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Authors	Hanic, Aida;Smolo, Edib
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Islamic Approach to Corporate Social Responsibility: An international model for Islamic Banks

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Abstract

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

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

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

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

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

Keywords Islamic Corporate Social Responsibility, CSR, Islamic banking, economics, and religion

Paper Type Research paper

1.0 Introduction

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

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

This nexus between economy and religion is associated with the concept of CSR since the Islamic approach to CSR is based on the religious postulates following the Qur'an and Sunnah. In other words, responsibility towards society (*maslahah*) is integrated into the Islamic value system (Abd Razak 2018; Abu Bakar and Yusof 2015; Dusuki and Abdullah 2007). If we consider that this axiom is as old as religion itself – over 1400 years – then it can be reliably concluded that the social responsibility system is deeply rooted in Shari'ah. This implies that the Islamic approach to CSR differs from the Western epistemology. In other words, the Islamic approach to CSR should include responsibility towards God, humans, and the environment (Yusuf and Bahari 2015). In that aspect, CSR is an essential part of any Islamic corporation, including Islamic banks and financial institutions.

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

First, in the CSR development theory, religion's influence on this concept was not left out since Frederick (1998) decomposed the name of CSR into C - Cosmos, S-Science, and R-Religion. Such an understanding of CSR points out that religious feelings can be an essential component of CSR

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3 where religiosity and individual beliefs affect actions taken by managers and their attitudes
4 towards CSR (Barro and McCleary 2003; Hilary and Hui 2009; Su 2019). Second, from the
5 Islamic perspective, CSR is an integral part of religious teaching and cannot be viewed as a
6 separate entity (Dusuki and Abdullah 2007) regardless of whether it comes from an individual or
7 a business organization. In other words, God is one of the stakeholders because He is a permanent,
8 eternal, and absolute (Schwartz 2006). Third, despite the growing literature on CSR, the Islamic
9 approach to this concept is not present enough in the research context (Hanić and Efendic 2020).
10 At the same time, some of the existing studies primarily discuss the Islamic approach to CSR,
11 using Islamic ethical principles but from the overall perspective, not focusing on a specific industry.
12 Fourth, some authors developed their own Islamic CSR models. In contrast, others did it using the
13 pyramid developed by Carroll (1979, 1991). To the best of our knowledge, this is the first study
14 based on the CSR model developed by Masoud (2017), considering the relationship between
15 economics and religion and the implications of the Islamic moral economy focusing on the
16 internationalization of Islamic banking.
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20 This paper is structured as follows: the second part discusses the relationship between economics
21 and religion as a basis for understanding the Islamic value system. The third part presents various
22 Islamic CSR models found in the literature. The fourth part elaborates a proposal of the Islamic
23 CSR model for Islamic banks. Finally, the fifth part provides concluding remarks.
24

25 **2.0 Theoretical foundation: economics and religion**

26
27 There are two approaches to recognizing the relation between religion and business activities. The
28 first involves analyzing a given relationship directly – through the character of the owner or CEO
29 of the company and how she/he as a person has integrated hers/his religious identity into the
30 company's management system and decision-making process. Some authors like Barro and
31 McCleary (2003) and Hilary and Hui (2009) note that individuals' religious beliefs lead to good
32 economic attitudes and better economic performance. This is consistent with Su (2019), who
33 analyzes the influence of religion, primarily Buddhism and Taoism, on managers in China in the
34 sector of high and low polluting industries. The sample consisted of 8,262 companies listed on the
35 stock exchange. The results showed that if companies operate in more religious areas, their
36 managers are more spiritual and motivated to engage in socially responsible activities. Likewise,
37 the results show that the influence of religion on CSR is more substantial in the sector of highly
38 polluting industries.
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42 The second approach, which is also used in this research, is when religion is integrated as the input
43 and starting point of the entire system, especially the financial one. According to Brammer et al.
44 (2007), organized religion has a significant role in establishing and disseminating ethical
45 guidelines consistent with religious doctrines and proposing practical guidelines for ethical
46 business conduct. Thus, the business organization is one of the bearers of activities carried out
47 within such a system. The specificity of this approach is that the business model itself adapts to
48 religious foundations and creates rules and ways of acting according to these determinants. In
49 practice, this view has been confirmed in research by Mitroff and Denton (1999), who analyzed
50 215 managers of religion-based organizations and whose opinion is that God is equivalent to a
51 "Big boss" or CEO and is at the top of the hierarchy.
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54 **3.0 Literature review**

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3 Researchers started to explore CSR from an Islamic perspective after 2000 (Alamer et al. 2015).
4 The concept of Islamic reporting or the Islamic approach to CSR can be found in papers by
5 Harahap (2003), Haniffa and Hudaib (2004), Sairally (2005), Maali et al. (2006), Dusuki and Dar
6 (2007), and others.
7

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

- 11 - *Tawhid* (the complementarity or God's Unity and sovereignty and represents the nature of
12 knowledge and its articulation, implying that, in the context of economic activity, none of
13 the stakeholders can dominate over others);
- 14 - *Equilibrium* (requires a balance in individuals' behavior, which in religious terms is closely
15 related to the postulate of belief in the Day of Judgment (life after death). In the economic
16 context, balance refers to the socio-economic justice and social well-being of all
17 stakeholders.
- 18 - *Free will* (it builds on the belief in the Mission of God's messengers where man as an
19 individual has the right to choose the path of life, but at the same time emphasizing his role
20 as God's vicegerent); and
- 21 - *Responsibility* (it concerns the axioms mentioned above because it is closely related to
22 every act or deed by an individual).
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26 Those axioms are closely related to the foundations of the Islamic approach to CSR, or what
27 Asutay (2007) calls the Islamic moral economy (IME). Asutay (2013) defines the Islamic moral
28 economy as "*a religiously defined response to the economic development failure in the Muslim*
29 *world, whether capitalist, socialist or nationalist, with authentic meaning derived from the*
30 *ontology of Islam*" that particularly emphasizes the social dimension of economics. It is based on
31 *homoislamicus* and strives to achieve economic and sustainable development, applying social
32 justice guided by the social investment principles (Asutay 2012). In other words, it means
33 empowering the community towards creating a greater social good. Also, it emphasizes the role of
34 man (business organization) as a trustee in social relations.
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37 The Islamic moral economy is empowering the community by promoting greater social good
38 (*maslahah*) and moral virtues while at the same time calling for an end to all vice. To this end, we
39 can refer to the GFC as an illustration. For instance, Necati (2013) points out that a lack of morality
40 in the conventional financial sector that relies purely on the idea of the "*invisible hand*" can lead
41 to the emergence of a "*stealing hand*."¹ At the same time, the Islamic financial industry (IFI) was
42 more resilient to the GFC, especially in the first wave of the crisis. This is mainly due to its
43 underlying principles prescribed by the Shari'ah (Islamic law) and followed by Islamic financial
44 institutions (Haneef and Smolo 2013; Smolo and Mirakhor 2010).
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47 After reviewing the available literature, we can divide the models of the Islamic approach to CSR
48 into several groupings that will be discussed shortly. These groupings are based on:
49

- 50 - Four ethical axioms approach: Unity, equilibrium, free will, and responsibility (Hanić
51 2020);
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55 ¹ *Italics* are ours for emphasis.
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- The objectives of the Shari'ah (*Maqasid al-Shari'ah*) and public interest (*maslahah*) approach (Asutay and Harningtyas 2015; Bedoui 2012; Darrag and E-Bassiouny 2013; Darus et al. 2013; Dusuki and Abdullah 2007; Mergaliyev et al. 2021; Mohd Nor 2012);
- Mandatory and recommended forms of Islamic CSR approach (Farook 2007);
- Social welfare paradigms approach (Muhamad, Sukor, and Mukhazir 2008);
- Taqwa paradigms approach (Dusuki 2008);
- Application of public interest and importance of social capital approach (Yusuf and Bahari 2015);
- Extended Carroll model (Carroll 1991) from an Islamic perspective approach (Khurshid et al. 2014);
- Paradigms of *Tawhid* and *Shari'ah* approach (Abu Bakar and Yusof 2015);
- Islamic model of CSR based on four types of Responsibility approach (Turker 2016); and
- The Islamic corporate governance approach (Abu-Tapanjeh 2009; Murphy and Smolarski 2020).

In the genesis of the development of the Islamic approach to CSR, Sairally (2005) explored the concept of the application of socially responsible investing (SRI) by Islamic financial institutions through the adoption of the corporate social performance model developed by Wood (1991), which includes four stages:

1. Identifying the CSR principles of IFIs
2. Management of the CSR principles by the IFIs
3. Responsiveness to and integration of CSR issues and
4. Performance and impact of CSR actions

Furthermore, the work of Dusuki and Dar (2007) is particularly significant. Focusing on two Islamic banks from Malaysia, namely Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB), and using a sample with over 1500 respondents, authors explore the perception of various stakeholders in terms of social responsibility. The authors divided stakeholders into financiers, depositors, branch managers, employees, advisors, regulators (Central Bank officials), and the local community following the definition given by Freeman (1984). The research results show that all stakeholders are interested in CSR and have positive attitudes about this concept.

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

- *the four ethical axioms* which emphasized as essential values of the Islamic moral system and are also the basis for the Islamic socio-economic system;
- *Islamic ethical system* has emerged from four ethical axioms mentioned above. For example, the trustee concept is derived from the axiom of Unity because everything belongs to the Creator. Thus, man has the role of the vicegerent on earth and is considered the trustee of resources and
- business transaction law in Islam that represents the elements of business transactions under Islamic jurisprudence (*fiqh*). The concept of lawful or permissible (*halal*) and

unlawful or impermissible (*haram*) provides clear guidance for business transactions in Islamic economics based on four ethical axioms. All the three groups are interconnected to create a coherent framework for socially responsible business in Islam.

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

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

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

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

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

² Although there are different classifications of *maqasid al-Shari'ah*, Muslim scholars generally classified them into three main categories: *daruriyyat* (essentials), *hajiyyat* (complementary or needs) and *tahsiniyyat* (embellishments). For a detailed discussion about different categorization see Ibn Ashur (2006:112–29), and Kamali (1998, 2008).

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3 containing one level can be raised or pushed down, depending on different circumstances affecting
4 the public.
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7 In another paper, Dusuki (2008) approaches CSR by looking at it through the prism of *Taqwa* or
8 God-consciousness. In practice, this model equates CSR with a religious obligation. This paradigm
9 calls for harmonization and integration of “material well-being with moral-spiritual values.”
10 Through a voluntary commitment, people can achieve the ultimate goal, *al-Falah*, or the overall
11 well-being. Hence, CSR is both a moral and religious initiative based on the belief that a company
12 should be “good” whether it is profitable or not. Finally, Dusuki (2008) analyses the Islamic
13 approach to CSR by comparing it with the conventional one based on the five levels:
14

- 15 - *Level 1: Irresponsible* – an extreme situation where a firm violates laws and breaches
16 the minimum moral standards.
- 17 - *Level 2: Minimalist* firms comply with the minimum regulatory and legal requirements
18 without significant engagement in voluntary CSR activities.
- 19 - *Level 3: Apathetic* – firms that operate within the law and are committed to mandatory
20 ethical responsibilities with minimal CSR activities.
- 21 - *Level 4: Tactical* – firms are fulfilling their social responsibilities to achieve positive
22 publicity that will eventually bring them profits in the future.
- 23 - *Level 5: Taqwa-centric* – at this stage, firms are implementing CSR based on the belief
24 that a company should be socially responsible regardless of financial results. This is an
25 example of the Islamic worldview based on principles of *maslahah*, vicegerency, and
26 justice.
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30 In another paper, Muhamad et al. (2008) link CSR to the *Tawhidic* approach to a human
31 relationship according to which Islamic business organizations (IBOs) are equally responsible in
32 their actions towards the society (stockholders, employees, customers, suppliers, government,
33 public, and debtors), the environment and ultimately to Allah (*SWT*). In their view, promoting
34 social justice and the attainment of *al-Falah* (human well-being) is the main objective of Islamic
35 CSR. Hence, implementing CSR in Islam means the operation of IBOs in line with Shari’ah
36 principles that would lead to *Barakah* (blessing) and eventually to *al-Falah*.
37
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39 Using the four social responsibilities (economic, legal, ethical and philanthropic) developed by
40 Carroll (1991) in the form of a pyramid, Khurshid et al. (2014) developed an Islamic CSR model.
41 This study represents the first attempt to adopt the ‘Western’ pyramid of social responsibilities
42 under religious principles. In their views, Islam accepts the stakeholder approach developed by
43 Freeman (1984), whereby company owners or investors have the right to make a profit but not at
44 the cost of harming other stakeholders. Otherwise, the principle of justice, which is emphasized in
45 Islam, would be violated. At the same time, Khurshid et al. (2014) consider all four responsibilities
46 equally important, so the pyramid shape was not used. A similar approach was taken by Turker
47 (2016) as well.
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50 Considering the above, it is evident that a specific CSR model for Islamic financial institutions,
51 particularly Islamic banks, is required since the Islamic approach on this issue is based on a
52 pronounced social paradigm that includes:
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- 54 - *Tawhid* and not solely economic rationalism based on profit.
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- Business principles that consider a more comprehensive social community that participates in the use of resources and does not focus only on individuals who control resources; and
- Business criteria are based on the Qur'an and not exclusively on modern commercial law. It is important to emphasize that one does not exclude the other because the fundamental principle of Islam is justice. Thus, the law is an integral part of the Qur'an.

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

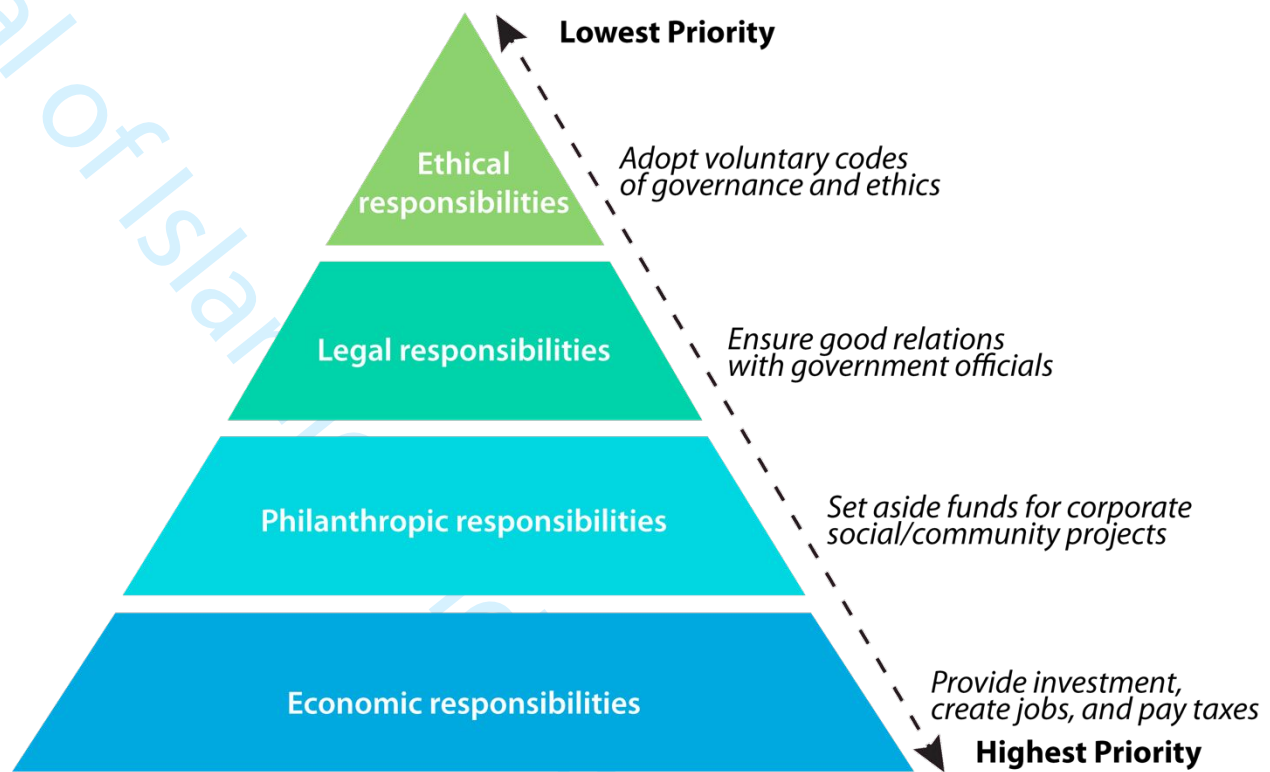
4.0 The Islamic CSR model for Islamic banks: a proposal

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

4.1 The founding ideas: a brief overview

Although the CSR pyramid is indispensable in analyzing this concept, Visser (2006) emphasizes that it is, in fact, difficult to apply it outside the United States, especially in developing countries, and that it needs to be reformed. In this context, Visser (2006) redefined the pyramid of social responsibilities in its application to the African continent, emphasizing that given responsibilities are understood differently from their understanding in the United States. This view was confirmed by Crane and Mattern (2016) on the example of Europe, stating that all levels of the pyramid are present in Europe but that they have a different meaning and are interconnected in another specific way. Based on this, Visser (2006) concludes that economic responsibility is of the utmost importance while philanthropy is given the second-highest priority. In third and fourth place, respectively, are legal and ethical responsibilities.

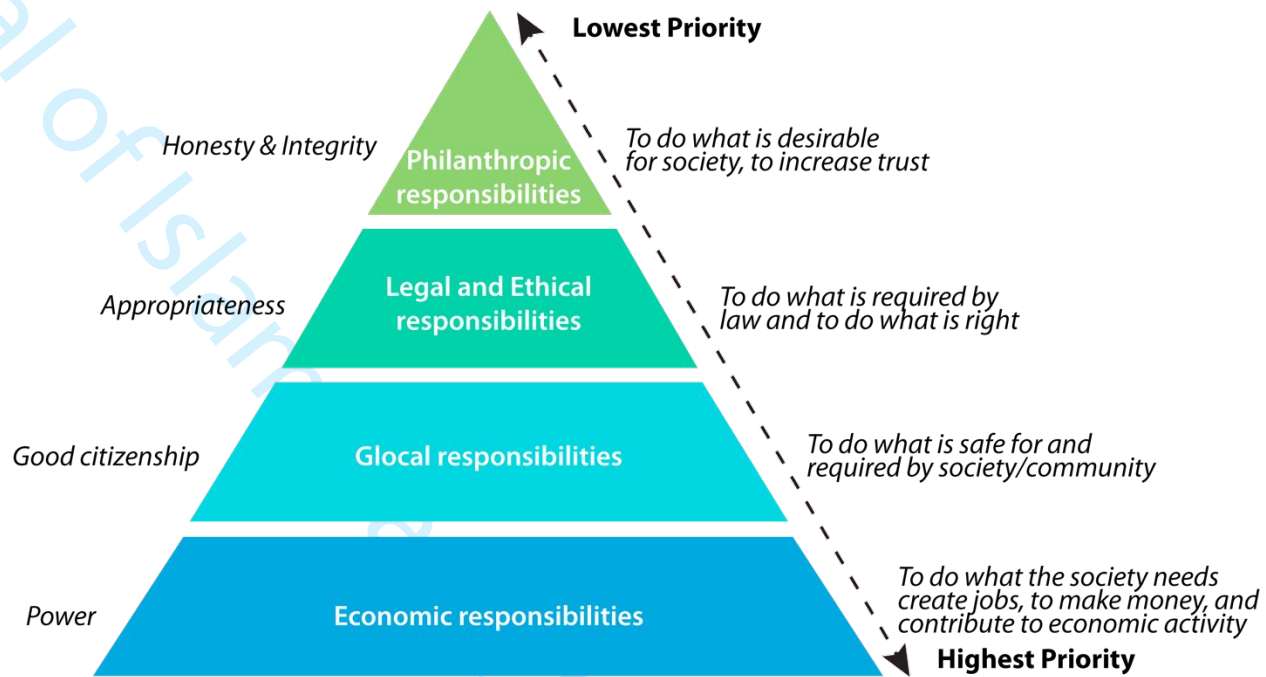
Figure 1: CSR pyramid for developed countries



Source: Adapted from Visser (2006)

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

Figure 2: International CSR pyramid



Source: Adapted from Masoud (2017)

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

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

The glocal responsibility is based on the idea of “*think globally, act locally*” and represents decision-makers’ obligation to engage in activities that protect and improve the environment and society while recognizing socio-cultural aspects, users of technology, and technology the nature of political rights. These are also the determinants of this type of responsibility. The legal and ethical responsibilities are merged into one responsibility and can also change within the international pyramid of CSR. Masoud (2017) believes that the legal and ethical responsibilities are the focal point of social resistance within many commercial projects in developed, developing, and transition economies. They can be a decisive factor in the discussion regarding the contributions of a particular project.

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

4.2 A proposed CSR model for Islamic banks

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

4.2.1 Economic responsibility

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

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

Achieving a reasonable profit, as defined by Baydoun and Willett (2000), is closely related to the view expressed by Ali et al. (2013), stating that profit, in Islamic opinion, is not an exclusively economic matter and that considerations of profit are not independent of the ethical system. The authors point out that profit occupies a central place in Islamic ethics. Islamic regulations do not justify profit leading to exploitation and market irregularities, making the Islamic position broader,

similar to stakeholder theory. This clear identification of the activities of Islamic banks within the framework of economic responsibility seeks to achieve a balance between profit as the ultimate goal and all stakeholders of the Islamic bank. The use of PLS products should also be equally widespread for Islamic banks to return to their base (Usmani 2002).

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

4.2.2 *Philanthropic responsibility*

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

In addition to *Zakat*, *sadaqah* (almsgiving) – a form of voluntary contribution – is also an integral part of Islamic teachings. In Islamic banks, donations that they can make, primarily in cash, are the best form of assistance and lead to improved social opportunities (Masoud 2017). The same situation is with approving *Qard-Hasan* loans and their role in achieving the Sustainable Development Goals (SDGs), i.e., reducing poverty and increasing the education's quality (Hanic and Sućeska 2018).

4.2.3 *Glocal responsibility*

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

Although Islamic banking is widespread in over 60 countries worldwide, there are still many doubts about what it represents, especially in non-Muslim countries. For that reason, Islamic banks should be active in scientific research, organize conferences on Islamic banking and support the

scientific development of this area through active cooperation with educational institutions. This would undoubtedly increase the interest in this area, but it would also acquaint the public with the specific business model represented by Islamic banking.

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

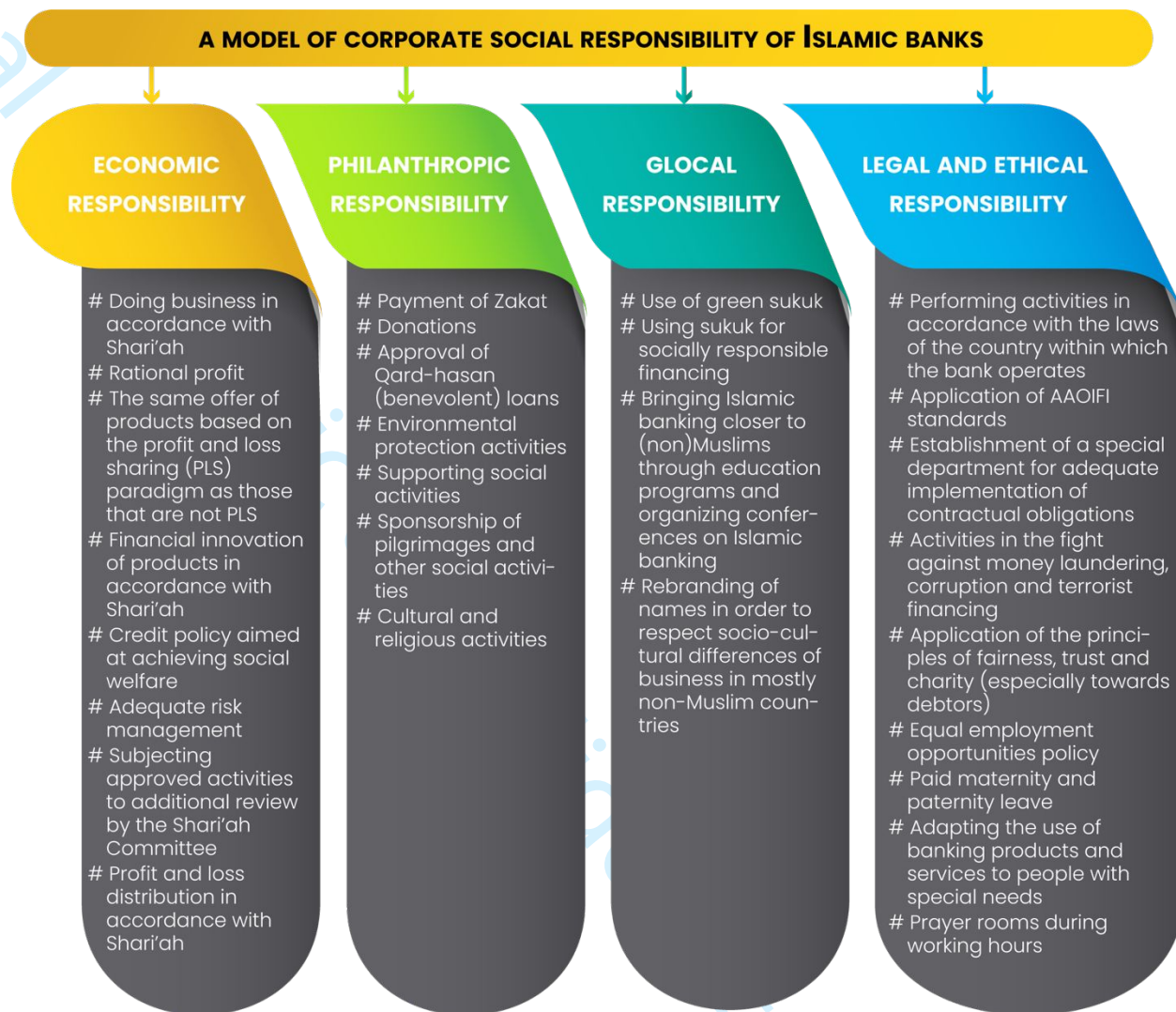
Hayat and Hassan (2017) justify this approach. They investigated the impact of the prefix 'Islamic' on the corporate governance of listed companies viewed from the debt perspective. The authors found no evidence that the Islamic prefix says anything about corporate governance. Looking at the current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

4.2.4 Legal and ethical responsibility

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

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

Figure 3: A new model of the Islamic approach to CSR



Source: Authors

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

5.0 Conclusion

The concept of corporate social responsibility (CSR) has been present in the scientific and professional public for more than 60 years. Although many definitions have been developed so far, there is no one universal approach to understanding the social responsibility of a business organization. This aligns with the concept developed on the postulates of the Western understanding of society, ethics, and business organization as the bearer of social activities. In this domain, the emphasis in this paper is on the Islamic approach to CSR, which is not sufficiently represented in scientific research. Also, bearing in mind that from the Islamic point of view, the

goal is to achieve the social well-being of the individual and all members of communities, social responsibility is an integral part of Islam. Therefore, it is mandatory in the application by all those institutions that call themselves Islamic, regardless of whether it is financial or non-financial. In that aspect, the emphasis in this paper is on Islamic banks, which as financial institutions, have a dual position in society: religious and financial.

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

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

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

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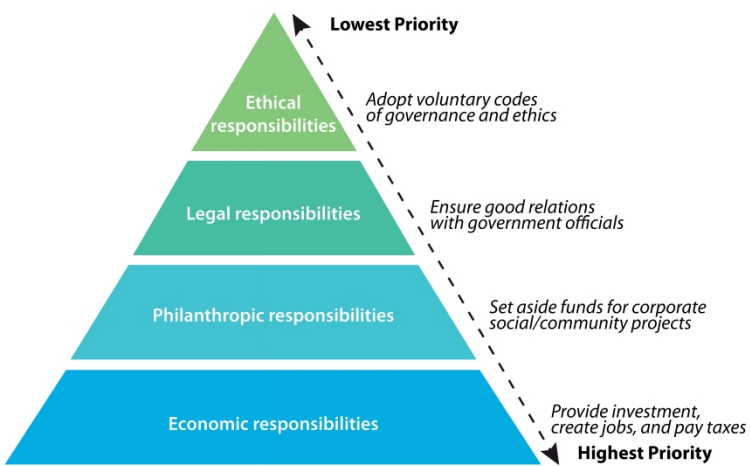


Figure 1: CSR pyramid for developed countries

423x423mm (600 x 600 DPI)

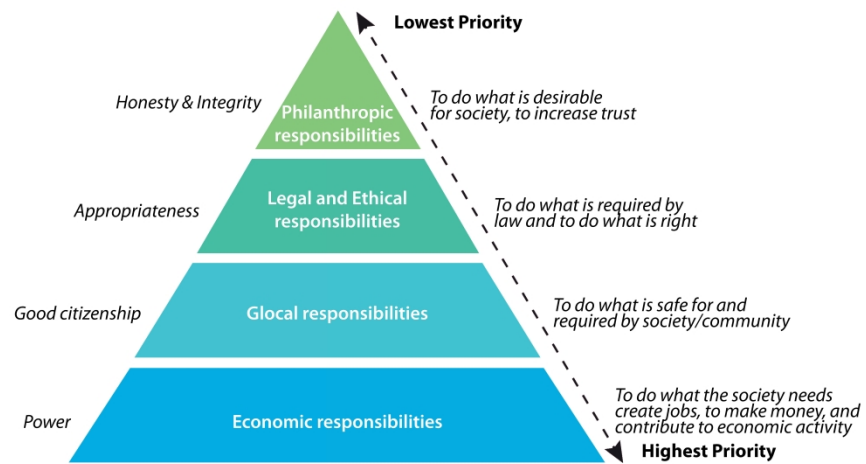


Figure 2: International CSR pyramid

423x423mm (600 x 600 DPI)

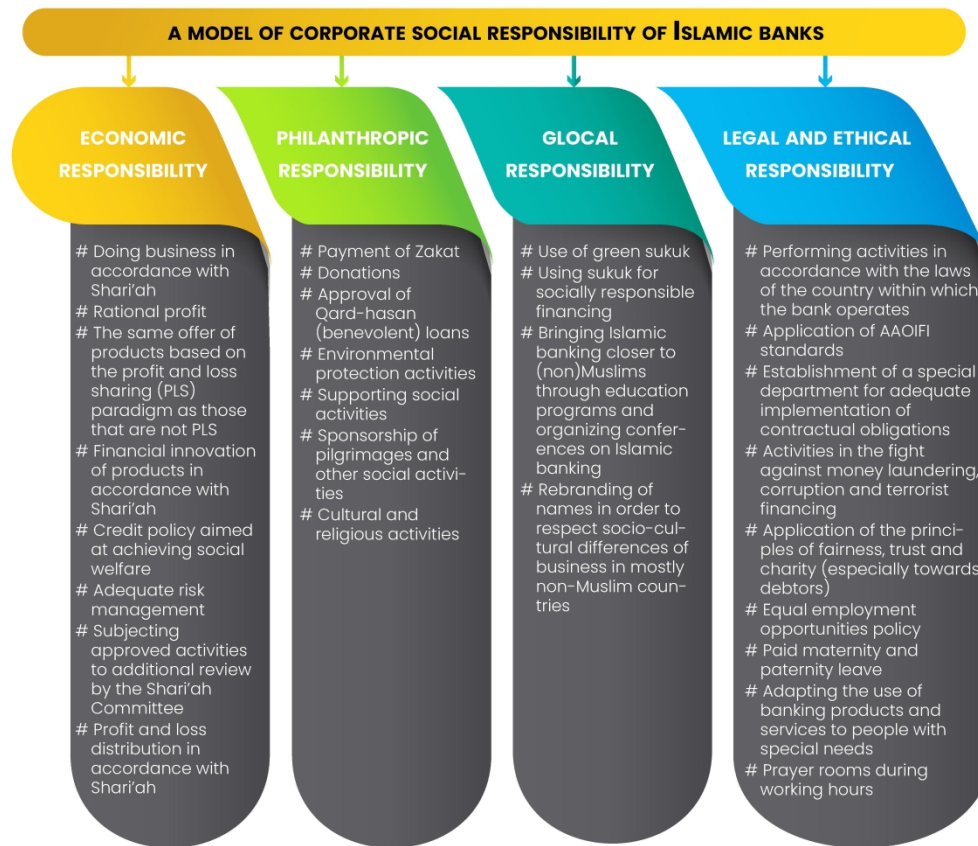


Figure 3: A new model of the Islamic approach to CSR

182x156mm (600 x 600 DPI)