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Islamic corporate social responsibility in Islamic banking: Towards poverty alleviation

Muhammad Yasir Yusuf¹, Zakaria bin Bahari²

¹Universiti Sains Malaysia, Center for Islamic Development Management Studies, E-mail: yasir_yusuf@yahoo.com, Tel: +60-103986425

²Universiti Sains Malaysia, Center for Islamic Development Management Studies, E-mail: bzak@usm.my, Tel: +60-134281960

Abstracts - One of the goals of Islamic banking operations is to increase the economic growth towards a better and just society. This study aims to examine the criteria and Islamic instrument of corporate social responsibility towards the creation of a sustainable economic development. Specifically, the study analyses the various approaches to improve the quality of life and alleviate poverty and the methods of applying Islamic instruments to corporate social responsibility programs in Islamic banking. Based on the review of literature and findings resulted from in depth interview with the expertises of Islamic banking in Indonesia, the study reveals that there are six (6) fundamental criteria and 34 items considered critical for corporate social responsibility to make an impact on the society. These criteria are namely: Shariah compliance, equality, responsibility in work, the guarantee of welfare, the guarantee of environmental sustainability and charity for preservation of virtue. Then application of Islamic corporate social responsibility in the society should be guided by two Islamic principles; first, the application of *maslahah* (the public good) which provides a better framework that managers can use when faced with potential conflicts arising from diverse expectations and interests of any corporation's stakeholders. Second, corporate social responsibility programs should pay more attention to the importance of social capital in the society. The corporate social responsibility practices in Islamic banking should not only be based on responsibility *al kifayah* (obligatory upon community) and get a positive corporate image but can also be deemed as a method to alleviate poverty and achieve the true economic goals of Islam.

Keywords: Islamic corporate social responsibility, Islamic banking and poverty alleviation

1. Background

The concept of corporate social responsibility (CSR)¹ is corporate responsibility for sustainable economic development in the effort to improve the quality of life and environment (Obaloha, 2008:538; Hay and Gray, 1974:9; Dusuki and Dar, 2005:390). In the last thirty years, the concept of CSR has become an issue of discussion related to the relationship between business and society. One issue discussed was the importance of harmonious relationship between the stakeholders² with the corporate institutions.

The concept of CSR began in the West in the 1970s, and discussions on the concept of CSR often focused on the view that is founded on the norms, cultures and beliefs of the West, especially Europe and America. Western perspective

of CSR has become common practice for a corporation to run CSR programs.

Nevertheless, the concept of CSR can be studied and explored critically from a different source that has been developed in the West. The concept of CSR can be studied from the culture and norms of societies like those found in the Middle East, Southeast Asia and China or across religions and belief systems like Islam, Buddhism and Hinduism. Every culture and system of norms and beliefs incorporates different philosophies and epistemologies on the form and practice of CSR.

In Indonesia the discourse about CSR has been growing significantly. After having been issued, Act No. 40 in

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2007 article 74 refers to the obligation of corporations on corporate social responsibility and society. Thus, corporates in Indonesia inevitably are obliged to enact CSR programs. If the CSR programs are not implemented, the government can impose penalties in accordance with the provision of applicable law (Article 74 paragraph 3). Adherence to conduct CSR based on the legitimate law becomes an incentive for corporations to do CSR. Therefore, CSR is undertaken for one of four reasons, first, responsibility of economy; second, the responsibility of law fulfilment; third, the responsibility of ethics, and fourth, charity (Carroll, 1999:264).

CSR for the community and increasing corporate participation in society must be interpreted as an effort to create a common good for corporations and for society. As a result, the awareness about the importance of CSR becomes a collective responsibility to create harmony and alignment with the existing range of *stakeholders*.³

Therefore, the position of Islamic Banking Institution (IBI) as one corporation of the area of finance that has been operating either nationally or internationally is obliged to be the pioneer of finance institutions in carrying out CSR programs based on Islamic values, which differ from CSR developed in the West. It is not only to fulfill the law and order or good corporate governance. Far beyond that, the implementation of CSR on IBI is based on strong foundations and the philosophy of Islam, being one of the financial institutions that can bring up prosperity for the community. CSR on IBI should be a form of accountability to Allah, humans and the environment.

In addition, the implementation of CSR in IBI must be believed and understood as a share to fulfill the commitment of Shariah compliance in the operations of IBI. CSR is not just making fame or merely to obey the obligations of law. IBI's CSR program must appropriately touch the fundamental purposes for human rights of society towards a better economy and alleviation of poverty. CSR programs should not be a mask for the pursuit more profits (The Economist, 2005) or not the desire to get law legitimatization for operation the corporate (Rizk, et al., 2008: 306).

This study aims to examine the criteria and Islamic instrument of CSR towards creation of sustainable economic development. Specifically, the study analyses the approaches to improve the quality of life and alleviate poverty and methods of applying Islamic instrument to CSR programs in IBI. The presence of IBI is to meet social responsibility; this is the differentiating favour between IBI and conventional banking institution (Sudin Haron, 2005:107). It must be admitted that the existence of Islamic banking is to fulfill social responsibility.

2. Literature review of CSR in Islamic Banking Institutions (IBI)

Researchers vary in defining CSR (Obaloha, 2008:539; Votaw and Launche, 1973; Preston and Post, 1975; Makower, 1994). For example, Bowen (1953) defines CSR as a corporate decision to give benevolence to the community. Fredrick (1960) defines CSR as a community resource, used by economic and human beings to maximize the benefits to society in addition to corporate profits and

corporate owners. Based on the theory of Elkington (1997), CSR is a concept for the corporates obligation to consider the interests of customers, employees, shareholders, communities and the environment in all aspect of their operations. This obligation applies broadly beyond the obligations stipulated by law.

Carroll (1999) mentions that CSR takes the form of economic responsibility, law, ethics and charity. According to Carroll (1999) CSR is described to be pyramid like, where economic responsibility is the key to corporate responsibility, followed by a responsibility to the laws, then ethics, and then lastly to charity (Carroll, 1999: 264). Dashrud (2004) has reviewed 37 definitions that are often used by investigators in defining CSR; he concludes that there are five dimensions that are often used in CSR; environmental dimensions, social dimensions, economic dimensions, stakeholder dimensions and charity dimensions.

From these variants of existing definitions, it can be concluded that CSR is a form of corporate commitment to continuing economic development in an effort to improve the quality of life in society and the environment. In other words, CSR is a form of corporate social responsibility towards local society based on a series of corporate activities related to economic welfare of the community for distribution to all parties.

Most studies on CSR a few decades ago have focused on the form of CSR in Western societies. CSR developments in the west are certainly influenced by ethical values, culture and beliefs of western society, particularly Europe and America. This may be found in several studies that have been done, like Bowen (1953); Carroll (1976, 1991, 1993, 2004); Davis (1960, 1973); Freeman (1984); Wattrick and Cochran (1985); Wood (1991); Donaldson and Dunfee (1994); Donaldson and Preston (1995); Smith (2000); Post, Lawrence and Weber (2002); Birch and Moon (2004). These studies found that the values and culture that flourished in the West became the standard pattern of relationship between the corporation and the community.

The concept of CSR developed in the West is not the same with the concept of CSR in Islam. CSR in Islam built on the basis of *tasawur* (world view) and epistemology of Islam, which is different from the CSR developed in the West. And the principles of Islamic CSR are based on corporate philosophy according the Qur'an and Sunnah. While CSR in the West based on the view of Western culture. Hence, the implementation of Islamic CSR needs to study of CSR's principles based on the Islamic values. It becomes a liability related to Islamic corporations that were born from the womb of Islam.

Social responsibility in Islam is a familiar subject. Social responsibility has begun to exist and has been practiced for the past 14 centuries. The discussion of social responsibility is frequently mentioned in the Qur'an. The Qur'an always links business success and economic growth, which are highly influenced by ethical entrepreneurs in their business. Allah said in the Qur'an:

"Give full measure when ye measure, and weigh with a balance that is straight: that is the most fitting and the

most advantageous in the final determination” (al Isra, 17:35)

Islam gives attention to business through the moral aspects to achieve maximum profits. This shows that Islam is concerned with the economy and morality, both of which cannot be separated. This aspect is also affirmed by the Prophet Muhammad (PBUH). The Prophet (PBUH) has said in the hadith narrated by Malik ibn Anas: “A worker/employee is entitled to at least get good food and clothing with a decent size and is not burdened with ability to work outside the limits. (Malik, 795, 2:980)

The *hadith* above concludes that minimum wages should allow a worker or employee to obtain good food and feasible clothing, reasonable amount for himself and his family, without having to work hard (Yusuf, 2008:151). Uthman ibn Affan, states:

“Do not force a woman beyond in her quest for life, because if you do that to her, she might be doing acts contrary to the moral, and not force your man with a job outside the limit of their ability, because if you do that against him, perhaps he would do the theft (Malik, 795: 2:981).

The Qur’an also considers environmental sustainability one of social responsibility. All the effort of business should ensure environmental sustainability. Responsible to environment, Allah states in al Qur’an:

And when he turns his back, His aim everywhere is to spread mischief through the Earth and destroy crops and cattle. But Allah loved not mischief” (Chapter al-Baqarah, 2:205)

This verse describes how Islam considers environmental sustainability. All the effort of business or non-business should ensure environmental sustainability. The relationship between humans and the environment is very close and cannot be separate. Islam has clearly prohibited anything that is harmful to the individual or the environment at large. Thus, it is one of the obligations for human to care for the well being of society and to guarantee environmental sustainability for the next generation.

While in social welfare, Islam encourages highly Islamic charity to those in need and less ability in work through *sadaqah*⁴ and welfare loans (*Qard hasan*)⁵. Allah says in al Qur’an:

“So fear Allah as much as ye can; listen and obey and spend in charity for the benefit of your own soul and those saved from the covetousness of their own souls, they are the ones that achieve prosperity” (Chapter al Taghabun, 64: 16)

The verse describes the responsibility of Muslims to help others through charitable contributions and donations and stinginess is abomination in Islam.⁶ The benevolent loan (*qard hasan*) described in the al Qur’an:

Who is he that will loan to Allah a beautiful loan, which Allah will double unto his credit and multiply many times? It is Allah that giveth (you) want or plenty, and to Him shall be your return (Chapter al Baqarah, 2:245).

Besides affecting social welfare, the act of benevolent loans can also bring double benefits for individuals and corporations. First, benevolent loan can be creating a positive image for individuals and corporations as well as and the second, getting a new business network formation, which may result in increasing profits.

The Prophet Muhammad (PBUH) said in a *hadith* narrated by Salman bin Amir,

“Alms for the poor is charity. And the charity to family has two advantages, namely the rewarding for Allah and strengthening brotherhood” (Narrated by Tirmidhi, 1993: Hadith No. 653).

The statement above shows that the concept of social responsibility and the concept of justice has long existed in Islam, as long as has the presence of Islam brought by the Prophet Muhammad (PBUH). Prophet Muhammad (PBUH) realised social responsibility and created justice in line with the guidance of the Qur’an. Likewise, the practice of the Prophet Muhammad (PBUH) in the application of social responsibility and justice in society becomes a source of reference for guidance to the next generation, known as al Sunnah. Both the Qur’an and the Sunnah have been very harmonious in upholding true justice.

Although the verses of Qur’an and the *hadith* do not directly refer to CSR but there are many verses in the Qur’an and *hadith*, which explain the obligations of individuals to bear the needs of others. Therefore for individuals that come together to create a corporate have the obligations to help the public and give benefits to others. The existence of corporates were viewed by jurists such as Shafi’i, Ahmad bin Hambal, Ibn Hamid al-Ghazali, Ibn al-Faraj, Ibn Al Jawzi which occupied a position as *fard kifaya*.⁷ Corporates can do what individual find hard to do, corporates can bear and take care the interests of the larger community, such as foundation (Ibn Taymiyya, 1314H).

In fact CSR corporations not only bear and care for living creatures around them, but more than that, CSR is the obligation of humans to comply with Allah’s laws. Allah has commanded humans to obey Him, and a form of obedience to Allah is to ensure the survival of human kind and the natural surroundings. Allah says in the Qur’an:

I have only created Jinns and men, that they may serve Me. (Chapter al Dzaariyat, 51; 56).

Allah also says:

It is He who hath made you (His) agents, inheritors of the Earth: He hath raised you in ranks, some above others: that He may try you in the gifts He hath given you: for thy Lord is quick in punishment: yet He is indeed oft-forgiving, most merciful. (Chapter al An’am, 6: 165).

The existence of Muslims in the face of the earth has two tasks; obedient servant to Allah and the fair caliph. The relationships between the two main tasks are in line and should not be separated from one another. As a servant who worships Allah, each individual has an obligation to make all events of his life as a form of perfect devotion to Allah. In this case, the concept of worship is necessary

to be understood in a broader sense. This means that apart from the specific worship of ritual piety, each individual is required to perform other common rituals of all the activities that bring about the welfare of man and nature in compliance with certain conditions, with right intentions, and has to ensure that those actions are allowed according to the *Shariah* (Suhaila binti Abdullah, 2008: 64–68, Zahari bin Mahad Moses, 2008: 77–78, Abdullah al Mushlih and Shalah al Shawiy, 1998: 161). It also gives the meaning that human beings carrying out their duties as vicegerents on Earth cannot arbitrarily act, but must do so based on the *Shariah* rules as evidence of slavery to Allah as the creator.

As a vicegerent, humans are entrusted to manage this environment involving human relationship with other human beings and human relationships with Allah's creation, including animals, plants and the environment. Al Mawdudi interpreted meaning of the word "vicegerent" as "representative of Allah on Earth" (Abu al-A'la al Maududi, n.d.:16–23). As a representative, humans must be and act like nature, will and actions of the substitute. As the vicegerent of Allah on Earth humans do not have absolute freedom to do whatever impunity. Mankind must act within the authority delegated to him by Allah. This is as described in the Qur'an, Allah says:

O David! We did indeed make thee a vicegerent on Earth: so judge thou between men in truth (and justice): Nor follow thou the lusts (of thy heart), for they will mislead thee from the Path of Allah: for those who wander astray from the Path of Allah, is a Penalty Grievous, for that they forget the Day of Account. (Chapter Shaad, 38; 26).

Ibn Kathir explains humans purpose of ruling the Earth (*khalifah al Ard*) in verse 6; 165; is as executors for the prosperity of the Earth from time to time to be utilized by future generations (Ibn Kathir, 1996:185). This means the continuity and sustainability of the vicegerent task is not just limited to one generation, but responsible to the next generation.

Both interpretations quoted by al Maududi and Ibn Kathir regarding the meaning of vicegerent, gives a clear picture of the duty of every human being to be responsible to Allah as the giver and the representative of the human and natural on the Earth to create harmony life. Accountability requires that people take care of nature and all its contents for the salvation of man himself and the continuity of other creatures of Allah. He is also a form of trust to be guarded and escorted from the various forms of fraud. All this is proof of gratitude to Allah the creator of His servant, so that they are not classified into categories of heathen of mercy. Allah says:

He it is that has made you inheritors in the Earth: if, then, any do reject (Allah), their rejection (works) against themselves: their rejection but adds to the odium for the unbelievers in the sight of their Lord: their rejection but adds to (their own) undoing. (Chapter Fathir, 35; 39).

Precisely the position of CSR in Islam is one of the essential human tasks, which are a mandate from Allah. On one hand CSR is the obedience to Allah, on the other hand it serves as a human responsibility as the vicegerent of Allah on earth. Therefore, those who were bestowed by advantages and

higher position by Allah are obliged to help other humans in order to ease the burden on those who are not affluent and face weaknesses.

Therefore, Islamic CSR obligations are the responsibility of individuals who come together in one corporation to give a positive impression for the environment in order to empower the weak and to preserve natural surroundings. Leaving CSR activity causes the wrath of Allah and brings punishment. In contrast implementing CSR will give birth to pleasure and comfort in building cooperative relationships between the corporations and community and create intimacy within society. Allah says:

It is He who hath made you (His) agents, inheritors of the Earth: He hath raised you in ranks, some above others: that He may try you in the gifts He hath given you: for thy Lord is quick in punishment: yet He is indeed Oft-forgiving, Most Merciful. (Chapter al An'am, 6: 165)

The study of corporate social responsibility in Islam has been revealed by some researchers like Ekawati (2004), Mohammed (2007), Irwani and Dusuki (2007), Dusuki (2008), Zinkin and William (2010). There studies have been carried out to explore the concept of CSR in Islam and also to explore the values of equating Islamic CSR with CSR in the UN Global Compact.⁸

A study conducted by Ekawati (2004) was to explore the concepts *zakat*, CSR and community development. She describes community development done by the corporate community in Indonesia by using *zakat* and CSR practices. Both *Zakat* and CSR have the same ultimate goal in efforts to create the social welfare in society. She only sees *zakat* as an instrument for corporations to implement CSR. This study was limited in exploring the concept of Islam that was quite broad to create justice and social welfare of the community.

More specific studies to explore the concept of CSR in Islam have been done by Mohammed (2007). One study was conducted to explore the Islamic philosophy of corporate social responsibility in Islam. He concludes that social responsibility in Islam is built on four basic principles: unity, justice, free will and responsibility. This thesis was an early study that laid the foundations on Islamic CSR paradigm.

According to Dusuki (2008) the basic concept of CSR is based on the concepts of *khalifah* (vicegerency) and paradigms of *taqwa* (piety). The concept of vicegerency denotes that mankind is the representative of Allah on Earth and as such Allah has entrusted mankind with stewardship of Allah's possession. It means the corporate business works endowed by the power of Allah to conduct business in accordance with the laws of Allah. On the other hand, corporations are trying to make profit for shareholders, on another side it is trying to maintain and develop the economic resources of society, covering issues such as good environmental practices, safety, charitable contributions, social benefits and avoiding dangerous activities. This is done to seek the pleasure of Allah (Dusuki, 2008: 22).

Paradigm of *taqwa* (piety) means a person is imbued with a strong understanding that their role in this world is to manage and develop the world in accordance with the

Shariah. This means harmonizing and integrating material well-being with moral-spiritual values, which in turn determines their fate in this world and in the hereafter. It provides a number of values for shaping social life and clarifies the status of human beings and their position in relation to the rest of creation. Furthermore, it defines the nature of human beings' relationship with Allah, with each other and with the natural environment (Dusuki, 2008: 15–17). This will produce a godly paradigm concept of CSR practices that focus on maintaining human dignity, freedom of work, justice and recognition of individual rights, beliefs and responsibilities.

The conceptual framework of Islamic CSR introduced by Mohammed (2007) and Dusuki (2008) became the basic reference to develop further Islamic CSR models. Mohammed (2007) and Dusuki (2008) reflected a broad paradigm of Islamic business practices adherence to the principles of *Shariah*. However, the studies did not provide a framework of CSR criteria in Islamic corporate practically. Islamic CSR criteria can be used as the model for the implementation of CSR. They also did not measure how the concept of CSR was disclosed in line between concept and implementation in the field with a quantitative approach. Furthermore, Muhammed (2007) and Dusuki (2008) had given part of the Islamic CSR principles for implementing CSR.

Dusuki and Irwani (2007) reveal the effects of *maqasid Shariah* (Islamic law purposes) and *maslahah* (public interest) to the concept of CSR. Using the approach of *maqasid Shariah* and *maslahah*, CSR practices are divided into three categories; essentials (*dharuriyyah*), necessary (*hajiyyah*) and luxury (*tahsiniyyah*). Three categories of *maslahah* can be used by corporate or management to consider the facts and situation changes when implementing CSR which also provide a better framework for managers in dealing with conflicts of interest that may arise from stakeholders (Dusuki and Irwani, 2007: 1). Dusuki and Irwani (2007) also have detailed the CSR guidelines using the *maqasid Shariah* and *maslahah*. The study provides guidance to corporate managers to implement CSR according to considerations of the three categories of *maslahah*.

However, a research finding conducted by Zinkin and Williams (2010) were contrary with the findings Mohammed (2007) and Dusuki (2008). Mohammed (2007) and Dusuki (2008) concluded that there were fundamental differences between Islam and the Western concept of CSR, while Zinkin and William (2010: 17) concluded there were no fundamental difference between the Islamic concept of CSR and the UN Global Compact concept of CSR.

Zinkin and William (2010) in fact has erroneously reviewed the philosophy and foundation of Islamic CSR. The philosophy of Islamic CSR has a very different base from CSR in the UN Global Compact. These differences may cause differences in terms of CSR activities. Islam does not just look at the economic side only, but also focuses on spiritual values, which is not emphasised by Zinkin and William (2010). CSR activities in Islam have clear demarcations between permitted and forbidden which is fixed indicator from *Shariah*. CSR activities cannot change permitted (*halal*) to forbidden (*haram*) or vice versa. From another side, the accountability of hereafter arises from an

understanding of *taqwa* to produce different values in the implementation of CSR.

Islamic CSR has a philosophy from al Qur'an and al Sunnah as the guidance in the various activities of life, including CSR practices in Islamic corporates like Islamic banking. Islamic CSR must be understood as part of *Shariah* compliance. Islamic CSR is to be practiced in line with the principles of al Qur'an and al Sunnah and not just merely fulfil *al kifayah* (obligatory upon community) and giving a positive image to corporate, but also as method to reduce poverty and achieve the true economic goals in Islam.

Mohammed (2007) divides Islamic principles of CSR into four; unity of Allah, justice, free will and responsibility. Dusuki (2008) only mentions two, caliphate and *taqwa* (piety), Ekawati (2005) mentions zakat as one of CSR instruments as a form of charity in Islam, while Dusuki and Irwani (2007) describes a guide for corporate managers to implement CSR approach and the theory of *Shariah* purpose and public interest.

The Islamic principles of CSR described above are summarized in table 1.

The principles that have been discussed in the previous studies can be concluded by three principles of Islamic CSR. There are the principle of unity and justice by Mohammed (2007) and the principles of caliphate by Dusuki (2008). The zakah raised by Ekawati (2005) is one kind of instrument that can be used in the CSR practice. However zakah is not one of the CSR principles. While the concept of free will and responsibility as state by Mohammed (2007) and *taqwa* mentioned by Dusuki (2008) were the effects that arise when the principles of unity, justice and the caliphate were applied. It is not a stand-alone principle.

Principle is defined as base, initial, basic rules (Suryadi, 1980: 190). According to Juhaya (1995: 69), principles are the beginning that is the point of departure (*al-mabda*). In the terminology, principle is the universal truth that naturally exists in Islamic law and the starting point of its construction. It is a basic legal form and produces all branches (Juhaya, 1995). It can be concluded that a base or fundamental is used as the basis for the foundation of the work practices.

Consequently, the position of the implementation of Islamic CSR can be categorized into three dimensions of relationship responsibilities. Firstly, it is the relationship of responsibility to Allah. Secondly, the relationship of responsibility to human being. And the last is the relationship of responsibility towards the environment.

To realize the three links at Islamic CSR practice on IBI, require the principle that are inter-related to each other, that is the principle of unity of Allah, caliphate, justice, brotherhood, and creation *maslahah* (public benefit). The five principles of Islamic CSR practice in CSR IBI's programs may affect the interests of the very basic to fulfil the needs of all stakeholders at IBI.

The implementation of Islamic CSR principles in the IBI and responsibilities of the position of the three relationships that must be played by a Muslim can be described in the following figure:

Table 1. Principles of CSR practices in the Islamic view.

Researchers	Islamic Principles of CSR in Practices	Research objectives
Ekawati (2004)	1. Zakat as an instrument of CSR	To explore the relationship between zakat, CSR and community development at Bank Muamalat Indonesia
Mohammad (2007)	1. Unity of Allah 2. Justice 3. Free will 4. Responsible	To expose the Islamic paradigm of CSR and differences with CSR in the west. The study also looks at how the values of CSR practiced by Islamic bank using in depth interviews with managers of Islamic bank.
Dusuki (2008)	1. Caliphate 2. Taqwa (Piety)	To review and produce the concept of CSR in Islam and compare with CSR in the west.
Dusuki dan Irwani (2007)	The practice of CSR is divided into three categories: 1. Emergency (essentials) 2. Interest (necessary) 3. Luxury (embellishment)	To provide guidance for corporate managers to implement the CSR program in line <i>maqasid Shariah</i> and <i>maslahah</i> .

Source: Ekawati (2004), Mohammed (2007), Dusuki (2008), and Irwani Dusuki (2007).

Figure 1 above explains that the implementation of CSR is the manifestation of three strong relationships and intertwined among each other; relationship with Allah, human relationships and relationship with nature. To optimize these three relations in the implementation of CSR, it must be guided by the principles of unity of Allah, caliph, justice, solidarity. The four principles are aimed at realizing the end of the fifth principle which the creation of *maslahah* (public benefit) for humans and the nature. Creating *maslahah* on IBI is a key goal in implementing all the functions of

Islamic banking transactions included in the implementation of Islamic CSR. As a result, all the implementation of CSR in Islamic banking transactions should be guided by *halal* outlined by Islam and abandon any prohibition as prevented in Islam. All of these principles are practiced with the sole purpose of perfect devotion to Allah SWT.

Implementation of Islamic CSR principles in IBI based on Qur'an and Sunnah in the whole Islamic banking activities will be a vein that drives the economy of the people, not just profits

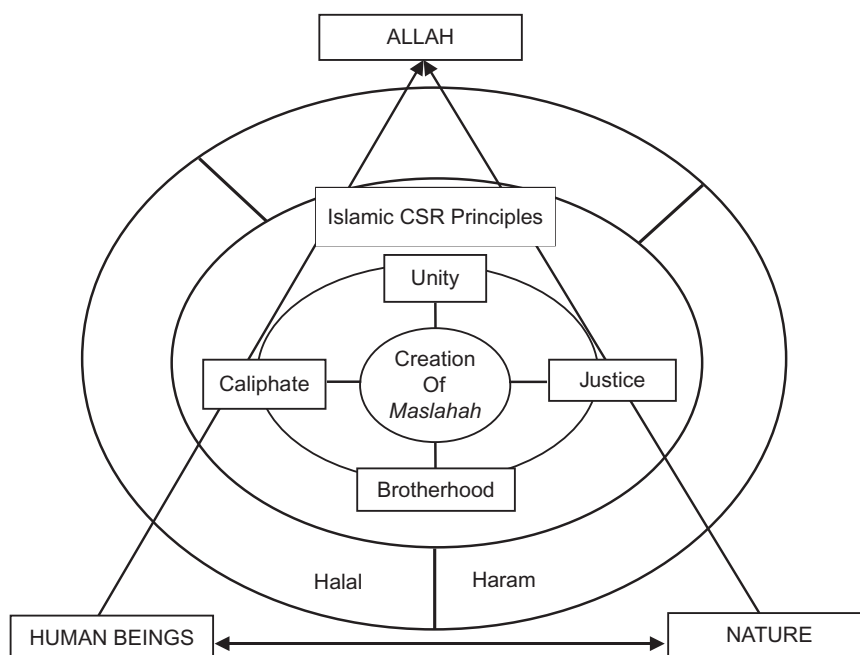


Figure 1. Conceptual implementation of Islamic csr principles of IBI and relationship responsibilities should be played by a muslim.

for shareholders alone, but affect the larger environment for economic empowerment of society through all CSR practices.

3. Criteria and instruments of CSR in Islamic Banking Institutions (IBI)

The criteria which have been studied by researchers are assembled in a conceptual framework. This conceptual framework can be used as the standard in the implementation of CSR in IBI. In general, social responsibility in Islam can be categorized into three forms of relationship responsibilities. Firstly, it is the relationship of responsibility to Allah. Secondly, the relationship of responsibility to human being. And the last is the relationship of responsibility towards the environment. To realize the three links at Islamic CSR practice on IBI, require the five principles that are inter-related to each other, that is; the principle of unity of Allah, caliph, justice, brotherhood, and creation *maslahah* (public benefit).

From the five principles produce six criteria's and 34 items for instrument to measure corporate social responsibility in the IBI. Six criteria's of CSR in IBI come out from deep reading of many literatures and understanding from Qur'an and *hadith*. Six criteria's of CSR in IBI, namely, (1) *Shariah* compliance; (2) equality, (3) responsible in work; (4) guarantee of welfare; (5) guarantee of environmental sustainability and (6) charity for preservation of virtue.

As the following criteria, there are 34 items to be an instrument for measuring these criteria are:

First, the criteria of *Shariah* compliance have five items: (1) Instruments IBI compliance with *Shariah*; (2) Financing IBI compliance with *Shariah*; (3) IBI's investment in *halal* products; (4) Avoiding profit from non-*halal*; (5) Selections of customer according to *Shariah*

Syari'ah compliance criteria and five items to measure those criteria are based on the interest to keep all IBI products and investment lawful as outlined by the Qur'an. There are many verses describing these obligations, Allah says in verses al-Mu'minun: 51; al-Baqarah: 188, 275, 278, 279, and al-Nisa': 10.

The prophet Muhammad PBUH said in *hadith*:

"Searchin the halal is obligatory on every Muslim."
(Narrated by Ibnu Mas'ud).

In banking and finance, all forms of transactions are possible, unless there is any clear evidence or injunction banning a transaction. Therefore each transaction in IBI must be based on *Shariah* in instruments, financing schemes, investment and customer selection.

Second, the criteria of equality has four items; (1) The existence values of brotherhood; (2) Services excellent; (3) Avoid discrimination and (4) Have the same opportunity.

Equality in life has been described in the Qur'an, in chapter Ali 'Imran, 3: 103, al-Anfal: 62-63, al Mukminun; 23:8, al Hujurat; 49:13. The verses explain that the people living in various communities have the duty to respect and cultivate the values of brotherhood with human being in various activities.

The prophet Muhammad (PBUH) said in varieous *hadith*:

"The glory of a believer is because religion, dignity is at the intellect and position is dependent on ethic" (Narrated Baihaqi).

"Allah loves when you do a job to work correctly and properly" (Narrated by Baihaqi).

Third, the criteria of responsible in work has eight items; (1) Trust, (2) Working accordance with the limitations and responsibilities, (3) Fulfill every contract demand; (4) Transparency; (5) Optimal for using time and expertise; (6) Reducing the adverse impact of the investment; (7) Integrity in the work; (8) Fair competition and (9) Accountability.

Responsible in work is something very important in Muslim life. Every employee must be responsible not only to his employer but more than that to Allah also. He will be asked in the Hereafter of what he had done in the world. Obligation to be responsible in their jobs have described at numerous verses in the Holy Qur'an in Surah al Maidah, 5:2, al Munafikun, 63:9, Al Baqarah, 2: 237, Al Baqarah, 2: 195, al Qashash: 77, al Nahl, 16:97. While in sunnah, Muhammad (PBUH) said;

"Muslim traders who are true and trusted in trading are with the martyrs on the Day of Judgment" (Narrated by Ibnu Majah dan Tirmizi).

"Jabir bin Abdullah said that the Rasulullah PBUH said; Allah loves to his servants who acts politely and considerately when selling, buying or reclaiming debts."
(Narrated by Ibnu Majah)

Fourth, the criteria of guarante of welfare has six items; (1) place of work safe and comfortable, (2) Free will, (3) Eligible of Wages; (4) Training and Education; (5) Work does not exceed the limits and time; (6) Profit and loss sharing; (7) Insurance for employee.

Islam is very concerned in giving guarantee of welfare for the people who are involved in every jobs. The relationship between employers and workers, staff and manager must have regulation with the norms of compulsory specific guidelines for creating both sides fairly and qualified. This is the order of Allah in the Qur'an, as mentioned in Surah al-Nahl 16: 90. The Prophet Muhammad (PBUH) also said:

"A worker/employee is entitled to at least get food, proper clothes and not be burdened with the job beyond his ability"
(Narrated by Malik, n.d: 2:980).

"It is not a Muslim who was sleeping in a gorged while his neighbour is in conditions of hunger" (Narrated by Bukhari).

Fifth, the criteria of guarantee of environmental sustainability has four items: (1) To ensure that investment does not harm the environment, (2) Involve an active in protecting the environment, (3) Educating employees to care for and treat the environment and (4) The used of recycled materials to fulfill needs of the IBIs.

The relationship between humans with nature is very close and cannot be separated. Interaction with nature is part of evidencing the greatness of Allah for making the universe to support human being. Allah describes this at the Qur'an in chapter Rum, 30: 41. al Baqarah, 2: 204–206 and al-A`raf 7: 56.

Sixth, the criteria of charity for preservation of virtue has five items; (1) The selection of investors to support the activities for social welfare, (2) Alleviate social problems (such as opening the welfare funds and donations) (3) Support and help fund welfare (such as helping to fund education, social donations, and ease the life of orphan) (4) Playing the role of welfare without looking solely for profitability, and (5) The empowerment of communities through IBIs products (such as Qard hasan, financing micro-economics to poor families and small businesses).

Islam highly asks humans to give welfare assistance to anyone in need and who does not have ability to work. The Qur'an explains a lot about this. Among them are found in chapter al Nahl, 16:71 and 75, al Maidah, 5; 2, Al Taubah, 9; 71. In addition, Prophet Muhammad (PBUH) said:

“Anyone who doesn't love mankind, it's not loved by Allah” (Narrated by Bukhari, Muslim).

“Abu Huraira said, Rasulullah has said: Those who seek to help widows and the poor are similar in rank to those who fight in Allah, pray at night and fasting during the day” (Narrated by Bukhari).

Islamic criteria of CSR in IBI can be related with stakeholders and CSR principles of Islam can be shown in table 2 below:

Table 2. Criteria, item and relationship with stakeholder and principle of Islamic CSR.

Criteria	Item	Islamic banking stakeholders	Islamic CSR principle
1. <i>Shariah</i> compliance	1. Instruments IBI compliance with <i>Shariah</i>	Worker and shareholder	Unity
	2. Financing IBI compliance with <i>Shariah</i>	Shareholder, worker and customer	Unity, caliphate and justice
	3. IBI's investment in halal products	Shareholder, worker and customer	Unity, caliphate and justice
	4. Avoiding profit from non-halal	Worker and Shareholder	Unity and caliphate
	5. Selection of customer according to <i>Shariah</i>	Shareholder, worker and customer	Unity, caliphate and justice
2. Equality	1. The existence values of brotherhood	Shareholder, worker, community, customer	Brotherhood, justice
	2. Services excellent	Shareholder, worker, community, customer	Brotherhood, justice
	3. Avoid discrimination	Shareholder, worker, community, customer	Justice
	4. Have the same opportunity	Shareholder, worker, community, customer	Justice, brotherhood and creation of <i>maslahah</i>
3. Responsible in work	1. Trust	Worker, customer	Unity
	2. Working accordance with the limitations and responsibilities	Worker	Justice
	3. Fulfill every contract demand	Worker and customer	Justice
	4. Transparency	Worker, customer and shareholder	Unity
	5. Optimal for using time and expertise	Worker	Justice
	6. Reducing the adverse impact of the investment	Worker and customer	Unity, creation of <i>maslahah</i>
	7. Integrity in the work	Worker, customer, and community	Unity and justice
	8. Fair competition	Worker, customer and shareholder	Justice, creation of <i>maslahah</i> and brotherhood
	9. Accountability	Worker, customer, shareholder and community	Justice, creation of <i>maslahah</i> and brotherhood

(Continued)

Table 2. Continued.

Criteria	Item	Islamic banking stakeholders	Islamic CSR principle
4. Guarantee of welfare	1. Place of work safe and comfortable	Shareholder and worker	Unity, caliphate and brotherhood
	2. Free will	Worker, shareholder and customer	Caliphate
	3. Eligible of Wages	Worker	Justice and brotherhood
	4. Training and Education	Worker, customer and community	Caliphate
	5. Work does not exceed the limits and time	Worker	Justice and creation of <i>maslahah</i>
	6. Profit and loss sharing	Shareholder, customer and community	Justice and brotherhood
	7. Insurance for employee	Shareholder and worker	Justice, Caliphate and brotherhood
5. Guarantee of environmental sustainability	1. To ensure that investment does not harm the environment	Worker, customer and nature	Unity and caliphate
	2. Involve an active in protecting the environment	Worker, Shareholder and community	Unity and caliphate
	3. Educating employees to care for and treat the environment	Shareholder, worker	Unity and caliphate
	4. The used of recycled materials to fulfill needs of the IBIs	Worker, Shareholder	Unity, caliphate and creation of <i>maslahah</i>
6. Charity for preservation of virtue	1. The selection of investors to support the activities for social welfare	Worker, Shareholder	Unity, caliphate and creation of <i>maslahah</i>
	2. Alleviate social problems (such as opening the welfare funds and donations)	Shareholder, worker and community	Brotherhood, creation of <i>maslahah</i>
	3. Support and help fund welfare (such as helping to fund education, social donations, and ease the life of orphan)	Shareholder, worker and community	Brotherhood, creation of <i>maslahah</i>
	4. Playing the role of welfare without looking profitability	Shareholder, worker and community	Brotherhood, creation of <i>maslahah</i>
	5. The empowerment of communities through IBIs products	Worker and community	Brotherhood, creation of <i>maslahah</i>

Table 2 above, reflects the relationship between the criteria of CSR, stakeholders IBIs with Islamic principles of CSR. It is a network that can not be separated from one another. Each criteria has an impact on the stakeholders; and each criteria is based on the principles derived from al Qur'an and al Sunnah.

The description on the criteria and items to be included Islamic CSR instruments can be used as the conceptual framework for the implementation of CSR in IBI (see Figure 2). It can be described as a series of IBI activities in performing all banking transactions with appropriate responsibility to Allah, human being and in ensuring environment sustainability. Three dimensions of responsibility is to be implemented with the fourth

principles which are unity, caliphate, justice and brotherhood. And fourth principle is intended to create the fifth principle which is the creation of *maslahah* to human and the environment.

Creation of *maslahah* is the main purpose of the IBI in performing of all the functions of banking transactions. Six criteria for CSR at IBI is to ensure that operational IBI occupies the terms and implement *syari'ah* correctly. Thus, the objective of IBI to provide for greater social impact within the environment can be achieved (IAIB 1990, Wahbah Zuhaili, 2003, Sudin Haron, 2005).

The conceptual framework in the implementation Islamic CSR in IBI described above can be seen in figure 2.

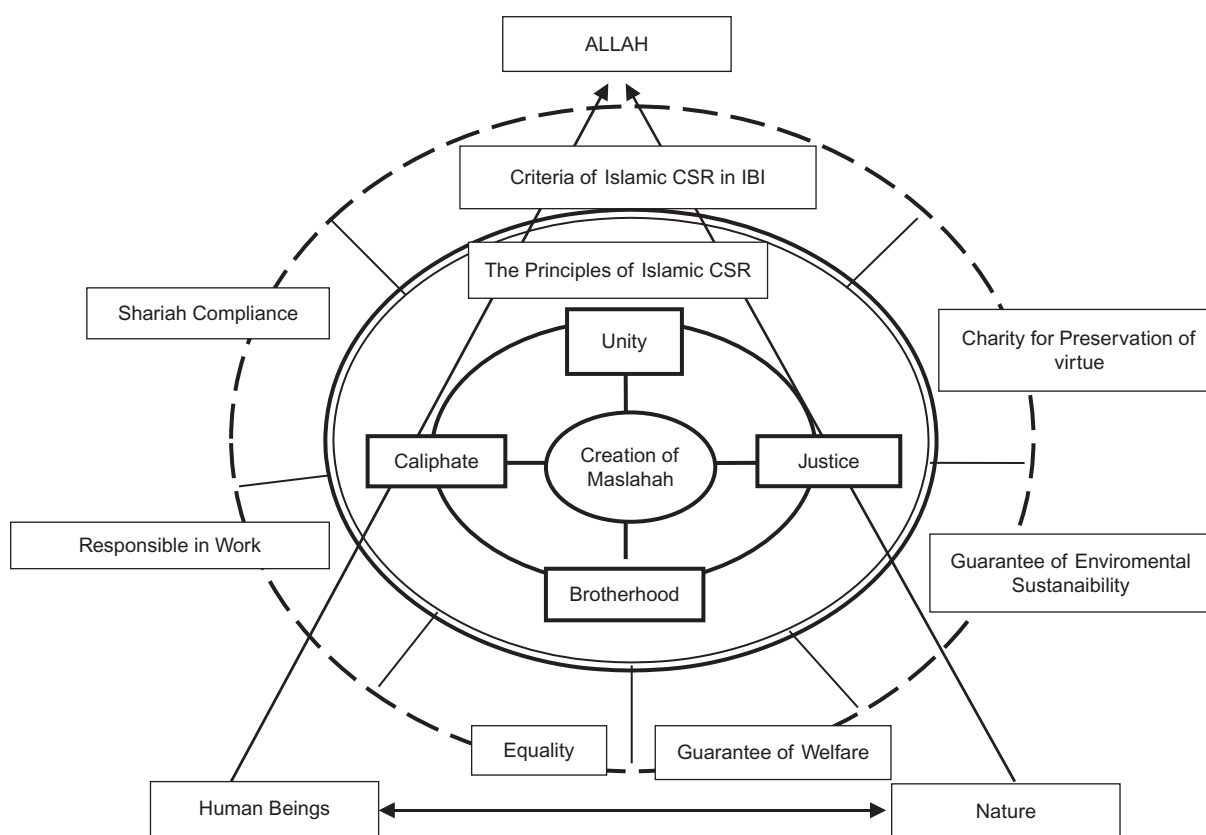


Figure 2. The criteria's and instruments Islamic CSR: Result of an empirical survey in Indonesia.

4. Background of research participants

The purpose of acquiring this information is to ascertain the research participants' authority to discuss Islamic criteria's of CSR. Each of the respondents was asked to give and confirm to the criteria of CSR in Islamic banking. Every feedback from the respondents directed to the removal, addition and modification of each banking CSR criteria established by researcher.

To ensure that the admissions made coincide with the actual purpose of the study, respondents are selected based on two conditions; first, have experience in the field of Shariah, Islamic banking and finance and second, are directly involved as policy makers in the Islamic financial institutions or have been appointed to be Shariah Advisory Board of Islamic banking. The sampling method used is purposive sampling, by selecting all the experts interviewed as participants representing four categories; academics, members of the Shariah Advisory Board of Islamic banking, director of Islamic banking and regulator of Islamic banking. The selection method is used to obtain information, views and in depth opinions from authority in Islamic banking on the phenomenon being studied.

Combinations of respondent in four categories were found to obtain more comprehensive view of CSR criteria in Islamic banking. It does not just examine purely from the theoretical aspects but also the practical aspects of the parallel existence of Islamic banking. Information of all respondents are shown in table 3 below:

Table 3. Information of research participants' based on agencies.

Category	Respondent
Academic	<ul style="list-style-type: none"> Prof. Dr. Alyasa' Abubakar, MA Director of Post Graduate State of Islamic Studies Institute Ar Raniry, Banda Aceh, Indonesia. A Former Head of Official Syariah Islam in Aceh 2004–2009
Shariah Advisory Board of Islamic Banking	<ul style="list-style-type: none"> Prof. Dr. Muslim Ibrahim, MA Head of Consultative Council of Aceh "Ulama. Head of Shariah Advisory Board Islamic Bank of Aceh Shariah
Director of Islamic Bank	<ul style="list-style-type: none"> Isnaini Mufti Aziz CEO of Baity Maal Muamalat. Bank Muamalat Indonesia (BMI) Hizir Ismail Director of Islamic Bank of Aceh Syariah
Central Bank of Indonesia (Bank Indonesia)	<ul style="list-style-type: none"> Ali Sakti Bank Researcher Islamic Banking Research and Development Team, Directorate of Islamic Banking

The background of the participants, who were well experienced, experts and professional, give opinions and endorsement for the criteria of CSR in Islamic banking. The academic and members of the Shariah Advisory Board of Islamic banking with expertise in Islamic jurisprudence were authorized to enlighten the practice of Islamic banks in accordance with the Shariah principles. The director of Islamic banking and regulator of Islamic banking related their experience and how CSR was implemented.

5. Result of survey criteria of CSR in Islamic banking

Six criteria's of CSR and 34 items of the instrument to measure CSR in the IBI were collected to the experts using a semi-structure questionnaire. Every respondent validates between the scales of 1 to 10 and gives reasons for their agreement to these criteria. Six criteria of corporate social responsibility in the Islamic bank are: (1) Shariah compliance; (2) Equality, (3) Responsible in work; (4) Guarantee of welfare; (5) Guarantee of environmental sustainability and (6) Charity for preservation of virtue.

The result of the confirmation was given by experts to criteria's of CSR applying in Islamic bank are:

Criteria of Shariah compliance

In general, all respondents agree with the criteria of Shariah compliance and all items in Shariah compliance item's to measure implementation of CSR at the IBI, because IBI have to be social responsible due to their operation in adherence to Shariah naturally (table 4).

The above matrix imply CSR in IBI have to adhere with Shariah compliance. All respondents agree and give high grade of each item to measure Shariah compliance. One of them pointed out:

...Islamic Bank as a institution based on Shariah, it must be based on the Shariah itself. Every instrument in Islamic bank must adhere with Shariah compliant, as well as financing and investment too.

Another respondent said:

I agree with all of these items in the first criteria, because basic concept of Islamic banking must appropriate with Shariah. We cannot leave the concept of Shariah in Islamic banking.

However, have misperceptions about two respondents reminded about the fifth "Selection of customer according Shariah" under the first criteria. One of them said:

But item fifth should be clear, Islamic banking also has partner with users outside of Islam, Islamic banking as rahmatal lil alamin (mercy for the universe). So anyone can interact with Islamic bank, whether Muslim or not Muslim. Customer IBIs as conventional banks are not differentiated, so that it occurs universally. We cannot select or prioritize only Muslim consumers; the most important thing is instruments and financing products that must be considered properly in line with Shariah.

Other respondent said:

I think item fifth may be misperception most people. The reason, if customer Islamic bank came from among all non-Muslim, such as Chinese, maybe people will think not possible in Islamic bank, but actually anyone can involve in Islamic bank. This item make people to think that the customer Islamic bank just come from Muslim only, however in Shariah, anyone can relate to the bank even though it is not a Muslim. It means, if non-Muslim accompany Islamic bank, Islamic bank still compliance with Shariah.

Both views from respondent was approved by the researcher. Selection customer according to Shariah does not mean that the IBI customer's should be a Muslim but a non-Muslim can be a part of IBI. Selection customer means that, IBI have to ensure that the customer should not be involved with money laundering or affected as a corruptor by law. IBI should ensure that the money put in bank from a third party are lawful with Shariah and government even though it has no obligation to the bank to ask where the money come from. On the other hand, IBI cannot invest or finance customers who have business propositions that violet Islamic tenets of business transaction. For instance, Casino or Karaoke bars that serve alcohol, due to prohibition (haram) of gambling and alcohol in Islamic jurisprudence.

Criteria of equality

The criteria of equality denotes a sense of balance among various aspects of a man's life to produce the best social order. Allah has created everything with balance to maintain equality and equilibrium. As chaliphate of Allah on earth, mankind is expected to maintain equity in society through social responsibility and justice. A middle part must be maintained in all social economic affairs of the Muslim society. Adherence to this criteria, in Islamic society

Table 4. Criteria and items of Shariah compliance.

Criteria	Item	Score by experts						
		E1	E2	E3	E4	E5	Total	Average
Shariah Compliance								
1	Instruments IBI compliance with Shariah	8	10	10	10	10	48	9.6
2	Financing IBI compliance with Shariah	8	10	10	10	10	48	9.6
3	IBI's investment in <i>halal</i> products	8	8	10	10	10	46	9.2
4	Avoiding profit from non-halal	8	10	8	10	10	46	9.2
5	Selection consumer according with shariah	8	10	4	10	10	42	8.4

Table 5. Criteria and items of equality.

Criteria	Item	Score by experts						
		E1	E2	E3	E4	E5	Total	Average
Equality		E1	E2	E3	E4	E5	Total	Average
1	The existence values of brotherhood	7	10	8	10	10	45	9.0
2	Services excellent	9	10	10	10	10	49	9.8
3	Avoid discrimination	9	8	10	10	10	47	9.4
4	Have the same opportunity	9	10	10	10	10	49	9.8

or organization will ensure a harmonious society through aggregation of nature and social forces.

IBI's as Islamic organizations are expected to facilitate the criteria of equality through their practices of maintaining balance in social-economics sphere. Equitable distribution of work/job, services and no discrimination are important aspects of this criteria. The manner in which IBI implement this criteria of equity conclude is in the following items (table 5):

The average values given by all respondents indicated a very high level of their agreement to the criteria of equality for measure CSR in IBI. One of respondent said:

I agree with four items of the second criteria due to two reasons. First, Quran ask us not to discriminate regardless of race, class, position, and age. Our difference is only in taqwa. Second, in terms of business conduct, discrimination is also not allowed and we have to give best services for all customers.

Criteria of responsibility in work

The criteria of responsibility in work is a significant part of the Muslim's faith that he/she is accountable to Allah in the Hereafter for every deed on this earth. Achieving Allah's favour and blessing by adhering to the divine commandment is a significant motivation of faithful's action. Every individual is accountable and ultimately responsible for his own actions. The manner in which IBI implement this criteria of responsible in work conclude in the following items (table 6):

All respondents mentioned the criteria of responsibility in work is something very important in the Muslim life

Table 6. Criteria and items of responsibility in work.

Criteria	Item	Score by experts						
		E1	E2	E3	E4	E5	Total	Average
Responsible in work		E1	E2	E3	E4	E5	Total	Average
1	Trust	9	10	10	10	10	49	9.8
2	Working accordance with the limitations and responsibilities	9	10	8	10	10	47	9.4
3	Fulfill every contract demand	9	9	10	10	10	48	9.6
4	Transparency	8	9	9	10	10	46	9.2
5	Optimal for using time and expertise	8	10	10	10	10	48	9.6
6	Reducing the adverse impact of the investment	8	10	10	10	10	48	9.6
7	Integrity in the work	9	9	10	10	10	48	9.6
8	Fair competition	9	10	10	10	10	49	9.8
9	Accountability	9	10	10	10	10	49	9.8

and organization-collectively to be socially responsible. Similarly, the values given to the criteria responsible in work by all respondents is high grade. They agree to the criteria responsible in work and items that can be used to measure CSR in IBI. One of the respondent said:

Actually, there are ethical considerations/understood by the performer banks to safeguard the rights of consumers. Item trust and all these items are ideal. Moreover, fairness in the competition items (item 8), the Central bank of Indonesia as regulator, have made sure that the competition between bank must be healthy. I gave a value of 10 to each item.

Other respondent who give emphasis on item 6:

In general, all investment banks would be assisted by the feasibility study related to investment, but most of the feasibility study only see the feasible return and get profit, it is not a visible impact on the environment. I think reducing the adverse impact of the investment is an important item to be created. I hope IBI pay more attention to this item.

Guarantee of welfare criteria

In order to achieve its ideal of socio-economic justice, Islam imposes social rights over individual wealth such as rights of the poor relatives for financial support, rights of the needy neighbors for assistance, rights of the slaves and servants for help, rights of the wayfarers, friends and general Muslims who need financial aid. IBIs as Islamic organization have to make sure every stakeholder are guarantee to get welfare. Therefore to measure welfare guarantee to stakeholder, there are six items to fulfill the right stakeholder in Islamic banking (table 7):

Table 7. Criteria and items guarantee of welfare.

Criteria	Item	Score by experts						
		E1	E2	E3	E4	E5	Total	Average
Guarantee of Welfare		E1	E2	E3	E4	E5	Total	Average
1	Place of work safe and comfortable	8	10	10	10	10	48	9.6
2	Free will	7	10	6	10	10	43	8.6
3	Eligible of Wages	9	10	10	10	10	49	9.8
4	Training and Education	8	9	10	10	10	47	9.4
5	Work does not exceed the limits and time	8	9	4	10	10	41	8.2
6	Profit and loss sharing	9	10	10	10	10	49	9.8

There was a general consensus among all respondents that IBI contribute to the well-being of society by providing an Islamic option of dealing with wealth. The stakeholder of IBI's have freedom to choose or reject their services. Likewise the IBI's worker have work place safety and comfortable, convenient of wages and workload that do not exceed the limit and time. And for customer or shareholder, Islamic banks have to make sure every profit and every loss share together among them. IBI's contribute to the welfare and well being of society through various avenues including stakeholder. One of the research respondents illustrated this:

I agree in general with this item, because this is part of the professional demands. I mean professionals are not professionals in the Western understanding but professionals who uphold high ethical values that Islam ask to do. Good place for work, wages, education and the provision of reward and punishment should be balanced.

One of the respondent that give additional item to put in the guarantee of workers' welfare is guarantee of insurance. Insurance was considered a significant item to make sure it is convenient for worker to be good worker in IBI.

Guarantee of enviromental sustainability criteria

Islam has clearly phohibited anything that is harmful to individual or hazardous to the environment. Thus, IBI do not deal with or finance tobacco realted businesses, as it is harmful. Similarly, some IBI do not finance logging companies because they simply log and do not replant, causing harm to the ecological environment. IBI also required compliance to the pollution effect from businesses that are hazardous to the environment. Thus, it is one of obligation for IBI to care for the well being of society to guarantee enviromental sustainability for the next generation. The manner in which IBI implement criteria

of Guarantee enviromental sustainability conclude in the following items (table 8):

The average values given by all respondents indicated general consensus among all respondents that IBI must fulfill their obligation to environment by providing every invesment in IBI that do not harm environment sustainability. One of the respondents said:

Now the Central Bank of Indonesian is conducting a green bank campaign. This was done gradually from several aspects. Currently, we are providing, financing or credit and do not give to the corporate that destroy the environment, and creating hazardous industrial waste. Then we also build coordination with the ministries of the environment. In the ministry of the environment, there is a grading for each other corporate. The grading in the both ministries are supposed to match each other. The bank is healthy, quite healthy, less healthy and an unhealthy, it would be equated with the existing corporate criteria on the assessment from the ministry of the environment. Corporate has grading, namely green, yellow, red and black. When corporate is green, it means the corporate take care of the environment. If corporate is black, this means corporate is really damaging the environment. ... well if black corporate is getting finance from a bank, it will affect the soundness of the bank. Now, this idea is being rolled out in the Central Bank of Indonesian. I strongly agree with this item

Charity for preservation of virtue

Essentially, the philosophy of Islamic banking can be fully understood in the context of the overall objectives of Islamic economic system. Many prominent Islamic economists, like Chapra (1985, 2000a, 2000b), Ahmad (2000), Siddiqui (2001) and Naqvi (2003) assert that Islamic banking is a subset of the overall Islamic economic system that strives

Table 8. Criteria and items guarantee of enviromental sustainability.

Criteria	Item	Score by experts						
		E1	E2	E3	E4	E5	Total	Average
Guarantee of environmental sustainability		E1	E2	E3	E4	E5	Total	Average
1	To ensure that investment does not harm the environment	8	9	10	10	10	47	9.4
2	Involve an active in protecting the environment	8	9	10	10	10	47	9.4
3	Educating employees to care for and treat the environment	8	9	10	10	10	47	9.4
4	Use recycled materials to fulfill needs of the IBIs	8	5	10	4	10	37	7.4

for a just, fair and balanced society as envisioned and deeply inscribed in the objectives of Shariah (Dusuki, 2008: 6). Therefore, Islamic banking is much more than just refraining from charging interest and conforming to the legal technicalities and requirements on offering Islamic financial products. It is a system which aims at contributing to the fulfilment of the socio-economic objectives and the creation of a just society.

The duty of Islamic banks towards the society in which they operate by providing a clear expression outlined in the public statement of the International Association of Islamic Banks (IAIB):

“The Islamic Banking system involves a social implication which is necessarily connected with the Islamic order itself, and represents a special characteristic that distinguishes Islamic banks from other banks based on other philosophies. In exercising all its banking or development activities, the Islamic bank takes into prime consideration the social implications that may be brought about any decision or action taken by the bank. Profitability – despite its importance and priority – is not therefore the sole criterion or the prime element in evaluating the performance of Islamic banks, since they have to match both between the material and the social objectives that would serve the interests of the community as a whole and help achieve their role in the sphere of social mutual guarantee. Social goals are understood to form an inseparable element of the Islamic banking system that cannot be dispensed with or neglected.” (p. 27)

This statement represents the core of what the advocates of Islamic banking expect to do in terms of social obligations. The form of social obligation or social objectives from IBI to community can be charity for preservation of virtue. The manner in which IBI implement this criteria conclude in following items (table 9):

Items of charity for preservation of virtue above indicated the banking industry generally cater to segment community, it must care for the less fortunate in society to maintain equilibrium and social justice. The extent to which IBI's implement this criteria of caring for the less fortunate in practice is explored in the following responses of research respondents.

I agree with five items criteria of charity for preservation of virtue, but my advice, for item 1 (the selection of investor...) should replace with the priority of investors

because it is difficult for banks to choose investors who support the activities of social virtue, if not profitable, but if this priority, I think more better.

Other respondent said:

I agree with all the items, I hope Islamic banks can be a bank that empowers people, Islamic banks do not rely on any profit (profit-oriented). So we should also focus on empowering a good people in the finance.

But one respondent said:

I do not agree if Islamic banks come to a social bank for the poor, because on other side Islamic banks must also provide benefits to shareholders. Moreover, Islamic banks do not pursuit for profit alone. Islam strives for a balance between profit and social in every work that we do.

However it is ill-conceived for anyone to believe that Islamic banks are charitable or welfare organisations which only have concern for the unprivileged or to provide monetary assistance as requested (Rosly and Bakar, 2003). Similarly, it is inappropriate for the management of Islamic banks to emphasise on the profit maximisation policies alone, while neglecting other social obligations (Haron, 1995). Instead, Islam strives for a balance between profit and social objectives. It is considered unjust for Islamic banks if they are unable to provide sufficient returns to depositors and shareholders who have entrusted them with their money. At the same time, Islamic banks are not supposed to make excessive profits at the expense of their customers or undermining and neglecting their social responsibility and commitments to their various stakeholders (Chapra, 1985; Ahmad, 2000: Dusuki, 2008; 7).

The empirical survey results reveal that the criteria of Islamic CSR to measure CSR in IBI have systematized framework came out from Islamic paradigm from the Qur'an and Sunnah. IBI quite extensively are implemented principles and criteria's Islamic CSR when practicing in IBI.

One of the goals of Islamic banking operations is to increase the economic growth towards a better and just society. Hopefully, the criteria and Islamic instrument of CSR in IBI can create a sustainable economic development. Specifically, improve the quality of life and alleviate poverty.

Table 9. Criteria and items of charity for preservation of virtue.

Criteria	Item	Score by Experts						
		E1	E2	E3	E4	E5	Total	Average
Charity for preservation of virtue								
1	The selection of investors to support the activities for social welfare	8	10	8	5	5	36	7.2
2	Alleviate social problems (such as opening the welfare funds and donations)	9	10	8	10	10	47	9.4
3	Support and help fund welfare (such as helping to fund education, social donations, and ease the life of orphan)	9	10	8	10	10	47	9.4
4	Playing the role of welfare without looking profitability	9	10	8	10	10	47	9.4
5	The empowerment of communities through IBIs products	9	10	10	10	10	49	9.8

6. How to implement Islamic CSR IBI's in society?

Implementation of Islamic CSR in the society should be guided by two Islamic principles, first, the application of *maslahah* (the public good) which provides a better framework that managers can use when faced with potential conflicts arising from diverse expectations and interests of any corporation's stakeholders. Secondly, CSR program should pay more attention to the importance of social capital in the society

First, the application of *maslahah*. *Maslahah* means something of benefit, opposite the word of *mafsadat*, which means damage or destruction. *Maslahah* means something to raise the benefits and profits (Macluf, 1976: 432). *Maslahah* consists of considerations which secure a benefit or prevent harm. Protection of life, religion, intellect, lineage and property is *maslahah*.

According to al Ghazali (1322: 286) the objective of the Shari`ah is to promote the well-being of all mankind, which lies in safeguarding their faith (*al din*), their human self (*al nafs*), their intellect (*al `aql*), their posterity (*al nasl*) and their wealth (*al mal*). Whatever ensures the safeguard of these five serves public interest and is desirable.

Al Syatibi described the objective of the Shari`ah is to promote the well-being of all mankind not all at one level. Al Syatibi and al-Ghazali divides *maslahah* in *Shariah* to be achieved in three levels (al Syatibi, t.th: 4, al-Ghazali, 1322: 1: 286). First, *al Dharuriyyah* (the essential); second, *al hajiyyah* (the necessary); and third, *al tahsiniyyah* (the luxury).

Al Dharuriyyah: The essentials are the self-interests upon which people essentially depend, such as faith, life, intellect, posterity, and wealth, if neglected, would lead to hardship and appear total disruption of life's normal order. *Al Hajiyyah*: The complementary interests supplement the essentials and refer to those interests that, if neglected, would lead to hardship but not to the total disruption of life's normal order. In other words, they are needed to alleviate hardship so that life may be free from distress and predicament. *Al Tahsiniyyah*: The embellishments refer to those interests that, if realized, would lead to refinement and perfection in the customs and conduct of people at all levels of achievement (al Syatibi, t.th: 4, al Ghazali, 1322: 1: 286, Dusuki and Irwani, 2007:32).

In the case of priority to achieve between three levels *al dharuriyyah* (essential), *al hajiyyah* (necessary), *al tahsiniyyah* (luxury), the Islamic scholars have agreed that level *al tahsiniyyah* and *al hajiyyah* have different levels, as well as *al daruriyyah*. Level *al daruriyyah* most necessary than level *al hajiyyah* and *al tahsiniyyah*. Therefore, if there is conflict between the benefit of *al tahsiniyyah* with *al hajiyyah*, *al hajiyyah* is preferred then *al tahsiniyyah*. Likewise, if benefits of *al hajiyyah* or *al tahsiniyyah* compete with *al dharuriyyah*, *al dharuriyyah* is preferred (Qarraf, 1925, 3: 94).

Hence, Qarraf asserts that the above classification is related to and deeply rooted in the Shari`ah's objectives to ensure that society's interests are preserved in the best fashion both in this world and in the Hereafter.

According to his views, such a classification implies how a *maslahah*-based methodology could be used to derive new rulings from the Shari`ah, meet society's changing needs, and solve contemporary problems related to socio economic endeavours. Thus, these principles can help establish guidelines for moral judgments and balancing the individual's self-interests with social interests. Especially in conditions where the Qur'an and al-Sunnah are not explicitly explain in detail. This framework could be basis reference for implementing CSR in IBI.

There are two ways for using *maslahah* which can be made by IBI to implement CSR. First, the positive side by performing CSR activities are for maintaining and ensuring the creation of *maslahah* for stakeholders. And the second, negative side by refusing and avoiding all the possible of *mafsadah* happened or will happen in the IBI's.

The implementation of Islamic CSR based on principle of *maslahah*, IBI can create many programs of CSR for arising welfare society. This principle, by implication, reflects how Islam stresses the importance of considering public interests rather than merely individual interests. It provides a framework for making decisions and a mechanism for adapting to change. Perhaps this principle can further contribute to delineating the role of IBI in terms of their CSR. It also offers guidelines for moral judgment on the part of managers and other stakeholders, particularly in solving conflicts that may arise when pursuing CSR.

According to Dasuki and Irwani (2007: 35–37) applying the *maslahah* to CSR can be described to look like a pyramid form (figure 3) below:

Dusuki dan Irwani (2007: 37) elaborate on the first level (the essentials), managers are expected to strive to preserve and protect their stakeholders' essential needs (viz., religion, life, intellect, posterity, and property) and the public good in general. For example, under the CSR precept, they must protect their employees' welfare or basic needs by providing adequate prayer rooms and protecting the employees' safety and health in the workplace, thereby reflecting their responsibility to safeguard, respectively, the faith and values of life. Moreover, they must confine their operations to those that safeguard the above-mentioned

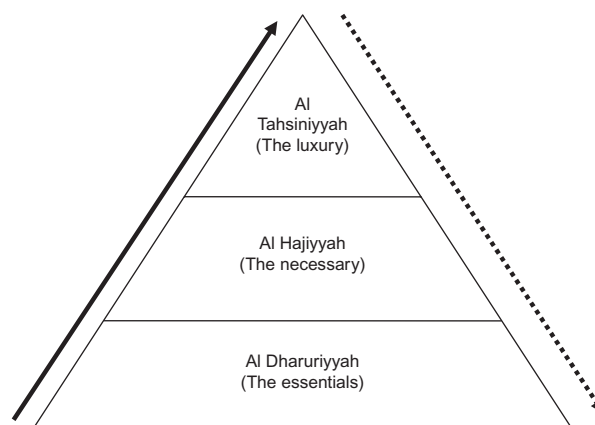


Figure 3. The *Maslahah* pyramid.

essential values. Accordingly, corporations have a moral and social responsibility to avoid any activities that may cause disruption and chaos in people's lives, even though pursuing them may engender higher profits. Such examples include business activities that can endanger people's lives and disrupt their intellects as a result of environmental degradation and manufacturing illicit drugs for public consumption.

As soon as this level's responsibilities have been fulfilled, the corporations may strive for the second level: the necessary. Here, it is deemed beneficial to remove difficulties that may not pose a threat to the normal order's survival. For example, these managers may want to extend their social responsibility commitment by extending the employees' essential needs, such as fair pay and a safe workplace, to include continuous training and enhanced human quality programs. The latter is not really essential, for neglecting it does not threaten the employees' continued existence. However, assuming such a responsibility fulfills the complementary interest of advancing the workers' intellectual well-being (knowledge and skills). In some cases, such an effort can be considered one of the essentials. For example, IBI needs to provide adequate Shari'ah training to their employees concerning the offered Islamic financial instruments in order to protect the interests of the faith.

At the highest level, the luxury, corporations are expected to discharge their social responsibilities by engaging in activities or programs that may lead to improving and attaining the perfections of public life. Giving charity or donating to the poor and the needy, as well as offering scholarships to poor students and providing sufficient, correct, and clear information or advertisement regarding all products, are some of the examples of CSR commitment with respect to realizing this level's goal for society.

The pyramid's three levels are not mutually exclusive; rather, all levels are inter-related and mutually dependent. The arrows pointing upward and downward reveal the flexibility and mechanism of change in the decision-making process, in the sense that any element comprising one level of *maslahah* may be elevated upward or pushed downward, depending on the different circumstances concerning the public at large. However, it should be noted that such flexibility is confined within the Shari'ah's framework, and not vice versa.

This reflects the pyramid's dynamism in assisting the decision-making process within each different context, time, and space. For instance, if circumstances change and corporations are encouraged to respond and, as a result, reconsider their roles within society, this will necessitate a realignment of their business institutions (e.g., mission, vision, policy deployment, decision making, reporting, and corporate affairs) to the new *maslahah*, so long as it does not contradict the Shari'ah's principles (Dusuki and Irwani, 2007: 39).

The *maslahah* pyramid above can be used as frame of reference for CSR managers in IBI's products of CSR for IBI's stakeholders. CSR which refers to *maslahah* based on three levels of urgency that must be achieved. *Maslahah* reflects the urgency level of importance that should be achieved in the implementation of CSR. Lowest level is *al dharuriyyah*,

which is the first and most major accomplishment to be achieved in the implementation of CSR. The second level *al hajiyyah* achieved when the first level *al dharuriyyah* have been fulfilled completely, as well as the third level *al tahsiniyyah* accomplishment after the first and second levels have been done (Qarrafi, 1925).

The *maslahah* pyramid, which functions as a framework and a general guideline to an ethical filter mechanism, provides managers with three levels of judgment to resolve the ethical conflicts that inadvertently emerge while applying CSR programs and initiatives. The levels also reflect the different degrees of importance in terms of responsibility fulfillment. The bottom level, the essentials, constitutes the most fundamental responsibility to be fulfilled, as compared to the complementary and the embellishments categories.

Secondly, CSR program should pay more attention to the importance of social capital in the society.

Since in the beginning of 1990s where some influential works emerged (Coleman 1990, Putnam 1993, Fukuyama 1995), in the various field of social sciences, analysis of social capital has grown with the perceived importance of their impact on socio-economic outcomes (Yamamura, 2008). I will consider the role played by social capital in implementing Islamic CSR for IBI mainly from the standpoint of economics welfare.

Social capital is defined as features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated action (Putnam 1993; 167). Social capital thus seems to play a critical role in preventing agents from taking opportunistic behavior, raising efficiency and so promoting the economic development (Hayami 2001).

Ostrom (1993) states the development utilizes social capital for the community's to show better result. Social capital is one of the prerequisites for the success of development programs in community. Ostrom view's have relevant with the research was conducted by Ohama (2001), Fukuyama (2000), Badaruddin (2006, 2008) and Ibrahim (2006). Therefore, implementation of Islamic CSR in IBI through micro-finance by utilizing the potential of social culture for local communities will provide high benefit impact to fulfill the basic needs of the community.

7. Conclusion

The aim of this study is to examine the criteria and Islamic instrument of CSR towards the creation of a sustainable economic development. Specifically, the study analyse the various approaches to improve the quality of life and alleviate poverty, and the methods of applying Islamic instruments to CSR programs in Islamic banking. Based on the review of literature and findings from in depth interview with the experts from the Indonesian Islamic banking, the study reveals that there are six (6) fundamental criteria and 34 items considered as critical for CSR to make an impact on the society.

Implementation of Islamic CSR principles in IBI based on Qur'an and Sunnah in the whole Islamic banking activities will be a vein that drives the economy of the people, not

just profits for shareholders alone, but affect the larger environment for economic empowerment of society through all CSR practices.

Therefore, Then application of Islamic CSR in the society should be guided by two Islamic principles, first, the application of *maslahah* (the public good) which provides a better framework that managers can use when faced with potential conflicts arising from diverse expectations and interests of any corporation's stakeholders. Secondly, CSR program should pay more attention to the importance of social capital in the society.

Notes

1. Emerging deals of CSR began from the United States in the 1970s. Corporations in America receive criticism from the community because they are powerful and that is considered anti-social. The spirit of corporations is to eliminate competitiveness in business and refuse the role of law and sometimes corporations can affect the law for their interest. Hence some corporations recognize the impact of criticism from the community. They advice to businessmen and corporations is to use their power to achieve social goals and work not only for profit. This approach produces new entrepreneurs in the business world. This idea is known as CSR (Frederick, et.al., 1988:28).
2. The stakeholders are the parties interested in and responsible for the existence of the corporation and have an influence on the decisions made. These include employees, suppliers, consumers; governments act as the makers (regulators), community and corporate owners (Frederick, et. al., 1988:77).
3. According to Clarkson, corporate stakeholders can be divided into two groups; namely, primary stakeholders and secondary stakeholders. The primary stakeholders are the parties who have an interest in economics to the corporate and bear the risk of losses as investors, creditors, workers and communities. The government also included in the primary stakeholder groups, although not directly, have economic ties, but relations between them are more transactional. The second form is secondary stakeholders, namely the nature of their relationship is not determined by this group of stakeholders. Examples of secondary stakeholders are the media and interest groups such as community social and unions (Clarkson, 1995:92–117).
4. In Islam, the word has two meanings *sadaqah*. *Sadaqah* first significant donation to charity, and required that both voluntary donations as charitable contributions.
5. *Qard Hasan* is good credit who do not take advantage. Total amount of loan repayments in accordance with the loaned property.
6. In the Al Qu'ran, Allah mentions in at least 64 section, which describes an important donation to charity. As of 2:43, 83, 110, 177, 215, 263, 264, 270, 271, 273, 274, 276, 277, 280, 4:77, 114, 162, 5:12, 45, 55, 7: 156, and others.
7. Fard kifayah mean anythings societies are obliged to possess, though the task of acquiring them may be left to certain individuals or groups. Implicit in the meaning of this category of knowledge or obligation is that without it a society would lack something that is important to its well-being.
8. Consists of 10 principles and four categories (human right, labor, environment and anti-corruption).

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