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STAKEHOLDER MANAGEMENT:

THE ISLAMIC PERSPECTIVE OF

CORPORATE SOCIAL RESPONSIBILITY

BY

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ABSTRACT

This exploratory and qualitative study examines the various facets and themes related to corporate social responsibility, the emerging trends and issues, and the implications these elements have upon business management.

More importantly, this study looks into the wisdom derived from Islam vis-à-vis these issues, examines the Islamic perspective towards the various stakeholders, identifies and analyzes the salient features and the philosophical underpinnings, with the noble intention of developing a framework for corporate social responsibility from the Islamic perspective.

Finally, although corporate social responsibility covers a whole spectrum of issues, this study will emphasize the importance of ethical values and the development of a "values-based business approach" as a strategic tool, a guiding principle and a frame of reference for organizational and managerial decisions.

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CORPORATE SOCIAL RESPONSIBILITY

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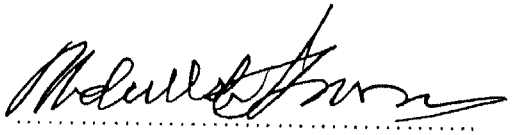

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DECLARATION

I hereby declare that this project paper is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

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6. BIBLIOGRAPHY

1.1 INTRODUCTION TO RESEARCH

1.2 Defining the terrain

- Is Employee Loyalty Dead? (World Executive's Digest, August, 1997).
- Informix Malaysia holds e-business seminar for partners and customers. (Computimes, January 11, 2001).
- Employers may make urine test compulsory. (Berita Harian, March 15, 2001).
- Service centers also allowed to conduct smoke emission tests. (New Straits Times, January 11, 2001).
- Squatters affected by KL Linear City project cry foul. Squatters along the Klang River affected by the KL Linear City project have refused to buy alternative housing offered by the company. (Star, April 23, 2001).

The headlines above are taken from major newspapers and magazine. They may contain different themes, yet they do have something in common. They illustrate the range of issues and dimensions related to Corporate Social Responsibility (CSR).

Employer–employee relationship, the environment, squatter housing, customers and partners are all CSR–related issues. (A list of issues identified as CSR–related is presented in Section 2.3.) The parties involved represent the constituencies of a business

whose rights have to be extended and interests fulfilled. In modern terms, these constituencies are called "stakeholders" of a company.

The term "stakeholder" grew out of the more familiar idea of "stockholders", the investors who own a business. A stockholder who owns a share of a company is also a stakeholder. So too are consumers, although they may not own the company. Who are the stakeholders of a company?

Stakeholders are all the people and groups affected by, or that can affect, an organization's decisions, policies and operations.[1] In today's business environment, there are many stakeholders; customers, government, suppliers, employees, owners, the environment, local community etc.

A manager must be sensitive to the firm's operating environment because the effectiveness of his decisions and the survival of his company depend on his ability to manage the complex and competing company and stakeholder interests. The decision making process of management must be guided by moral, political, ecological, human welfare interests and economic considerations.[2] The point is, a company cannot and should not act or make decisions without regard to the interest of its stakeholders. This is in essence, the framework of CSR. Analyzing, understanding and weighing the pros and

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[1] James E. Post, Anne T. Lawrence and James Weber, Business and Society: Corporate Strategy, Public Policy, Ethics 9th ed., Boston: Irwin McGraw Hill, 1999, pp.7.

[2] Joseph W. Weiss, Business Ethics–A Stakeholder and Issues Management Approach 2nd ed., Harcourt Brace College Publishers: Florida, 1998, pp.28.

cons of these decisions and the conflicting considerations are part of a manager's job in today's modern business environment.[3]

1.3 Statement of Research Problem

The Western approach to CSR and stakeholder management is more of a response to a crisis situation, for example in the case of the Exxon Valdez oil spill incident in 1989. Another example would be the recent uproar by local consumers regarding the logo used by Fraser & Neave, a soft drink manufacturer, which was claimed by certain quarters as having the words "Allah" thus ridiculing Islam. It turned out to be a non-issue as the logo had been used for the past twenty years. But the quick response by the company, which included an apology and a promise to redesign the logo, was a good example of crisis management in CSR.

In addition, CSR and specifically stakeholder management are being used in the West as a planning tool by managers to anticipate actions and reactions to events and policy outcomes. There is however, an absence of a guideline or framework to prevent CSR and stakeholder management from being manipulated as a profit-maximizing scheme. In other words, the business pursuit of social goals is not altruistically motivated.

As a matter fact, there is a new term introduced in management called "cause-related marketing". The idea is to find a social cause that fits well with a company's product or

[3] Post, pp.7.

service and then tie them together for mutual benefit.[4] CSR thus becomes an elaborate public relations scheme that allows corporate management to appear socially conscious while it pursues its profit objectives. Surprisingly, some well-known companies like AMEX, Coca-Cola, Avon and MasterCard make no apologies for capitalizing on the public's sense of social conscience.[5]

On the other hand, Islam provides certain guidelines to prevent this from happening. Responsibility in Islam is focussed on both the micro (individual) level or *wajib fard 'ain* as well as the macro (society) level or *wajib fard al kifayah*. In this regard, Sayyid Qutb the renowned Islamic scholar said,

> "Islam promotes mutual responsibility and accountability at all levels; the accountability of man to his Creator, man to himself, man to his family, to his society, to his nation and to his country." [6]

In light of these discussions, it is opportune for Muslim businessmen to seek the wealth of wisdom found in Islam relating to these issues. Islam provides guidelines in the form of ethical values that govern human actions. Unfortunately the emphasis among many Muslims is merely the perfection of rituals and theological aspects of the religion despite the fact that Islam brings social values that promote brotherhood, love and justice.[7]

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[4] Stephen P. Robbins and Mary Coultar, Management 5th ed., New Jersey: Prentice-Hall, 1996, pp.153.
[5] Ibid., pp.152.
[6] Rafik Issa Beekun, Etika Perniagaan Islam, translated by Zainab Abd.Kadir, Kuala Lumpur: IIIT Malaysia, 1998, pp.32.

The Qur'an illustrates this point by introducing God's name *ar-Rahman* and *ar–Rahim*, the "Most Merciful" and the "Most Benevolent" consistently at the beginning of all chapters. In addition the Qur'an further states that those who neglect social responsibility indirectly neglects their religious responsibility. For example, in a particular verse, Allah says that "those who pushes the orphans aside and who do not promote feeding the needy are those who reject their religion."[8]

Therefore, it is within the context of these discussions that the following objectives of this study have been identified:

i) To gain insights into developing deeper understanding of CSR and its related issues;

ii) To provide the Islamic guiding framework for managers on CSR and what constitutes ethical business;

iii) To provide the Islamic perspective of how managers and businessmen should interact with the different stakeholders.

This study will attempt to address the following questions:

Research Question 1:

What is Corporate Social Responsibility?

Research Question 2:

What are the Islamic Injunctions Pertaining to Business and Corporate Social Responsibility?

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[7] Siddiq Fadil, Minda Melayu Baru, Kuala Lumpur: Institut Kajian Dasar,1992, pp.158.

Research Question 3:

What responsibilities does a firm have to its stakeholders based on the Islamic perspective?

1.3. Research Focus and Methodology

This study is qualitative in nature. It stresses meanings in context rather than numerically measured data. This study is also exploratory, written with the understanding that Islam provides the solution to the malaise of society.

The focus of this study will be the definition of CSR, arguments for and against CSR, as well as an analysis on the emerging trends. The Islamic approach to business and CSR is then examined followed by the identification of Islamic injunctions toward the differing stakeholders. A case study is then presented, analyzing CSR activities within the company and discussing whether they are in accordance with the injunctions or not.

1.4. Limitations and Delimitation's

The following limitations are acknowledged:

- The inadequate number of articles and studies related to CSR;
- The limited number of write-ups on CSR and Islam.

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[8] al-Qur'an, Surah al Maa'uun, 107: 1-3.

The author is also forced to limit the discussion so as to ensure the study can be done in manageable proportion. For example, the Islamic approach to CSR will emphasize on the Islamic injunctions vis-à-vis the differing stakeholders. Restrictions must be made to avoid this study from becoming unmanageable, for example wandering off into writing a thesis on Islamic Ethics or Islamic Economics.

2. EXAMINING THE BASIS OF DISCUSSION – AN APPRAISAL ON CORPORATE SOCIAL RESPONSIBILITY

2.1 CSR and the Role of Business in Society

In the early years, a contribution towards charity and donation to the needy were regarded as the only activities considered to be related to CSR. Later, the understanding of what constitutes CSR gradually changed to include themes such as managers as trustees, managers as coordinators to balance interests of differing groups and managers to adopt the service principle; companies should serve the public and make business successful in order to eradicate social injustices, poverty etc. Various popular terms were used to describe CSR for example "going beyond profit making", "voluntary activities", and "concern for the broader social system "and" social responsiveness.[9] The different dimensions and terms used, reflect the shift in the understanding of how business should conduct itself in society.

CSR in today's terms has further developed and taken new dimensions for a number of reasons. Firstly, due to the range of related issues at hand; education, housing, health and safety and the environment, to name a few. Secondly, continuous industrial activities have direct impact on society. In the age of Information, Communication and Technology, globalization and open skies, news events around the world reach our

[9] Robbins, Management, pp.146.

doorstep in a number of days or unfold in real time. Societies thus, develop laws and regulations through governments in an effort to maintain social harmony. [10]

It is therefore imperative in the context of this study, to analyze the views for and against CSR before we discuss its definition. These opposing views stem around the debate over the role of business in society.

2.1.1 The Classical View

"The first and most important responsibility of any corporation is to be economically viable", said Peter Feuille, the Director of the Institute for Labor and Industrial Relations at the University of Illinois.[11] Feuille's observation represents the ***classical view*** of CSR whereby management of business enterprises must make profit maximization as its sole overriding objective. The most outspoken advocate of this view is Milton Friedman, the celebrated American Economist and Theorist who argued that management, as employees, does not own the business. As such, management is answerable to the stockholders whose only interest is in the financial returns of the company. Therefore, according to Friedman, the main function of business is to make profit, period.

Other arguments against CSR include:[12]

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[10] John Naisbitt, Global Paradox, New York: Avon Books, 1994, pp.192.
[11] Post, Business and Society, pp.7.
[12] Robbins, pp.148.

- **Costs:** CSR activities add to the cost of doing business and this is passed on to the consumers by charging them higher prices and absorbed by the stockholders by giving them lower profits;
- **Too much power:** Business is already one of the most powerful sectors of our society. They provide job opportunities, manufacture products for customers and influence government policies to their own advantage. If business pursues social goals, it would have even more power;
- **Lack of accountability:** Political representatives pursue social goals and are held accountable for their actions. Such is not the case for business leaders because there are no direct lines of social accountability from the business sector to the public;
- **Lack of broad public support:** Society is still divided over this issue. Therefore if there is no clear mandate, then business involvement in social activities is likely to fail;
- **Competitive market:** Investment funds go for the highest returns. So, if social costs affect returns, then funds will go elsewhere.

2.1.2 The Socioeconomic View

Other management experts had different views on CSR and the role of business in society. While Peter Drucker, the renowned management expert, believes that managers should abide by the principle of normal efficiency, that is managers should do no harm, Konosuke Matsushita has a larger vision. Matsushita, in his 250-year plan for Matsushita Corporation believed that business should make service to society its objective and while

doing this, profit would come on its own. He envisioned Matsushita as a corporation that strives for poverty eradication as well as produce quality goods that are as cheap as water. Matsushita's view represents the ***socioeconomic theory*** which calls for management to look beyond profit and include protecting and improving society's welfare as part of business's responsibility.[13] This view is also supported by Tan Sri Jaffar Hussein, the former Governor of Bank Negara Malaysia, who believed that "there was a moral bottom line in business, which was as important as the accounting bottom line".[14]

Other arguments for CSR include: [15]

- **Society creates business** through government who allows business to exist. Business must therefore give back to society and respond to societal demands;
- The socioeconomic view expects **business to make profit in the long run**. Therefore business should accept social cost along the way. Furthermore, profit should be secured over the long term after increased community relations and better business image. In contrast, the classical view believes in no time frame;
- **Modern business entities are also lobbyists** and influence the political process to their own benefit;
- Social goals **lead to better public image** which contribute to increased sales;

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[13] Ibid., pp.145.
[14] S. Hadi Abdullah, "Ethics in Management" in Management in Malaysia: A Basic text on general management with local reference to managing a Malaysian business, Kuala Lumpur: Institut Pengurusan Malaysia, 1999, pp.298.
[15] Robbins, pp.148.

- CSR result in a **better environment whereby less social problems** are faced by society. This leads to better quality of life, a more desirable community that can keep and attract skilled employees;
- **Discouragement of further government regulations and public criticisms:** Government regulations add cost and restricts flexibility;
- **Stockholders' interest:** CSR improves business's stock price in the long run. The stock market will view the socially responsible company as less risky, open to public criticism and more transparent;
- **Possession of resources:** Business has the managerial, technical and financial experts or resources to support charitable projects.

The question is however, how much should a company be involved in CSR-related activities because there are limits to what a company can and cannot do. Business must have strong profit motive but simultaneously exercise its corporate power to correct any adverse impact of business on society.

2.2 The Definition

After discussing at length the pros and cons of business in society, what then is the definition of CSR? While there is no single, commonly accepted definition of CSR, it generally refers to business decision-making linked to ethical values, compliance with legal requirements, and respect for people, communities and the environment.[16] It has

[16] http://www.csrforum.com/csr/csrwebassist.nsf/content/a1a2.html, pp.1.

been defined as *"an obligation, beyond that required by the law and economics, to pursue long-term goals that are good for society."*[17]

Bucholz's definition has two implications:

1. All firms obey the law;
2. Business is viewed upon as moral agents because they have to do good to society. This means that any business decisions must include ethical considerations.

Business should operate in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. For many companies, CSR is now seen as more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management.[18] Companies have been encouraged to adopt and expand CSR efforts as a result of pressures from customers, suppliers, employees, communities, investors, activist organizations and other stakeholders.

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[17] Rogene A. Bucholz, Essentials of Public Policy for Management 2nd ed., Englewood Cliffs, New Jersey: Prentice Hall, 1990.
[18] http//www.csrforum.com, pp.1.