

## **UNDERSTANDING BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY IN ISLAMIC PERSPECTIVE: CONVERGING AND DIVERGING PARADIGMS**

<sup>1</sup>Dr. Bashir Ahmad, <sup>2</sup>Dr.Umer Iftikhar, <sup>3</sup>Syeda Lubna Munawar

### **ABSTRACT**

The two different approaches of ethics and social responsibility converge at singular understanding in Islamic perspective of equality and justice. If we go by the meanings and implications of the two terminologies i.e. 'Business Ethics' and 'Corporate Social Responsibility' as mentioned in the title of the paper, it appears that these converge to supplement each other at one place and diverge to make two separate entities on the other side where one becomes functional only because other has failed to perform. Ethics and Business Ethics by implication mean endeavoring for the good life. We understand what good is; life that carries the feelings of satisfaction, safety and security. That is not possible without even-wellbeing of communities because accumulation of wealth in few hands creates asymmetric societies where none of the two extremes is satisfied, safe and secure. Those who carry more wealth in their credit are threatened by empty stomachs and vice versa in the urge of securing wealth for growth and struggling for food to survive respectively. Corporate Social Responsibility implies obligations of the corporate sector to pay back to the society. It can be in the form of collective wellbeing as post production phenomenon. It can also follow ethics during business operations as integral part of the business operation. When ethics are followed in business operation as corporate social responsibility, the whole practice becomes converging to complement the collective wellbeing. If pay back to the society is resorted as obligatory corporate social responsibility separately like spending in welfare schemes, environment protection, then it becomes diverging. It implies; there is

---

<sup>1</sup> Professor, Bahria University Karachi

Campus,bashirahmad.bukc@bahria.edu.pk

<sup>2</sup> Assistant Professor, NDU, Iftikhar@ndu.edu.pk.

<sup>3</sup> Mphil Scholar,NDU,lubna.munawra 982@gmail.com.

a vacuum in applications of ethics in business operation that one needs corporate social responsibility. Had the business ethics been followed, there was no need of paying back in the form of corporate social responsibility separately.

So, if you are following ethics during business operation, there is no need of debating corporate social responsibility separately because it is inbuilt within the business mechanism by application and implication. Contrarily if one picks up business ethics as part of corporate social responsibility; separate from business operation and management then it warrants deliberations to pay back to the society / environments in the said form. Therefore, if we take business ethics and corporate social responsibility as two separate entities, then both would be complementing and principally either of the two should exist. In other case, when both have to exist separately, then one would be active because other has not been applied in letter and spirit.

**Keywords:** *Business Ethics, Social Responsibility, Islamic perspective*

## 1. INTRODUCTION

In order to understand the issue comprehensively, it is essential to take into account the implications of terminologies appearing in the title of this paper which include ethics, business, business ethics, corporation and corporate social responsibility. Firstly, the ethics which etymologically emanate from Greek word 'ethos' means moral character. In ancient Greek philosophy, it encompassed the whole range of human actions including personal preconditions. Ethics were basically focused on pursuing good life. The question is what good life is; is it looking after self-interest only or something collective and beyond self-well-being. In essence, individual well-being is not possible without collective growth of the society covering all its social, political, cultural, intellectual and economic dimensions. So, by implication, ethics accentuate pursuing self-interest, however not at the cost of others; should rather be giving due share to the fellow human-being for collective improvement in living standards. Asymmetric growth of the society results into mutual destructions and chaos.

Second terminology refers to 'business' which has dictionary meaning of a profession dealing with exchange of goods and services for the benefit of both the parties i.e. producer and the user. It implies production of goods and services for the purpose of benefiting the people i.e. in fulfilling their needs and desires. According to Drake-Brockman and Stephenson (2012) undertaking business ventures implies production or purchase and sale of goods for the purpose of earning profits and collecting wealth through satisfying human needs and wants. So, it refers to a form of activity conducted with the objective of earning profits. This earning profit has to have some proportion with the investment; otherwise it would amount reducing the purchasing power of the buyers. If you squeeze it beyond certain limits, then a stage would come where we have excessive goods and services but no buyer. Under this eventuality also, we tend to create asymmetric society which is detrimental to any peaceful coexistence on this planet.

The third terminology is business ethics or ethics of business or ethical business which implies producing, purchasing and selling goods and services in order to achieve a good life as fellow human beings in a community. In more elaborative form, it means that producing a commodity or developing a service for commercial purpose with due regards to surroundings, neighborhood, atmosphere, living beings and profit margins. Then, the next terminology i.e. corporations, these are basically the entities which undertake commercial activities through production and development of goods and services for consumption sector of the society. Lastly, the 'corporate social responsibility' though does not have any universal definition, commonly it refers to transparent business practices. It is further elaborated to include productive activities based on ethical values and moral codes in such a way that fellow human beings, other living beings, surroundings and environments are truly protected and taken care of. Corporate social responsibility further includes protecting people and stakeholders of this planet.

The point is that if one understands meanings and implications of ethics; also follows business ethics and the ownership of corporations then there is no need of injecting notion of corporate social responsibility. In this case businesses under ethics become complementary to the concept of corporate social responsibility. If we take business ethics separate from corporate social responsibility,

then both would either be complementing-converging or contradicting-diverging. Adherence to business ethics is basically complementing corporate social responsibility in either way. When taken separate from business ethics, necessity of corporate social responsibility would imply compliance to ethics within corporate social responsibility.

## **2. OBJECTIVES OF THE STUDY**

- To comprehend business ethics and corporate social responsibility in theory and practice for sustainable human developments in all dimensions.
- To highlight business ethics and corporate social responsibility in converging and diverging paradigms.
- To understand Islamic perspective of business ethics and corporate social responsibility in the contemporary business world.
- To propose a model for adhering to business ethics in the contemporary societies of diverse backgrounds.

## **3. LITERATURE REVIEW**

Modern technology and developments in socio-economic dimensions of human endeavours has made ethics, business ethics and social obligations rather a complex issue. Human efforts to be in better than better state have become tempting tools to divulge in averse to ethics practices. Ethics in essence are moral character of an individual or society. In Greek philosophy, the word 'moral' originates from Latin 'mos' which means manner (Rachels, 2001). Therefore, we can say that ethics basically depict philosophy of right or wrong in a society. The issue is that who should determine some act being right or wrong? Here, the two words 'right' and 'wrong' have been taken in the meanings of their goodness to the society or otherwise. There are two sources / methods of determining some activity as wrong or right i.e. carrying the spirit of goodness or otherwise. One is the divine reference and second belonging to the domain of majority of individuals in a community by perception and practices. Since divine method is acceptable to those only who believe in God in one or the other way, so for the time being let us take ethics as relativistic in nature which implies that something being right or wrong is to be

determined by majority belief (Ess, 2013). So, if majority in a community pleads profit maximization even at the cost of environmental pollution is correct; that sets the direction of business activities and moral standards.

In this way, ethics and ethical rules become traditions and accepted opinions of the community. So, the ethics belong to people's will in majority. The three levels of ethics include meta, normative and applied ethics. Out of these three, normative ethics are relatively more relevant to businesses and corporate sectors. Normative ethics refer to good life investigation and its requirements to live well. It provides a system of principles, rules and procedures for determining standards for the rightness and wrongness of actions. Normative ethics include what is permitted to and what is prohibited (Springer International, 2016). In collective vision of the society or community, the bottom line in developing ethical standards is attainment and sustenance of social cohesiveness where people across the board are in a position to meet their basic needs. Under the application of ethical norms, actions of one individual for the attainment of his needs and wants are not appreciated to be detrimental to the environments of other living beings.

Looking at the broader perspective of ethics one finds that it basically provides a prescription to individuals for acceptable conduct in the society. Ethical conduct addresses virtues, values, obligations character and attitudes of individuals in dealing with own and others' rights. Cultural aspects of societies to include customs, traditions and beliefs emanate from mutually acceptable ethics. The mechanism of law and executives also deal with societal wellbeing in somewhat subtle way. Ethics are basically for the human being as they belong to each other through the feelings (Al-Aidaros, Shamsudin, & Idris , 2013). When actions of individuals or communities get astray and become wrongful to the existence of others, the mechanism of law comes in, to play its role and restore the equilibrium. Fairness is the standard virtue for the display of moral character. It is generally accepted that in any society, majority of the individuals forming its part agree to and abide by the set standards. Therefore, ethics are not equitable with the conventional laws, other cultures or even feelings of different groups of people. Once agreed upon, then ethics become binding force for implementations.

Islamic teachings look at the relationship of ethics with human nature and law from a different perspective. The word carrying similar meanings of ethics in Arabic and Urdu is called 'akhlaq'. It carries the meanings like character, ideology or doctrine of human behavior (Al-Aidaros et al., 2013). Though ethics and 'akhlaq' are interchangeably used, however, in its wider meanings the word 'akhlaq' encompasses moral philosophy. It deals with the standards of right and wrong of human conducts as well as his character. In Islam, every individual and group have obligation towards the Creator as well as towards the fellow human beings. The Quran puts obligations towards mankind superior to those with Allah. In Islam, understanding ethics means refraining from immoral conducts like cheating, stealing, lying, indulging into corrupt practices, nepotism, discrimination, murder, assault, slander, rape and fraud etcetera (Beekun, 1997). It appreciates moral characteristics like honesty in dealing with surroundings, compassion, sincerity and respect etcetera. These are those universal standards of goodness that all human beings need to understand and follow in letter and spirit as elaborated in Quran and exemplified by the last Prophet.

Islamic philosophy of ethics is based on fair dealing with fellow human beings, other living beings and surroundings. It is said that the last Prophet was once asked how to determine the moral quality of human conducts, especially, how to know which human action is right or otherwise. He replied; 'righteousness', in Arabic it is called 'al-birr' which is a kind of human disposition where he likes something for himself and same he feels for others. In other words, what he does not like for himself, he should do the same for others. In Islamic perspective, ethics is taken as one's disposition which has internal as well as external dimensions. At the same time, it is not only a personal affair, also interpersonal and social matter. Internally, it enjoins self-purification, self-righteousness and self-consciousness which is continuous phenomenon of spiritual enhancement of human psychological dimensions. It is not to be done sitting somewhere in isolation, rather staying within populace and constantly improving relations with other members of the community and being kind to living-beings around. In this way, idealistically, a Muslim man or woman is well-linked and respected provided he adores graciousness, respectfulness and due consideration for others. Islamic ethics teach the mankind to be friendly, forgiving, compassionate, generous and motivated for sacrifices. The logic behind all this is that misappropriate

conduct of individuals or groups of people eventually leads to injustice and distortion of rights of others. These distortions at smaller scales initially generate waves of suppressions in the social structure and then lead to revolts. Then everyone in the society gets the due share of miseries and injuries.

With regards to social responsibility of businesses, Friedman (1970) is very explicit in his opinion saying that businesses are socially responsible for increasing profits. The businesses are benevolent to management ethics, however, if their ethical behavior supports business activities and consequently contribute to the profit, it is acceptable. It implies that here focal point of emphasis is businesses activities leading towards profits, not the ethics. Business operation and profit margins are predominant to ethics; then what would happen if ethics stumble or hinder the desired speed of business operations and consequently the profits. Contrarily, there are business campaigners, managers and politicians who advocate social responsibility essential for sustainable business strategies and operations (Velasquez & Velazquez, 2002). Carroll (1999) tends to link social responsibility and ethics into one interconnected package. According to studies by Ng (2012) there are many scholars and managers who put themselves in between the two extreme opinions. So the difference prevails among practitioners and academicians (Calton, Payne et al., 2008). The survey conducted by EnviroNics International reflects (Uppsala University Department of Business Administration, 2009) the idea of corporate social responsibility receiving more legitimacy in society and corporate sectors for the successful conduct of business in the modern-day world. It demands the corporate sector to undertake investments for fulfilling stakeholders' needs. Societies expect more from corporations under modern technological developments because of multiplying productive capacities and transparency in monitoring the whole process of product developments.

In the application and implications of ethics and corporate social responsibility, scholars take two main views i.e. monetary and ethical. Monetary view puts corporations justified for maximization of profits in all the dimensions of fairness when these operate within state rules (Friedman, 1970). Therefore, by implication, it means that corporations have no responsibility towards the stakeholders. Accumulation of wealth by using the available means is the legitimate right of every citizen. (Friedman, 1970 & McWilliams & Siegel, 2001).

In the light of this view, the cost of taking responsibility should be lower than the profits obtained from it. In ethical approach, the scholars advocate that corporations have moral responsibility toward the stakeholders. It aims at conducting businesses not with the overall objectives of making profit, rather for creating a better society. The co-relationships should rather be based within the ethical perspective, beyond profit maximization for creating an atmosphere where benefit of one individual or corporation does not create adversity to other. This means symmetric growth of sustainable societies or communities. Ethical approach also emphasizes on better future of upcoming generations thorough maintaining environments. Ethical approach obliges the corporations to create a sustainable society to live longer the organizations as well as communities.

Within the domains of business etiquettes and social obligations, ethical theories occupy the fundamental place in our intellectual and academic discourses. Virtue theory of Aristotle for example reflects on values including traits and habits for justice, prudence, courage, temperance, compassion and wisdom. Kant's deontological theory focuses on actions rather than their results. It advocates that everyone must be dealt with respect and to act rightly, one must be conversant with deontological principles. Mill's utilitarian theory is focused towards maximization of utility value of the commodity. It implies that actions are oriented towards promoting long term interest of all stakeholders.

#### **4. DISCUSSION**

Corporate sector undertakes productive activities on the basis of interactive functioning of land, labor and capital. Under capitalism, there is fourth factor as well, known as entrepreneur or organization; however, here we take it as integration mechanism of land, labor and capital. Entrepreneur or organization provides an umbrella for interactive productive activities; hence has not been considered as a separate factor for production of goods and services in this paper. If we take land as constant factor for all kinds of productive and services activities, then the two dynamic components are basically the capital and labor or we can say money and working hands. So, there are always two entities in collective productive functioning of goods and services i.e. the investor who puts in capital and labor who employs muscle power or what we can call the working hands to produce goods and services. In this way, the entire society is divided in two main

groups i.e. the employers and employees. The third group combines the two functions in oneself i.e. employer and employee. He is investor also as well labor; however, such numbers are small and of limited scales of products. Here mainly, the function is of two groups or we can say, it is basically the capital and labor where ethics and morals have to be played or come into play as social obligation of the corporate sector. Purely talking from the perspective of employee and employer, the question is that what should be the ratio of profit between capital and labor.

In a free market economy under Adam Smith school of thought, the market forces would decide the profit margins going to investor and the working hands as it works for prices of commodities under perfect market conditions. In a monopolistic scenario on either side, one entity would always be getting more than the due share. Both sides would endeavor to create such conditions including monopoly to gain an advantageous state of profits. This would ultimately lead to asymmetric society with groups of extremes which means either you have very rich people or very poor. In this way, the societal equilibrium becomes lopsided which puts coexistence in danger. So, what happens that under such a scenario, since accumulation of wealth has been at the cost of other entity; the realization awakens to spend extra money in charity or other collective / individual welfare schemes. Now here, corporate takes its obligation to pay back in different forms, may it be the state itself to collect extra wealth and spend on the poor or business communities do it by themselves. The issue here is of relationship between capital and labor or investor and the labor or we say employer and employee. Employer retains the ownership not partnership with the employee. The fact remains that in productive activities, they both act as partners and claim ownership of the final products. So, there is absence of equilibrium in the society due to conceptual inappropriate orientation.

It happened due to the basic reason that business ethics were divulged to accumulate wealth at the cost of other partner on distortion of conceptual paradigms. In this case, neither organization can flourish, nor society can gain and retain peaceful coexistence. The capital has to pay back the excess money collected due to inappropriate accumulation of wealth in lopsided relationship of capital and labor. So, the notion of corporate social responsibility comes in to reinstall ethics in the business and uphold moral standards. In actual terms, it is basically returning unduly collected money to the

performance ownership. It happens so in majority of the Muslims countries for example that individuals belonging to the corporate sector perform more 'Umrahs' or send their lower employees for 'Umrahs' as part of their ethical / social responsibility from the extra wealth they have collected. Similar actions take place in other countries and societies in one of the other forms. The modes are different; it may happen under the pretext of faith, social obligation and human rights etcetera.

The other scenario is that in the entire functioning of corporate sector, there are three main stakeholders. These are producer, consumer and environments. Let us have a look at business ethics and corporate social responsibility how it plays in here. Firstly, let us see producer – consumer relationships, the business ethics oblige that a producer produces those products only which are beneficial to the fellow human beings or the end users. Here we are not discussing ethical behaviours of investor and working hands in distribution of profit margins which has been covered in the above paragraphs. Within the domains of stakeholders and as part of the corporate sector, you being producer have two ends to reach at and keep in mind. One, to make something which earns you profit, may disregard whether it has some negative effect on the end user or not. For example, you find an opportunity where fast-food or soft drinks of a certain design cum composition would find better sales in a particular area or community. It may have negative effects on health of the people in the long run. You would still like to go with this business because it offers you multiple avenues of profit earning. Second scenario is that you produce something which fulfils the needs and wants of the society without impacting negatively on their health, may disregard whether it gives profit or not. These are the two extreme scenarios. Business ethics is fundamentally the balance of two extremes.

In Islamic ethics, the bottom line to decide whether to undertake productions or not is whether you would like to consume it by yourself or otherwise. So, if you produce something and that is acceptable to you for usage, it is ethically correct, and you can set the profit margins accordingly. This is between producer and user; the two factors out of three. The third main stakeholder here includes environments which has list of those who are directly or indirectly affected. Environments include the air, space, water, landscape and weather; all affecting the fellow human-beings or living-beings in one or the other way. It pertains to both i.e. producer and user to keep in

mind the environmental effect of what is being produced or consumed. Here, ethics demand not to produce anything which has negative impact on environments or take measures to offset the adverse effects. Traditionally, if the preventive measures are taken during the production process, it falls within the preview of business ethics. If the preventive measures are taken separate from the business operation, those fall within the domain of corporate social responsibility. It may happen so that you plan to produce something which is demand of the society as user and it also gives you reasonable margins of profit; however, it has negative impact on the environments.

Under such a situation, you have to make a decision to go either way. Business ethics demand that you refrain from producing anything which may negatively impact the environments. Now for example, despite knowing the negative impacts, you plan to go ahead with undertaking productions, you are basically disregarding business. However, you also plan to offset the negative impact on environments as inbuilt strategy of your business, you are still within business ethical domains as corporate social responsibility. Another scenario is that dispelling negative impacts was not part of basic strategy, however seeing adverse effects of your production activities, you plan to take appropriate measures, traditionally that comes under the preview of corporate social responsibility. The point to remove is that we take into account the environments, basically, because of the reason that it indirectly impacts the lives of other living beings adversely.

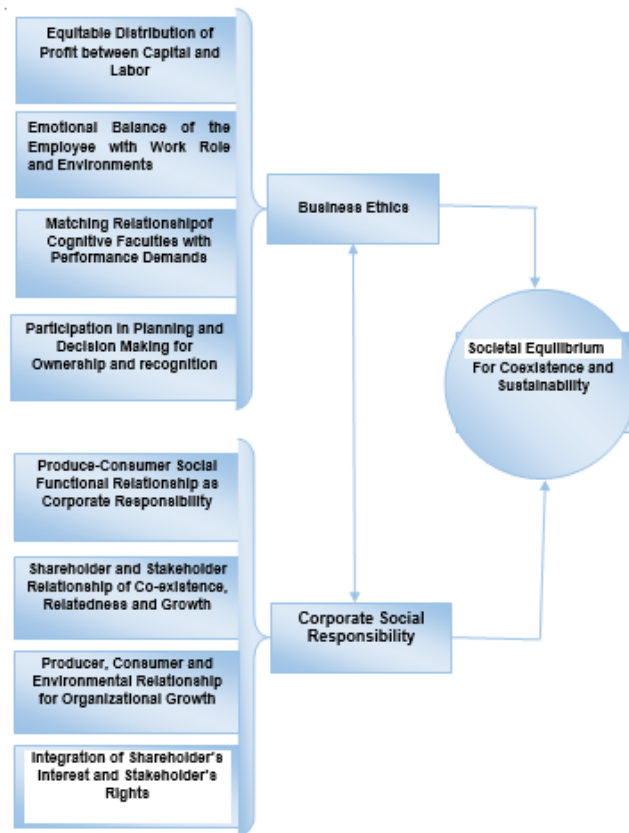
## **5. CONCLUSION**

Business ethics and corporate social responsibility, both serve the purpose of safeguarding the interest of collaborating or coexisting partners of corporate world. What we try to protect is the rights of all members of the community for sustainable peace and healthy coexistence. Fundamental to all these efforts is the public good, creating healthy societies and contributing for harmonious stability with equitable opportunities of developments to all members of the communities. It coincides well with Peter Drucker's outlook towards corporate's social responsibility and obligations for enterprise and members of the society. In addition to business ethics, Islamic system of community sustenance pleads zakat and charity towards fellow human-beings. It also enjoins surviving rights of other living-beings without which human life cannot sustain itself on this planet.

Islamic way of undertaking business ethics and corporate social responsibility appears to be moderate in application. It takes into account the needs of human body as well as soul for internal peace and external coexistence. In order to comprehend the state of accountability, Islam recognizes the concept of life-hereafter. What we produce, sell, earn, distribute and consume, all make us accountable in life here and hereafter on the Day of Judgment. To define what is right and wrong, there are several theories based on different standards. Every theory deals with single point of view, may it pertain to religion, culture or tradition. Islam rather gives comprehensive yet broad parameters of ethical business and businesses for the society. This comprehensiveness is more realistic and balance according to our abilities and efforts.

Inherently, businesses are to make money or increase shareholder's value in many dimensions. It also includes financial means for sustaining living needs, peace of mind and security. Business ethics cover all aspects of transparent practices for people's rights and environmental obligations. It adds stakeholder to shareholder's equity in such a way that the both become neighbors, rather good and caring neighbors. In this way, business ethics and corporate social responsibility converge to reclaim sustainable society having stakeholders and shareholders as conjoint functionaries.

It is concluded after literature review and discussion that we should rather focus on business ethics through integral part of corporate strategy. Business ethics and corporate social responsibility basically serve the same purpose. Their separation has rather created distortions and illusions in application and implications. Separating business ethics from corporate social responsibility becomes rather divergent; whereas they converge and become one at one stage or the other. The same has been depicted diagrammatically in figure-1 below.



*Figure 1: An Illustration of Business Ethics and Corporate Social Responsibility*

## References

- Al-Aidaros, A. H., Shamsudin, F. M., & Idris, K. M. (2013). Ethics and ethical theories from an Islamic perspective. *International Journal of Islamic Thought*, 4, 1.
- Ali, A. Y. (1989). *The Holy Qur'an: Text, Translation and Commentary*. (Brentwood, Maryland, USA: Amana Corporation).
- Ali, Y. (2002). *Jalan Kearifan Sui: Tasawuf sebagai Terapi Derita Manusia Jakarta: Serambi Ilmu semesta*.
- Beekun, R. I. (1997). *Islamic business ethics, International Institute of Islamic Thought (IIIT)*.
- Calton, J., Payne, S., & Waddock, S. (2008). Learning to teach ethics from the heart. *Advancing business ethics education*, 147.
- Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy of management review*, 4(4), 497-505.
- Carroll, A. B. (1999). "Corporate social responsibility: Evolution of a definitional construct." *Business & society*, 38(3), 268-295.
- Doane, D. (2005). Beyond corporate social responsibility: Minnows, mammoths and markets. *Futures*, 37(2-3), 215-229.
- Drake-Brockman, J., & Stephenson, S. (2012). Implications for 21st century trade and development of the emergence of services value chains. *Prepared for IADB and ICTSD E-15 experts dialogue on GVCs. Geneva*.
- Ess, C. (2013). *Aristotle's virtue ethics*. Philosophy and Religion Department, Drury University.
- Friedman, M. (1970). A Friedman doctrine: The social responsibility of business is to increase its profits. *The New York Times Magazine*, 13, 32-33.
- Gossling, T., & Van Beurden, P. (2008). The Worth of Values: A literature Review on the Relation between Corporate Social and

- Financial Performance. *Journal of Business Ethics*, 82(2), 407-424.
- Haneef, S. S. S. (2006). *Ethics and fiqh for daily life: an Islamic Outline*. International Islamic University Malaysia.
- Hashi, A. A. (2011). Islamic ethics: An outline of its principles and scope. *Revelation and Science*, 1(03).
- Hornby, A. S., Cowie, A. P., & Lewis, J. W. (1974). Oxford Advanced Learner's Dictionary of Current English. London: Oxford University Press, 1, 974.
- Kamaruzaman, K. O. (2007). *Understanding Islam: contemporary discourse*. Saba Islamic Media.
- Lillie, W. (2011). *An introduction to ethics*. Allied Publishers.
- Ng, D. W. (2012). Doing the right entrepreneurial thing: ethical decision making under uncertainty. *In Academy of Management Proceedings, Academy of Management*, 1, 1-1.
- Phillips, R., Freeman, E., Wicks, A., & Kramer, M. (2002). The competitive advantage of corporate philanthropy. *Harvard Business Review*, 80(12), 56-69.
- Rachels, J. (2001). *The elements of moral philosophy*. McGraw-Hill, New York
- Sethi, S. P. (1975). Dimensions of corporate social performance: An analytical framework. *California Management Review*, 17(3), 58-64.
- Shafer-Landau, R. (2011). *The fundamentals of ethics*. Oxford University Press, Oxford.
- Swanson, D. L. (1999). Toward an integrative theory of business and society: A research strategy for corporate social performance. *Academy of Management Review*, 24(3), 506-521.
- Velasquez, M. G. & Velazquez, M. (2002). *Business ethics: Concepts and cases*. Prentice Hall Upper Saddle River, NJ.

Zaroug, A. H. (1999). Ethics from an Islamic perspective: basic issues. *American journal of Islamic social sciences*, 16(3), 45.