%

7.6. The framework for Islamic CSR

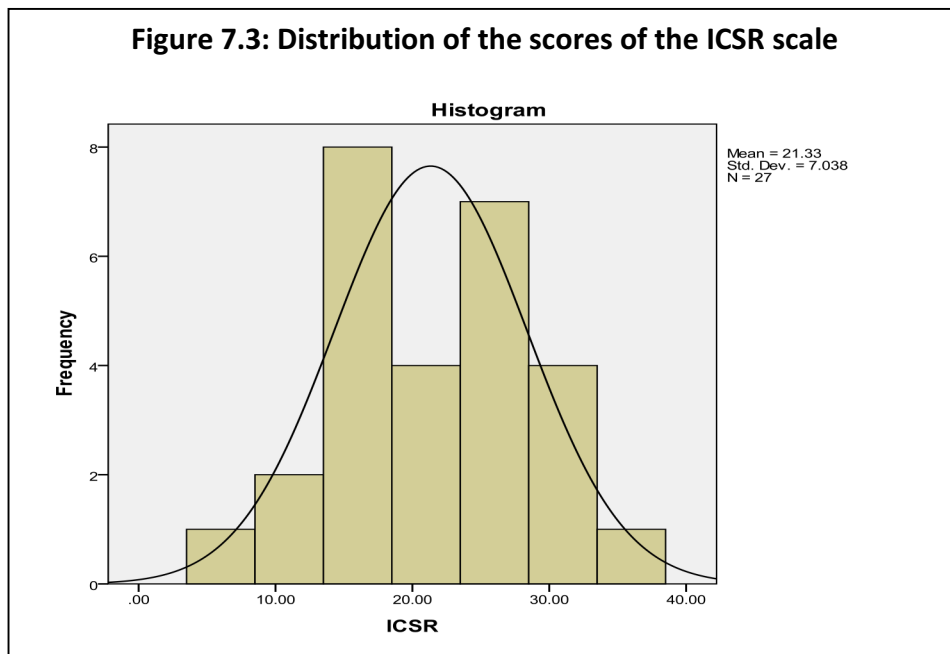
The framework for Islamic CSR (ICSR) consists of 5 factors (i.e. stakeholder engagement, planning, implementation, assurance, and improvement) each of which was measured using a set of 4 questions (see Chapter 5). The ICSR scale has a total possible maximum score of 40 for each respondent representing an IFI. Accordingly, the total possible maximum score for all respondents in the sample is 1080 (i.e. 40×27).

As shown in Table 7.13, the total score achieved by all respondents in the ICSR scale measuring the process of implementation of ICSR by GCC IFIs was 576 which amounts to 53.3 per cent of the total maximum possible score.

The minimum score is 6 while the maximum score is 34; however, 63 per cent of respondents (i.e. 17 respondents) gained scores between 15 and 26 (mean score ± standard deviation). Of the remaining 10 respondents, 4 achieved scores between 6 and 14, while the other 6 scored between 28 and 34. The distribution of the scores on the ICSR scale is shown in Figure 7.3.

Table 7.13: Descriptive statistics for the scale of ICSR

N	Valid	27
	Missing	0
Mean		21.33
Std. Deviation		7.038
Skewness		- 0.207
Kurtosis		-0.488
Minimum		6.00
Maximum		34.00
Sum		576.00
Sum of possible maximum total score (27×40)		1080.00
Percentage of total achieved score of total possible score		53.3



As shown in Figure 7.3, the scores are almost normally distributed with a skewness of -0.207 and kurtosis of -0.488. However, to gain a deeper understanding of how the scores are distributed, descriptive statistics for the ICSR scale across individual and organisational differences are illustrated in the following sections.

7.6.1. ICSR implementation and the type of IFIs

To facilitate the analysis, respondents were divided into two groups according to type of organisations. The first group is banking IFIs, which includes 13 commercial banks and 1 investment bank, and the second group is non-banking IFIs including 10 investments institutions, 2 financing institutions and 1 *takaful* operator. Using the 'Report' option in SPSS menu, case summaries for the scores of the scale of the ICSR implementation are provided in accordance with the type of the organisation. Data was then classified into the two major groups of banking and non-banking IFI organisations as illustrated in Table 7.14.

Table 7.14: Descriptive statistics for the scores for the implementation of the ICSR framework according to type of organisation

Indicator	Banking	Non-banking
Score	259	317
Number of respondents	14	13
Percentage of respondents in the sample (% of 27)	51.9	48.1
percentage of total scale score achieved (% of 576)	45.0	55.0
Percentage of total possible score the group can achieve (% of the number of respondents in the group ×40)	46.3	61.0
Mean score	18.50	24.38
Standard deviation	7.82	4.65
Maximum score	32	34
Minimum score	6	16
Number of cases	14	13

As shown in Table 7.14, the total score achieved by banking IFIs was 259 amounting to 45 per cent of the total score achieved by all IFIs. However, the total score achieved by non-banking IFIs is 317, amounting to 55 per cent. Considering the number of respondents in each group, banking IFIs have a total score that accounts for 46.3 per cent of the total possible score for this group (i.e. a score of 40×14 respondents = 560), while the total score for non-banking IFIs accounts for 61 per cent of their possible score (40×13 respondents = 520).

Collectively speaking, from the viewpoints of respondents, the implementation of the ICSR framework by non-banking IFIs is better than that by banking IFIs. The average score by respondents from the former is 24.38, with a standard deviation of 4.65, while the average score in banking IFIs is 18.5 with a higher standard deviation of 7.82. There was a wide range of scores for banking organisations, with a minimum score of 6 and a maximum of 32, whilst the scores for non-banking IFIs ranged between 16 and 34. The higher scores of non-banking IFIs might be interpreted with regard to the nature of work in comparison with the banking IFIs. This is because it is normal for banking IFIs to have greater daily volume of transactions with greater number of clients; whilst, the transactions of investment and financing institutions would be less. Linking this to the framework of ICSR developed in this study, such a difference in the levels of implementing ICSR might be lower in banking IFIs because they rely on the implementation of the already standardised *Sharia*-compliant contracts without giving the due care in the projection of the contexts in which those contracts are going to be implemented. For none-banking IFIs, the volume of transactions is less than banks with the possibility of reviewing each transaction as case-by-case although they might use standardised contracts.

Another interpretation of the difference of the levels of implementation of the ICSR according to the nature of the work of IFIs is that such a descriptive statistics goes in consistence with the literature of the PDCA cycle that states the model is “one size fits all” (Tricker 2005). This means that the ICSR framework is also a one size that fits all IFIs but with the adaptation according to the nature of IFIs.

In all cases, the analysis of the components of the ICSR shall help in providing further interpretations regarding the levels of ICSR implementation.

7.6.2. ICSR implementation and the number of employees in the *Sharia* control department/work

The second organisational feature of IFIs relates to the size of the *Sharia* control department expressed as the number of employees in that department if it existed or

otherwise the number of employees working on *Sharia* issues. The IFIs covered are distributed into 4 groups as shown in Table 7.15.

Table 7.15: Descriptive statistics of scores for the implementation of ICSR according to the number of employees in the *Sharia* control department/work

	1-2	3-5	6-8	9 and over
Number of respondents in each group	7	11	6	3
Percentage of respondents in the sample (% of 27)	25.9	40.7	22.2	11.1
Total score achieved by the group	149	257	85	85
Contribution of the total group score to the total score achieved by the sample (% of 576)	25.9	44.6	14.8	14.8
Percentage of the achieved score of the total possible score of the group (% of the number of respondents in the group ×40)	53.2	58.4	35.4	70.8
Mean score	21.29	23.36	14.17	28.33
Standard deviation	4.54	7.00	5.08	4.73
Maximum score	28	24	20	34
Minimum score	16	10	6	23

As shown in Table 7.15, IFIs which have 1-2 employees in *Sharia* control work (7 respondents, 25.9 per cent of the sample) had a total score of 149, which represents 25.9 per cent of the total scores achieved by all IFIs and 53.2 per cent of the total possible score for this group of IFIs (7 respondents × 40 scores = 280). Meanwhile 6 respondents (22.2 per cent of the sample) were from IFIs with 6-8 employees in their *Sharia* control departments, and their total score was 85, which amounts to 14.17 per cent of the total score achieved by all respondents and 35.4 of the total possible score for this group of IFIs (i.e. 6 respondents × 40 scores = 240). In fact, respondents from the IFIs with 6-8 *Sharia* employees viewed the level of implementation of ICSR in their IFIs to be as low as 35.4 per cent of fully implemented ICSR as theorized in the current research. Notwithstanding this, 3 respondents (11.1 per cent) from organisations with 9 or more *Sharia* employees thought that their IFIs (as a group) had implemented 70.8 per cent of the theorized ICSR framework. The largest group comprises 11 respondents (40.7 per cent of the sample) from IFIs that have 3-5 employees in their *Sharia* control departments. For that group, respondents viewed their organisations (as a group) as implementing 58.4 per cent of the theorized ICSR framework.

Although there are differences in the levels of ICSR implementation across the number of the employees in the *Sharia* departments, those differences are not sequential. In other words there is no specific pattern to say that the greater the number of employees the higher the levels of ICSR implementation or vice versa. Nonetheless, the variance of the levels of ICSR implementation across the number of employee in the *Sharia* departments might give an indication that the ICSR implementation vary in accordance with that organisational feature, and again this is consistent with the literature of the PDCA that states that the implementation of the cycle vary according to organisational differences.

7.6.3. ICSR implementation and the level of education of the respondents

The level of education of respondents is an individual characteristic, but it may also have an impact on their view of the level of implementation of ICSR in their organisations. In Table 7.16 the scores are classified in terms of three groups of respondents based on their level of education.

The group of PhD holders (9 respondents, 33.3 per cent of the sample) viewed their IFIs as having implemented 50.3 per cent of the ICSR framework, whereas 11 masters degree holders (44.7 per cent of the sample) cited 53.4 per cent implementation, and the 7 bachelor degree holders (25.9 per cent of the sample) put the level at 57.1 per cent. As for standard deviation, the group of bachelor degree holders had a standard deviation of scores of 4.71, while for the master degree holders the standard deviation was 7.5 and for the PhD holders it was 8.39. The high standard deviations of scores for the PhD and masters degree groups are due to the fact that each group has 5 respondents with scores less than the mean score, with a minimum score of 6 for the PhD group and 10 for the masters group.

Apparently, the higher the level of education, the lower the respondents perceive their organisation had implemented the ICSR framework. However, a more matured interpretation this finding should be combined with the other following two individual differences.

Table 7.16: Descriptive statistics of scores for the implementation of ICSR according to the level of education of the respondents

Level of education	Bachelor	Master	PhD
Number of respondents in each group	7	11	9
Percentage of respondents in the sample (% of 27)	25.9	40.7	33.3
Total score achieved by the group	160	235	181
Contribution of the total group score to the total score achieved by the sample (% of 576)	27.8	40.8	31.4
Percentage of the achieved score of the total possible score of the group (% of the number of respondents in the group ×40)	57.1	53.4	50.3
Mean score	22.86	21.36	20.11
Standard deviation	4.71	7.50	8.39
Maximum score	30	34	30
Minimum score	16	10	6
Number of cases	7	11	9

7.6.4. ICSR implementation and specialisation by education of the respondents

Respondents were then classified into two groups according to specialisation by education. As shown in Table 7.17, 17 respondents (63 per cent of the sample) were identified as having *Sharia* specialisation and 10 (37 per cent of the sample) with non-*Sharia* specialisations. Apparently, respondents not specialised in *Sharia* as a group thought that their organisations had implemented 60.5 per cent of the ICSR framework, with a standard deviation of 4.32 from a mean of 24.20. Meanwhile the group of respondents specialised in *Sharia* viewed their organisations as having implemented 49.1 per cent of ICSR with a mean score of 19.65 and a standard deviation of 7.87. In fact, 10 out of the 17 *Sharia*-specialised respondents gave scores lower than the mean score in comparison to 5 out of 10 non-*Sharia* specialised respondents who had scores lower than the mean score of their group.

Apparently, those who are educated in *Sharia* perceive their organisations as implementing lower levels of the ICSR framework than those who were educated in fields other than *Sharia*. This variance as well should be interpreted when considering the last individual feature.

Table 7.17 : Descriptive statistics of scores for the implementation of ICSR according to the specialisation of education of the respondents

Specialisation	Sharia	Non-Sharia
Number of respondents in each group	17	10
Percentage of respondents in the sample (% of 27)	63.0	37.0
Total score achieved by the group	334	242
Contribution of the total group score to the total score achieved by the sample (% of 576)	58.0	42.0
Percentage of the achieved score of the total possible score of the group (% of the number of respondents in the group ×40)	49.1	60.5
Mean score	19.65	24.20
Standard deviation	7.87	4.32
Maximum score	34	34
Minimum score	6	18
Number of cases	17	10

7.6.5. ICSR implementation and years of experience of respondents

In terms of their years of experience, 25 respondents are classified into 3 groups and 2 respondents are ignored only for the current descriptive analysis since one had between 1-5 years of experience and the other 21-25 years. Table 7.18 displays the descriptive statistics of the scores for the respondents in terms of years of experience.

Apparently, the longer the experience, the lower the perception that the organisation had implemented the ICSR framework. For those who had 6-10 years of experience, they as a group viewed their organisations as having implemented 60.5 per cent of the ICSR framework as shown in Table 7.18. However, respondents with 11-15 years experience scored 52.2 per cent, and then the group with 16-20 years 42.9 per cent. However, the standard deviation of the scores for the group with experience of 16-20 years is relatively high at 9.54 from a mean score of 17.17.

Table 7.18: Descriptive statistics of scores for the implementation of ICSR according to years of experience of respondents

Years of experience	6-10	11-15	16-20
Number of respondents in each group	11	8	6
Percentage of respondents in the sample (% of 27)	40.7	29.6	22.2
Total score achieved by the group	266	167	103
Contribution of the total group score to the total score achieved by the sample (% of 576)	46.2	29.0	17.9
Percentage of the achieved score of the total possible score of the group (% of the number of respondents in the group ×40)	60.5	52.2	42.9
Mean score	24.18	20.88	17.17
Standard deviation	6.16	5.94	9.54
Maximum score	34	32	30
Minimum score	14	16	6
Number of cases	11	8	6

7.6.6. ICSR implementation and the levels of *Maqasid* knowledge of the respondents

The final individual characteristic against which the scores on the scale for ICSR implementation can be distributed is the level of knowledge of *maqasid al-Sharia*. In this regard, respondents are classified into 3 groups as explained in Table 7.19. The descriptive analysis shows that the higher the score of a group of respondents in *maqasid* knowledge, the lower the score for that group in relation to the extent respondents viewed their organisations as having implemented ICSR.

Table 7.19: Descriptive statistics of scores for the implementation of ICSR according to the level of *Maqasid* knowledge of respondents

Score in maqasid knowledge	0-2	3-5	6-8
Number of respondents in each group	6	4	17
Percentage of respondents in the sample (% of 27)	22.2	14.8	63.0

Total score achieved by the group	149	109	107
Contribution of the total group score to the total score achieved by the sample (% of 576)	25.9	18.9	55.2
Percentage of the achieved score of the total possible score of the group (% of the number of respondents in the group ×40)	62.1	68.1	46.8
Mean score	24.8	27.3	18.7
Standard deviation	2.9	7.3	6.9
Maximum score	30	34	30
Minimum score	21	18	6

As shown in Table 7.19, the group of respondents with a total score of 0-2 in *maqasid* knowledge contribute 62.1 per cent of the total possible score of that group for the level of ICSR implementation. Moreover, the group of respondents with scores⁸⁵ of 3-4 viewed their organisations as having implementing 68.1 per cent of ICSR. It is important to note here that those two groups of respondents together represent only 37 per cent of the sample (10 respondents). Nonetheless, with scores in *maqasid* knowledge of 6-8, this major group in terms of weighting in the sample (17 respondents, 63 per cent) viewed their organisations as having implemented only 46.8 per cent of ICSR.

The highest standard deviation of 7.3 is related to the group of respondents with scores of 3-4 in *maqasid* knowledge. The mean score for ICSR implementation by the group of respondents who had the lowest scores (0-2) in *maqasid* knowledge is 24.8, with the lowest standard deviation of 2.9.

Descriptive analysis shows that there are variances of the levels of implementing the ICSR framework across the individual features of the respondents. Respondents have perceived their organisations with lower levels of ICSR implementation when those respondents are with higher levels of education, specialised in *Sharia*, with higher years of experience, and with higher levels of *maqasid* knowledge. Those descriptive findings shall be interpreted with related inferential ones; but it can be said, at this level of analysis,

⁸⁵ No respondent achieved a score of 5; hence this category is indicated by scores of 3-4.

that those results strengthen one of the major findings of this study, which is the average implementation of the *Sharia* jurisprudence method by IFIs, and consequently, the poor contribution to *maqasid al-Sharia*.

7.7. Description of the phases of the ICSR framework

As explained in Chapter 5, the scale of implementing ICSR consists of 5 clusters, each of which has a set of 4 relevant questions. The following sections descriptively analyse each cluster of the scale of implementing ICSR.

7.7.1. The planning phase

As illustrated in Table 7.20, the total score of all respondents for the planning phase questions of the ICSR is 90, which amounts to 41.7 per cent of the total possible score of 216 (i.e. 27 respondents \times scores of 8). This means that all respondents as a group viewed their organisations as implementing 41.7 per cent of the planning phase of the theorized ICSR.

The mean score for the cluster (i.e. as a unit consisting of 4 questions with a total possible score of 8) is 3.333, while the standard deviation is 2.465. This means that most scores are distributed rather asymmetrical between 1 and 6 with a slight tendency towards the higher scores as represented by a skewness of 0.133. The shape of the distribution, however, is flattened with a kurtosis of -1.279 as described in Figure 7.4. Significantly, the minimum score of 0 was gained by 5 respondents; whilst the maximum of 7 was scored by 4 respondents.

Such a low level of implementing the planning phase raises several questions about how the *Sharia* projection of the context *Sharia* rulings underlying the financial transactions of the IFIs. Given that the planning phase of the ICSR is underlied by the induction stage of the *Sharia* jurisprudence method, this descriptive finding gives an indication that IFIs usually implement the standardised *Sharia* contracts without caring about projecting the

context in which those contracts are going to be implemented; hence the lower levels of contributing to *maqasid al-Sharia*.

Table 7.20: ICSR implementation: descriptive statistics of the planning phase

Questions*	Number of cases	Frequency			Score	% of total possible score	Mean	Std. Deviation
		Always (× 2 scores)	Sometimes (× 1 scores)	Rarely (× 0 scores)				
Q1	27	7	5	15	19	35.2	0.704	0.869
Q2	27	7	9	11	23	42.6	0.852	0.818
Q3	27	5	6	16	16	29.6	0.593	0.797
Q4	27	13	6	8	32	59.3	1.185	0.879
Cluster totals					90	41.7	3.333	2.465

*Questions:

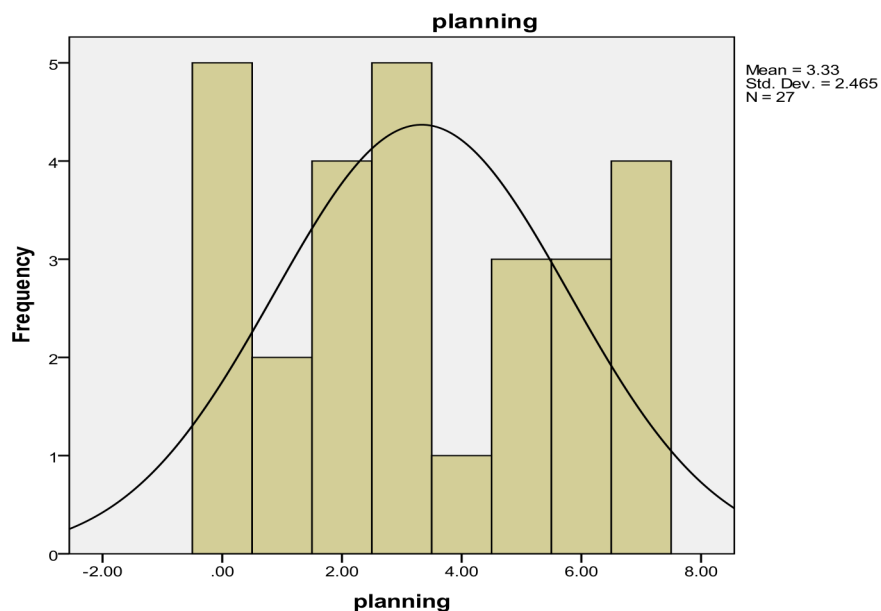
Q1: Does your organisation integrate social and environmental *masalih* and *mafasid* in addition to the economic ones when conducting environmental scanning?

Q2: Does your organisation refine the strategic objectives in order to meet social and environmental *masalih* in addition to economic *masalih*?

Q3: Do the key performance indicators KPIs of your organisation include social and environmental *masalih* in addition to the economic ones?

Q4: Does your organisation develop projects, initiatives, products or services to contribute to meeting social and environmental *masalih* in addition to the economic ones?

Figure 7.4: Distribution of respondents' scores in the planning phase



When breaking down the total score of the planning phase cluster, Q4 has the highest score from by all respondents as a group. According to Table 7.20, 13 respondents thought that their organisations 'always' developed projects, products, services or initiatives that contributed to social and environmental in addition to economic *masalih*. Furthermore, 6 respondents thought their organisations 'sometimes' did this, while 8 said their organisations 'rarely' did. The mean score of 1.185 for that question is the highest in the cluster, with a standard deviation of 0.879 which indicates that most of the scores lay between 1 and 2 (i.e. sometimes and always).

Actually, Q4 is a cornerstone of the planning phase cluster. This is because, if an organisation develops projects, services, products, and initiatives to serve social and environmental *masalih/mafasid*, it is assumed to consider social and environmental *masalih/mafasid* during strategic environmental scanning (represented by Q1) and accordingly should refine its strategic objectives to meet social and environmental *masalih* (represented by Q2). This is in addition to including social and environmental *masalih* in the organisation's KPIs (represented by Q3) in order to be able to measure performance. Nonetheless, the scores of the respondents for question 1, 2 and 3 do not seem consistent with this.

The lowest score for a question in the planning phase cluster was for Q3, where 16 respondents thought their organisations 'rarely' included social and environmental *masalih* in their Key performance indicators (KPIs) (see Table 7.20). Meanwhile, 5 respondents said their organisation 'always' did this and 6 thought their organisations 'sometimes' did; hence the mean score of 0.593 and standard deviation of 0.797.

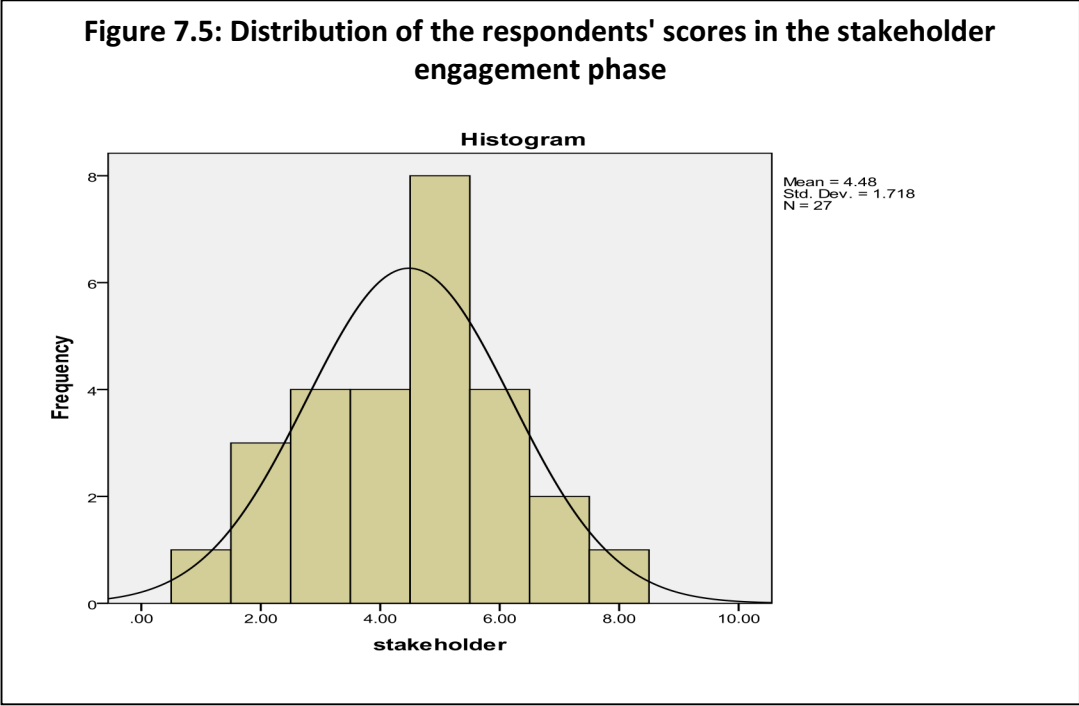
As for Q1, the cumulative score of the respondents was 19 with a mean score of 0.704 and a standard deviation of 0.869, representing 15 respondents who said their organisations 'rarely' integrated environmental and social *masalih* with regard to scanning the surrounding environment in strategic planning, whereas 5 respondents replied 'sometimes' and 7 'always'.

When it comes to refining the strategic objectives of the organisations in order to meet social and environmental in addition to economic *masalih* (i.e. Q2), the cumulative score of all respondents was 23 with 11 respondents answering 'rarely', 9 'sometimes' and 7 'always'.

Generally, the cumulative score of the respondents for the planning phase is the lowest amongst the scores for the other phases of the scale of ICSR implementation. However, it is worth mentioning here that Q2 and Q3 are assumed to have logical connections with the clusters for improvement and assurance respectively. This is because KPIs are assumed to be used in the auditing step of the assurance phase which is taken into consideration in the improvement phase whose output is assumed to be used in refining the strategic objectives accordingly.

7.7.2. The stakeholder engagement phase

The stakeholder engagement cluster has the third-highest cumulative score amongst the 5 clusters in the scale of implementing ICSR. As shown in Figure 7.5, the mean score for this cluster is 4.48 and the standard deviation is 1.718. The scores of respondents are distributed between 1 and 8 with a skewness of -0.089 which means that the data tails slightly towards the lower end of the range with a flattened shape and a kurtosis of -0.400. The most frequent score is 5 (8 respondents) achieving, while scores of 6, 4, and 3 were gained by 4 respondents each.



The respondents as a group had a total score of 121 out of 216, meaning that they viewed their organisations as implementing 56.0 per cent of the stakeholder engagement phase in the ICSR framework as shown in Table 7.21.

The question with the highest total score in the cluster (42) was Q8, where 17 respondents viewed their organisations as 'always' organizing or sponsoring *Sharia* awareness programmes in Islamic finance, 8 viewed their organisations as 'sometimes' doing this, while 2 said their organisations rarely did (see Table 7.21). Taking into consideration that events in Islamic finance have most of the time one way of information sent from organizers to attendees, it is important to compare these results with those from Q6 that cover the receiving of information from stakeholders. The total score of the respondents for Q6 was 35, with a percentage of 64.8 of the total possible score but with a lower mean (i.e. 1.296) than for Q8 but a slightly higher standard deviation of 0.669. The scores are lower for Q5 with 55.5 per cent of the total possible score for all respondents as a group, and even lower for Q7 with 25.9 of the total possible score.

Table 7.21: ICSR implementation: descriptive statistics for the stakeholder engagement phase

Questions•	Number of cases	Frequency			Score	% of total possible score	Mean	Std. Deviation
		Always (× 2 scores)	Sometimes (× 1 score1)	Rarely (× 0 scores)				
Q5	27	12	6	9	30	55.6	1.111	.892
Q6	27	11	13	3	35	64.8	1.296	.669
Q7	27	3	8	16	14	25.9	.519	.700
Q8	27	17	8	2	42	77.8	1.556	.641
Cluster totals		43	35	30	121	56.0	4.481	1.718

*Questions:

Q5: Does your organisation rely on al-maslaha al-shariyyah in identifying its stakeholders?

Q6: Does your organisation consult (tashawur) with stakeholders (e.g. NGOs, governmental bodies, community groups...etc.) to identify their masalih that might be influenced by the business of your organisation?

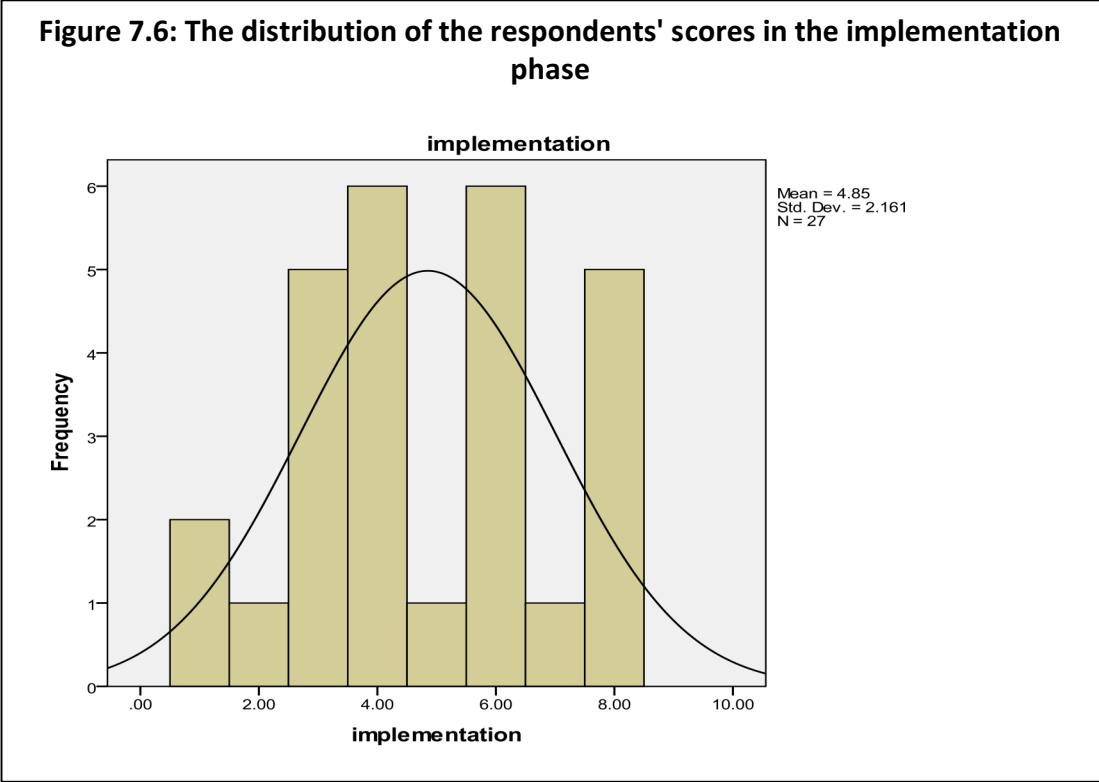
Q7: Does your organisation assess stakeholders' masalih based on their relevance to maqasid al-Sharia?

Q8: Does your organisation organize or sponsor Sharia awareness programs related to Islamic finance?

Given the total score for each question, it appears that from the points of views of their representative *Sharia* employees, the IFIs sampled have total scores that are declining from the general matter of informing stakeholders (Q8) then to the matter of receiving from them (Q6), followed by the matter of identifying stakeholders based on *maslaha* (Q5), and then the matter of assessing the stakeholders interest based on *maqasid al-Sharia* (Q7). This means that assessing the importance of a stakeholder most probably happens without taking into consideration the importance of that stakeholder in accordance with achieving *maqasid al-Sharia*, although identifying stakeholders in accordance with *al-maslaha al-shariyyah* is likely to occur.

7.7.3. The implementation phase

The distribution of scores in the cluster of the implementation phase is described in Figure 7.6. The mean score of the cluster is 4.852 with a tendency of the scores to deviate from that mean by 2.161. Nonetheless, the skewness of data for the cluster is 0.008 and its kurtosis is -0.955, where 14 respondents have scores below the mean and 13 with scores above the mean.



In comparison to other clusters in the ICSR framework, the implementation phase cluster has the second-highest total score of 131, representing 60.6 per cent of the total possible score for all respondents as shown in Table 7.22. Furthermore, data for this cluster has the second-highest standard deviation amongst the 5 clusters, a fact that is indicated by the wide range and scattering of the respondents' scores.

Table 7.22: ICSR implementation: descriptive statistics of the implementation phase

Questions*	Number of cases	Frequency			Score	% of total possible score	Mean	Std. Deviation
		Always (× 2 scores)	Sometimes (× 1 score1)	Rarely (× 0 scores)				
Q9	27	22	2	3	46	85.2	1.704	.669
Q10	27	13	8	6	34	63.0	1.259	.813
Q11	27	8	9	10	25	46.3	.926	.829
Q12	27	10	6	11	26	48.1	.963	.898
Cluster totals		53	25	30	131	60.6	4.852	2.161

*Questions:

Q9: Does your organisation have a code of conduct in accordance with the Islamic values and ethics amongst its employees?

Q10: Does your organisation record incidents related to harming the *masalih* of others?

Q11: Are the products and services of your organisation designed to contribute to collective social or environmental *masalih*?

Q12: In addition to the materialistic risk, does your organisation analyse the risk anticipated to affect social or environmental *masalih*?

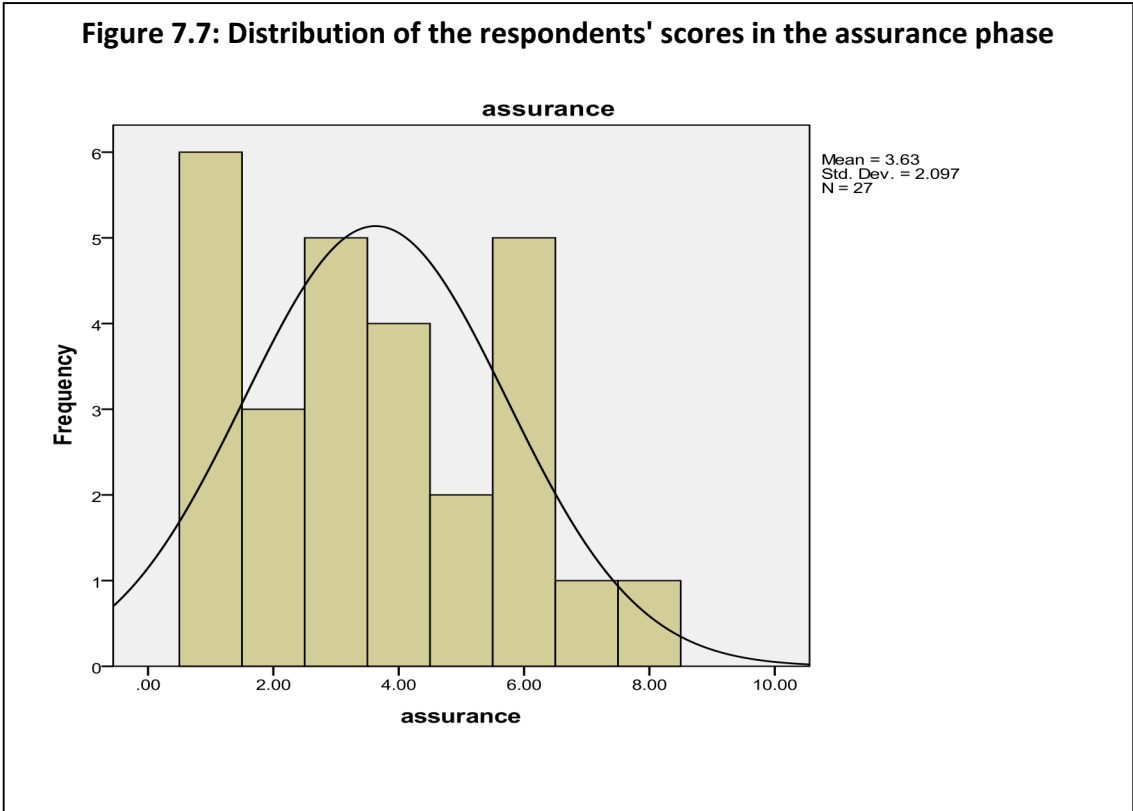
As shown in Table 7.22, the highest score of a question in this cluster is for Q9, where 22 of the respondents viewed their organisations as 'always' having a documented code of *Sharia* ethics and values according to which employees work. However, the total scores declined sharply for Q11 and Q12. In fact, respondents as a group rated their organisations as low as 46.3 per cent in designing their products and services to contribute to meeting collective social and environmental *masalih*. Moreover, respondents as a group rated their organisations as low as 48.1 per cent in analysing the risk anticipated to affect social and environmental *masalih*. Notwithstanding this, respondents as a group thought that their organisations maintained records of incidents of harming others' *masalih* as much as 63 per cent.

Although the levels of the implementation phase of the ICSR is the second highest in comparison to other clusters, the high level of the score is due to the fact that IFIs really operate in accordance with a *Sharia* compliance codes of conduct. However, those codes of conduct, in fact, were not linked to planning in accordance with *Sharia* and its objectives. This is also supported with the lower scores of questions 10 and 11 where ISFIs are supposed to operate in accordance with the context that have been projected as part of implementing standardised *Sharia* contracts. In other words, if IFIs had been good in planning, they would care about recording the incidents of harming others' *masalih* (Q11) and dealing with the risk of harming environmental and social *masalih*.

7.7.4. The assurance phase

With a skewness of 0.317, the scores of the cluster of the assurance phase are more aligned to the lower end of the scores with the tail of the shape towards the upper end of the scores. This is accompanied by a kurtosis of -0.953, which leads the shape of the

distribution of the scores to be flattened. This is because 19 respondents had total scores of 4 or less in this cluster with the mode score of 1 being achieved by 6 respondents as shown in Figure 7.7.



With this distribution of scores, the cluster of the assurance phase has the second-lowest total score amongst the 5 clusters of the ICSR with a mean score of 3.630 from which the scores deviate by 2.097.

As described in Table 7.23, the highest score for a question in the cluster is for Q16, where 14 respondents viewed their organisations as 'always' following the *Sharia* standards or rulings issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic *Fiqh* Academies, whereas 11 viewed their organisations as 'sometimes' doing this, while 2 only viewed their organisations as not doing it.

The lowest score for a question in this cluster, however, is for Q14, where the respondents as a group gave a total of only 24.1 per cent of the possible score for their organisations monitoring social and environmental *masalih/mafasid* in their internal *Sharia* auditing systems (see Table 7.23). Both Q13 and Q15 received scores of 23, with the respondents viewing their organisation as implementing 42.6 per cent of the total possible score for the two questions. Actually, 15 respondents said that their organisations 'rarely' disclosed to their stakeholders information about their commitment to and compliance with *maqasid al-Sharia* (i.e. Q15), while 1 respondent said his organisation 'sometimes' did this, and 11 respondents viewed their organisations as 'always' doing it. The scores for Q13 have the same distribution.

The low scores in the assurance phase are consistent with the low scores of the planning phase. Apparently, IFIs do not assure their stakeholders about what they have not planned for. The Assurance practices are apparently related to following the 'ink on paper' of the standardised *Sharia* contracts and auditing their implementation rather than auditing the end results of the implementation of those contracts as part of projecting the context in which they are going to be implemented.

Table 7.23: ICSR implementation: descriptive statistics of the assurance phase

Questions*	Number of cases	Frequency			Score	% of total possible score	Mean	Std. Deviation
		Always (× 2 scores)	Sometimes (× 1 score1)	Rarely (× 0 scores)				
Q13	27	11	1	15	23	42.6	.852	.989
Q14	27	4	5	18	13	24.1	.481	.753
Q15	27	11	1	15	23	42.6	.852	.989
Q16	27	14	11	2	39	72.2	1.444	.641
Cluster totals	27	40	18	50	98	45.4	3.630	2.097

*Questions:

Q13: Do the *Sharia* compliance reports of organisation disclose to the stakeholders and shareholders about its commitment to and compliance with *Sharia* objectives?

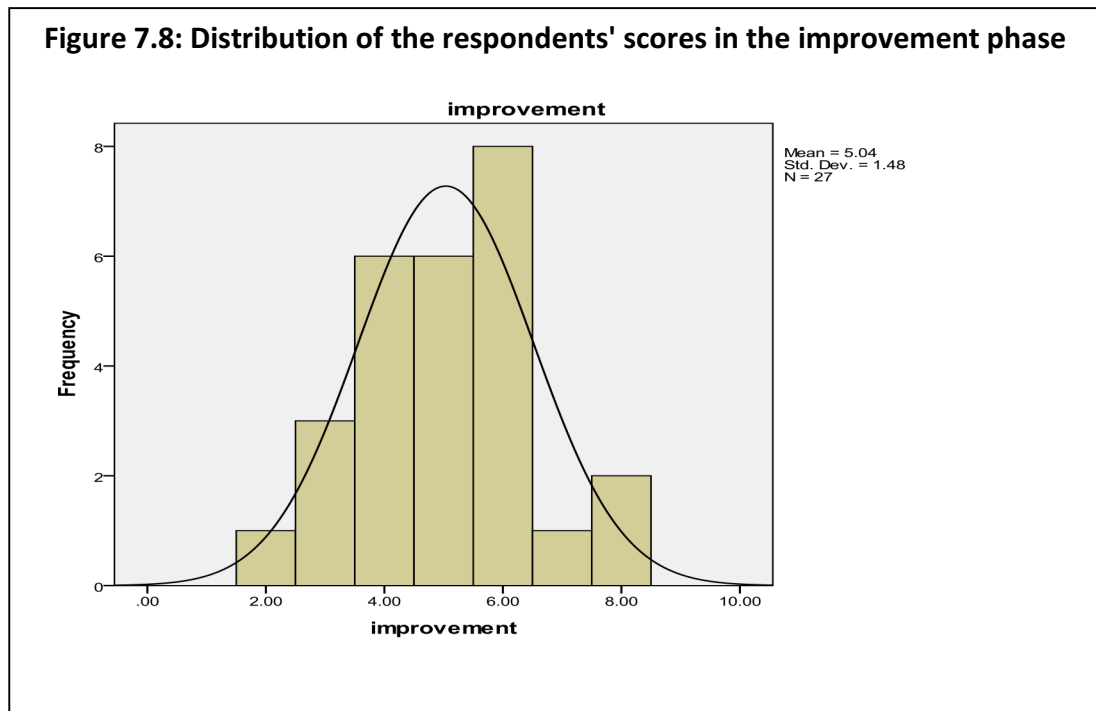
Q14: Does your organisation include the monitoring of social and environmental harms/benefits (*masalih/mafasid*) in the internal *Sharia* auditing system?

Q15: Is your organisation subjected to external independent *Sharia* auditing?

Q16: Does the *Sharia* system in your organisation follow the *Sharia* standards or rulings issued by AAOIFI and the Islamic Fiqh Academies?

7.7.5. The improvement phase

The improvement cluster of questions has a total score for all respondents that is the highest amongst the 5 clusters of the process of ICSR implementation theorized in the current study. Table 7.24 and Figure 7.8 provide descriptive statistics for the cluster of the improvement phase. With a mean score of 5.037 and a standard deviation of 1.480, the respondents' scores in the cluster appear to be almost normally distributed, with 20 respondents having scores between 4 and 6. Accordingly the shape of the distribution has a kurtosis of -0.154 and a skewness of 0.085. The mode score is 6 supports the view of all respondents as a group that their organisations implement 63.0 per cent of the improvement phase in theorized ICSR framework.



The results give some indications about how the IFIs sampled improve their compliance with and commitment to *maqasid al-Sharia* (see Table 7.24). The two highest scores were for Q18 and Q19 (87.0 per cent and 81.5 per cent of total possible scores respectively) which revolve around the usage by IFIs of the feedback from *Sharia* auditing in improving the *Sharia* structures of their products and services in addition to their *Sharia*

compliance systems. Nonetheless, when it comes to using the feedback of the *Sharia* auditing to improve the contribution to the achievement of *maqasid al-Sharia*, the total score for Q20 drops sharply to 53.7 per cent of the total possible. Moreover, the total score drops even more sharply for Q17, which is about conducting research to achieve *maqasid al-Sharia* through their businesses, with a result of just 29.6 per cent of the total possible score (see Table 7.24).

The key finding of the descriptive analysis of the improvement phase is that IFIs view the improvement of the structures of the products and services and the compliance with those structures as more important than improving their contribution to *maqasid al-Sharia*. This finding actually supports the weak status of the planning phase and the weak status of the real implementation of the *Sharia* jurisprudence method, which is to contribute to achieving *maqasid al-Sharia* if properly implemented. In other words, IFIs do think that their *Sharia* compliance is limited only to implimenting the standardised contracts, without projecting their context of implementation and their social and environmental end results, and without caring to improve their operations according to that projection and end results. This adds more support to the arguments of those who criticised Islamic financial institutions for lacking the achievement of *maqasid al-sharia* and the spirit of Islamic that is built in their business models (e.g. Badr El Din 2006; Maali, Casson & Napier 2006; Sairally 2007; Zaman & Asutay 2009)

Table 7.24: ICSR implementation: descriptive statistics for the improvement phase

Questions*	Number of cases	Frequency			Score	% of total possible score	Mean	Std. Deviation
		Always (× 2 scores)	Sometimes (× 1 score1)	Rarely (× 0 scores)				
Q17	27	6	4	17	16	29.6	.593	.844
Q18	27	20	7	0	47	87.0	1.741	.447
Q19	27	17	10	0	44	81.5	1.630	.492
Q20	27	12	5	10	29	53.7	1.074	.917
Cluster totals	27	55	26	27	136	63.0	5.037	1.480

*Questions:

Q17: Does your organisation conduct research about meeting maqasid al-Sharia through its business?

Q18: Does your organisation use the feedback of Sharia auditing (internal or external) to improve the Sharia structures of its products and services?

Q19: Does your organisation use the feedback of the Sharia auditing (internal or external) to improve its Sharia compliance system?

Q20: Does your organisation use the feedback of Sharia auditing (internal or external) to improve its contribution to the achievement of maqasid al-Sharia?

7.8. Conclusion

In this chapter, descriptive analysis has been conducted of the data collected from the telephone-administered questionnaire. In addition to the individual and organisational characteristics of the respondents and their organisations, analysis of the scale of the ICSR implementation and of the *maqasid* and CSR knowledge has been provided. The results show that the individual characteristics of the respondents have some influence on how they view their organisations' implementation of the ICSR framework. Furthermore, the analysis indicates that the respondents' levels of knowledge of *maqasid al-Sharia* may be related to how they view the implementation of ICSR in their organisations.

ICSR assumes that all five phases of planning, stakeholder engagement, implementation, assurance, and improvement are of equal importance. Nonetheless, the total scores for each phase indicate that GCC IFIs do not treat those phases with the same level of importance. In fact, the planning and assurance phases are given lower prior. However, with regard to the research question 'to what extent do GCC IFIs implement ICSR?', the total ICSR score for GCC IFIs is slightly above the average (53.3 percent) of the process of the ICSR framework.

CHAPTER 8: INFERENCE ANALYSIS

8.1. Introduction

After the descriptive analysis conducted in Chapter 7, an inferential analysis is conducted in this chapter in order to test the nine hypotheses developed in Chapter 5 as part of the deductive approach used in the methodology of the present research. Moreover, the inductive approach of the present research is dealt with in this chapter by identifying patterns from the statistical analysis of the data collected from *Sharia* employees of GCC IFIs. A discussion of the results is presented in Chapter 9; thus, the present chapter provides a description of the inferential analysis with some explanations on the findings.

In testing hypotheses, attempts are made to find evidence that supports the research claim that the Islamic CSR framework developed in Chapter 6 can describe the reality of the implementation of Islamic CSR. This implies that the *Sharia* jurisprudence method as the basis for a PDCA cycle can describe reality of Islamic CSR. The testing of hypotheses H_01 - H_04 is conducted in section 8.2 by analysing the framework of Islamic CSR at two levels: firstly, the synthesis between the five phases of the framework of Islamic CSR (ICSR) which are stakeholder engagement, planning, implementation, assurance, and improvement; and secondly the synthesis between the elements of the *Sharia* Jurisprudence method underlying this framework as equivalent to the scientific method underlying the PDCA model. Additionally, the differences of the levels of the implementation of the framework of Islamic CSR by GCC IFI according to organisational and individual features of the respondents are analysed in section 8.3 to test hypotheses H_05 and H_06 .

Furthermore, the inferential analysis in this chapter explores the association between the *Sharia* jurisprudence method underlying the PDCA cycle of the ICSR framework and the level of *maqasid* knowledge of the *Sharia* employees of GCC IFIs, based on the claim that PDCA is a producer of knowledge that supports organisational learning and consequently the knowledge of employees. The analysis relevant to these claims is conducted in section 8.4, where the synthesis between the elements of the *maqasid*

knowledge is investigated and the correlation between levels of the *maqasid* knowledge of the ICSR framework is investigated to test hypothesis H_07 . The individual and organisational differences across the levels of *maqasid* knowledge of the *Sharia* employees of GCC IFIs are subsequently investigated in section 8.5 to test hypotheses H_08 and H_09 .

After that, the patterns of *Sharia* practices underlying the ICSR framework are explored once those practices have been sorted in accordance with their means in section 8.6. This section also includes an examination of the relationship between patterns of *Sharia* practices and the levels of the *maqasid* knowledge of the *Sharia* employees of GCC IFIs.

Finally, the inferential analysis in this chapter facilitates the exploration of statistical patterns that concern the relationship between *maqasid* knowledge and CSR knowledge. Therefore, in section 8.7 the synthesis of the elements of the CSR knowledge is investigated, followed by the investigation of the individual and organisational differences in levels of CSR knowledge among *Sharia* employees of GCC IFIs, and an exploration of the relationship between the levels of the *maqasid* knowledge and CSR knowledge of the *Sharia* employees of GCC IFIs.

8.2. The synthesis of the framework of Islamic CSR

The theme of the ICSR is based on the fact that Islamic CSR is built in the business models of IFIs (Dusuki & Abdullah 2007; Asutay 2007 a, b; Zaman & Asutay 2009); thus Islamic CSR is achieved when IFIs work to achieve *maqasid al-Sharia*. The achievement of *maqasid al-Sharia* is the result of the proper implementation of the *Sharia* jurisprudence method (Al-Nashar 1984; Al-Suwailem 2013). To operationalise these concepts as a managerial framework, the PDCA cycle has been used but with replacing the underlying scientific method with the *Sharia* jurisprudence method.

In chapters 4 and 6, extensive argument from scholars (Al-Nashar 1984; Abu Zahra 1998; Al-Najar 2006; Al-Shatibi cited in Al-Raysuni 2006) has been provided to support the argument that the *Sharia* jurisprudence method consists of two stages: inductive and

deductive. Those stages are lined together through an amendment phase. The inductive stage is mainly related to identifying the *Sharia* rulings from their sources and then project the contexts of their implementation so that they achieve their designated *maqasid* (see specifically Al-Najar 2006 and Al-Suwailem 2013). The projection of the context, from a managerial viewpoint, needs a set of practices that facilitate information collection and synthesis. Those practices have been operationalised in the form of two phases in the ICSR framework: stakeholder engagement and planning.

The deduction stage of the *Sharia* jurisprudence method includes the implementation of the *Sharia* rulings in accordance with their projected contexts and then to assure that the projected results have been achieved (such an argument is supported by arguments provided in Al-Nashar 1984; Al-Najar 2006; Al-Suwailem 2013). To reflect this stage in the management systems of IFIs, the included practices were operationalised in the form of another two phases in the ICSR framework: implementation and assurance.

The link between the two stages of the *Sharia* method is an amendment phase where the real implementation of the *Sharia* rulings is checked in terms of the achieving the desired results and *maqasid* projected initially in the inductive stage. Such an amendment phase is normal in the *Sharia* jurisprudence literature (specifically Imam Al-Qarafi as cited by Al-Nashar 1984). The amendment phase was operationalised with a set of 4 practices in the ICSR framework and was called as the improvement phase to give a managerial dimension to it.

The aim of this section is to test the synthesis between the elements of the ICSR framework as part of checking the claim of this research that the ICSR is viable and can describe reality. Thus, in this section Spearman's *rho* correlation technique is used to analyse the synthesis between the components of the ICSR framework at two levels. The first level concerns the analysis of the synthesis between the five phases (i.e. stakeholder engagement, planning, implementation, assurance, and improvement) of the ICSR framework. The second level concerns the analysis of the synthesis between the stages of the *Sharia* jurisprudence method (i.e. induction, deduction and amendment) as the underlying method for the PDCA cycle in the ICSR framework.

8.2.1. The five phases of the framework of Islamic CSR

The framework of Islamic CSR (ICSR) includes five phases: stakeholder engagement, planning, implementation, assurance and improvement (see Chapter 6). As explained in Chapter 5, each phase in the ICSR framework was operationalised by 4 questions. Thus, each phase is represented by one variable that consists of the summation of the scores of each respondent for the relevant four questions. Table 8.1 shows the results of the Spearman's *rho* correlation analysis for those phases.

Table 8.1: Spearman's *rho* correlations between the phases of the ICSR framework

		Planning	Implementation	Assurance	Improvement	Stakeholder
Planning	Correlation Coefficient	1.000	0.549	0.396	0.613	0.489
	Sig. (2-tailed)		0.003	0.041	0.001	0.010
Implementation	Correlation Coefficient		1.000	0.349	0.522	0.257
	Sig. (2-tailed)			0.075	0.005	0.196
Assurance	Correlation Coefficient			1.000	0.391	0.093
	Sig. (2-tailed)				0.044	0.646
Improvement	Correlation Coefficient				1.000	0.256
	Sig. (2-tailed)					0.197

As indicated by Table 8.1, the planning phase has a significant positive correlation with the implementation phase ($r = 0.549$, $p = 0.003$), with the assurance phase ($r = 0.396$, $p = 0.041$), and with the improvement phase ($r = 0.613$, $p = 0.001$).

According to the pre-defined probability significance level of the present research (i.e. $p > 0.05$), the implementation phase has a non-significant positive correlation with assurance phase ($r = 0.349$, $p = 0.075$); whilst the implementation phase has a strong significant positive correlation with the improvement phase ($r = 0.522$, $p = 0.005$).

Meanwhile, the stakeholder engagement phase has non-significant correlations with the implementation, assurance, and improvement phases. However, the first hypothesis that has been developed in the present research and is to be tested in the present chapter concerns the relationship between the stakeholder engagement phase and the planning phase (see Chapter 5):

H₀₁: There is no significant relationship between the stakeholder engagement phase and the planning phase in the framework of implementing Islamic CSR.

The Spearman's *rho* correlation analysis reveals that there is a significant positive relationship ($r = 0.489$, $p = 0.010$) between the stakeholder engagement phase and the planning phase of the framework of Islamic CSR (see Table 8.1). In fact, the stakeholder engagement phase is considered to be a source of information related to the projected *masalih*, *mafasid* and end results of the products, services and behaviours of GCC IFIs that are used in the planning phase. Thus, null hypothesis 1 can be rejected. However, the strength of the relationship is considered as only moderate (Cohen 1988, cited in Pallant 2011). Thus, the existence of this relationship is consistent with the logical flow of the CSR process provided in the international standards (The GRI's Reporting Guidelines 2003-2011; AA1000 Assurance Standard 2008) and the framework for CSR of Asif et. al. (2011) (see Chapter 6). Furthermore, the existence of this relationship indicates that IFIs do have a synthesis between their planning and stakeholder engagement practices. Other findings indicate that the planning, implementation, assurance and improvement phases of the ICSR framework have significant positive relationships amongst each other⁸⁶ (see Table 8.1). This would give some support to the cyclical status of the ICSR framework, hence further evidence on the viability of the framework.

⁸⁶ The relationship between the implementation and assurance phases is significant only at the level of $P < 0.1$.

8.2.2. The *Sharia* jurisprudence method underlying the framework of Islamic CSR

The *Sharia* jurisprudence method underlying the ICSR framework consists of two stages: the induction stage and the deduction stage, as explained in Chapters 4, 5 and 6. The induction is represented by the practices operationalised in the planning and stakeholder engagement phases. This is because the stakeholder engagement stage is a provider of information that enables the top management of IFIs as well as the members of SSBs to predict the context (i.e. *masalih*, *mafasid*, and end results) in which the products and services are going to be implemented, and accordingly designed with their underlying *Sharia* rulings. The deduction stage is a matter of testing (i.e. the practices that are used to assure that the end results of the behaviours, products, and services of an IFI are in conformity with the projected end results of the inductive stage) that is represented by the practices operationalised in the implementation and assurance phases (see Chapter 6). The improvement phase is a mediator between the two stages of the *Sharia* jurisprudence method. Table 8.2 shows the Spearman's *rho* correlation analysis of the components of the *Sharia* jurisprudence method used to test Hypotheses 2, 3, and 4:

H₀₂: There is no significant relationship between the planning-stakeholder engagement stage (i.e. the induction stage in the Sharia jurisprudence method) and the implementation-assurance stage (i.e. the deductive (testing) stage of the Sharia jurisprudence method) in the framework of implementing Islamic CSR.

H₀₃: There is no significant relationship between the implementation-assurance stage (i.e. deductive (testing) stage of the Sharia jurisprudence method) and the improvement phase in the framework of Islamic CSR.

H₀₄: There is no significant relationship between the improvement phase and the planning-stakeholder engagement stage (i.e. induction stage in the Sharia jurisprudence method) in the framework of Islamic CSR.

As shown in Table 8.2, there is a moderate significant positive relationship ($r = 0.404$, $p = 0.036$) between the induction stage (i.e. stakeholder engagement and planning phases) and the deduction stage (i.e. implementation and assurance phases) of the *Sharia* jurisprudence method underlying the ICSR framework. Thus, null hypothesis 2 is rejected.

Such a positive relationship between the induction and deduction stages of the *Sharia* jurisprudence method indicates that the practices in one stage can influence or be influenced by the other. This finding is consistent with the literature on the scientific method underlying the PDCA cycle (Shewhart 1939, cited in Moen & Norman 2010) and the literature on the *Sharia* jurisprudence method (Al-Nashar 1984; Al-Suwailem 2013).

Moreover, there is a strong significant positive correlation ($r = 0.528$, $p = 0.005$) between the improvement phase and the induction stage of the *Sharia* jurisprudence method underlying the framework of Islamic CSR; and there is a strong significant positive correlation ($r = 0.508$, $p = 0.007$) between the deduction stage of the *Sharia* jurisprudence method underlying the framework of Islamic CSR and the improvement phase. Thus, null hypotheses 3 and 4 are rejected. These findings are consistent with the theory of implementing the scientific method in the PDCA cycle as a managerial framework (Martensen & Dahlgaard 1998; Speroff & O'Connor 2004). Thus, this gives more evidence on the viability of the *Sharia* jurisprudence method to underlie the PDCA on the one hand, and the synthesis between the stages of that method and the improvement phase on the other hand.

Consequently, the statistical evidence in this section supports the synthesis of the ICSR framework and the viability of the *Sharia* jurisprudence method to underlie the PDCA cycle.

Table 8.2: Spearman's *rho* correlations between the components of the *Sharia* jurisprudence method underlying the framework of Islamic CSR

		Induction stage	Deduction stage	Improvement phase
Induction stage	Correlation Coefficient	1.000	0.404	0.528
	Sig. (2-tailed)		0.036	0.005
Deduction stage	Correlation Coefficient		1.000	0.508
	Sig. (2-tailed)			0.007
Improvement phase	Correlation Coefficient			1.000
	Sig. (2-tailed)			

8.3. Organisational and individual differences and the framework of Islamic CSR

The aim of this section is to investigate the variance of the levels of ICSR implementation by GCC IFIs according to individual and organisational differences. This is because the literature on the PDCA states that the cycle is a “one size fits all” (Tricker 2005) meaning that it can vary according to organisational differences. Thus, in this section the ICSR framework is analysed in terms of organisational and individual differences. Table 8.3 shows the results of the Kruskal-Wallis test for differences in the level of implementing Islamic CSR according to organisational and individual differences.

According to the results shown in Table 8.3, there is no significant difference in levels of the ICSR framework in terms of the individual characteristics of respondents. The level of education has a *p* value equal to 0.789; whilst they are 0.533 and 0.563 for the specialization by education and years of experience of respondents respectively.

As for organisational features, hypotheses 5 and 6 are tested in this section:

H₀5: There is no significant difference between the extents to which the framework of Islamic CSR is implemented by GCC IFIs according to the sizes of the Sharia departments.

H₀6: There is no significant difference between the extents to which the framework of Islamic CSR is implemented by GCC IFIs according to their nature of businesses.

The Kruskal-Wallis Test reveals a statistically significant difference in the levels of implementing Islamic CSR according to the number of employees in the *Sharia* departments represented by 4 groups (Gp 1, n=7: 1-2 employees; Gp2, n = 11: 3-5 employees; Gp3, n = 6: 6-8 employees; and Gp4, n = 3: 9 and over employees), χ^2 (df. 3, n=27) = 9.723, $P = 0.021$. The highest mean rank of 21.83 was recorded by the group of IFIs with 9 *Sharia* employees and over. Thus, null Hypothesis 5 is rejected.

Additionally, a Kruskal-Wallis Test reveals a statistically significant difference in the levels of implementing Islamic CSR according to the type of organisations (i.e. nature of business) represented by 5 groups of IFIs (Gp 1, n = 13: commercial / universal banks; Gp2, n = 1: investment bank; Gp3, n = 2: financing institution; Gp4, n = 10: investment institution, and Gp 5, n = 1: takaful operator), χ^2 (df. 4, n=27) = 10.366, $P = .035$. The highest mean rank of 24.50 was recorded by the group of IFIs with an investment bank followed by the group of investment institutions with a rank of 19.10. Thus, the null Hypothesis 6 is rejected.

The variance of the levels of ICSR implementation across the organisational differences (i.e. the size of the *Sharia* department and the nature of business) gives more evidence on the viability of the ICSR framework as it is consistent with the description of the PDCA as an adaptable managerial tool to fit the nature and needs of the implementing organisations. Nonetheless, the variance of the ICSR implementation level across the number of employees in the *Sharia* control departments needs to be more investigated in terms of the optimal size of those departments on which the highest level of the ICSR implementation occurs.

Although the rejection of null hypotheses 5 and 6 might be sufficient to establish the alternative hypotheses regarding the statistical differences in the levels of implementing the ICSR framework according to the size of the *Sharia* departments and the nature of the business of GCC IFIs, a further test was conducted to support the rejection of those hypotheses. Kruskal-Wallis test reveals that there is no significant difference in levels of the ICSR framework in terms of the individual characteristics of respondents (see Table 8.3). This gives more support to the viability of ICSR framework and the reliability of the collected data.

Table 8.3: Kruskal-Wallis test of the organisational and individual differences across the implementation of the ICSR

Organisational/individual feature		N	Mean Rank	Chi-Square	Asymp. Sig.	df.
Number of employees in <i>Sharia</i> departments	1-2	7	13.79			
	3-5	11	16.27			
	6-8	6	6.17			
	9 and over	3	21.83			
	Total	27		9.723	0.021	3
Type of organisation (nature of business)	Commercial universal bank	13	9.73			
	Investment bank	1	24.50			
	Financing institution	2	9.75			
	Investment institution	10	19.10			
	Takaful	1	16.50			
	Total	27		10.366	0.035	4
Level of Education	Bachelor	7	15.71			
	Master	11	13.68			
	PhD	9	13.06			
	Total	27		0.474	0.789	2
Specialisation by education	Sharia	17	12.03			
	Islamic economics/finance	2	15.50			
	Finance/accounting	6	17.83			
	Business/marketing	1	19.00			
	Law	1	16.50			
	Total	27		3.031	0.553	4
Years of experience	1-5	1	14.00			
	6-10	11	17.00			
	11-15	8	13.00			
	16-20	6	10.42			
	21-25	1	10.50			
	Total	27		3.132	0.536	4

8.4. The level of *maqasid* knowledge and the framework of Islamic CSR

In Chapter 4, it has been explained that the PDCA model is a producer of knowledge that is accumulated over time with a continuous loop of the steps of the PDCA and the underlying deductive and inductive stages of the scientific method (Martensen & Dahlgard 1998; Speroff & O'Connor 2004). In Chapter 6, however, ICSR was developed based on the *Sharia* jurisprudence method that would facilitate the link between the implementation of the *Sharia* rulings with *maqasid al-Sharia* in accordance with the three ranks of *maslaha*. In this regard, the relationship between the *Sharia* employees' knowledge of *maqasid al-Sharia* and the framework of ICSR has been the concern of null hypothesis 7 that is going to be tested in this section.

In this section the relationship between the *maqasid* knowledge among *Sharia* employees and levels of implementing ICSR by their GCC IFIs is analysed. The starting point is to investigate the association between the elements comprising *maqasid* knowledge identified in the questionnaire used in the present research in order to determine the extent to which the *Sharia* employees of GCC IFIs understand the *maqasid al-Sharia*. After that, the relationship between levels of *maqasid* knowledge and the general extent to which the framework of Islamic CSR is implemented by GCC IFIs is tested. Then the association between the levels of *maqasid* knowledge and each component of the ICSR framework is investigated in order to gain a deeper understanding of the general relationship between *maqasid* knowledge and ICSR implementation.

8.4.1. The synthesis of the elements of *maqasid* knowledge

As indicated in Table 8.4, the knowledge of *Sharia* employees in GCC IFIs related to knowing the three *maslaha* ranks (i.e. *daruriyyat*, *tahsiniyyat* and *hajiyyat*) has strong significant positive correlation ($r = 0.787, p < 0.0001$) with the five *Sharia* objectives (i.e. the preservation of faith, life, intellect, posterity and wealth). Also, there is a strong significant positive correlation ($r = 0.783, p < 0.0001$) between knowing the five *Sharia* objectives and knowing the five *Sharia* rulings (i.e. *wajib*, *muharram*, *mandoub*,

makrouh, andmubah). However, the five *Sharia* objectives also have a strong positive correlation ($r = 0.590, p = 0.001$) with the consideration of external factors when judging a *mubah* ruling (i.e. *fiqh al-waqi'*).

There is also a strong significant positive correlation ($r = 0.864, p < 0.0001$) between knowing the *maslaha* ranks and knowing the five *Sharia* rulings (see Table 8.4). In addition, there is a moderate significant positive correlation ($r = 0.471, p = 0.031$) between knowing the *maslaha* ranks and consideration of external factors when judging a *mubah* ruling which also have a moderate positive relationship ($r = 0.386, p = 0.046$) with the five *Sharia* rulings.

Clearly, each element of *maqasid* knowledge has significant positive relationships with the other elements. The evidence for the structure of the elements of *maqasid* knowledge statistically supports the theoretical relationships (Abu Zahra 1997; Al-Najar 2006; Al-Shatibi, cited in Al-Raysuni 2006) between those elements as discussed in Chapter 4. This is because achieving the *Sharia* objectives entails the ranking of the *Sharia* rulings in accordance with *maslaha* while considering the external factors surrounding the *mubah* ruling so that it can be categorised within one of the other four rulings (i.e. *wajib, muharram, mandoub and makrouh*) when the action related to that *mubah* is going to take place.

The indicator of projecting the external factors surrounding the *mubah* action is a cornerstone of the ICSR framework. This is because this projection is an integral part of the induction stage of the *Sharia* jurisprudence method, especially when that projection is not limited to the achievement of economic interests alone. The remarkable finding here is that the consideration of external factors surrounding the *mubah* action had the least strong relationships with the other elements of knowledge. The magnitude of the relationship of that element with the five objectives is 0.590, and this then declines to 0.471 with the three ranks of *maslaha* followed by 0.386 with the five *Sharia* rulings. Furthermore, the total score for the question related to the external factors of *mubah* amounted to 50 per cent of the total possible score for all respondents in comparison to 74 per cent of the total possible score related to the five *Sharia* objectives, 70 per cent for

the five rulings, and 66 per cent for the *maslaha* ranks. These findings give the indication that the concept of the projection of the external factors surrounding the *mubah* action is not well established as knowledge related to *maqasid al-Sharia*. This can be interpreted in the realm of the lack of implementing this key practice in the *Sharia* methods of IFIs; and the heavy reliance on the standardised contracts without injecting it with the Islamic spirit represented by the projection of the context of implementation and consequently the achievement of *maqasid al-sharia*.

Table 8.4: Spearman's *rho* correlations between elements of *maqasid* knowledge

		Five Sharia Objectives	Three Maslaha ranks	Five Sharia rulings	Consideration of external factors on mubah ruling
Five Sharia Objectives	Correlation Coefficient	1.000	0.787	0.783	0.590
	Sig. (2-tailed)	.	0.000	0.000	0.001
Three Maslaha ranks	Correlation Coefficient	0.787	1.000	0.864	0.417
	Sig. (2-tailed)	0.000	.	0.000	0.031
Five Sharia rulings	Correlation Coefficient	0.783	0.864	1.000	0.386
	Sig. (2-tailed)	0.000	0.000	.	0.046
Consideration of external factors on mubah ruling	Correlation Coefficient	0.590	0.417	0.386	1.000
	Sig. (2-tailed)	0.001	0.031	0.046	.

8.4.2. *Maqasid* knowledge and the framework of Islamic CSR

Table 8.5 shows the results of the Spearman's' *rho* analysis of the correlation between *Sharia* employees' levels of *maqasid* knowledge and the extent to which the ICSR framework is implemented by GCC IFIs. This analysis includes the elements of the *Sharia* jurisprudence method underlying the ICSR framework and the elements of *maqasid* knowledge.

Table 8.5: Spearman's *rho* correlations between the levels of *maqasid* knowledge and the extent to which GCC IFIs implement the framework of Islamic CSR

		Induction stage	Deduction stage	Improvement phase	ICSR As a whole
Five <i>Sharia</i> Objectives	Correlation Coefficient	-0.126	-0.444	-0.332	-0.369
	Sig. (2-tailed)	0.530	0.020	0.091	0.058
Three <i>Maslaha</i> ranks	Correlation Coefficient	-0.106	-0.496	-0.300	-0.384
	Sig. (2-tailed)	0.597	0.008	0.129	0.048
Five <i>Sharia</i> rulings	Correlation Coefficient	-0.096	-0.564	-0.319	-0.415
	Sig. (2-tailed)	0.632	0.002	0.105	0.032
The consideration of external factors on <i>mubah</i> ruling	Correlation Coefficient	-0.307	-0.435	-0.545	-0.488
	Sig. (2-tailed)	0.120	0.023	0.003	0.010
<i>Maqasid</i> knowledge	Correlation Coefficient	-0.231	-0.586	-0.539	-0.532
	Sig. (2-tailed)	0.247	0.001	0.004	0.004

As indicated in Table 8.5, the levels of implementing ICSR practices within the induction stage of the *Sharia* method has no significant correlation with the levels of *maqasid* knowledge or any of its elements. Actually, this is a remarkable finding. The inexistence of the relation between the induction stage of the *Sharia* jurisprudence method and the elements of the *maqasid* knowledge is consistent with the fact that IFIs do not practice the due care of *maqasid* during the induction stage of the *Sharia* method. In other words, IFIs only implement the standardised contracts without projecting their end results and desired *maqasid*.

Nonetheless, the level of implementing the deduction (testing) stage by GCC IFIs does have significant negative correlations with the levels of *maqasid* knowledge and all of its elements. The deduction stage has a significant moderate negative correlation ($r = -0.444$,

$p = 0.020$) with level of knowing the five *Sharia* objectives; a moderate significant negative correlation ($r = -0.496, p = 0.008$) with level of knowing the three *maslaha* ranks; a strong significant negative correlation ($r = -0.564, p = 0.002$) with level of knowing the five *Sharia* rulings; a moderate significant negative correlation ($r = -0.435, p = 0.023$) with level of knowing about the consideration of external factors when judging a *mubah* action; and, a strong significant negative correlation ($r = -0.586, p = 0.001$) with the levels of *maqasid* knowledge as a whole. The level of implementing the practices of the improvement phase of the framework of Islamic CSR has no significant correlations with the level of knowing the five *Sharia* objectives, the three *maslaha* ranks, and the five *Sharia* rulings. But, the level of implementing the improvement phase has strong significant negative correlations with the consideration of the external factors when judging a *mubah* action ($r = -0.545, p = 0.003$) and with the level of *maqasid* knowledge as a whole ($r = -0.539, p = 0.004$).

These findings are consistent with none correlation between the induction stage of the *Sharia* method and the *maqasid* knowledge. This is because what is being implemented by IFIs originally lacks for the link with *maqasid* in the induction stage; thus, the deduction stage shall always look only for the implementation and checking of the 'ink on paper' structures of the standardised contracts. Accordingly, the negative correlation between the *maqasid* knowledge and the deduction stage of the ICSR can be interpreted as an adverse relationship between the current practices of the deduction stage and the *maqasid* knowledge. This means the higher the levels of the current practices of the induction stage, the less they produce *maqasid* knowledge or even make use of *maqasid* knowledge of the employees.

As shown in Table 8.5, the ICSR framework as a whole (i.e. measured by the sum of the scores of each respondent for the 20 questions representing the scale of ICSR) has a non-significant correlation only with the five *Sharia* objectives; whilst it has significant medium negative correlations with the three *maslaha* ranks ($r = -0.384, p = .048$), the five *Sharia* rulings ($r = -0.415, p = 0.032$), and the consideration of external factors when

judging a *mubah* action ($r = -0.488, p = 0.010$). In fact, the relationship between *maqasid* knowledge and level of implementing the ICSR framework is dealt with in Hypothesis 7:

H₀7: There is no significant relationship between the extent to which the framework of Islamic CSR is implemented by GCC IFIs and their Sharia employees' levels of knowledge of maqasid al-Sharia.

However, the Spearman's *rho* correlation analysis reveals that there is a strong significant negative correlation ($r = -0.532, p = 0.004$) between level of *maqasid* knowledge and the level of implementing Islamic CSR by GCC IFIs; thus null hypothesis 7 is rejected. A detailed explanation of these negative correlations is provided in Chapter 9 when the results of the research are discussed. Nonetheless, the existence of a significant strong correlation between the does the support the claim that the ICSR framework has a relationship between the knowledge produced from operations through the loop of the phases of the cycle and the practices of the cycle themselves.

8.5. Organisational and individual differences and *maqasid* knowledge

In this section the levels of *maqasid* knowledge of the *Sharia* employees of GCC IFIs are analysed in terms of organisational and individual differences as shown in Table 8.6.

The Kruskal-Wallis test was conducted to investigate the relationship between the *maqasid* knowledge of the staff of GCC IFIs and their organisational and individual differences. According to the results presented in Table 8.6, the level of *maqasid* knowledge has no significant relationship with the size of the *Sharia* department represented by number of *Sharia* employees. Nonetheless, the results of the Kruskal Wallis test show that there is a significant difference in level of the *maqasid* knowledge of *Sharia* employees in GCC IFIs and the type of organisation (i.e. the nature of its business as either a commercial/universal bank, investment bank, financing institution, investment institution, or *takaful* operator), with χ^2 (df. 4, n=27) = 10.605, $p = 0.031$. The highest mean rank is recorded by the group of commercial banks (18.85), but this

result should be treated with caution because 12 out of the 13 respondents from commercial/universal banks had been educated in *Sharia*.

As for individual differences, two hypotheses have been developed concerning the relationship between the level of *maqasid* knowledge of *Sharia* employees of GCC IFIs and the individual differences between those employees:

H₀8: There is no significant difference between the GCC IFIs Sharia employees' levels of knowledge of maqasid al-Sharia according to their fields of education.

H₀9: There is no significant difference between the GCC IFIs Sharia employees' levels of knowledge of maqasid al-Sharia according to their years of experience.

The Kruskal-Wallis test results reveal that there is a significant difference between the levels of *maqasid* knowledge of the *Sharia* employees of GCC IFIs and their specialization by education (in *Sharia*, Islamic economics/finance, finance/accounting, business / marketing, or law), with χ^2 (df. 4, n=27) = 14.146, $P = 0.007$. The highest mean rank (18.18) is related group of respondents with *Sharia* as their field of education. Thus, null hypothesis 8 is rejected.

On the other hand, the Kruskal-Wallis Test results reveal that there is no significant difference in the levels of *maqasid* knowledge of the *Sharia* employees of GCC IFIs and their level of education. Furthermore, there is also no significant difference in the levels of *maqasid* knowledge of the *Sharia* employees of GCC IFIs according to their years of experience. Thus, null hypothesis 9 is accepted.

Table 8.6: The results of Kruskal-Wallis Test for the differences in the level of *maqasid* knowledge across organisational and individual features

Organisational/individual features		N	Mean Rank	Chi-Square	Asymp. Sig.	df.
Number of employees in Sharia departments	1-2	7	11.64			
	3-5	11	12.86			
	6-8	6	19.92			

	9 and over	3	11.83			
	Total	27		4.683	0.197	3
Type of organisation (nature of business)	Commercial universal bank	13	18.85			
	Investment bank	1	6.00			
	Financing institution	2	9.50			
	Investment institution	10	10.30			
	Takaful	1	5.00			
	Total	27		10.605	0.031	4
Level of Education	Bachelor	7	10.07			
	Master	11	12.55			
	PhD	9	18.83			
	Total	27		5.77	0.056	2
Specialisation by education	Sharia	17	18.18			
	Islamic economics/finance	2	9.50			
	Finance/accounting	6	7.08			
	Business/marketing	1	2.50			
	Law	1	5.00			
	Total	27		14.146	0.007	4
Years of experience	1-5	1	13.00			
	6-10	11	13.64			
	11-15	8	15.25			
	16-20	6	14.25			
	21-25	1	7.50			
	Total	27		0.973	0.914	4

Taking into consideration that the ICSR with the underlying *Sharia* jurisprudence method is supposed to produce *maqasid* knowledge if the *Sharia* method is properly implemented, the levels of the respondents' knowledge on *maqasid* shall vary according to the organisational differences and according to the years of experience of the respondents. Nevertheless, the statistical evidence shows the opposite. This can be interpreted as an improper implementation of the *Sharia* jurisprudence method which leads to poor accumulation of *maqasid* knowledge from the operations of the IFIs.

Furthermore, the variance of the *maqasid* knowledge across the field of education means that the knowledge was acquired from external sources (i.e. education) rather than internal sources (i.e. from inside IFIs). This finding also supports the criticism of the IFIs for not being following the built in Islamic responsibility model (e.g. Badr El Din 2006; Maali, Casson & Napier 2006; Sairally 2007; Zaman & Asutay 2009).

8.6. Sharia practices and levels of *maqasid* knowledge

The aim of this section is to provide more insights about the ICSR practices and their association with the levels of *maqasid* knowledge. Thus, this section is to induce some findings that support the previous deductive analysis in addition to some interpretations on the current practices of IFIs.

In this section, analysis is conducted of the level of *Sharia* practices represented by answers to the 20 questionnaire items about the ICSR framework. The responses reveal that some practices are more likely than others to be implemented by GCC IFIs. To identify those practices, an index has been developed to sort the practices according to their likelihood of implementation (see Table 8.7).

8.6.1. Mean rank of the *Sharia* practices

In Chapter 7, all the practices included in each cluster in the ICSR framework have been described in terms of their mean scores and standard deviation. Mean ranking is usually used in questionnaire-based studies in order to describe the order of the variables according to their scores. Table 8.7 illustrates the ranks of the scores related to the questions of the framework of Islamic CSR.

Table 8.7: Mean rank of scores pertaining to practices in the ICSR framework

Rank	Number of the Question	Cluster in the ICSR	Stage of the Sharia jurisprudence method	Mean
1	Q18	Improvement	Improvement	1.741
2	Q9	Implementation	Deduction	1.704
3	Q19	Improvement	Improvement	1.630
4	Q8	Stakeholders	Induction	1.556
5	Q16	Assurance	Deduction	1.444
6	Q6	Stakeholders	Induction	1.296
7	Q10	Implementation	Deduction	1.259
8	Q4	Planning	Induction	1.185
9	Q5	Stakeholder	Induction	1.111
10	Q20	Improvement	Improvement	1.074
The Interval Point = Average mean scores for all 20 questions of the framework of Islamic CSR = 1.067				
11	Q12	Implementation	Deduction	0.963
12	Q11	Implementation	Deduction	0.926
13	Q2	Planning	Induction	0.852
14	Q13	Assurance	Deduction	0.852
15	Q15	Assurance	Deduction	0.852
16	Q1	Planning	Induction	0.704
17	Q3	Planning	Induction	0.593
18	Q17	Improvement	Improvement	0.593
19	Q7	Stakeholder	Induction	0.519
20	Q14	Assurance	Deduction	0.481

To classify the ICSR practices in terms of their likelihood of being implemented by GCC IFIs, the interval point representing the average of mean scores has been identified at 1.067. The ICSR practices related to questions with mean scores greater than the interval point are considered to be practices likely to be implemented by GCC IFIs, whereas those with mean scores less than the interval point are considered practices that are unlikely to be implemented. Accordingly, two groups of ICSR practices are identified. To give a reasonable understanding of the implementation of the ICSR practices embedded in the ICSR framework, analysis based on Table 8.7 is provided in the following sections.

8.6.1.1. The planning phase: Q1-Q4

Three of the questions for the planning phase (see Chapter 7 for more details) have mean scores less than the interval point and one has a mean score greater. This indicates that GCC IFIs are likely to develop projects, initiatives, products or services which contribute to meeting social and environmental in addition to economic *masalih* (Q4: mean = 1.185). Notwithstanding this, GCC IFIs are not likely to integrate social and environmental *masalih* with economic *masalih* and *mafasiid* when conducting environmental scanning

in the planning phase (Q1: mean = 0.704), nor to refine their strategic objectives in order to meet social and environmental in addition to economic *masalih* (Q2: mean = 0.852), nor to develop KPIs that include social and environmental in addition to economic *masalih* (Q3: mean = 0.593).

8.6.1.2. The stakeholder engagement phase: Q5-Q8

Three of the questions about the stakeholder engagement phase (Q5, Q6, and Q8) have mean scores greater than the interval point, indicating that their subject matter is likely to be implemented by GCC IFIs, who are thus likely to organise or sponsor programmes in Islamic finance to raise awareness among stakeholders (Q8: mean = 1.556). They are also likely to consult with their stakeholders to identify their *masalih* that might be influenced by their business (Q6: mean = 1.296). However, while GCC IFIs are likely to identify their stakeholders based on *al-maslaha al-shariyyah* (Q5: mean = 1.111), they are not likely to assess their stakeholders' concerns in accordance with *al-maslaha al-shariyyah* (Q7: mean = 0.519).

8.6.1.3. The induction stage of the *Sharia* jurisprudence method

As explained in Chapter 6, the induction stage of the *Sharia* jurisprudence method is reflected in the practices of the stakeholder engagement and planning phases of the ICSR framework. The stakeholder engagement phase is considered to provide an external source of information that enables the top management of IFIs to project the context in which they are going to operate and for the SSBs to predict the different *masalih* and *mafasid* of those operations so that *Sharia* rulings are issued which are consistent with them. However, it appears that three of the practices of stakeholder engagement and one of planning are likely to be implemented by GCC IFIs; whilst, the remaining four practices in those two phases are not likely to be implemented. In fact, the practices of the planning phase are of great importance, since they lead to the formulation of *Sharia* rulings in accordance with the context in which they are to be implemented.

8.6.1.4. The implementation phase: Q9-Q12

In the implementation phase, GCC IFIs are likely to follow a code of conduct that promotes Islamic values and ethics amongst their employees (Q9: mean = 1.704). Similarly, they are likely to record incidents of harming others' *masalih* while operating their businesses (Q10: mean = 1.259). This is because answers to Q9 and Q10 have mean scores greater than the interval point as indicated in table 8.7. Nonetheless, responses to Q11 and Q12 have mean scores less than the interval point, indicating that the GCC IFIs are not likely to care about the anticipated social and environmental risks (Q12: mean = 0.963), nor to design products and services that contribute to the collective social and environmental *masalih* (Q11: mean = 0.926).

8.6.1.5. The assurance phase: Q13-Q16

Three practices in the assurance phase (i.e. Q13, Q14, and Q15) have mean scores less than the interval point, indicating that GCC IFIs are not likely to implement the appropriate practices. Accordingly, GCC IFIs are not likely to disclose information to stakeholders and shareholders about their commitment to and compliance with *Sharia* objectives in their *Sharia* compliance reports (Q13: mean = 0.852), nor to monitor social and environmental *masalih* and *mafasid* in their auditing systems (Q14: mean = 0.481), nor be subject to external independent *Sharia* auditing (Q15: mean = 0.852). However, the one thing which GCC IFIs do assure their stakeholders and shareholders about in terms of compliance with and commitment to *maqasid al-Sharia* is that they are likely to follow the *fatwas* and standards of AAOIFI and Islamic *Fiqh* Academies (Q16: mean = 1.444) with that mean score being greater than the interval point.

8.6.1.6. The deduction stage of the *Sharia* jurisprudence method

As explained in Chapter 6, the deduction stage of the *Sharia* jurisprudence method is reflected in the practices of the implementation and assurance phases of the ICSR framework. Those two phases are expected to provide data and information on the actual implementation of the products and services in comparison to what was managerially

planned and predicted by the SSBs in formulating their *Sharia* rulings to suit *Sharia* objectives. However, it appears that only two of the practices of the implementation phase and one of the assurance phase are likely to be implemented by GCC IFIs; whilst the remaining five practices of those two phases are not likely to be implemented.

8.6.1.7. The improvement phase: Q17-Q20

The improvement phase has three practices that have mean scores greater than the interval point (see Table 8.7). This gives an indication that GCC IFIs are likely to use feedback from *Sharia* auditing to improve the *Sharia* structures of their products and services (Q18: mean = 1.741) in addition to improving their *Sharia* compliance systems (Q19: mean = 1.630). Furthermore, GCC IFIs are likely to use feedback from internal or external *Sharia* auditing to improve their contribution to the achievement of *maqasid al-Sharia* (Q20: mean = 1.074). Nonetheless, GCC IFIs are not likely to conduct research in order to improve their contribution to the achievement of *maqasid al-Sharia* (Q17: mean = 0.593) with the mean score of responses to that question being less than the interval point.

Based on explanations provided in Chapter 6, the improvement phase of the ICSR framework is equivalent to the amendment phase in the *Sharia* jurisprudence method underlying that framework. However, only three of the improvement practices are likely to be implemented and reflected in future *Sharia* rulings to be issued by the SSBs.

Although GCC IFIs appear to have above average levels of stakeholder engagement, the output of that engagement appears not to be properly used in the planning phase. The IFIs were thought by respondents to develop projects, products and services that contributed to the achievement of social and environmental *masalih* without refining their objectives to do so. Furthermore, they were not likely to conduct environmental scanning that integrates socially responsible *masalih* with economic ones. Thus, they were not likely to develop KPIs that include socially responsible indicators (*masalih*) to be considered as end results (*ma'alat*) upon which the auditing and assurance is going to take place. Thus, the operations of GCC IFIs appear to be based on random planning even though they follow *Sharia*-compliant codes of conduct. However, it is worth mentioning that GCC

IFIs are likely to be following the *Sharia* standards of the AAOIFI and *fiqh* academies. This means that they are implementing those normative (standardised) *Sharia* rulings as they are, without projecting the contexts into which those ruling are going to be implemented. Thus, the *Sharia* auditing is likely to be limited to compliance with the appropriate implementation of those normative ruling without the checking of end results which would help in measuring the achievement of *masalih* and eventually *maqasid*. This is also supported by the fact that, for GCC IFIs, improvement is limited to the enhancement of the *Sharia* structures of the products so that they can comply with normative standards while enhancing the overall compliance system based on that. In this regard, respondents viewed their organisations as improving their contribution to the achievement of *maqasid al-Sharia* based on the improvement of the *Sharia* structures of the products and services and the improvement of the compliance system which mainly relies on compliance with the normative *Sharia* standards.

8.6.2. Correlation between groups of *Sharia* practices and levels of *maqasid* knowledge

Based on the sorting of means described in Section 8.6.1, there are two groups of *Sharia* practices of GCC IFIs in terms of their likelihood of implementation. The first group (G1) contains ten practices that have mean scores greater than the interval point (1.067), as explained in Table 8.7, which are likely to be implemented by GCC IFIs. The second group (G2) of 10 practices have mean scores less than the interval point, and are thus not likely to be implemented. Table 8.8 shows the Spearman's *rho* correlations between the two groups of practices and the levels of *maqasid* knowledge of the *Sharia* employees of GCC IFIs.

As indicated in Table 8.8, there is a strong significant positive correlation ($r = 0.538, p = 0.001$) between G1 and G2. This means that G1 and G2 complete each other. Furthermore, G1 shows a non-significant correlation with *maqasid* knowledge of the *Sharia* employees of these GCC IFIs; whilst G2 has a strong significant negative correlation ($r = -0.583, p = 0.001$).

The findings in this section indicate that the claim that the current practices of IFIs are enough for them to be *maqasid al-Sharia* compliant (i.e. not only *Sharia* compliant)⁸⁷ is invalid because the other practices can at least complete them. As for the correlation between the two groups of practices and the levels of the *maqasid* knowledge, a detailed explanation shall be furnished in Chapter 9.

Table 8.8: Spearman’s *rho* correlations between the sorted groups of *Sharia* practices of GCC IFIs and levels of *maqasid* knowledge

		G1	G2	Maqasid knowledge
G1	Correlation Coefficient	1.000	0.583	-0.359
	Sig. (2-tailed)	.	0.001	0.066
G2	Correlation Coefficient	0.583	1.000	-0.583
	Sig. (2-tailed)	0.001	.	0.001
Maqasid knowledge	Correlation Coefficient	-0.359	-0.583	1.000
	Sig. (2-tailed)	0.066	0.001	.

8.7. CSR knowledge and *maqasid* knowledge

In this section, the patterns of relationships between levels of CSR and *maqasid* knowledge among the *Sharia* employees of GCC IFIs are investigated. The starting point is to investigate the synthesis of the elements of CSR knowledge.

8.7.1. The synthesis between the elements of CSR knowledge

Table 8.9 shows the results of Spearman's *rho* correlation between the elements of CSR knowledge (see Chapter 5 for more details of the relevant questions).

⁸⁷ Such a claim was raised by Shaikh Dr. Hussein Hamed Hassan, a senior *Sharia* scholar, and member of tens of SSBs, during the Durham University Strategic Round Table on *Maqasid Al-Sharia* and IFIs that was held in April 2011.

As indicated in Table 8.9, according to the levels of CSR knowledge of *Sharia* employees in GCC IFIs, there is a moderate significant positive correlation between knowing about international standards dealing with CSR and knowing the core subjects of CSR ($r = 0.428$, $p = 0.026$). Meanwhile, knowing about international standards has a non-significant correlation with knowing the managerial practices used for the integration of CSR within the organisational system of the business, and also has no significant correlation with knowing about the types of stakeholders.

Table 8.9: Spearman's ρ correlations between elements of CSR knowledge

		International standards	Core subjects	Integration of practices	Stakeholders
International Standards	Correlation Coefficient	1.000	0.428	-0.038	0.263
	Sig. (2-tailed)	-	0.026	0.849	0.186
Core subjects	Correlation Coefficient	0.428	1.000	0.510	0.557
	Sig. (2-tailed)	0.026	-	0.007	0.003
Integration of practices	Correlation Coefficient	-0.038	0.510	1.000	0.263
	Sig. (2-tailed)	0.849	0.007	-	0.186
Stakeholders		0.263	0.557	0.263	1.000
		0.186	0.003	0.186	-

However, knowing the core subjects of CSR has strong significant positive correlations with both knowing about managerial integration practices ($r = 0.510$, $p = 0.007$) and knowing the types of stakeholder ($r = 0.557$, $p = 0.003$). The correlation between knowing about integration practice and knowing types of stakeholders is proven to be non-significant.

Apparently, in comparison to their *maqasid* knowledge, the CSR knowledge of the *Sharia* employees of GCC IFIs is not well-structured in terms of the interrelations between the different elements of this knowledge. In a previous section, the analysis shows that the

elements of the *maqasid* knowledge are synthesized the same way they are presented in the jurisprudence references (e.g. Al-Najar 2006; Al-Raysuni 2006). In this section, such a synthesis between the elements of the respondents' knowledge on CSR seems to be not well established as knowledge in the minds of the respondents. This means that the respondents neither get such knowledge through external nor internal sources.

8.7.2. Organisational and individual differences and CSR knowledge

Table 8.10 shows the results of the Kruskal-Wallis test for differences in the levels of CSR knowledge according to organisational and individual features.

Table 8.10: Results of the Kruskal-Wallis Test for differences in the level of CSR knowledge across organisational and individual features

Organisational/individual feature	N	Mean Rank	Chi-Square	Asymp. Sig.	df.
Number of employees in Sharia departments	1-2	7	15.00		
	3-5	11	11.77		
	6-8	6	20.17		
	9 and over	3	7.50		
	Total	27		7.762	0.051
Type of organisation (nature of business)	Commercial universal bank	13	17.73		
	Investment bank	1	7.50		
	Financing institution	2	12.25		
	Investment institution	10	10.80		
	Takaful	1	7.50		
	Total	27		6.970	0.137
Level of Education	Bachelor	7	13.43		
	Master	11	12.86		
	PhD	9	15.83		
	Total	27		0.871	0.647
Specialisation by education	Sharia	17	14.82		
	Islamic economics/finance	2	16.50		
	Finance/accounting	6	13.00		
	Business/marketing	1	7.50		
	Law	1	7.50		
	Total	27		2.135	0.711
Years of experience	1-5	1	7.50		
	6-10	11	12.77		
	11-15	8	16.88		
	16-20	6	13.00		
	21-25	1	17.00		
	Total	27		2.608	0.625

As indicated in Table 8.10, the Kruskal-Wallis test results reveal no significant differences between level of CSR knowledge of the *Sharia* employees of GCC IFIs and their organisational and individual characteristics. This finding is normal and consistent with the pervious findings in this section. When ICSR knowledge has not been well

synthesised in the minds of the respondents, nor has been acquired through internal or external sources, then the variance of the levels of that knowledge across individual and organisation differences will not exist.

8.7.3. Correlation between CSR knowledge and *Maqasid* Knowledge

Table 8.11 shows the results of Spearman's rho correlation between the elements of CSR knowledge and the levels of *maqasid* knowledge of GCC IFI staff.

Table 8.11: Spearman's rho correlations between elements of CSR knowledge and levels of *maqasid* knowledge

		International Standards	Core subjects	Integration practices	Stakeholders	CSR knowledge
Maqasid knowledge	Correlation Coefficient	0.221	0.379	0.221	0.599	0.603
	Sig. (2-tailed)	0.268	0.051	0.268	0.001	0.001

Table 8.10 indicates that the only element of CSR knowledge that has a significant correlation with *maqasid* knowledge is knowing the types of stakeholders of business organisations ($r = 0.599$, $p = 0.001$). However, the level of CSR knowledge of the GCC IFIs *Sharia* employees has a strong significant large correlation ($r = 0.603$, $p = 0.001$) with their level of *maqasid* knowledge. Nonetheless, this correlation should be treated with caution, because most of the responses concerning the elements of CSR knowledge were scored as zero, except for their knowledge about the stakeholders of business organisations (see chapter 7).

Such findings can be considered as remarkable, because the ICSR framework aims at achieving Islamic CSR through the achievement of *maqasid al-Sharia* while managerially making use of stakeholder engagement. However, the core subjects of CSR (i.e. human rights, environmental issues, social concerns and others) are important in facilitating the projection of the context in which the *Sharia* rulings are going to be implemented.

8.8. Conclusion

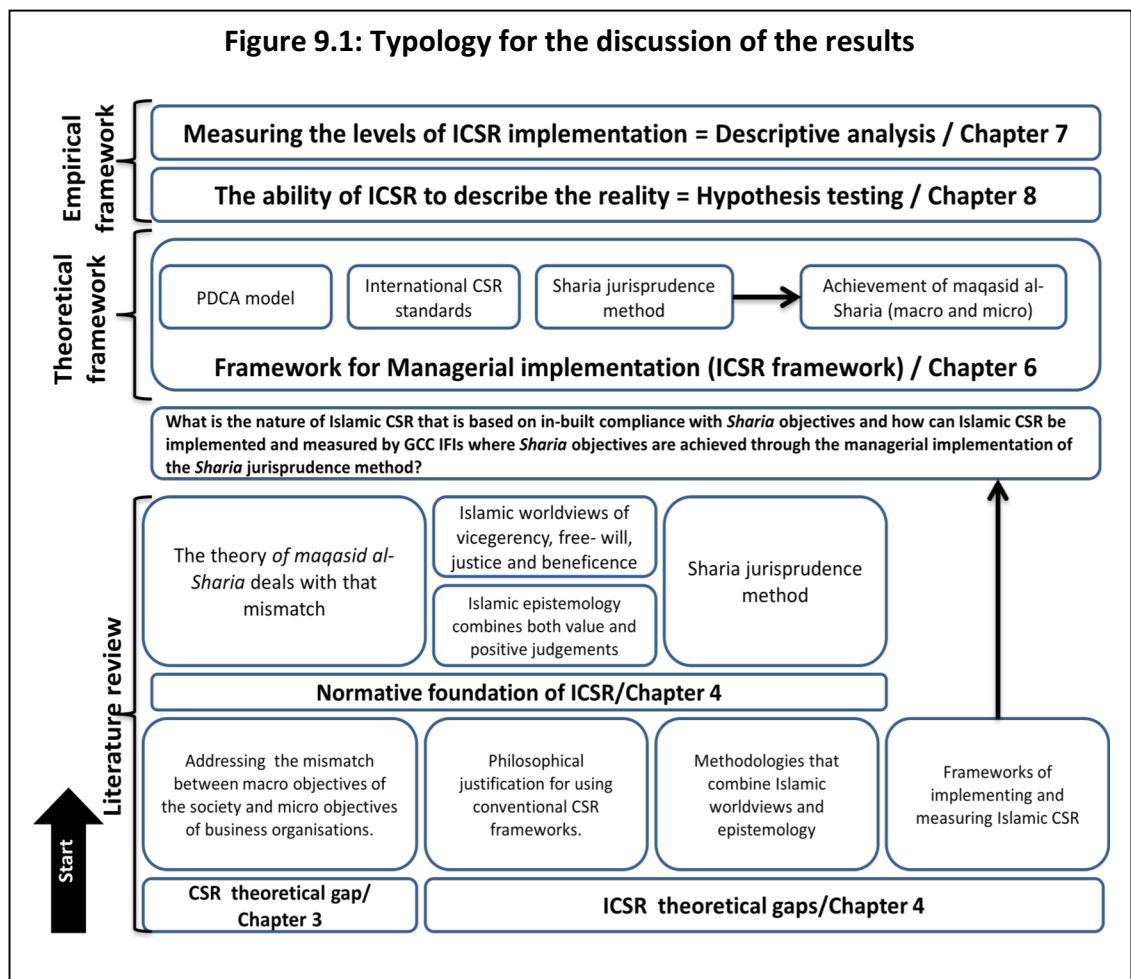
As explained in the research methodology in Chapter 5, the present research follows both deductive and inductive approaches to answer the research questions and achieve the objectives of the study. In the present chapter, an inferential analysis has been conducted to test the nine hypotheses related to the research claim that the *Sharia* jurisprudence method when it underlies the PDCA cycle can describe the reality of ICSR implementation by IFIs. This is in addition to inducing statistical patterns between the levels of *maqasid* and CSR knowledge of the *Sharia* employees of GCC IFIs and exploring the influence of the individual and organisational differences of the respondents and their organisations on both *maqasid* and CSR knowledge.

On the deductive side, eight of nine null hypotheses have been rejected and one has been accepted. Therefore, the research claims have been supported by preliminary objective evidence. On the inductive side, however, some statistical relationships between CSR and *maqasid* knowledge have been identified as well as some influences of individual and organisational differences on *maqasid* knowledge and levels of implementing Islamic CSR by GCC IFIs. The results of the analysis in this chapter are explained in detail in Chapter 9 where a discussion of the results of the whole study is presented.

CHAPTER 9: DISCUSSION OF THE RESULTS

9.1. Introduction

The aim of this chapter is to discuss the results of the research so as to integrate the theoretical findings with the empirical analysis. This is because the present research combines different theoretical concepts from different theoretical groundings into one theoretical framework which is then empirically investigated. Figure 9.1 illustrates how the results of the present research are discussed and linked together.



The starting point of the discussion is the theoretical gaps that have been identified in the literature review in Chapters 3 and 4. Thus, the theoretical gaps are discussed in section 9.1. After that, in section 9.2, the theoretical gaps are linked to the theoretical framework

which has been developed to contribute to filling those gaps while combining different theoretical concepts in order to formulate the ICSR framework, which provides an answer to the main research question of the study.

Following the discussion of the theoretical findings, the empirical findings are discussed in section 9.4. The focus of the empirical analysis is to deductively discuss the ability of the ICSR framework to describe reality (section 9.4.1) by discussing the results of the testing of hypotheses. Therefore, section 9.4.1 contains three levels of discussion: the synthesis between the elements of ICSR (section 9.4.1.1), the differences in the implementation of ICSR according to organisational and individual characteristics (section 9.4.1.2), and the relationship between the ICSR and *maqasid* knowledge (section 9.4.1.3). However, it is worth noting that, while the discussion in section 9.4.1 focuses mainly on the deductive findings, other inductive findings are included which either support the deductive findings or represent unique statistical findings that have not been reported before. Thus the discussion in section 9.4.1 ends with the statistical evidence for the ability of the ICSR framework to describe reality, and the extent to which Islamic CSR is implemented by GCC IFIs is then discussed in section 9.4.2.

Finally, the results concerning the relationship between the levels of *maqasid* and CSR knowledge are discussed in section 9.4.3 at three levels: differences in the levels of both types of knowledge related to the organisational and individual differences among the respondents (section 9.4.3.1), the synthesis between the elements of both types of knowledge (section 9.4.3.2), and the correlation between these types of knowledge.

9.2. Theoretical gaps

In Chapter 2 the relationship between capitalism and CSR has been dealt with by tracing the different socio-economic and political-economic forces that have historically challenged or motivated the existence of CSR. The focus on the relationship between capitalism and CSR has been supported by the fact that CSR has never existed in any economic system except capitalism (i.e. in communism or socialism).

Thus, the philosophical foundations (i.e. ontological world view and epistemology) of capitalism still dominate the new instrumental approaches to CSR, and especially the business case for CSR. The worldview of economic man and self interest as well as that of societal interaction on the basis of Social Darwinism have been influencing the contemporary models of CSR, especially when taking into consideration that CSR has become internationally recognised to consist of voluntary practices by corporations beyond the law. Accordingly, instrumental approaches to CSR still epistemologically rely on methods that revolve around materialistic outcomes for business organisations. Thus, CSR literature fails to address the mismatches between the micro objectives of business organisations and the macro objectives of societies due to the fact that CSR is add-on to the capitalism system but not built in it.

On the contrary, Islamic CSR is built in the Islamic economics and accordingly is presumed to be natural output of the behaviours and actions of IFIs. Nonetheless, those IFIs are much more subscribers to the neo-classical business models (Asutay 2007a, b; Zaman & Asutay 2009) with their underlying philosophy although IFIs implement standardised *Sharia* compliant contracts in their operations.

In order to differentiate between the foundational philosophies of Islamic economics, the Islamic philosophy has been taken as a point of departure to review the literature on Islamic CSR in Chapter 4. Two approaches to Islamic CSR have been identified: the Islamic-adjusted CSR approach, and innate Islamic CSR. However, the review of the literature has revealed that authors using both approaches tend to theoretically subscribe to Islamic worldviews and moral axioms as well as the *maqasid al-Sharia* but with no clear link being provided between these and the specific characteristics of Islamic knowledge and methodology used to produce that knowledge. Thus, followers of the Islamic-adjusted CSR approach do not provide suitable epistemological and ontological justifications or rationales for using conventional CSR approaches and models. Conversely, followers of the innate Islamic CSR approach do not provide a rational philosophical reasoning for not using conventional CSR frameworks and approaches. In fact, authors on Islamic CSR usually apply the higher macro *maqasid al-Sharia* of society

(i.e. the five macro essentials as explained in Chapter 4) in their writings as principles without taking into consideration that *maqasid al-Sharia* includes micro objectives and the interests of individuals as well. In fact, the rules governing the settlements between macro and micro *maqasid* are part of the Islamic epistemology that revolves around the *Sharia* jurisprudence method. The *Sharia* method provides *Sharia* rulings for all behaviours of IFIs. Therefore, ICSR literature lacks a linkage between the Islamic worldview, moral axioms, *maqasid* and the *Sharia* jurisprudence method. The last one is very important because it facilitates the operationalisation of the *Sharia* objectives so that they can be achieved through proper *Sharia* rulings reflected in the managerial systems of IFIs.

Furthermore, some literature on using *maqasid al-Sharia* as indicators to measure the ethical performance of IFIs was reviewed in Chapter 4. The results of review indicate that measuring values in general is not faire (Bedoui & Mansour 2015) because of what is known as the “context dependence of moral action” that may affect the norms and values by making them “not fixed” (Graafland, Eijffinger & Smid Johan 2004).

The context dependence of the moral actions is explicitly treated in the theory of *maqasid al-sharia* and the related jurisprudence method (e.g. Abu Zahra 1997; Al-Najar 2006; Al-Shatibi in Al-Raysuni 2006). The context dependence of the moral action is achieved through the *Sharia* jurisprudence method that deals explicitly with the predomination and settlement between the conflicting *Sharia* objectives as well as the individual *Sharia* compliant interests (*masalih*). Thus, Islamic CSR targets the settlement and predomination of those objectives and interests in order to achieve contextual *Sharia* objectives that suit the contemporary needs of human beings. Such a departure point for the development of the ICSR framework of this research is highlighted by a prominent Islamic economic scholar who argued that justice and equity in changing circumstances can be ensured by the guidance of reason (Siddiqi 2004, cited in Asutay 2007b). Thus, the *Sharia* jurisprudence method is the proper guidance of reason to produce timely and contextual ethical rulings for IFIs. Furthermore, Siddiqi emphasises that justice and equity cannot be limited to a finite list (i.e. the five *Sharia* objectives defined by Al-

Ghazali) (Asutay 2007b). Consequently, the present research has developed the ICSR framework to deal with the infinite ethical requirements but with the guidance of the Islamic CSR principles discussed in Chapter 4.

Consequently, the literature review in Chapter 4 has uncovered several theoretical gaps in the nascent Islamic CSR literature. The first gap is represented by the philosophical justification for using conventional CSR frameworks. The second is represented by specifying methodologies that combine Islamic worldviews and epistemology when addressing Islamic CSR. The third gap is represented by the need for frameworks for both implementing Islamic CSR, where Islamic CSR is the process of integrating, predominating and settling the different *Sharia* objectives as well as individual objectives and interests so that contemporary *Sharia* objectives can be achieved. This is in addition to the linkage between the Islamic worldview, moral axioms, *maqasid* and the *Sharia* jurisprudence method.

9.3. The theoretical framework

The theoretical framework of the present research has been addressed in Chapter 6 based on the normative philosophical foundations of Islamic CSR reviewed in Chapter 4. The moral principles of the Islamic worldviews of the individual (i.e. vicegerency and free-will) have been explained in addition to those of the Islamic worldview of society (i.e. justice, beneficence and brotherhood). When those two kinds of worldviews are reflected in real transactions between individual organisations and other market forces, the moral framework of Islamic CSR appears to be based on synthesizing and harmonizing all moral principles, on the one hand, and settling and harmonizing the micro objectives of business organisations with the macro objectives of society on the other hand. The end results of the interaction in the market contribute to the achievement of contemporary infinite list of *maqasid al-Sharia* (Siddiqi 2004, cited in Asutay 2007b) In this regard, *maqasid al-Sharia* has been explained in accordance with Al-Shatibi's theory of *maqasid* (Al-Raysuni 2006) in addition to Abu Zahra (1997) and Al-Najar (2006).

Scholars of *maqasid Al-Sharia* usually refer to several types and classifications of those *maqasid*. Those classifications are mainly used as the tools for ranking and predominating the *maqasid* in a specific context according to the ranks of *maslaha* (i.e. the ranks of *maqasid* in terms of being essentials, embellishments, or exigencies) (Abu Zahra 1997; Al-Raysuni 2006; Al-Najar 2006). Such a classification shall include the higher *maqasid al-Sharia* at a macro level in addition to the IFIs' *Sharia* compliant objectives and interests at a micro level. The settlement between those macro and micro objectives shall definitely be in accordance with the proper implementation of the *Sharia* jurisprudence method, which shall definitely lead to the achievement of an infinite list of contemporary *maqasid*.

Given all of these findings, the normative part of the main question of the research (see Figure 9.1) has been addressed. However, the instrumental part is the subject of Chapter 6, where a framework for implementing and measuring Islamic CSR has been developed. Thus, the key challenge when developing the framework for Islamic CSR (ICSR) (see Chapter 6) has been the reflection of the *Sharia* jurisprudence method in a managerial framework that can be implemented by IFIs. That challenge has been initially dealt with through the managerial implementation of the 'plan, do, check, and act' (PDCA) cycle which has been identified as being used by management in general and in CSR management specifically. From a review of the PDCA literature it is found that the PDCA cycle is mainly based on the scientific method where a loop between deductive and inductive approaches is applied within managerial frameworks. Thus, the *Sharia* jurisprudence method can be used instead of the scientific method for a PDCA model. In fact, the review of the *Sharia* jurisprudence method indicates that it also has a loop between inductive and deductive approaches, but in accordance with Islamic worldviews and epistemology. Hence, a contribution has been made to filling the gaps found in the review of the Islamic CSR literature.

After that, a review of the most widely used international standards (i.e. ISO 26000; GRI; Accountability), as well as of the corporate social performance CSP model as the most popular instrumental model for CSR, was conducted to make use of the procedural steps

for implementing and measuring CSR. Thus, five phases of implementing CSR have been identified: stakeholder engagement, planning, implementation, assurance, and improvement. The stakeholder engagement and planning phases have been considered as reflecting the inductive stage, which underlies the planning step in the PDCA, in the *Sharia* jurisprudence method. This is because the stakeholder engagement stage is considered to be a source of information that is used managerially in the projection of the context in which an IFI is going to operate; hence, the induction of the required *Sharia* rulings that contribute to the achievement of *maqasid al-Sharia* while balancing the micro objectives of IFIs and the macro objectives of society. As for the implementation and assurance phases, they are reflected in the deduction stage which underlies both the 'do' and 'check' steps of the PDCA. This is because implementation and assurance provide the required tests ensuring that what had been planned has been suitably implemented in ways that accord with the projected end results. Finally, the improvement phase is considered to be a reflection of the 'act' step in the PDCA cycle, while it is linked with the induction and deduction stages of the *Sharia* jurisprudence method.

In chapter 6, the CSR attributes derived from the principles of Islamic CSR discussed in Chapter 4 have been used as guidance to identify contemporary *masalih* (benefits) and *mafasid* (harms) that would facilitate the ranking of the contemporary *Sharia* objectives in accordance with *maslaha*.

9.4. The empirical findings

As the present research uses both deductive and inductive approaches, the empirical findings are explained in terms of answering the research questions related to the results of the hypothesis testing, on the one hand, and those related to statistical induction on the other hand. Furthermore, the discussion of the empirical results provides linkages between the empirical findings and the theoretical findings. However, the discussion of the empirical results is presented in accordance with the order of the research questions explained in Chapter 1.

As for the deductive approach to test the hypotheses of the research, the aim is to investigate the claim of the research that the developed ICSR framework can describe reality. This is conducted through testing a set of nine null hypotheses that are logically linked to each other in a sequential order. The first set of hypotheses concern the synthesis between the elements of the ICSR framework. This is because the ICSR framework is cyclical and based on the loop between the deductive and inductive stages of the *Sharia* jurisprudence method underlying the PDCA cycle. Thus, the associations between the stages of the *Sharia* jurisprudence and accordingly the 5 phases of the ICSR are the concern of the null hypotheses H_{01} - H_{04} .

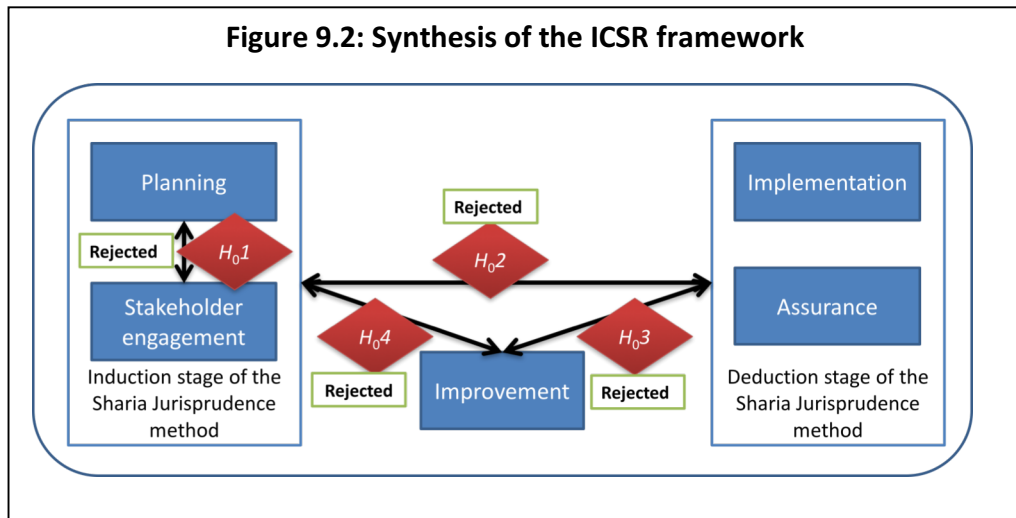
The rejection of those null hypotheses has provided statistical evidence that the ICSR is synthesized. Accordingly, the hypotheses testing has moved to the next step of investigating the variance of the levels of ICSR implementation across the organisational differences. This is because the literature of the PDCA indicates that it is adaptable according to the nature and needs of businesses.

9.4.1. The ability of the ICSR framework to describe reality

One of the core questions serving the main research question in this study is the ability of the developed ICSR framework to describe reality. To answer this question deductively, nine hypotheses have been developed and tested. Moreover, some other statistical analysis has been conducted to provide further support for the results of the testing of hypotheses. However, the answer to the research question concerning if the statistical evidence supports the ability of the PDCA framework of Islamic CSR to describe reality is investigated at three levels: (1) the synthesis between the components of the ICSR; (2) the significant statistical differences in the levels of implementing ICSR by GCC IFIs according to organisational differences; and, (3) the relationship between the implementation of ICSR and the level of *maqasid* knowledge of the *Sharia* employees of GCC IFIs.

9.4.1.1. The synthesis of the ICSR

Four null hypotheses have been developed and tested with relation to the synthesis of the components of the ICSR framework. The relationships between the components of that framework are illustrated in Figure 9.2 (see also Tables 8.1 and 8.2 in Chapter 8).



The first phase of the *Sharia* jurisprudence method, which underlies the PDCA cycle of the ICSR framework, is to find a normative ruling (i.e. already standardised in the case of IFIs) and then to project the reality in which the normative ruling is going to be implemented. The 'rationale' of the standardised ruling requires information to be collected in order to project the end results (*ma'alat*) of the *Sharia* ruling when it is implemented. The information required in this regard is collected from the scanning of the environment in which IFIs operate in addition to engaging stakeholders. The information is then processed and synthesized in the planning phase. This means that the practices of the planning phase can influence or be influenced by those of the stakeholder engagement phase as explained in Chapter 6. Thus, the first relationship to be tested has been between the stakeholder engagement phase as one variable and the planning phase as the other. The Spearman's *rho* correlation revealed that there is a moderate significant positive relationship ($r = .0489, p = 0.010$) between these variables, hence the rejection of the first null hypothesis. The existence of the positive relationship between the stakeholder engagement phase and the planning phase underlying the induction stage of

the *Sharia* jurisprudence method indicates that those two phases affect each other positively. This is because the stakeholder engagement phase provides information that can be used in the planning phase, while the planning phase, with the information collected through the implementation and the assurance phase, can affect the stakeholder engagement phase. The same argument is provided in the framework for CSR that has adopted PDCA as a managerial model for implementation (Asif et. al. 2011). Furthermore, the existence of this relationship is consistent with the logical flow of the CSR process provided in the international standards (The GRI's Reporting Guidelines 2003-2011; AA1000 Assurance Standard 2008) and the framework for CSR of Asif et. al. (2011) (see Chapter 6).

The planning and stakeholder phases together represent the induction stage of the *Sharia* jurisprudence method underlying the ICSR framework. This stage has been hypothesised to have a relationship with the deduction stage according to the literature on the PDCA cycle that indicates there is a cyclical relationship between the induction and deduction stages of the scientific method (Martensen & Dahlgaard 1998; Speroff & O'Connor 2004) (see Chapters 3, 4 and 6). It is worth mentioning here that the induction stage of the *Sharia* jurisprudence method is different from that of the scientific method. This is due to the unique Islamic epistemology as explained in Chapter 4.

The planning and stakeholder engagement phases provide the basis for the *Sharia* rulings and their *Sharia* objectives according to which products, services, and operations in general are designed. Therefore, this stage is equivalent to the induction stage in the *Sharia* jurisprudence method (Al-Nashar 1984; Al-Suwailem 2013). In this regard, the implementation and assurance phases in the framework for ICSR are together considered as a stage of deduction in the *Sharia* jurisprudence method. It is worth mentioning here that deduction in Islamic jurisprudence is recognised by medieval *Sharia* scholars (Al-Nashar 1984) (See Chapter4).

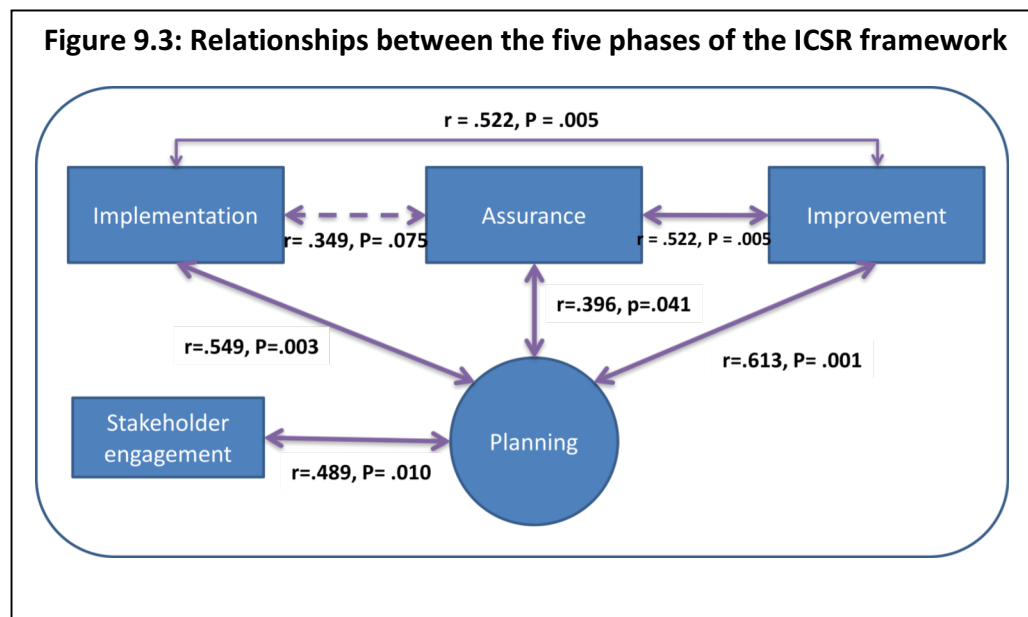
The Spearman's *rho* correlation test has revealed that there is a moderate significant positive relationship ($r = 0.404$, $p = 0.036$) between the induction stage (i.e. the stakeholder engagement and planning phases) and the deduction stage (i.e.

implementation and assurance phases) of the *Sharia* jurisprudence method underlying the ICSR framework; hence, the rejection of null hypothesis 2. Such a positive relationship between the induction and deduction stages of the *Sharia* jurisprudence method indicates that the practices in one stage can influence or be influenced by the other. This finding is consistent with the literature on *Sharia* jurisprudence method (Al-Nashar 1984; Al-Suwaliem 2013) and the scientific method underlying the PDCA cycle (Shewhart 1939, cited in Moen & Norman 2010). Furthermore, according to the IFSB standard on *Sharia* governance in IFIs (IFSB 2009), there are two functions for the *Sharia* advisory boards SBBs in IFIs. The first is the ex-ante review of the design and development of the services, products and contracts of the IFIs. The second is the ex-post review or auditing of the offering of products and services to clients and the engagement of the IFI in contracts. In general, the first function is related to formulating *Sharia* rulings that are binding on the IFI; whilst the second function is to ensure that the IFI has complied with the *Sharia* rulings issued. Clearly, those two functions represent the two stages of the *Sharia* jurisprudence method. Thus, the existence of the positive relationship between the induction and deduction stages of the *Sharia* jurisprudence method theorized in this research is consistent with IFSB (2009). Nonetheless, the current practices of the SABs and the *Sharia* departments accordingly are under consideration in terms of being fully compliant with the literature of the *Sharia* jurisprudence method provided in Al-Nashar (1984); Al-Najar (2006) and Al-Suwailem (2013). Thus, the evidence on that shall determine the level of such compliance; hence the contribution to *maqasid al-Sharia* that includes the Islamic CSR.

From a managerial point of view, the link between the inductive and deductive stages of the scientific method underlying the PDCA is the improvement phase. This is because that stage is dedicated to make use of the data collected during the implementation and assurance phases (the deductive stage), and then convert that data into useful information to improve and amend the inductive stage via the planning phase of the PDCA (See Tricker 2005). In this regard, the third and fourth null hypotheses testing are directed to the cohesiveness of the cycle between each of the two stages of the *Sharia* jurisprudence method and the improvement phase. The Spearman's *rho* correlation test has revealed that

there is a strong significant positive relationship ($r = 0.508, p = 0.007$) between the deduction stage of the *Sharia* jurisprudence method underlying the framework of Islamic CSR and the improvement phase; hence, the rejection of null hypothesis 3. Similarly, there is a strong significant positive relationship ($r = 0.528, p = 0.005$) between the improvement phase and the induction stage of the *Sharia* jurisprudence method, and hence the rejection of null hypothesis 4. These findings are consistent with the theory of implementing the scientific method in the PDCA cycle as a managerial framework (Martensen & Dahlgaard 1998; Speroff & O'Connor 2004).

As shown in Figure 9.2, statistical evidence does support the idea that the ICSR framework is synthesized through significant positive relationships between the components. Moreover, other evidence that supports the synthesis of the ICSR framework has been found in the relationships between the five phases of ICSR (i.e. stakeholder engagement, planning, implementation, assurance, and improvement). The results of the Spearman's *rho* correlation tests for the relationships between the five phases of the ICSR framework are illustrated in Figure 9.3 (see Table 8.2 in Chapter 8).



Spearman's *rho* correlation test has revealed that the 'plan, do, check and act' stages of the PDCA represented by the planning, implementation, assurance, and improvement

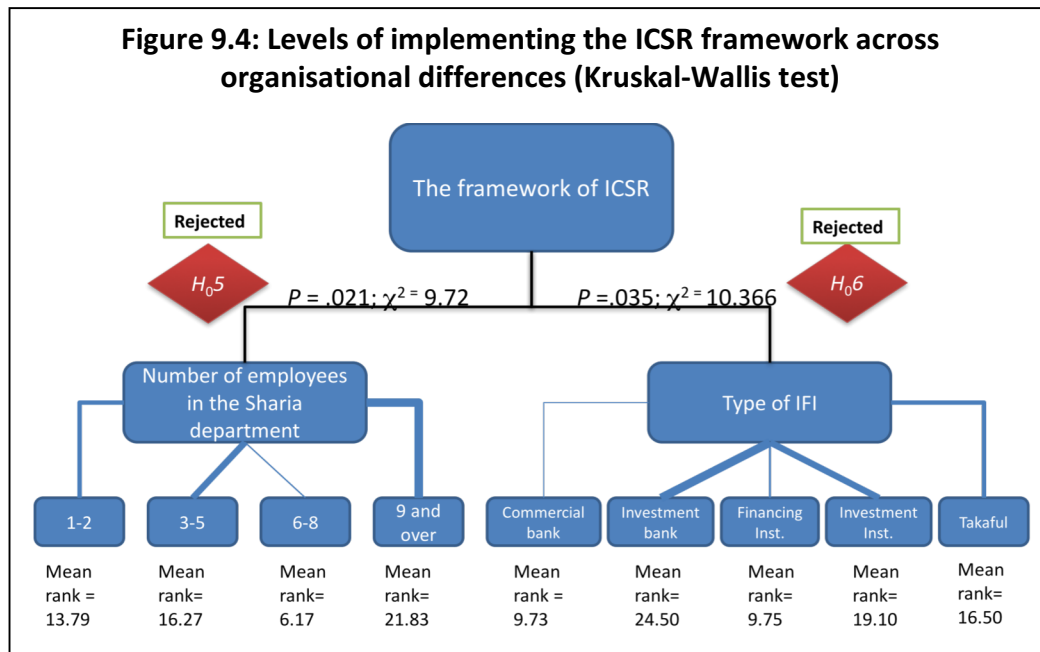
phases of the ICSR do have significant positive relationships with each other at the probability level of $p < 0.05$, except for the relationship between the implementation and assurance phases which is significant only at a probability level of $p < 0.10$. This means that all four phases are positively influenced by each other indicating cohesion amongst them. These findings are logically consistent with the 'cycle' concept of the PDCA (Martensen & Dahlgaard 1998; Speroff & O'Connor 2004; Tricker 2005). The stakeholder engagement phase only has a significant positive relationship with the planning phase. Such a relationship implies that the interaction with stakeholders is limited to the planning phase, a finding that is considered as logical because the input and output of the stakeholder engagement phase (i.e. normally a dialogue) are influenced by or influence managerial practices in the planning phase. Those managerial practices are transformed into other managerial practices in the implementation, assurance and improvement phases, and hence there is no relationship between those phases and the stakeholder engagement phase. This finding is consistent with the PDCA framework for implementing CSR provided by Asif et. al. (2011).

With the statistical evidence supporting the synthesis between the components of the developed ICSR framework, the first level of proving the ability of the ICSR to describe reality is achieved. However, the second step is to investigate the variance of the levels of ICSR implantation across organisational differences in order to support the claim that a PDCA cycle is a "one size fits all" (Tricker 2005). This means that, if the components of the ICSR are synthesised in a form of positive relationships between them, then the implantation of the ICSR should vary across the organisational differences.

9.4.1.2. The levels of implementing ICSR across organisational differences

The second level of evidence supporting the claim that the ICSR framework can describe reality is related to the investigation of the statistical evidence that the levels of implementing ICSR vary with organisational differences in the GCC IFIs covered in the survey. This is because the theory, and in fact the practice, of the PDCA model indicates that the model is 'one size fits all', meaning that it can be adapted in accordance with organisational differences (Tricker 2005). Figure 9.4 illustrates the findings of the

Kruskal-Wallis test on the differences in levels of implementing the ICSR by GCC IFIs according to two organisational differences: the number of employees in the *Sharia* departments and the nature of the business of the IFIs represented by the type of licensing. These results have been presented in Table 8.3 in Chapter 8.



The Kruskal-Wallis test results have revealed that there is a statistically significant difference in levels of implementing the ICSR framework by GCC IFIs depending on the number of employees in their *Sharia* departments; hence the rejection of null hypothesis 5. This finding requires more study on the optimal relationship between the size of the *Sharia* department or of the IFI and the levels of implementation of the ICSR framework, which is beyond the scope of the present research.

As for the differences related to the type of IFI, the Kruskal-Wallis test results revealed that there is statistically significant difference in levels of implementing the ICSR framework depending on the nature of their business; hence null hypothesis 6 is rejected. Combining the significant differences in ICSR implementation levels across the size of *Sharia* departments and types of IFIs, these findings are consistent with the literature on

PDCA, indicating that it can be adapted to suit different organisational characteristics (Tricker 2005).

Of the significant differences in ICSR implementation across types of IFIs, the highest mean rank (24.5) is related to the investment bank. Nonetheless, this type of IFI might be considered as an outlier because there was only one case in the sample. However, the second highest mean rank (19.10) related to the investment institutions (n = 10). In this regard, it is worth noting that these 10 investment institutions are located in Kuwait, where their licenses as business banks are not granted by the regulator. Meanwhile, the commercial banks (n = 13) had the lowest mean rank (9.73) which is slightly lower than that (9.75) of the financing institutions (n = 2). Apparently, IFIs with financing as the nature of their business have lower mean ranks than investment firms. This finding may be related to circumstances accompanying this type of business; for example, the size of their customer base, the number and nature of daily transactions, and the type and size of stakeholders, including customers, which could affect the extent to which the managerial practices of the ICSR framework, are implemented.

Although the rejection of null hypotheses 5 and 6 might be sufficient to establish the alternative hypotheses regarding the statistical differences in the levels of implementing the ICSR framework according to the size of the *Sharia* departments and the nature of the business of GCC IFIs, a further test was conducted to support the rejection of those hypotheses. The Kruskal-Wallis test has been conducted to determine if there are statistically significant differences in the levels of implementing the ICSR framework according to individual differences among the respondents. The results revealed that there were no statistically significant differences in levels of ICSR implementation by the sample GCC IFIs according to individual characteristics among the respondents representing those IFIs (see Chapter 8, Table 8.3). The individual differences tested are the field and level of education and years of experience of the respondents.

The rejection of the null hypotheses 1-6 and the formulation of the alternative hypotheses accordingly give statistical evidence that the ICSR developed in this research can describe reality. Thus, it can be reliable in providing evidence on the relationship between the

ICSR and the *maqasid* knowledge of the respondents. This is because the PDCA literature indicates that the implantation of the PDCA shall provide profound knowledge on what has been implemented (Martensen & Dahlggaard 1998; Speroff & O'Connor 2004). This is addition to the reliability of the measurement of the extent to which IFIs contribute to the achievement to an infinite list of *maqasid al-Sharia* (Siddiqi 2004, cited in Asutay 2007b) based on the extent to which they implement the *Sharia* jurisprudence method underlying the ICSR framework.

9.4.1.3. The ICSR and the respondents' levels of *maqasid* knowledge

Once the components of the ICSR framework have been proven to be synthesized and the implementation of the framework has been proven to vary in accordance with organisational differences, the next step is to investigate the relationship between the levels of ICSR implementation by GCC IFIs and the levels of the respondents' knowledge on *maqasid al-Sharia*. The aim of such a test is to provide two types of evidence. The first is based on the fact that the ICSR has already been statistically proven to be reliable in describing reality, then the type and magnitude of the relationship between the levels of ICSR implementation and the levels of the respondents' knowledge of *maqasid* shall provide some insights on how the practices of IFIs lead to the achievement of an infinite list of *maqasid al-Sharia*. The second is represented by the fact that if there is a relationship between the levels of ICSR implementation and the levels the respondents' *maqasid* knowledge, then more statistical evidence is gained to support the claim of the present research that the ICSR can describe reality.

In Chapter 4, it has been explained that the PDCA model is a producer of knowledge that is accumulated over time with a continuous loop of the steps of the PDCA and the underlying deductive and inductive stages of the scientific method (Martensen & Dahlggaard 1998; Speroff & O'Connor 2004). In the case of the ICSR framework, the *Sharia* jurisprudence method, when it is the basis of a PDCA model, is hypothesised to produce knowledge that is linked to the *maqasid al-Sharia*. This is because the PDCA recognises that the knowledge produced is related to the implementation of what has been planned for in successive cycles of plan, do, check, and act phases.

As explained in Chapter 6, the whole process of the *Sharia* jurisprudence method is conducted to link the implementation of the *Sharia* rulings with *maqasid al-Sharia* in accordance with the three ranks of *maslaha* in order to project the context in which the standardised rulings are going to be implemented as products and services of IFIs. In this regard, the relationship between the *Sharia* employees' knowledge of *maqasid al-Sharia* and the framework of ICSR has been the concern of null hypothesis 7. The results of the Spearman's *rho* correlation between the ICSR framework and levels of *maqasid* knowledge have been presented in Table 8.5 in Chapter 8. The Spearman's *rho* test results revealed that there is a strong significant negative relationship ($r = 0.532, p = 0.004$) between the levels of *maqasid* knowledge of the respondents and the levels of ICSR implementation by their organisations; hence the rejection of null hypothesis 7.

The interpretation of this negative relationship can be theoretically justified by identifying the type of knowledge actually produced by the ICSR and the type of knowledge actually acquired by the employees from external sources. When conducting the survey, it was conditional that any participating respondent had to have studied *maqasid al-Sharia* as part of their education, or had to be aware of them. In this regard, the *maqasid* knowledge of the respondents was assumed to have been explicitly acquired from external sources (i.e. education). However, the ICSR framework is theoretically supposed to produce *maqasid* knowledge because it is based on the PDCA cycle and the underlying *Sharia* jurisprudence method; hence, the acquisition of such knowledge by respondents over years of experience in the field. To statistically investigate those two types of knowledge acquisition, null hypotheses 8 and 9 have been developed and then tested using the Kruskal-Wallis test (as presented in Table 8.6 in Chapter 8), which has revealed the following:

Levels of knowledge of maqasid significantly vary depending on the respondents' fields of education.

The highest mean rank (18.18) is related respondents with *Sharia* as their field of education. Thus null hypothesis 8 is rejected. Furthermore, the Kruskal-Wallis test (see Table 8.6 in Chapter 8) results revealed that the respondents' levels of *maqasid*

knowledge varied depending on level of education (i.e. bachelor, masters, or PhD degrees; a finding that further supports the claim that *maqasid* knowledge has been explicitly acquired through education.

Levels of maqasid knowledge do not vary depending on years of experience

The Kruskal-Wallis test results revealed that the levels of *maqasid* knowledge do not vary with the years of experiences of respondents. Thus, null hypothesis 9 has been accepted.

From these findings, it can be said that the *maqasid* knowledge of the respondents is explicitly acquired through the external source of education, but not from sources internal to their organisations. In fact, the Kruskal-Wallis test results revealed that the group of respondents with *Sharia* or any of its branches as their field of education (n=17) gained the highest mean rank in *maqasid* knowledge (see Table 8.6 in Chapter 8). Therefore, the negative relationship between the levels of *maqasid* knowledge and levels of ICSR implementation can be interpreted as follows:

The surveyed GCC IFIs do not make use of the maqasid knowledge already explicitly acquired from their Sharia employees' education, and specifically from Sharia education.

The levels of implementing the Sharia jurisprudence method by the surveyed GCC IFIs do not produce at least the basic maqasid knowledge investigated in the survey.

The current practices of GCC IFIs are inconsistent with the maqasid knowledge.

The higher the levels of the maqasid knowledge of the respondents, the lower they view their organisations implanting the ICSR.

To provide support for these findings, further statistical investigation has been carried out on the relationship between the levels of *maqasid* knowledge and ICSR implementation. The following methodology was used:

1. The average score of responses to each question in the ICSR scale for each respondent was calculated. Note that each question in the scale has a minimum score of zero and a maximum score of 2.
2. The average score of answers to each question in the *Maqasid* knowledge scale for each respondent was calculated. Again each question in this scale has a minimum score of zero and a maximum score of 2.
3. The difference between the above two variables for each respondent was determined based on the following equation: Average ICSR – Average *Maqasid* Knowledge. This new variable is called: “Difference” and abbreviated as DIF.

A descriptive analysis of the new variable, DIF, is shown in Table 9.1.

Table 9.1: Descriptive statistics for the DIF variable

N	Valid	27
	Missing	0
Mean		-0.2389
Std. Deviation		0.96947
Skewness		0.240
Kurtosis		-1.368
Minimum		-1.70
Maximum		1.25
Sum		-6.45

As shown in Table 9.1, the sum of the DIF for all cases is -6.45, meaning that the average score in the ICSR scale is lower than the average score in the *Maqasid* scale. This is also indicated by the mean score of -0.239 along with the standard deviation of 0.969. The skewness of 0.240 also indicates that the tail of the distribution of the scores is toward the upper end of the scale, with the majority clustered in the lower end; whilst the kurtosis of -1.368) indicates that the scores are down the peak. The distribution of the scores of the DIF is shown in Table 9.2.

Table 9.2: The distribution of the DIF scores across respondents

Score category	- 2 to - 1	- .99 to 0	.1 to 1	1.1 to 2
Frequency	8	9	6	4

As shown in Table 9.2, 17 of the respondents (63 per cent of the sample) had DIF scores of zero or less. Of those, 8 respondents had DIF scores of -1 and lower; whilst, the remaining 37 per cent of the sample had DIF scores greater than zero. Only 4 respondents (15 per cent of the sample) had DIF scores greater than 1. However, only one respondent

had a DIF score of zero, which is the equilibrium between the average score of the *maqasid* knowledge scale and the average score of the ICSR scale.

With these descriptive findings, it is clear that the higher the respondents' level of *maqasid* knowledge, which is from external sources, the less they view their organisations as having implemented ICSR. Taking the test inferentially further, a Spearman's *rho* correlation between the new variable (i.e. DIF) and the *maqasid* knowledge and ICSR has been conducted. Table 9.3 shows the results of this correlation.

Table 9.3: Spearman's *rho* Correlation between DIF, *Maqasid* Knowledge, and ICSR

		DIF	<i>Maqasid</i> knowledge	ICSR
DIF	Correlation Coefficient	1.000	-0.937	0.758
	Sig. (2-tailed)	.	0.000	0.000
<i>Maqasid</i> knowledge	Correlation Coefficient	-0.937	1.000	-0.532
	Sig. (2-tailed)	.000	.	0.004
ICSR	Correlation Coefficient	0.758	-0.532	1.000
	Sig. (2-tailed)	0.000	.004	.

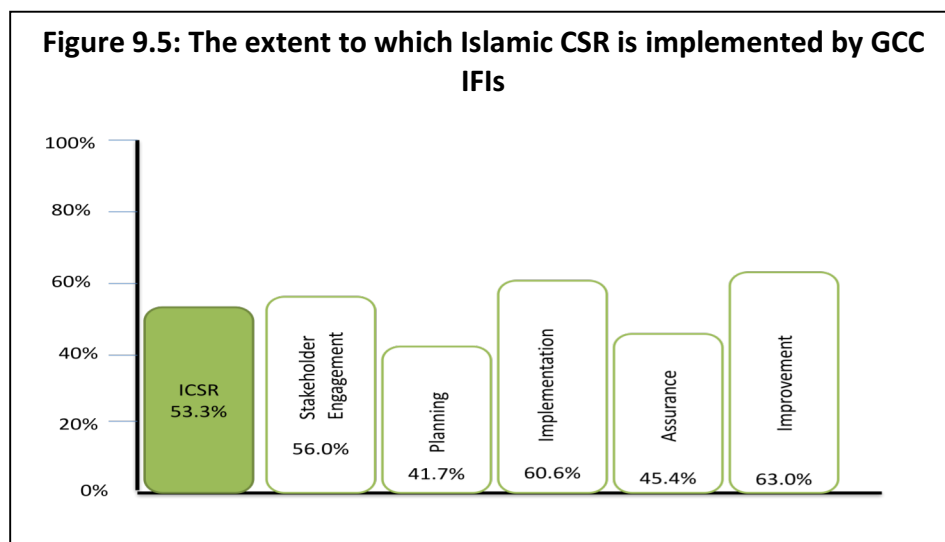
The DIF has a strong significant negative relationship ($r = -0.937, p < 0.001$) with the total scores for *maqasid* knowledge, and a strong significant positive relationship ($r = 0.785, p = 0.000$) with the ICSR. By inference this means that the higher the level of *maqasid* knowledge acquired through education, the less the respondents viewed their IFIs as having implemented ICSR. In other words, the surveyed GCC IFIs do not make use of the *maqasid* knowledge acquired by their *Sharia* employees through education. This is because the *Sharia* jurisprudence method is not efficiently implemented and integrated with the managerial practices of the GCC IFIs. This is also proven by the lack of statistical evidence to support any variation in levels of *maqasid* knowledge with years of experience.

9.4.2. The extent to which Islamic CSR is implemented by GCC IFIs

As explained, the inferential analysis has proved that the ICSR framework with the underlying *Sharia* jurisprudence method has the ability to describe reality. The synthesis

between the components of the ICSR (i.e. the relationships between the stages of the *Sharia* Jurisprudence method and the relationships between the five phases of the ICSR), as well as the variation in the levels of implementing the ICSR across the organisational differences of GCC IFIs provides statistical evidence that the ICSR framework developed in Chapter 6 can describe reality. Therefore, using the ICSR framework to gauge the extent to which Islamic CSR is implemented by GCC IFIs can provide reliable and sound results. Those results have been descriptively presented in Chapter 7 and are discussed in the present section and then linked to some of the findings of the inferential analysis.

As shown in Table 7.13 in Chapter 7, GCC IFIs have slightly above average implementation levels of Islamic CSR. The total score of the respondents in the ICSR scale amounted to 53.3 per cent of the total possible score. Figure 9.5 summarises the extent to which ICSR framework is implemented by GCC IFIs.



The highest percentage score for the different phases of the ICSR framework was related to the improvement phase (63 per cent) followed by the implementation phase (60.6 per cent) and then the stakeholder engagement phase (56 per cent). Those phases are relevant to the phases of planning (41.7 per cent) and assurance (45.4 per cent). This is because the output of the stakeholder engagement phase is supposed to be used in the planning phase and then reflected in the implementation phase. Furthermore, the output of the

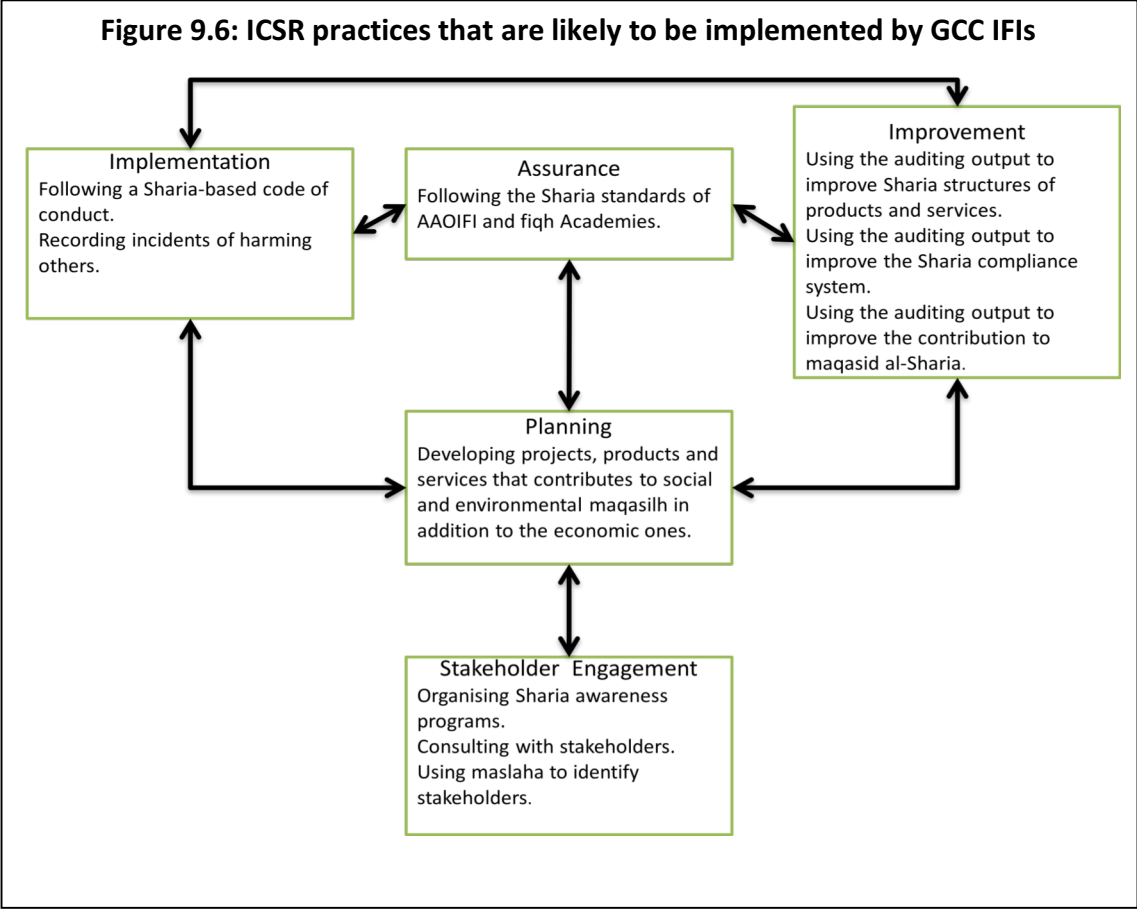
assurance phase is supposed to be the result of gauging what has been implemented to what had been planned; whilst the improvement phase is reliant on the output of the assurance phase. By inference, the significant positive relationships between all of the phases have already proven the consistency with the ICSR framework developed in Chapter 6 and the PDCA framework for implementing CSR provided by Asif et. al. (2011).

In fact, the planning phase has a significant positive relationship with each of the other four phases; thus, the higher the score for the planning phase, the higher the scores in all other phases and vice versa. Such findings are similar to the results of Arasa & K'Obonyo (2012), who found that defining the firm's corporate purpose, scanning the business environment, identification of the firm's strategic issues, strategy choice and setting up of implementation, evaluation and control systems were positively related to company performance. In the case of the surveyed GCC IFIs, the planning phase is proven to be below average, meaning that all other phases of the ICSR framework are affected accordingly. In this regard, it is worth mentioning that, out of the first 13 GCC IFIs surveyed in the present research, only 3 had planning departments or at least one person in charge of planning. This also supports the findings that GCC IFIs lack appropriate planning.

Reflecting the weak planning practices on the *Sharia* jurisprudence method, the normative (standardised) *Sharia* contracts are implemented with weak practices to project the environment into which those rulings are going to be implemented. Thus, the end results in terms of the behaviour, actions, products, and services of IFIs are poorly considered not only in terms of projection, but also in terms of assurance, and accordingly improvement. In fact, those end results are very important in contributing to the achievement of the contemporary infinite *maqasid al-Sharia* at both the macro and micro levels. Therefore, it is logical for the level of Islamic CSR commitment of GCC IFIs to be only slightly above average. Furthermore, these findings are consistent with El-Gamal's (2006) description of the current practices of IFIs as not being constructively built from classical jurisprudence, but they are alternatives or modifications of

conventional practices that are sought whenever the latter deemed forbidden. This is in addition to the argument of Yusof & Khan (2010) who explained that the *Sharia*-compliant practices of IFIs are limited to structuring contracts so as to be permissible without taking into consideration the *maqasid al-Sharia*. Accordingly, it can be said that the criticism of IFIs for not contributing to the socio-economic objectives built in their business models (Choudhury 1994; Badr El Din 2006; Sairally 2007) or not achieving the aspiration of Islam by subscribing to the neo-classical value-free business models (Asutay 2007a; Zaman Y Asutay 2007) seem to be valid as long as IFIs do not implement the proper *Sharia* jurisprudence method that enables them to achieve contemporary *maqasid al-Sharia*.

Taking the discussion to further statistical support on the above findings, the practices of IFIs have been divided into two groups based on likelihood of occurrence. Then comparisons between those two groups are held in terms of the relationship between them and the relationship between each of them and the levels of *maqasid* knowledge. In Table 8.7 in Chapter 8, the scores of the twenty practices included in the ICSR were ranked in accordance with the average mean of all the scores (1.067). Accordingly, 10 practices had mean scores greater than 1.067, with the other 10 below that interval point. This means that there are 10 practices which were likely to be implemented by the GCC IFIs; whilst the other 10 practices were not likely to be implemented. Figure 9.6 provides a mapping of the practices likely to be implemented by GCC IFIs.



Although GCC IFIs appear to have above average levels of stakeholder engagement, the output of that engagement appears not to be properly used in the planning phase. The IFIs were thought by respondents to develop projects, products and services that contributed to the achievement of social and environmental *masalih* without refining their objectives to do so. Furthermore, they were not likely to conduct environmental scanning that integrates socially responsible *masalih* with economic ones. Thus, they were not likely to develop KPIs that include socially responsible indicators (*masalih*) to be considered as end results (*ma'alat*) upon which the auditing and assurance is going to take place. Thus, the operations of GCC IFIs appear to be based on random planning even though they follow *Sharia*-compliant codes of conduct. However, it is worth mentioning that the GCC IFIs are likely to be following the *Sharia* standards of the AAOIFI and *fiqh* academies. This means that they are implementing those normative (standardised) *Sharia* contracts as they are, without projecting the contexts into which those ruling are going to be

implemented. Thus, the *Sharia* auditing is likely to be limited to compliance with the appropriate implementation of those normative contracts without the checking of end results which would help in measuring the achievement of *masalih* and eventually *maqasid*. This is also supported by the fact that, for the GCC IFIs, improvement is limited to the enhancement of the *Sharia* structures of the products so that they can comply with normative standards while enhancing the overall compliance system based on that. In this regard, respondents viewed their organisations as improving their contribution to the achievement of *maqasid al-Sharia* based on the improvement of the *Sharia* structures of the products and services and the improvement of the compliance system which mainly relies on compliance with the normative *Sharia* standards.

Such an argument leads to a controversial claim that some of the IFIs' *Sharia* experts when discussing the contribution of IFIs to the achievement of *maqasid al-Sharia* believe that: "if IFIs implement the normative *Sharia* standards, the *maqasid* will be achieved"⁸⁸. This claim can be addressed statistically by investigating the correlation between the practices that are likely to be implemented and the practices that are not likely to be implemented by the GCC IFIs. Apparently, the practices that are likely to be implemented are related to the implementation of the standardised *Sharia* contracts. However, that group of practices (i.e. those likely to be implemented) has a strong significant positive correlation ($r = 0.583, p = 0.001$, see Table 8.8 in Chapter 8) with the group of practices that are not likely to be implemented. This means that each group of practices enhances the other. Accordingly, the claim that the implementation of the standardised contracts with the current practices of IFIs (i.e. practices that are most likely to be implemented) should lead to the achievement of *maqasid al-Sharia* is invalid because the objective evidence proof they can be more enhanced by the practices that are not likely to be implemented. Moreover, this means that the current practices of IFIs lead to incomplete or in proper implementation of the *Sharia* jurisprudence method. However, further investigation of the relationship between the two groups of IFIs practices and the respondents' levels of *maqasid* knowledge shall provide more insights on what have been

⁸⁸ Such a claim was raised by Shaikh Dr. Hussein Hamed Hassan, a senior *Sharia* scholar, and member of tens of SSBs, during the Durham University Strategic Round Table on *Maqasid Al-Sharia* and IFIs that was held in April 2011.

discussed. A final interpretation of the positive relationship between the two groups of practices revolves around more statistical support that the *Sharia* jurisprudence method is solid in terms of the integration of the two groups of practices it consists of when reflected on the managerial practices represented by the PDCA.

The results of the Spearman's *rho* correlation test (Table 8.8 in Chapter 8) revealed that the relationship between the group of practices that are likely to be implemented and the levels of *maqasid* knowledge of the respondents was not significant at the probability level of $p < 0.05$ (although that relationship was negative, at $r = -0.359$, $p = 0.066$). Nevertheless, the relationship between the group of practices that are not likely to be implemented and levels of *maqasid* knowledge was significant, large and negative ($r = -0.583$, $p = 0.001$). When linking these findings with those described in section 9.4.1.3, it can be said that the current practices (i.e. those likely to be implemented) do not affect nor are they affected by the levels of the respondent's *maqasid* knowledge that was acquired in their education. Furthermore, the higher the respondents' levels of *maqasid* knowledge, the less they think their organisations are implementing the practices that are not likely to be implemented.

To summarise, the level of implementing the ICSR framework and the underlying *Sharia* jurisprudence method by GCC IFIs is slightly above average with clear weakness in planning practices. This, in fact, affects the achievement of the 'rationale' of the normative (standardised) *Sharia* contracts, because the context and end results of those rulings are not likely to be projected by GCC IFIs and accordingly this will reduce their contribution to the achievement of *maqasid al-Sharia* at both the macro and micro levels. Consequently, the IFIs' social responsibility, which is built into their business models if they properly implement the *Sharia* jurisprudence method, is still slightly above average. Therefore, it can be concluded that the current practices of GCC IFIs (i.e. the practices that are likely to be implemented), which are dependent mainly on implementing the normative contracts as 'ink on paper', are not enough to contribute to the achievement of *maqasid al-Sharia*. Therefore, the arguments of researchers about the weak contribution of IFIs to the Islamic socio-economic objectives (Choudhury 1994; Badr El Din 2006;

Asutay 2007a; Sairally 2007) is supported by the empirical findings of the present research.

9.4.3. *Maqasid* knowledge and CSR knowledge

In section 9.4.1.3, it has been statistically proved that the levels of the respondents' knowledge on *maqasid al-sharia* do vary in accordance with the individual differences but not across the organisational differences; hence, the rejection of the null hypothesis 8 and the acceptance of the null hypothesis 9. Furthermore other statistical evidence, represented by the negative relationship between the levels of *maqasid* knowledge and the levels of ICSR implementation, has supported the argument that: (1) the surveyed GCC IFIs do not make use of the *maqasid* knowledge already explicitly acquired from their *Sharia* employees' education, and specifically from *Sharia* education; (2) the levels of implementing the *Sharia* jurisprudence method by the surveyed GCC IFIs do not produce at least the basic *maqasid* knowledge investigated in the survey; (3) the current practices of GCC IFIs are inconsistent with the *maqasid* knowledge; and, (4) the higher the levels of the *maqasid* knowledge of the respondents, the lower they view their organisations implanting the ICSR.

In this section, the several statistical findings are discussed. Firstly, a comparison is conducted between the variances of the levels of the respondents' knowledge on both *maqasid al-Sharia* and CSR. This comparison shall provide more insights about the sources through which each type of knowledge has been acquired by respondents. Secondly, a comparison is conducted between the syntheses of the elements of each type of knowledge. This comparison shall shed the light on how each type of knowledge is structured in the minds of the respondents when the knowledge is linked to its literature. Lastly, the relationship between the levels of *maqasid* knowledge and the CSR knowledge in order to understand how each type of knowledge affect the other. It is worth mentioning here that this section is not related to the hypotheses testing; but it is dedicated to explore and interpret the statistical patterns resulted from the inferential analysis of the collected.

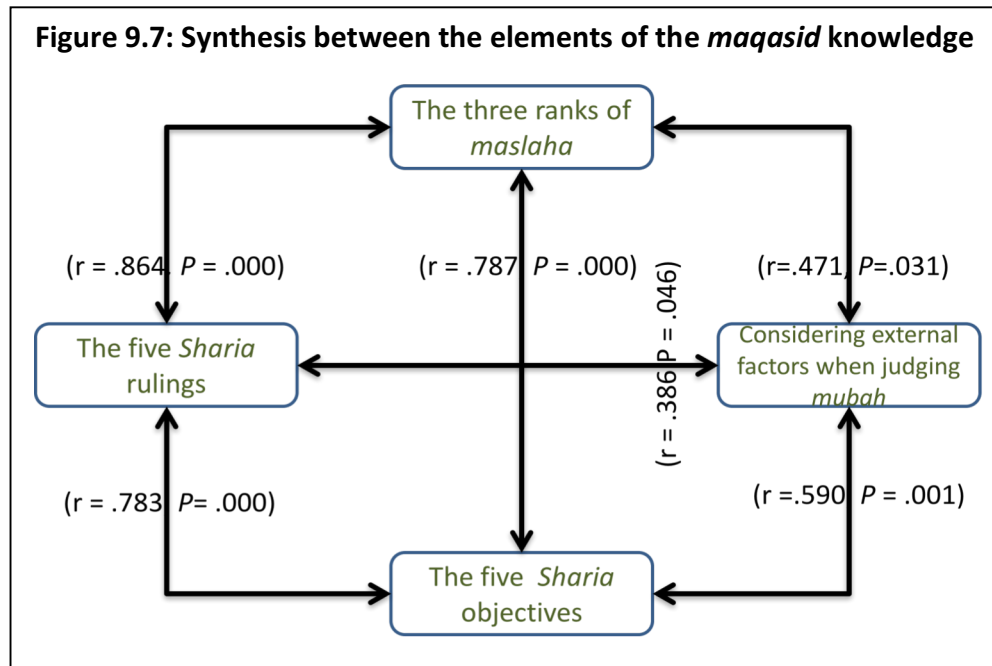
9.4.3.1. Organisational and individual differences

In Chapter 8, the results of Kruskal-Wallis tests on the differences in the levels of both types of knowledge across organisational and individual differences have been presented. The tests reveal that the levels of CSR knowledge of the respondents do not vary with organisational differences in the size of *Sharia* departments and the type of IFI, nor they do vary with individual differences in specialisation or level of education and years of experience. These results are presented in Table 8.10 in Chapter 8. On the other hand, the Kruskal-Wallis test results reveal that *maqasid* knowledge does vary across the field of specialisation, with the group of respondents specialised in *Sharia* having the highest mean ranking. Furthermore, the tests revealed that the levels of *maqasid* knowledge also significantly vary with the type of IFI (see table 8.6 in Chapter 8). However, this finding should be treated with caution because 12 out of the 13 respondents representing commercial banks had an educational background specialising in *Sharia*.

From these findings, it can be said that the main source of *maqasid* knowledge among the respondents was their education. Furthermore, their levels of that knowledge did not significantly vary with years of experience, which could otherwise have contributed to accumulating such knowledge if it had been produced by the operations of the IFIs. Meanwhile, it can be said that CSR knowledge was not acquired from internal organisational processes. This is also supported by the fact the total level of respondents' CSR knowledge was poor (13.4 per cent) in comparison to the total level of *maqasid* knowledge (65.3 per cent) as shown in Chapter 7. However, the difference between the acquisitions of both types of knowledge is more highlighted when considering the synthesis between the elements comprising each one of them.

9.4.3.2. The synthesis between the elements of knowledge

When considering the synthesis between the elements of each type of knowledge, the respondents' *maqasid* knowledge appears to be much more structured as explicit knowledge as opposed to their CSR knowledge. Figure 9.7 shows the relationships between the elements comprising *maqasid* knowledge (see also Table 8.5 in Chapter 8).



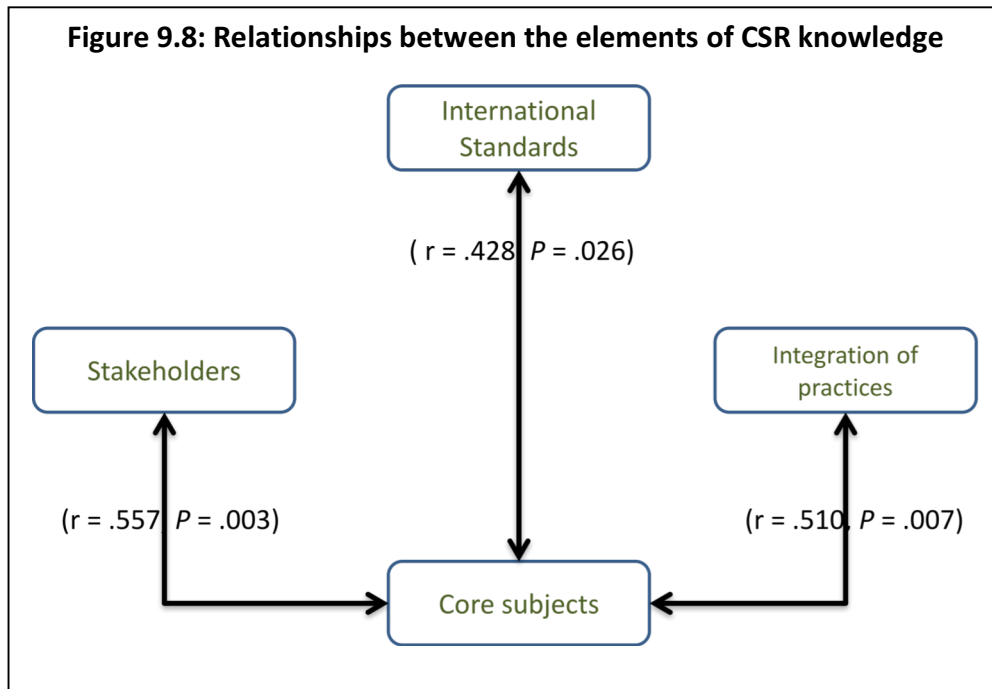
Clearly, each element of *maqasid* knowledge has significant positive relationships with the other elements. The evidence for the structure of the elements of *maqasid* knowledge statistically supports the theoretical relationships (Abu Zahra 1997; Al-Najar 2006; Al-Shatibi, cited in Al-Raysuni 2006) between those elements as discussed in Chapter 4. This is because achieving the *Sharia* objectives entails the ranking of the *Sharia* rulings in accordance with *maslaha* while considering the external factors surrounding the *mubah* ruling so that it can be categorised within one of the other four rulings (i.e. *wajib*, *muharram*, *mandoub* and *makrouh*) when the action related to that *mubah* is going to take place.

The remarkable finding here is that the consideration of external factors surrounding the *mubah* action had the least strong relationships with the other elements of knowledge. The magnitude of the relationship of that element with the five objectives is 0.590, and this then declines to 0.471 with the three ranks of *maslaha* followed by 0.386 with the five *Sharia* rulings. Actually, the issue of projecting the external factors surrounding the *mubah* action is a cornerstone of the ICSR framework. This is because this projection is an integral part of the induction stage of the *Sharia* jurisprudence method, especially when that projection is not limited to the achievement of economic interests alone.

Nonetheless, the total score for the question related to the external factors of *mubah* amounted to 50 per cent of the total possible score for all respondents in comparison to 74 per cent of the total possible score related to the five *Sharia* objectives, 70 per cent for the five rulings, and 66 per cent for the *maslaha* ranks.

Such findings are important to support other findings in the research. More specifically, the findings on the weak practices in the planning phase and accordingly the induction stage of the *Sharia* jurisprudence method. This gives more support to what have been discussed in section 9.4.2 about the validity of the criticism of IFIs for not being constructively built from classical jurisprudence (El-Gamal's 2006), represented by the proper implantation of the *Sharia* jurisprudence method, which leads to implementation of *Sharia*-compliant practices that are limited to structuring contracts so as to be permissible without taking into consideration the *maqasid al-Sharia*.

As for the relationships between the elements of CSR knowledge (see Figure 9.8 and Table 8.9 in Chapter 8), the Spearman's *rho* correlation test has revealed that the CSR knowledge is not as well structured as *maqasid* knowledge. According to the structure of the international standards (the GRI's Reporting Guidelines 2003-2011; AA1000 Assurance Standard 2008; ISO 26000 2010), knowing or being exposed to the international standards dealing with CSR, in fact, will lead to knowledge in the core subjects of CSR, the managerial practices needed to integrate CSR issues into business processes, and the identification of stakeholders. However, Spearman's *rho* correlation test results reveal that there are non-significant relationships between knowing the international standards, on the one hand, and each of the types of stakeholders and the integration of CSR practices within the managerial system. This may support the claim that the CSR knowledge of the *Sharia* employees has not been acquired from internal organisational processes. Accordingly, it can be said that GCC IFIs do not even implement the conventional CSR practices.

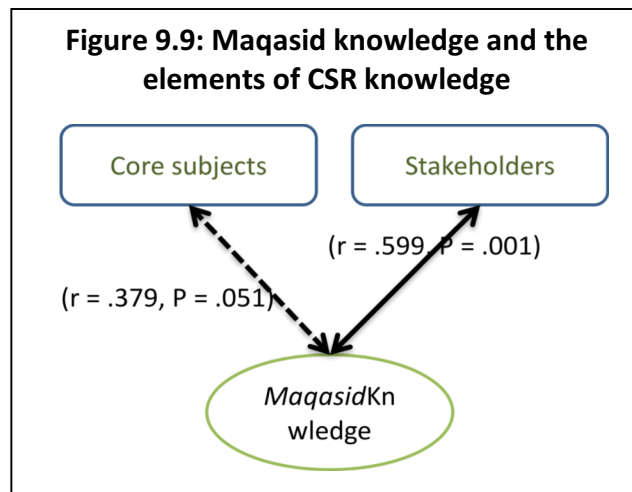


The scores for the questions related to CSR knowledge are very low in comparison to their counterparts for *maqasid* knowledge. The scores related to international standards amounted only to 1 per cent of the total possible score. The same score was also recorded for the question concerning integration practices. The total score for core subjects, however, amounted to 11 per cent; whilst the highest score was related to stakeholder types at 39 per cent. The sum of all these scores comprises the total score for the scale of the level of CSR knowledge. In that scale, respondents achieved a total score of 28 out of 216 (13 per cent). However, of this total score achieved by all respondents, the scores achieved for knowing the types of stakeholders accounted for 75 per cent, followed by 21 per cent for the scores of the question related to the core subjects of CSR. The remaining 4 per cent were divided equally between the other two questions related to the international standards of CSR and the managerial practices used for integrating CSR with the operations of the organisations. In this regard, it can be said that the knowledge of the respondents' on CSR is mainly comprised of knowing the types of stakeholders and knowing the core subjects of CSR. This finding is important when the relationship between *maqasid* and CSR knowledge is discussed in the following section.

9.4.3.3. The relationship between the *maqasid* knowledge and CSR knowledge

Spearman's Spearman's *rho* test has revealed that there is a strong significant positive relationship ($r = .603, p = .001$) between *maqasid* knowledge and CSR knowledge (see Table 8.11 in Chapter 8). However, such a relationship should be considered in light of the findings explained in sections 9.6.1 and 9.6.2.

The low scores for the questions related to CSR knowledge lead to queries about what exactly comprises the CSR knowledge of the respondents. In section 9.6.2, it has been discussed that the major contributor to the total score for CSR knowledge concerns the types of stakeholders (75 per cent) followed by the core subjects of CSR (21 per cent). Accordingly, the relationship between *maqasid* knowledge and CSR knowledge is logically due to the relationship between *maqasid* knowledge, on the one hand, and the levels of knowing about stakeholders and the core subjects of CSR on the other. Therefore, a further Spearman's *rho* test has been conducted to investigate those relationships (see Table 8.11 in Chapter 8). Figure 9.9 shows the results of that test.



As shown in Figure 8.9, the level of *maqasid* knowledge has a strong significant positive relationship ($r = 0.599, p = 0.001$) with the level of knowing stakeholder types. Nonetheless, the *maqasid* knowledge has a nearly significant positive relationship at the probability level of $p < 0.1$ ($r = 0.379, p = 0.051$). Combining these findings with the discussion in section 9.6.1, it can be concluded that *maqasid* knowledge, which is

acquired explicitly from educational sources but not organisational sources, increases when knowledge related to the types of stakeholders increases. In other words, the higher the level of *maqasid* knowledge among respondents, the more they tend to know about the types of stakeholders. The same can be claimed for the relationship between *maqasid* knowledge and the knowledge related to knowing the core subjects of CSR, although at a probability level of only $p < 0.01$. As CSR knowledge does not significantly vary with individual and organisational differences, a respondent will tend to know more about types of stakeholders and the core subjects of CSR when having a higher level of *maqasid* knowledge.

Such findings can be considered as remarkable, because the ICSR framework aims at achieving Islamic CSR through the achievement of *maqasid al-Sharia* while managerially making use of stakeholder engagement. However, the core subjects of CSR (i.e. human rights, environmental issues, social concerns and others) are important in facilitating the projection of the context in which the *Sharia* rulings are going to be implemented.

9.5. Summary of the results and conclusion

In this chapter, the results of the research have been discussed both theoretically and empirically. The ICSR framework was developed after the review of CSR literature had revealed that there was a mismatch between the micro objectives of companies and the macro objectives of societies. This mismatch is due to the fact that CSR is an add-on to capitalism but not built in it; thus a conflicting relationship between capitalism and CSR. Such a conflict is due to the facts that capitalism, in its neoclassical form, views individual humans as economic selfish and self interested who interacts in their societies on the basis of the social Darwinism theory (i.e. struggle that leads to the survival for the fittest). Based on that, capitalism embraces an epistemology of value-free science that is similar to natural sciences. Such a foundational philosophy cannot accept social roles for businesses, hence a mismatch between the micro and macro objectives even when implementing CSR voluntarily.

Based on the above findings in the CSR literature, the foundational philosophy of Islamic economics was then addressed in order to compare it with the foundational philosophy of capitalism. Literature review revealed that Islamic CSR is built in the business models of IFIs due to the facts that Islamic views human individual as God's vicegerent who is responsible of developing earth and deals with other human individuals on the basis of justice and beneficence to achieve socio-economic and political objectives represented by the *Sharia* objectives. However, the achievement of *Sharia* objectives is not linked to a finite list of objectives, but to contemporary objectives that serve the higher *Sharia* objectives of bringing benefit and avoiding harms for human beings. Literature review also revealed that the *Sharia* jurisprudence method is the tool through which *Sharia* rulings linked to contemporary and contextual objectives are achieved. Thus, the PDCA cycle as a managerial tool was used to operationalise the *Sharia* jurisprudence method as a managerial tool to achieve *Sharia* objectives and accordingly Islamic CSR. This was reflected on by the development of the ICSR framework as a major theoretical contribution of the present research.

The ICSR framework which has been developed on the basis of the PDCA model and the underlying *Sharia* jurisprudence method has been supported by statistical evidence that it can describe reality. Seven null hypotheses have been statistically rejected, which implies support for the following alternative hypotheses:

There is a significant relationship between the stakeholder engagement phase and the planning phase in the ICSR framework.

There is a significant relationship between the planning-stakeholder engagement stage (i.e. the induction stage in the Sharia jurisprudence method) and the implementation-assurance stage (i.e. the deductive (testing) stage of the Sharia jurisprudence method) in the ICSR framework.

There is a significant relationship between the implementation-assurance stage (i.e. the deductive (testing) stage of the Sharia jurisprudence method) and the improvement phase in the ICSR framework.

There is a significant relationship between the improvement phase and the planning-stakeholder engagement stage (i.e. the induction stage in the Sharia jurisprudence method) in the framework for implementing Islamic CSR.

There is significant difference in the extent to which the framework of Islamic CSR is implemented by GCC IFIs according to the size of their Sharia departments.

There is a significant difference in the extent to which the framework of Islamic CSR is implemented by GCC IFIs according to the nature of their businesses.

There is a significant relationship between the extent to which the framework of Islamic CSR is implemented by GCC IFIs and their Sharia employees' levels of knowledge on maqasid al-Sharia.

Other findings from the synthesis of the ICSR have proven that there are relationships between the five phases of the ICSR. Those findings can be translated into further alternative hypotheses as follows:

There is a significant relationship between the planning phase and the implementation phase in the framework of ICSR.

There is a significant relationship between the planning phase and the assurance phase in the framework of ICSR.

There is a significant relationship between the planning phase and the improvement phase in the framework of ICSR.

There is a significant relationship between the implementation phase and the assurance phase in the framework of ICSR⁸⁹.

⁸⁹ At a probability level of $P < 0.1$

There is a significant relationship between the assurance phase and the improvement phase in the framework of ICSR.

There is a significant relationship between the improvement phase and the implementation phase in the framework of ICSR.

These seven alternative hypotheses pave the way for further parametric statistical investigation on the ICSR, as well as supporting the ability of the framework to describe reality. Once that was proved, the results were discussed in accordance with the extent to which GCC IFIs implement the ICSR and the underlying *Sharia* jurisprudence method and accordingly achieving contemporary *maqasid al-Sharia*. Inferentially, the relationship between the levels of ICSR implementation and the levels of the respondents' knowledge on *maqasid al-Sharia* was investigated. The significant relationship between those two indicators gives more support to the ability of the ICSR to describe reality because the literature of the PDCA states that there is a relationship between the PDCA implantation and knowledge produced from that loops of that implementation. Nonetheless, that relationship between ICSR levels of implementation and the levels of *maqasid* knowledge of the respondents proved to be negative. Further inferential tests were conducted to understand that negative relationship; thus several findings were highlighted. The first is that the surveyed GCC IFIs do not make use of the *maqasid* knowledge already explicitly acquired from their *Sharia* employees' education, and specifically from *Sharia* education. The second is that the levels of implementing the *Sharia* jurisprudence method by the surveyed GCC IFIs do not produce at least the basic *maqasid* knowledge investigated in the survey. The third is that the current practices of GCC IFIs are inconsistent with the *maqasid* knowledge. The last is that the higher the levels of the *maqasid* knowledge of the respondents, the lower they view their organisations implementing the ICSR.

Another inferential test was conducted to investigate the variance of the levels of the respondents' *maqasid* knowledge across organisational differences in order to understand the exact source of acquisition of that knowledge. With Kruskal-Wallis test revealed that the *maqasid* knowledge does not vary across organisational differences. This in addition

to the findings that *maqasid* knowledge do vary across field of education with holders of the *Sharia* educated group of respondents having the highest mean rank in comparison to the holders of other specialisations. The interpretation of those two findings supports the fact that the source of *maqasid* knowledge of the respondents was external to their organisations meaning that the current practices of GCC IFIs do not produce internal *maqasid* knowledge. To further support this interpretation, Kruskal-Wallis test revealed that the levels of the respondents' *maqasid* knowledge do not vary across their years of experience, meaning that if the practices of GCC IFIs led to the achievement of *maqasid* through the proper implementation of the *Sharia* jurisprudence method, then *maqasid* knowledge would be accumulated in the minds of the respondents over the years of experience. Thus, the null hypothesis predicting no significant differences in levels of the *maqasid* knowledge with years of experience of the respondents has been accepted, whilst the hypothesis predicting no significant differences in levels of *maqasid* knowledge according to the respondents' educational specialisation has been rejected.

After the support of the statistical evidence that the ICSR framework can describe reality, hence its ability to gauge the extent to which GCC IFIs implement the ICSR and the underlying *Sharia* jurisprudence method that when implemented properly, *maqasid al-Sharia* are achieved.

The extent to which Islamic CSR is implemented by GCC IFIs is found to be slightly above average, with poor planning practices that lead to poor projection of the contexts in which the standardised *Sharia* rulings will be implemented. This statistical evidence supports the claim that GCC IFIs consider that the 'as is' implementation of the *Sharia* standards of the AAOIFI and *fiqh* academies is sufficient to make them *Sharia*-compliant. However, the *Sharia* jurisprudence method requires further investigation and projection onto the context in which those standardised rulings will be implemented in order for these rulings to be rational and to consequently contribute to the achievement of both macro and micro *maqasid*. These findings are consistent with the criticism of IFIs for not contributing to the socio-economic objectives built in their business models (Choudhury 1994; Badr El Din 2006; Sairally 2007) or not achieving the aspiration of Islam by

subscribing to the neo-classical value-free business models (Asutay 2007a; Zaman Y Asutay 2007). Furthermore, these findings supports the argument that the *Sharia*-compliant practices of IFIs are limited to structuring contracts so as to be permissible without taking into consideration the *maqasid al-Sharia* (Yusof & Khan 2010) because IFIs do not constructively build from classical jurisprudence, but they are alternatives or modifications of conventional practices that are sought whenever the latter deemed forbidden (El-Gamal 2006).

To give further support to the above findings, the practices of GCC IFIs were divided into two groups according to their likelihood of implementation. Statistical evidence has proved that the group of practices that are likely to be implemented (i.e. the current practices of GCC IFIs) has a significant positive relationship with the group of practices that are not likely to be implemented. This was interpreted as each group of practices enhances the other. Moreover, the group of practices that are likely to be implemented by GCC IFIs (i.e. the current practices) had no significant relationship with the levels of the respondent's *maqasid* knowledge. Accordingly, the claim that the current practices of IFIs are enough to achieve *maqasid al-Sharia* is deemed invalid.

The elements of *maqasid* knowledge have also been proven to be well- structured in the minds of respondents. These elements have positive relationships between each other, as is theorized in the theory of *maqasid*. The elements of CSR knowledge, however, have been proven to be not so well-structured. The scores for CSR knowledge were also poor in comparison to those for *maqasid* knowledge.

A relationship between *maqasid* knowledge and CSR knowledge has been found to exist. Nonetheless, that relationship was mainly due to the respondents' knowledge about stakeholders and the core subjects of CSR. Therefore, those two elements alone have significant relationships with *maqasid* knowledge. Accordingly, two alternative hypotheses can be posed as follows:

There is a significant positive relationship between the maqasid knowledge and the knowledge on the types of stakeholders

There is a significant positive relationship between the maqasid knowledge and knowing the core subjects of CSR⁹⁰.

Such findings can be considered as remarkable, because the ICSR framework aims at achieving Islamic CSR through the achievement of *maqasid al-Sharia* while managerially making use of stakeholder engagement. However, the core subjects of CSR (i.e. human rights, environmental issues, social concerns and others) are important in facilitating the projection of the context in which the *Sharia* rulings are going to be implemented.

⁹⁰ At a probability level of $P < .1$

CHAPTER 10: CONCLUSION

10.1. Introduction

This chapter briefly summarises the dissertation in terms of what has been accomplished and what can be added by future research. Additionally, an overview is presented of the research and the implications of the findings for IFIs and SSBs.

10.2. Overview of the research

The present research addresses the problem of the need for the development of a framework for implementing and measuring Islamic CSR by IFIs that exist in conventional economies (i.e. mainly capitalism). The literature review reveals that CSR has not existed in any economic system other than capitalism; hence the relationship between CSR and capitalism. The literature review also reveals that, in spite of the fact that CSR has been addressed on various different theoretical groundings, the ontological worldviews of capitalism (mainly that of economic selfish man) and epistemological considerations (mainly value-free scientific economic laws shaping the characteristics of the knowledge produced) have influenced the knowledge produced concerning CSR. Thus, the CSR literature fails to address the mismatches between the micro objectives of businesses and the macro objectives of societies.

Given the characteristics of Islamic ontological worldviews and epistemology, which differ markedly from those associated with Western capitalism, such a mismatch between micro and macro objectives is, however, taken into account in the theory of *maqasid al-Sharia* (*Sharia* objectives) and the *Sharia* jurisprudence method that facilitates the production of *Sharia* rulings through which a balance between micro and macro *maqasid* is achieved. Thus, the aim of the present research has been to develop a framework for implementing and measuring Islamic CSR for Islamic financial institutions (IFIs), which is based on a built-in compliance with *Sharia* objectives achieved via the managerial implementation of the *Sharia* jurisprudence method. To achieve that aim, the literature on Islamic CSR has been reviewed, and four further theoretical gaps have been identified:

(1) the justification of the usage of frameworks and models of conventional CSR on the basis of the Islamic worldview and epistemology which are fundamentally different from those of capitalism; (2) the specification of the methodologies suitable for the Islamic worldview and epistemology; (3) the design of a framework for implementing Islamic CSR; and, (4) the design of a framework for measuring Islamic CSR.

Having found that creating an innate Islamic CSR framework is not an end in itself, which is instead to achieve *Sharia* objectives that represent the socio-political economic objectives of society and businesses, the present research has made use of conventional CSR frameworks after adjusting them to the Islamic worldview and epistemology. Furthermore, the present research has made use of the 'plan, do, check act' (PDCA) cycle to implement the *Sharia* jurisprudence method underlying a managerial framework for implementing and measuring Islamic CSR (ICSR).

Empirically, the ability of the developed ICSR framework to describe reality has been proven by testing nine null hypotheses against data collected from *Sharia* employees in GCC IFIs. Moreover, several statistical patterns have been identified regarding the respondents' levels of knowledge of *maqasid al-Sharia* and conventional CSR, the influence of organisational and individual differences on levels of the knowledge and the extent to which the ICSR framework has been implemented by IFIs.

10.3. Implications of the findings of the research

Research is a key factor contributing to the continuous development and sustainability of any field of knowledge. In the social sciences, including business studies and economics, however, the philosophy underlying the research process is not only important in determining the research methods used, but also the characteristics of knowledge produced. Accordingly, such knowledge influences real-world practice and the application of that field of knowledge as part of human life. Islamic finance, as a field of knowledge that is part of Islamic economics, involves unique underlying ontological worldviews and epistemological considerations that are fundamentally different from those of capitalism. In this regard, knowledge in the fields of Islamic economics, finance

and management might be out of Islamic context when it is based consciously or subconsciously on any foundational philosophy other than Islamic philosophy. This does not mean that research in Islamic economics cannot make use of the knowledge produced in capitalism; but it does necessarily mean that such knowledge should be re-produced or adapted in accordance with the Islamic ontological worldview and epistemological considerations. This is the axiom according to which the present research was designed, and is the departure point from which the implications of the present research are presented.

10.3.1. Islamic CSR is embedded in the achievement of *Maqasid al-Sharia*

Sharia as a divine law is all about bringing what is good and preventing what is harmful at both individual and collective levels. Although *Sharia* has general rules and guidelines on what is good and what is harmful, human needs are in dynamic status. Additionally, human needs are part of social interaction between different interests at both micro and macro levels. In a *Sharia*-compliant context, these two facts require jurisprudential endeavour (i.e. the application of the *Sharia* jurisprudence method) to cater for new needs and to settle conflicts of interests. The *Sharia* jurisprudence method produces timely, contextual and fair rulings that satisfy needs and settle interests in accordance with *maslaha* which leads to *maqasid al-Sharia*. In other words, the correct implementation of the *Sharia* jurisprudence method should lead to the achievement of *maqasid al-Sharia* in which the social, environmental and economic responsibilities of IFIs are embedded. In this regard, when implemented by IFIs, *Sharia* jurisprudence method should take into consideration a comprehensive social, environmental and economic projection of the context in which the rulings related to contracts involving the products and services and those related to the behaviour of IFIs are going to be implemented. In fact, focusing only on economic projection in addition to the explicit legal cause (*illah*) of the ruling in the complicated and sophisticated business environments and societies in our times may lead these rulings to be out of context.

Additionally, the original legal cause will no longer be a valid cause if another cause revolves around the ruling; that is, if the implementation of the ruling leads to deviation

from the anticipated end results or the achievement of undesirable end results. In fact, such undesirable end results have led to criticism of IFIs for not behaving responsibly. Thus, for IFIs to be responsible, they are recommended to fully implement the *Sharia* jurisprudence method.

10.3.2. Ex-ante *Sharia* work is not limited to the implementation of standardised rulings.

Statistical evidence in the present research has revealed that the ex-ante *Sharia* work related to the prediction of end results (*ma'alat*) and the projection of the environment in which the *Sharia* rulings are going to be implemented is – as practiced by GCC IFIs – weak in comparison to the post-ante practices related to auditing and assurance. This is accompanied by high reliance on standardised *Sharia* rulings and poor planning practices indicated by paucity of planning departments or employees in charge of planning in 10 out of 13 of the IFIs surveyed. This statistical evidence implies that the induction phase of the *Sharia* jurisprudence method in GCC IFIs is nominal in terms of not being functional enough to predict whether or not the standardised (normative) *Sharia* rulings are viable for implementation in specific economic, social and environmental contexts. In other words, the ex-ante *Sharia* work is likely to be restricted to the adaptation of products and services using standardised *Sharia* rulings, and it does not extend to genuine jurisprudential endeavour. Based on this, the post-ante *Sharia* work is restricted to only including assurance on the proper implementation of standardised *Sharia* rulings without taking into consideration the emergence of economic, social and environmental circumstances that may change the status of the standardised *Sharia* rulings from *mubah* (permissible) into one of the other four *Sharia* rulings. In this regard, members of SSBs are recommended to devote appropriate amounts of time and *ijtihad* (jurisprudence endeavour) effort.

10.3.3. Ex- ante work is totally dependent on the post-ante work in a *Sharia*-compliant IFI

This implication is related to the one above. If jurisprudence endeavour is properly conducted as an induction stage of the *Sharia* jurisprudence method, then the auditing will properly be conducted of issues that have been originally addressed in the induction stage. Thus, if the induction stage has taken into consideration the economic, social and environmental issues within the context in which the *Sharia* ruling are to be implemented, then the deduction stage (which in practice comprises of auditing and conformity information gathering) should definitely include those issues. Of course, if the two stages of the *Sharia* jurisprudence method are fully implemented, a proactive-reactive loop of *Sharia*-compliant economic, social and environmental responsibility is achieved at an organisational level. Thus, the managements of IFIs are recommended to embed the *Sharia* jurisprudence method within their managerial frameworks and not to limit *Sharia* work to merely include the adaptation of conventional products and services to standardised *Sharia* rulings and then audit their implementation.

10.3.4. *Sharia* jurisprudence method is a generator of innovation

The *Sharia* jurisprudence method, when implemented properly, can be a generator of innovation. It has a loop of inductive-deductive stages that can be used to improve the current practices of IFIs which may lead to the innovation of new products and services that meet the contemporary needs of society. Thus, IFIs are recommended to make use of the information accumulated from the correct implementation of the *Sharia* jurisprudence method to conduct rational R&D that enables innovative *ijtihad*. Such kind of *ijtihad* can help in the development of new products that meet the needs of society while being economically, socially, and environmentally responsible.

10.4. Limitations of the research

Perfection is not a characteristic of humans. However, imperfection is due to the fact that there are always factors limiting human endeavour. In research, such factors are related

to the topic of the research, the accessibility of data, and the availability of existing literature. This is in addition to limitations related to the timeframe and financing of research. The present study was limited by the following challenges:

Nature of the topic and availability of literature

Islamic CSR is a contemporary topic. The literature review has indicated that its study is still in a nascent stage. The lack of literature imposed a limitation that made the present research more exploratory rather than explanatory. However, this provided the present researcher with an opportunity to contribute to the literature on Islamic CSR.

The nature of Islamic CSR is affected by the philosophical foundations of Islamic economics, which is not mainstream economics. However, some of the literature on Islamic CSR is influenced by the philosophy of conventional CSR (i.e. the worldview and epistemology of capitalism). Pragmatically, this imposed limitations related to the nature of the topic and how it could be practised by IFIs operating in capitalism. Nonetheless, this provided an opportunity to delve into the historical literature on the theory of *maqasid al-Sharia* in order to reflect it in an implementation framework within a capitalist context. This framework makes use of the procedural implementation of conventional CSR while taking into consideration Islamic philosophy.

Sampling, response rate and data analysis

Due to the eligibility criteria for IFIs to be included in the sample frame (as explained in detail in Chapter 5), the sample size of the present research imposed limitations in terms of the statistical techniques to be used for data analysis. This is due to the fact that response rates in surveys targeting IFIs are usually low, as shown in previous studies. This limited the options concerning the statistical techniques which could be used for inferential analysis. Furthermore, combined with the scarcity of previous studies, this imposed the usage of null hypotheses instead of alternate ones to investigate the research claims. However, the rejected null hypotheses do pave the way for future research to test alternative ones.

Time and cost

The data collection phase was severely restricted by time and cost limitations given that the present research was self-funded. The researcher extended the timeframe in order to increase the response rate as much as possible while collecting data from five different countries with the help of a specialist polling centre.

The approach of the research

The research had been designed to follow a quantitative approach to compare data collected from both employees of *Sharia* departments and their counterparts in the planning departments of the sample. Only 3 questionnaires were completed by employees from the planning departments; thus, the research abandoned the comparative design. However, the qualitative data collection was very challenging in terms of time and cost to conduct interviews. This is in addition to the challenge imposed by the nature of the topic of the research which imposed limitations on data to be collected from annual reports. However, an attempt to collect written content from annual reports of the targeted IFIs was conducted. The findings indicated that the *Sharia* reports included in the annual reports were just in the form of one page informing the stakeholders whether the IFI had been *Sharia* compliant in their operations or not. In other words, the *Sharia* reports did not provide any indication about the process of achieving *maqasid al-Sharia* as indication of Islamic CSR, which is the core of this study.

10.5. Suggestions for future research

The present research can be considered as a first step on the way to addressing the issue of the responsibilities of IFIs as *Sharia*-compliant business organisations. It has laid a foundation for the use of the Islamic ontological worldview and epistemology as distinctive features of Islamic philosophy underlying knowledge production. It has also made use of that philosophy in deploying contemporary frameworks and standards to be implemented in a *Sharia*-compliant context. Nonetheless, the present research faced the

empirical challenge of a limited number of survey respondents; hence, the use of null hypotheses and the restrictions on the statistical techniques used and the facts generated.

However, future research can further investigate the theoretical grounding of the *Sharia* jurisprudence method as a mean of producing *Sharia* rulings that contribute to the achievement of *maqasid al-Sharia*. Additionally, future research can continue to tackle the theoretical gaps that have been identified in the present research while taking into consideration the unique features of the Islamic philosophy underlying the research.

Empirically, future research can make use of the null hypotheses rejected in the present research to further test alternative hypotheses. Furthermore, future research can further develop the criteria used to assess the levels of implementation of Islamic CSR and the underlying *Sharia* jurisprudence method.

10.6. Epilogue

The aim of the present research has been to explore the theoretical basis of Islamic CSR which is based on in-built compliance with *Sharia* objectives, and to develop a framework for implementing and measuring Islamic CSR in IFIs, where *Sharia* objectives are achieved through the managerial implementation of the *Sharia* jurisprudence method. Thus, it has brought together various concepts from different theoretical groundings.

Concepts, frameworks, standards and guidelines for conventional CSR, the managerial cycle of PDCA, the *Sharia* jurisprudence method, and the theory of *maqasid al-Sharia* have been integrated to develop a framework for implementing and measuring Islamic CSR and to contribute to bridging the theoretical gaps identified in the literature review. The ICSR framework has been subject to preliminary testing and it has proven to be able to describe reality, which can be further investigated in future research in the field.

APPENDICES

1. Questionnaire



Durham University Business School
Durham University, United Kingdom.
E-mail: n.s.al-qaran-al-ziyadat@durham.ac.uk

A Survey of the Sharia practices based on maqasid al-Sharia and their relevance to (CSR) practices in Islamic financial institutions (IFIs) operating in the Gulf Cooperation Council Region (GCC).

Dear Participant,

This survey is designed to study Sharia practices related to maqasid al-Sharia in GCC IFIS and their relation with the implementation corporate social responsibility. The information you provide will assist us to understand the relationship between the practices of the employees involved in the Sharia compliance system of GCC IFIS, and the implementation of Islamic CSR in those IFIS. Therefore, choosing the answers that reflect your own experience is highly important as it will impact the results of the study. For questions that seek your opinion, please choose the best answer if no obvious answer is available. Your cooperation in answering all the questions is highly important and very deeply appreciated.

You are not required to provide your name, as this study is to be analysed at an industry level, with no implications to any individual who takes part in this study. Additionally, we would like to assure you that there will be no indication to your organisation, nor it will be mentioned at any level of data analysis, presentation and discussion.

Please note that this interview may take 15-20 minutes of your time.

Thank you very much for your contribution in this study.

Naser Salih
PhD Student

To the Surveyors:
Please make sure that any respondent chooses:
 One answer except for questions with other instructions.
 An answer according to their best judgement.
Please make sure that all questions are answered by all respondents.
Please make sure to read the introduction to each section.

Section A
This section is designed to collect personal and organisational data

- 1. If you know that "stakeholders" are groups of people who affect or affected by the business of your organisation, which of the following are considered as stakeholders of your organisation?

Depositors	Investment account holders
Creditors	Media
Financing customers	Employees
Local community	Competitors
Non-governmental organisations	Government

Others: please specify-----

- 2. What is your job title at your current organisation?

- 3. Excluding the Sharia advisory board of your organisation, how many employees does your organisation have in the sharia control/ review work?

1-2
3-5
6-8
9 or more

4. Does your organisation have a Sharia control department or any equivalent one?

<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
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5. If the answer is “YES”, please go to question (6). If the answer is no, please ask the following question (5.a):

5.a. Does your organisation outsource the work of the Sharia control /review department?

<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
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If the Answer is “NO”, please end the interview. If the answer is “YES”, please ask the question number (5.b) and then continue to question (6).

5.b. In what department do you work?

6. During the course of your academic education, have you ever studied maqasid al-Sharia and maslaha and its relation to fiqh and to usul al-fiqh?

<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
--------------------------	-----	--------------------------	----

If the Answer is 'No', please ask the following question:

a. Are you aware of maqasid al-Sharia and maslaha and their relation to fiqh and usul al-fiqh?

<input type="checkbox"/>	Yes, I am aware	<input type="checkbox"/>	To some extent, I am aware	<input type="checkbox"/>	No, I am not aware
--------------------------	-----------------	--------------------------	----------------------------	--------------------------	--------------------

If the answer is "Yes, I am aware" or "To some extent, I am aware", please continue to **Section B**.

If the Answer is "no, I am not aware", Please end the interview.

Section B

This section is designed to collect data about the reflection of maqasid al-Sharia on some managerial practices in your organisation. Your answer to each question in this section shall be one of three options formulating a scale of: Always, Sometimes, and Rarely.

Please answer the following questions based on the practices of your organisation. You can select the best answer from either "always", "sometimes", or "rarely".

	Question	Always	Sometimes	Rarely
1.	<p>Does your organisation integrate social and environmental masalih and mafasid in addition to the economic ones when conducting environmental scanning?</p> <p>If the answer is "always or sometimes", then ask about the following two cases:</p> <ol style="list-style-type: none"> 1. Financing an oil exploration project with harmful impacts on the local community because of pollution. In such a case, does your organisation assess that harmful impact resulted from financing the project? 2. Speculation in the real estate market that harms the living of the members of the society by increasing the prices of houses. In such a case, does your organisation assess harmful impact resulted from speculation in the real estate market? 			
2.	Does your organisation refine the strategic objectives in order to meet social and environmental masalih in addition to economic masalih?			
3.	Do the key performance indicators (KPIs) of your organisation include social and environmental masalih in addition to the economic ones?			
4.	Does your organisation develop projects, initiatives, products or services to contribute to meeting social and environmental masalih in addition to the economic ones?			

5.	<p>Does your organisation rely on al-maslaha al-shariyyah in identifying its stakeholders? If the answer is "always or sometimes", then give the following two case:</p> <p>Does your organisation consider media outlets as prioritised stakeholder when there are specific concerns from other stakeholders about your organisation's business?</p>			
6.	<p>1.1.1. Does your organisation consult (tashawur) with stakeholders (e.g. NGOs, governmental bodies, community groups...etc.) to identify their masalih that might be influenced by the business of your organisation?</p>			
7.	<p>Does your organisation assess stakeholders' masalih based on their relevance to maqasid al-sharia? If the answer is "always or sometimes", then give the following two cases:</p> <ol style="list-style-type: none"> 1. Financing an oil exploration project with harmful impacts on the local community because of pollution. In such a case, does your assess the harmful impact on the masalih of the local community resulted from financing the project? 2. Speculating in the real estate market that harms the living of the members of the society by increasing the prices of houses. In such a case, does your organisation assess the harmful impacts on the livings of the members of the society because of the increasing prices resulted from speculating in the real estate market? 			
8.	<p>Does your organisation organise or sponsor Sharia awareness programs related to Islamic finance?</p>			
9.	<p>Does your organisation follow a code of conduct in accordance with the Islamic values and ethics amongst its employees?</p>			
10.	<p>Does your organisation record incidents related to harming the masalih of others?</p>			
11.	<p>Are the products and services of your organisation designed to contribute to</p>			

	collective social or environmental masalih in addition to the economic ones?			
12.	In addition to materialistic risks, does your organisation analyse the risk anticipated to affect social or environmental masalih?			
13.	Do the Sharia compliance reports of organisation disclose to the stakeholders and shareholders about its commitment to and compliance with Sharia objectives? If the answer is "always or sometimes", then ask the following two questions: 1. Do the sharia compliance reports of your organisation disclose the context and methodology of controversial fatwas? 2. Do the sharia compliance reports of your organisation clarify the link between controversial fatwas and maslaha?			
14.	Does your organisation include the monitoring of social and environmental harms/benefits (masalih/mafasid) in the internal Sharia auditing system?			
15.	Is your organisation subjected to external independent Sharia auditing?			
16.	Does the Sharia system in your organisation follow the Sharia standards or rulings issued by AAOIFI and the Islamic Fiqh Academies?			
17.	Does your organisation conduct research about meeting maqasid al-Sharia through its business?			
18.	Does your organisation use the feedback of Sharia auditing (internal or external) to improve the Sharia structures of its products and services?			
19.	Does your organisation use the feedback of the Sharia auditing (internal or external) to improve its Sharia compliance system?			
20.	Does your organisation use the feedback of Sharia auditing (internal or external) to improve its contribution to the achievement of maqasid al-Sharia?			

Section C

This section is designed to collect data about the knowledge of maqasid al-Sharia. We understand this section might be below your level of education or experience. However, your answer is highly appreciated as it will be collectively contribute to an assessment at an industry level.

1. If you know that preserving and enriching the "religion/faith" is one of the five (5) objectives that Sharia aims at achieving, could you remind me with the other four (4) essentials that Sharia aims at achieving?

Please wait for the respondent to provide answers, if no answer after one minute, please explain to them that they can move to the next question.

1	
2	
3	
4	

2. When it is linked to maqasid al-Sharia, maslaha has three (3) ranks, the highest of them is al-"daruriyyat" (necessities), Could you remind me with the other two (2) ranks?

Please wait for the respondent to provide answers, if no answer after one minute, please explain to them that they can move to the next question.

1	
2	

3. If you know that "wajib" (obligatory to do) is one of the five (5) Sharia rulings (al-ahkam al-taklifiyyah), could you remind me with the other four (4) Sharia rulings?

Please wait for the respondent to provide answers, if no answer after one minute, please explain to them that they can move to the next question.

1	
2	
3	
4	

4. Does the anticipation of external factors (fiqh al-waqi'i) associated with a mubah action formulate a part of the Sharia judgement on that mubah?

Please wait for the respondent to provide answers, if no answer after one minute, please explain to them that they can move to the next question.

	Always		Sometimes		No
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Section D

This section is designed to collect data about the level of Sharia employees' awareness about/exposure to corporate social responsibility CSR. We understand it might be out of your education and experience. However, your answers are very valuable to us.

1. If you know that ISO 26000 Guidelines deals with social responsibility, could you mention other two (2) international standards/guidelines dealing with corporate social responsibility?

Please wait for the respondent to provide answers, if no answer after one minute, please explain to them that they can move to the next question.

1	
2	

2. If you know that "human rights" is one of the core subjects of corporate social responsibility (CSR), could you mention other two (2) core subjects of CSR?

Please wait for the respondent to provide answers, if no answer after one minute, please explain to them that they can move to the next question.

1	
2	

3. If you know that "stakeholder engagement" is one of the practices for integrating corporate social responsibility (CSR) in the organisational system of business organisations, could you mention other two(2) practices of integrating CSR in the organisational system of business organisations?

Please wait for the respondent to provide answers, if no answer after one minute, please explain to them that they can move to the next question.

1	
2	

4. In general, business organisations have stakeholders, could you mention three (3) of the stakeholders of any business organisation?

Please wait for the respondent to provide answers, if no answer after one minute, please explain to them that they can move to the next question.

1	
2	

Section E

1. What is the type/nature of the activities of your organisation?

	Islamic commercial bank / universal bank.
	Islamic investment bank.
	Islamic financial company
	Islamic investment company
	Takaful Operator
	Other: please specify:

2. In which country is your organisation based?

	Kingdom of Bahrain
	Kingdom of Saudi Arabia
	State of Kuwait
	State of Qatar
	United Arab Emirates

3. What is your age at the time of this interview?

	18-23
	24-29
	30-35
	36-41
	42 or above

4. What is your level of education?

	2-year diploma after the high school
	Bachelor
	Masters
	PhD
	Other: please specify----- -----

5. What is your field of specialisation by education?

	Sharia or any of its branches
	Economics
	Finance or accounting
	Business administration or marketing
	Law
	Other: please specify----- -----

6. How many years of experience do you have in your field of work?

	1-5
	6-10
	11-15
	16-20
	21-25
	Over 26 years

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