

Corporate Social Responsibility in the **Financial** **Sector**

CIEF Roundtable Report
November 6, 2018

مركز الاقتصاد والتمويل الإسلامي
كلية الدراسات الإسلامية
جامعة حمد بن خليفة
HAMAD BIN KHALIFA UNIVERSITY





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4th CEOs & Islamic Finance Leaders Roundtable: Corporate Social Responsibility in the Financial Sector

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Cite this report as: Jumat, Zul Hakim, Summary report of the '4th CEOs and Islamic Finance Leaders Roundtable: Corporate Social Responsibility in the Financial Sector' hosted by the Center for Islamic Economics and Finance (CIEF), College of Islamic Studies, Hamad Bin Khalifa University in Doha, Qatar on November 6, 2018.

ABSTRACT

Corporate social responsibility has evolved dramatically over the past several years, and is now widely embraced by the corporate world not only as an ethical imperative but also as an economic necessity. Islamic finance, which espouses principles of equity and social development, has also found a more favorable and secular platform to convey and implement its objectives. While this presents many potential opportunities, there are still several challenges that require a sustainable and collaborative approach to find effective solutions. This report summarizes the key deliberation points of the 4th CEOs and Islamic Finance Leaders Roundtable event, which was attended by 40 participants, including academics, bank CEOs and their representatives, Shari'ah scholars, business leaders, policymakers and civil society agents.

INTRODUCTION¹

The College of Islamic Studies (CIS), Hamad Bin Khalifa University (HBKU), hosted the 4th CEOs and Islamic Finance Leaders Roundtable event on the subject of “Corporate Social Responsibility in the Financial Sector” on November 6, 2018. This report is a summary of the roundtable deliberations.

The goal of the roundtable series was to create a forum for understanding and enhancing the field of Islamic economics and finance, by fostering an open dialogue among industry leaders and academia while providing an opportunity for students to become more involved in the industry. It also provided participants with a platform to understand one another's viewpoints on crucial

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matters and to learn the ground realities, and gave participants the opportunity to work together towards building a robust economy and financial industry that meet the needs of all segments of Qatari society and beyond. Furthermore, the roundtable was an opportunity to discuss strategic issues confronting the Islamic finance industry today, in the context of creating a more sustainable and socially responsible business model and products that create value for society.

The event was organized by the Center for Islamic Economics and Finance (CIEF), in collaboration with the CIS Research Division and was held at the CIS Minaratein building in Education City, Doha. Over 40 participants, including academics, bank CEOs and their representatives, Shari'ah scholars, business leaders, policymakers, civil society players and HBKU students participated in the roundtable. The CEO of Qatar Financial Centre (QFC), Yousuf Mohamed Al-Jaida, delivered the keynote address, and Dr. M. Evren Tok, Assistant Dean for Innovation and Community Development at CIS-HBKU, moderated the one-day event. The event was based on moderated open discussion among participants around an agreed-upon agenda.

BACKGROUND

An increasing number of scholars, as well as private sector leaders, have been spending a significant amount of effort and resources on corporate social responsibility (CSR) strategies. CSR strategies aim at achieving success in ways that honor ethical values and respect people, communities and the natural environment.²

While the voluntary integration of social and environmental concerns in business operations and their interactions with stakeholders constitutes the common core behind CSR, there is a growing interest in the debate between cosmetic and strategic

² Business for Social Responsibility, <https://www.bsr.org/>

approaches to CSR. Is CSR only a reputation necessity, or is it a central business issue that has a profound and widespread impact on most business operations?

Existing evidence suggests that responsible corporate behavior can enhance corporate performance and improve business performance and competitiveness. CSR and economic dynamism connect via a learning and innovation cycle, where corporate values, policies and practices are defined and re-defined nationally, regionally and globally. In other words, the conditions for CSR cannot be met merely by compliance with regulations and top-down policies. By understanding how organizations can become more sustainable and socially responsible, it is expected that strategies and new innovative business paradigms can be adopted that can benefit society and maximize shareholder value at the same time.

This roundtable presented various academic and policy-related perspectives by illustrating that CSR is embedded in business processes globally, and that if it has been fully integrated, it can drive and generate innovative practices, and, ultimately, competitiveness, especially in the financial sector. Discussion topics included the connection between CSR and Sustainable Development Goals (SDGs), the mutual interaction between national visions and the role ascribed to CSR (especially in the case of Qatar), and the ways CSR is identified and practiced within the Islamic banking and finance industry.

IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

The opening and welcome remarks were offered by Dr. Syed Nazim Ali, Director of CIS Research Division, followed by remarks from Dr. Emad El-Din Shahin, Dean of CIS-HBKU. In their remarks, both Dr. Ali and Dr. Shahin stressed the need for engagement between academia and industry, and for creating spaces such as

roundtables, which can foster the two-way transfer of knowledge between the stakeholders to create better understanding to advance the field. Dr. Ali emphasized the importance of the topic. He then outlined the essential role it can play in shaping a cohesive society and in addressing the need for sustainability and society uplifting by creating a more future-oriented ecosystem that aligns with Qatar National Vision (QNV) 2030 and the National Development Strategy 2018-2022. Dr. Shahin, on the other hand, espoused the need for translating the ideals and sublime values of Islam into tangible social values and practices for institutions. He said that the roundtable embodied the CIS vision of applied interdisciplinary nature in combining strong Islamic traditional knowledge with modern social sciences.

In the keynote speech, QFC's Al-Jaida further set the tone of the conference, highlighting that CSR is no longer optional and that globally and regionally it has become a key component of business across all industries, including Islamic finance, intertwined with the very core of businesses and their codes. Moreover, there has been a significant shift globally from CSR towards social impact, and statistics and numbers are no longer as important. Instead, what matters most are the actual positive changes that result from CSR practices. An excellent example of this is a 2017 KPMG report which indicated that there is a growing trend for global businesses to disclose non-financial information in their reporting. This means that businesses are no longer merely a matter of balance sheets and financial goals. Instead, they are now a blend of societal and economic goals. In short, the success of businesses and financial performance is heavily dependent on a healthy and vibrant society, and it is inseparable from societal betterment. This trend is here to stay and will continue to shape the way businesses operate around the world, and QFC aims to spearhead sustainable and socially conscious programs that enable them to become true agents of positive change in society.

DEFINITION OF CORPORATE SOCIAL RESPONSIBILITY

Dr. Tok, the moderator of the workshop, spurred the first part of the discussion by quoting Milton Friedman's position that the social responsibility of businesses is to maximize its profit and that concern for the "public interest" is pure and unadulterated socialism. The participants pushed back on that superannuated paradigm and all were in agreement that nowadays, the CSR or social responsibility of businesses is to create and foster both economic and societal value. The social responsibility of business organizations should not be different from the individual responsibility to act within the moral boundaries of society while earning her/his income. This implies that while businesses need to maximize their profit, they should also ensure the standard ethical compliance that maximizes the public good. That includes minimizing negative externalities, creating value for society, ensuring sustainable well-being, and correspondingly aligning ethical standards with the core business model.

PERCEPTION OF CORPORATE SOCIAL RESPONSIBILITY

Participants had different perceptions of how businesses have practiced and should practice CSR. The majority of them criticized the way businesses had used the charity-based model, which has negative connotations among the general public nowadays compared to when it was first introduced, as the only means of CSR activities. More and more alternative concepts are starting to emerge. Thus, Islamic finance businesses, in addition to the charity-based model, should also integrate environmental, social and governance (ESG) strategies and value-based models in their business models and CSR strategies in order to maximize the economic and societal value for the sake of their businesses.

This is because value-based CSR strategies that are conscious of stakeholders' well-being will not only maximize profit in the long run but also increase the span of the business and make it more sustainable.

Furthermore, participants deliberated on the segment of society that should be prioritized under the CSR charity-based model. One of the civil society agents mentioned that Qatari society's composition has a unique segmentation that is different from other countries and should be taken into account while implementing CSR payouts. Generally, most participants shared the sentiment that CSR payouts should focus on substance – such as strengthening education, health and employment and supporting the marginalized portion of society – rather than on cosmetics and marketing. Additionally, CSR business activities and strategies should converge both financial and societal performance so as not to lose competitive advantage and make themselves vulnerable to risk management assessment.

THE NEED FOR NATIONAL MOVEMENT

Discussion then ensued on the need for national collaboration, campaigns and strategies to advance the cause of CSR. One of the participants noted that a centralized initiative could dampen creativity and innovation, which is essential for business sustainability. This is because a centralized initiative could demand businesses adhere to various rules and standards, which would entail a compliance issue rather than a strategic move that builds on profitability, risk reduction and resiliency for future-proof businesses with a competitive advantage. Other participants held the view that centralization would encourage and increase overall awareness of CSR practices (i.e., CSR awards).

An important point, nonetheless, was later made by one of the academics, who suggested that there should be a hybrid centralized and decentralized approach, and it should be practical

and beneficial to the recipients. She pointed out that the top-down approach (centralized) of standardization of CSR might create limitations for the industry; however, strategic and overarching sector-based objectives could be utilized to foster innovation within different sectors. This means that what can be done at the national level is not to standardize CSR reporting but to devise specific metrics to assess CSR activity and how these metrics can be measured and reported (i.e., CO2 emission reporting). Similarly, a bottom-up approach is essential to providing the required flexibility and innovation for companies to flourish under their respective businesses (i.e., green sukuk).

Participants acknowledged that this kind of transformative movement could potentially broaden the investor base for businesses, especially in Islamic finance and economics. They held the view that it will attract a growing population of ethical and socially responsible investors who are based in Europe and the US and who might not be interested in Islamic products and investment per se but are keen on ESG-friendly investments.

BEST REPORTING & PRACTICES OF CORPORATE SOCIAL RESPONSIBILITY

The deliberations continued on the ideal features of CSR practices and reporting. One of the regulators questioned the incentives for businesses to disclose their CSR practices as businesses would only disclose what made them look good. He believed that a proper cost-benefit mechanism should be in place to incentivize businesses to report CSR activities that help to address global and regional societal issues. Other practitioners argued that current CSR reporting does not reflect how much societal value is generated through CSR practices, and that there are no unified metrics for doing so due to the components of probability.

One of the academics explained that even if currently there are no standardized metrics or frameworks for CSR or sustainability

reporting, through a value-based CSR approach, societal value could still be estimated. For example, through the Global Reporting Initiative (GRI) standard, Islamic finance institutions could show the total number of jobs created by financing small and medium-sized enterprises (SMEs). Also, he suggested that policymakers should look at the national level on how to incentivize banks to adopt this global standard and initiative.

One of the participating bankers explained Qatar Development Bank's approach to motivating Qatari banks to finance SMEs perceived as highly risky through its Al Dhameen Program, which provides SMEs the collateral (letter of guarantee) needed to qualify for Qatari bank finance. This program practically encourages Qatari banks to set up SME financing departments, as SMEs now pose only project risks for Qatari banks and not institutional risks.

Another academic further espoused the adoption of the GRI framework, which is voluntary (not centralized) and encourages businesses to align their business strategies closely with the ESG, United Nations Social Development Goals (UN SDGs) and impact investing principles exemplified by QNV 2030. He also called on businesses to devise an integrated reporting framework (based on maqasid) that discloses financial performance as well as how well they contribute to the pillars of QNV 2030 and to the UN SDGs.

BRIDGING THE GAP BETWEEN THE EXPECTATIONS AND REALITIES OF CORPORATE SOCIAL RESPONSIBILITY

Education has always been an essential tool in creating public awareness and developing conscient generations. Overall, the participants consensually agreed on the role academia can play in bridging the gap between the expectations and realities of CSR strategies and practices.

One of the participants highlighted the academic roles and suggested that academia may bridge these gaps through curriculum formation, empirical research and teaching pedagogy. Another participant identified three key collaboration areas for businesses and academia to work together on enhancing the perception and implementation of CSR activities and strategies. These three areas are: (1) public awareness initiatives; (2) research (i.e., market assessment and case studies that can be implemented in different contexts); (3) innovation (i.e., product development, financial engineering) and advisory.

Beyond that, practitioners called on academic communities to assist in identifying the attributes that can be adopted at the government level for policymaking bodies to create those elements or entries in the accounting system of Qatar. By creating this kind of framework and mechanism, CSR activities of businesses in Qatar may be statistically monitored, and progress may be measured annually.

Acknowledgments:

This roundtable was moderated by Dr. M. Evren Tok and convened by Dr. Syed Nazim Ali, Bahnaz Al-Quradaghi and Zul Hakim Jumat of the Center for Islamic Economics and Finance, College of Islamic Studies, Hamad Bin Khalifa University in Doha, Qatar. Special thanks to Mudassar Baig, Saqib Hafiz Khateeb and Maimoona Tahir for their kind assistance in writing the notes of the roundtable discussion.

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