



the Hollings Center
for international dialogue



Dialogue Snapshot
Corporate Social Responsibility in Islam
November 2014

Corporate Social Responsibility (CSR) is becoming common business practice around the world. In its most widespread conception, defined as “the responsibility of enterprises for their impacts on society”¹, CSR means that companies should not only respect the laws where they operate, but should go further by also incorporating into their business operations and core strategy a process to integrate social, environmental, ethical, human rights, and consumer concerns in collaboration with their stakeholders. CSR aims to maximize the creation of shared values between owners, stakeholders, and society at large. CSR also aims to identify, prevent, and mitigate issues that may arise between these parties. The overarching issues of CSR, such as improving human and labor rights, environmental protection, and good governance, all serve democracy, thus giving the private sector a unique role in sustainable development.



Companies, CSR practitioners, dialogue participants and students participate at a public CSR Marketplace, 17 November, 2014 at Kadir Has University. Photo: Ulaş Tosun

There are many questions surrounding CSR in Muslim-majority nations. How has CSR evolved in different Muslim-majority nations and throughout the world? Is CSR a value that needs to be advocated through appeal to principles such as fairness or honesty? Or is it a product made by the company both to display its values and to fulfill its role as a member of the community? Are there cultural traditions that can give CSR a strong foundation? How do Islamic banking and transactions play a role? Can CSR support employability efforts, entrepreneurship, and job creation? How can CSR activities create sustainability and value?

To address these issues, the Hollings Center and Corporate Social Responsibility Association of Turkey convened a two day dialogue and one day public event entitled, *Corporate Social Responsibility in Islam*. Held in Istanbul, Turkey from November 14-18, 2014, the dialogue brought together business leaders, CSR practitioners, scholars, and journalists to discuss the growth and impact of CSR activities throughout

¹ European Union New CSR Definition (2011)

Muslim-majority nations and to create a forum for the exchange of best practices. Over the course of the discussion, differing viewpoints and philosophies became readily apparent, resulting in further questions. The inquisitive nature of the discussion raised pointed but interesting contrasts.

Definitions: What is CSR?

CSR is not a terminology common outside of the business world, but the values the term represents are known to many. Participants from this conference came from a diverse geographic and disciplinary background, and it became clear early from the discourse that CSR means different things to different people and companies. This in turn became one of the key conclusions of the dialogue. There is no such thing as a “one-size-fits-all” model that will apply to all companies and regions. Thus, there is no one way to incorporate CSR concepts into Muslim-majority nations. As CSR itself is an ever-evolving concept, there are common pillars and differing trends to consider.

Common Pillars – Participants discussed four basic pillars required for a company to be truly socially responsible. Those are:

- **Profit:** A company must be profitable in order to persist, grow, and provide employment to the community. Profitability requires good management, good governance, and a good product.
- **Legal:** Every company has legal responsibilities to the state and to the local community. A socially responsible company abides by the rule of law and works to improve it, not circumvent it.
- **Ethics:** A company has the responsibility to be ethical in the conduct of its business and the treatment of its employees. Transparency of the company’s overall conduct is key to being truly ethical.
- **Social:** A company should engage in social programs aimed at building social capacity. This includes projects towards improving employability, development, sustainability, and other activities aimed at improving communities. Value creation should be shared.

Historical Trends – The values of CSR can be found in many societies and traditions. Modern concepts of CSR originated from the United States in the 1950s, and for the first 30 years of CSR activity, the primary focus was on the definition (primarily that corporations should be more responsible toward all stakeholders). By the 1980s, CSR entered the implementation phase, with greater focus on “how” CSR could and should be implemented. In the 1990s, the focus again shifted, this time to indexing—focusing on creating measurements and compiling data to assess social needs and the impact of CSR activity. Throughout all of these periods, CSR activity was considered ancillary to normal business activity. That perception changed sharply following the 2008 economic crisis. As one participant noted, “The Western ideals of economic success are not a given anymore.” More companies are beginning to rethink CSR as a key part of their identities.

Regional Differences – Regional differences of corporate structure, governance, government, and value systems can play a major role in the perception and execution of CSR activities:

- In some countries of the Middle East, like Saudi Arabia, CSR is becoming very common, so much so that the government is becoming more directly involved. CSR is becoming institutional, rather than being driven by individuals.

“The CSR train is moving and we cannot stop it. Every country has its own speed and in our countries, we need to adjust the practices to fit our own cultures.”

Moroccan participant

- In the post-conflict Balkan states, like Bosnia and Herzegovina, CSR means that one has to care about society and society has to have a clear understanding about what the company does. As one participant noted, in order for a company to function in a post conflict society, one needs trust. “To trust is to care.” And a cognizance of that need to care is key.
- Looking at Central Asia, a region still relatively new to concepts of modern capitalism, consciousness of CSR is newly rising. Charity and philanthropy have strong traditions there, and as such there are expectations of corporations to be active in supporting local communities. However, expectations are high, as the provision of services and social welfare has shifted from the government to the private sector in the post-Soviet era.
- In Southeast Asia, CSR activities are considered a luxury of the rich world, with many corporate leaders prioritizing other business needs. China is the model for economic growth, but the issues it is encountering are motivating states like Indonesia and Malaysia to be open to CSR as a way to alleviate similar problems.

Motivations – Do the intentions of companies engaging in CSR activities matter? As one participant asked, is it important to be doing “good?” And if there are side motivations and benefits from conducting “good” activity, is that a bad thing? The participants concluded the answer is no, not necessarily, but it is an important factor for both the company and the public to take into consideration. As one participant noted, “In the West, intention is not as important, but in the East it is.” Multiple motivations (from profitability to social good) can be complimentary, and for truly socially responsible companies, they should be. However, in order to achieve social approval, CSR needs to move away from the perception of corporate atonement. CSR requires forward thinking, just as any mission statement should be.

Tangibility – One of the great contrasting viewpoints of the discussion was whether CSR is a value or a product. While there was much discussion of this dichotomy, the answer in reality is that it is both. To be truly effective, a company needs to treat CSR activity like a product or a deliverable. It needs to be thoroughly researched, budgeted, and properly scoped within the company’s abilities. As one participant noted, “The best are those that are sustainable and create shared value.” But to be truly responsible, it has to be a part of the company’s culture and values. True CSR cannot be a simple philanthropic exercise or an act of atonement to fix otherwise irresponsible activity. “CSR means community investment,” said one participant. “There needs to be a return on it like any other investment. There needs to be impact and follow-through like any other business proposition.” At the same time, CSR needs to be a part of a company’s mission and values, going beyond the basics of “economism.” As one participant noted, doing CSR “cannot be business as usual.”

Relating CSR to Islam

How does CSR relate to Islam? Can CSR have a stronger base in Muslim-majority countries by virtue of sharing some values with Islam? Participants had differing opinions on whether there is a separate Islamic approach to CSR. The viewpoints were best represented in an anecdote provided by one participant who asked French and Bahraini students what they thought “CSR in Islam” was. French students approached the question philosophically: corporations must be responsible because they are social institutions and are thus an integral part of society. Bahraini students examined the same question by looking at the concept of stewardship (being the keeper of what God created) and divine responsibility (the individual responding to God about his or her deeds). The responsibility therefore falls not to the corporation as an entity, but rather the people within a corporation. This contrast of collective vs. individual responsibility are different ways to look at the concept, but the end point is the same—there is responsibility for actions.

As one participant noted, some of the most basic principles of CSR are relatable to older values and traditions in most Eastern societies. CSR activities in the Muslim world do tend to be more philanthropic, and these societies have long-established traditions of altruistic giving. One participant confirmed this statement, saying “In some countries, implementing responsible economies goes through philanthropy. It’s part of the culture.” One only needs to look to the resurgence of the *waqf* model throughout the Muslim world. These charitable donations of funds or land are essentially contracts, with specific responsibilities, requirements, and beneficiaries. *Ahilik*, an institution dating back to the 13th century Anatolia, was cited as a possible inspiration for contemporary local commerce chambers, and its founding philosophy could be the root of the understanding that business needs to be responsible. Participants debated other mechanisms at work in Muslim societies and whether that would be considered CSR. While there is a place for personal philanthropic activity in CSR, most participants agreed that CSR needs to be decoupled from the religion or belief system of the owners or stakeholders, and should be integrated into the entire business / production process from top to bottom.

CSR for Employment, Development, and the Engagement of Youth

CSR can play a major role in regional and local economies. Cooperation between the company and the community toward improving economic development and the employability of citizens is much needed. Demographics throughout the Middle East show populations that are 40-60% youth with that demographic averaging 25% unemployment. As one participant familiar with CSR efforts aiming to increase employability commented, “CSR support and funding have been critical in having hundreds of thousands find employment. It’s not a solution to the region’s unemployment problems but can chip away at this edifice to create momentum for systemic change.”

“Skills listed in the newspaper ads [for jobs] have changed from just asking for university degrees to things like team-building and strategic thinking.”

A Turkish participant

A key to this systemic economic change will be improvements in education. Secondary and tertiary education in many of the MENA countries are poorly adjusted to the needs of the local, regional, and even global economies, resulting in graduates who have little employability prospects. The private sector cannot be a substitute for education or educational reform, but CSR activities can be used to compliment larger educational and economic strategies. For example:

- CSR programs can provide integrative framework that can combat the silo effect of disciplinary specificity and mend the disconnections between the educational and economic systems.
- CSR programs and corporations can offset the “culture of respectful careers” that place burden of employment on already oversaturated public sector careers like law and health—breaking cultural economic stigma.
- Just as in the US, a need has developed for more vocational, financial, and management training. CSR activities have sponsored many of these programs to improve employability prospects in communities.
- In a world where information flows faster and more freely than ever before, CSR programs have aimed to update “ancient” curricula and sponsor student learning centers, as a means of educational reform that can create environments that are more conducive to open communication and working in teams.
- Aside from business skills, some CSR programs have focused on the development of social skills through extra-curricular activities like sports, arts, and social innovation.

Participants discussed that CSR activities can play a key role in “capturing” the entrepreneurial class that is needed for economic diversification. These programs can act as interlocutors—connecting entrepreneurs with producers, managers, and stakeholders that make business possible and in turn economic diversification. And as opportunity rises, issues like “brain drain” will begin to ease.

But one of the major impediments to the development of an entrepreneurial class is access to capital and other resources needed to start or expand a business. Here too, CSR could provide necessary seed money or assume some of the risk. “If enough individuals are given the tools, it can make a difference in the community.” In this instance, Islamic banking and Islamic banking products can play a role, primarily because unlike traditional banking, it is more tolerant of risk and socially focused (not just religiously focused). This is how Islamic banking has found a market to compete with other banks. As one banker stated, “The spirit of Islamic banking is risk taking,” as is the entrepreneur. The money “is not being given away for free,” but the aim is to share in the profit and the social outcome. Outside of banks, other companies are also distributing capital with the intent of social and community investment. One example cited at the conference was the five Egyptian companies that gave millions of pounds to foster startup businesses throughout the country.

Public-Private Partnerships & Community Buy-in



Participants discuss public-private partnerships and the role of government in CSR. Photo: Ulaş Tosun

As one participant aptly noted, since the financial crisis, “The issue of the government being in the market is now a foregone conclusion.” In the ensuing years, greater emphasis has been placed on the importance of public-private partnerships (PPP) by many governments. This has significant potential and is not necessarily adversarial. As one participant further commented, “Public officials see businesses as partners in governance. They formulate their social policies and platforms accordingly.” In the coming years, these types of partnerships should be expected more frequently. However, it is important to remember that PPP is essentially a finance

model and should not be immediately confused with CSR activity, which is value based. Yet, just like CSR, PPP cannot be a one-size-fits-all model. One needs to take into account differences country by country where there are different economic systems at play, including rentier governments, quasi-government owned companies, and fully-owned government subsidiaries. Not all markets are fully privatized, requiring differing approaches. These differences also raise legitimate concerns about transparency, corruption, and political influence.

Participants debated the merits of some of the different legal frameworks in play when discussing the matter of potential for corruption and political influence. Should PPP and CSR activity be encoded in law such as in some Scandinavian countries? Should it be a ministerial-level, formal government initiative as it is in Saudi Arabia? Or, should such activity be relegated to the NGO sphere between government and business? Should government take the lead in regulating the activity prior to its commencement, such as in Kazakhstan? Or conversely, should government follow business in initiative and regulate after activity begins as in Kyrgyzstan? There are many different platforms to consider, and while participants did not

agree on the best model to follow, all agreed that the government had a role to play in creating a conducive environment to for effective PPP and CSR.

The key is to do it right by being aware of local needs, attitudes, and customs. One participant cited an example of doing it wrong, where a company supported the construction of rice farms in Morocco to support local agriculture and nutrition. The farms failed, not only because the expense in opening and maintaining the water-intensive farms, but because it disrupted the local community. The lack of community buy-in turned into community outrage and the farms were shuttered, defeating the entire purpose of the program.

Successful PPP and CSR activity needs to be strategic. Good activity begins with extensive research, not just with the needs required in the local community, but also research into local partners to effectively judge whether they can deliver. There needs to be a cognizance of local capacity issues, regulatory matters, and most importantly an understanding of a company's core expertise and specialization. A company in the business of manufacturing would best be served in CSR projects involving infrastructure, rather than something like healthcare reform. Many companies, particularly large multi-nationals can fall inadvertently into this trap where they engage in CSR activity far from their area of expertise. It then becomes a "check writing exercise." And while that certainly constitutes philanthropy, it does not constitute CSR.

For successful CSR, there needs to be top-level commitment. As one participant stated, "CSR is a journey for any corporation" where it needs to become an integral part of a company's operation and mission. Some companies do this by creating separate foundations. Others do it by creating CSR departments. But the companies that are the most successful are the ones that have created CSO (Chief Sustainability Officer) positions at the top, making CSR activity a key component in top-level corporate decisions.

Challenges

Throughout the dialogue, participants noted that there will be many challenges to consider if corporate social responsibility is to become more commonplace both in Muslim-majority nations as well as the rest of the world. As noted previously, the dialogue produced more questions than answers, many of which frame the challenges posed to CSR's adoption and success. Some of the key challenges going forward included:

- **Avoiding Politicization:** Participants raised questions about what types of activities would be socially acceptable from political standpoints, something that would directly impact both community as well as government perception. What is politically acceptable to do for social benefit with private funds? How can engagement programs in countries in which civil society is more restricted be conducted in a matter that will not lead to misunderstandings, backlash, or other problems for the company?
- **Competition:** A significant barrier to the adoption of CSR frameworks in Muslim-majority nations (as well as other countries) is the fact that responsible companies will be competing with irresponsible ones. As one participant noted, "Responsible behavior should look like a competitive advantage for companies, but the reality is that being responsible results in losing market share to an irresponsible competitor." How can responsible companies, governments and the local community stop the so-called "race to the bottom?"
- **Coordination:** Currently, coordination between CSR practitioners and government, between CSR and educators, between national and local strategies, among stakeholders, and among companies

is not good. Many participants questioned how coordination could be better between all of these groups.

- **Responsibility:** Who owns the responsibility? The responsibility to the community, the company, the economy? As more and more companies take on CSR activity and public-private partnerships, some participants questioned whether traditional roles of responsibility for social welfare are being abdicated and shifted, not just from the government to the private sector, but from the collective to the individual. Is this a good thing or a bad thing? Is this the formation of a new normal? Should it be?
- **Sustainability:** Participants considered whether CSR activities could be effectively scaled to create lasting impact and social change. If a particular CSR project is nothing more than a “drop in a bucket,” can enough drops eventually fill the bucket? The answer to this question is dependent on the number of small and medium sized businesses that participate in CSR activities. How to get that segment of the economy to participate remains a significant challenge.

All of these challenges, participants agreed, provide a unique opportunity, not only for proponents of CSR, but also for companies and communities that work to support the concept. As these challenges are addressed, CSR will become an important component to the stability and sustainability of corporations.



the Hollings Center
for international dialogue

The Hollings Center for International Dialogue is a non-profit, non-governmental organization dedicated to fostering dialogue between the United States and countries with predominantly Muslim populations in the Middle East, North Africa, South Asia, Eurasia and Europe. In pursuit of its mission, the Hollings Center convenes dialogue conferences that generate new thinking on important international issues and deepen channels of communication across opinion leaders and experts. The Hollings Center is headquartered in Washington, D.C. and maintains a representative office in Istanbul, Turkey. Its core programs take place in Istanbul—a city whose historic role as a crossroads makes it an ideal venue for multinational dialogue.

To learn more about the Hollings Center’s mission, history and funding:

<http://www.hollingscenter.org/about/mission-and-approach>

info@hollingscenter.org

Follow us on Twitter: [@HollingsCenter](https://twitter.com/HollingsCenter)