

CORPORATE SUSTAINABILITY REPORTING FROM ISLAMIC PERSPECTIVES

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ABSTRACT

The objective of this paper is to explore the corporate sustainability reporting (CSR) based on Islamic values and beliefs. Sustainable development are not a new concepts but they are fundamental codes of conduct in Islamic Society and law practice through syura. An Islamic CSR (ICSR) framework is vital in guiding the CSR strategies, policies and practices of Islamic Societies. This paper discuss sustainability reporting from islamic views by incorporating the concept of tawhid which provides a holistic guidance based on Islamic beliefs, values and concepts. The iCSR should be integrated with and embedded as part of the overall governance and accountability of institutions. which includes the elements of governance, accountability, prioritisation of activities, practices and disclosures.

Keywords: *Corporate sustainability reporting, Islamic Corporate Sustainability Reporting Framework, Corporate social responsibility*

1. Introduction

In the recent years, sustainability issues have captured the public's interest as well as business organisations (Sharifah 2010). The engagement to sustainability activities is seen as an important agenda to be considered as such engagement may result in the sustainability of not only the business firms, but also the sustainability of the environment in which they operate (Mutalib et al. 2014). Many companies which have been credited with contributing to economic and technology progress have been criticised for creating social problems. Issues such as pollution, waste, resources depletion, product quality and safety, the rights and status of workers and the power of large corporations have become the focus of increasing attention and concern (Hussainey & Walker 2009). In order to cope with such issues, sustainability engagement has become a vital plan in dealing with such matters. (Muttalib et al. 2014). crisis and the hardships it imposed on many people have raised many questions about the stability and sustainability of the conventional sustainability system. There are calls for alternative systems that could serve the long-term interests of average citizens around the world while adding value to the real economy. Many observers believe that the Islamic financial system can provide such an alternative, making significant contributions to the sustainable development.

The term "Sustainability" has become one of the important idioms in the business vocabulary. The World Commission on Environment and Development (1987), states that "Sustainable development is development that meets the needs of the present without

compromising the ability of future generations to meet their own needs”, as such, the principles of sustainability is to ensure that our actions today do not limit the range of economic, social and environmental options open to future generations.

Since the concept of corporate sustainability reporting (CSR) is based on western philosophical perspectives, it is of great significance to introduce Islamic constitute a holistic approach of Islamic CSR based on the Qur’an and *Sunnah* (Ziauddin, 2003). There are numerous citations from the Holy Quran and the Hadiths on sustainability and the wise utilisation of natural resources. It is proven that Allah does not act in vain as mentioned in the Qur’an:

“For [thus it is:] we have not created the heavens and the earth and all that is between them in mere idle play. None of this have We created without [an inner] truth: but most of them do not understand it”.

(Qur’an: Ad-Dukhan: 44, verse: 38-39)

Therefore, all of Allah creations have purpose and value. Which respect to the creation of man and Islam as the last revelation given to them, Allah has explicitly stated that *“This day I have perfected for you your religion and I have completed my bounties and I am pleased with the religion of Peace (Islam)”*

(Qur’an: Al-Maidah: 5, verse: 3)

Hence, the Islamic corporate sustainability reporting (ICSR) was needed for the Muslim community with the objectives of demonstrating accountability to Allah and the community and to increase transparency of business activities by providing relevant information in conformance to the spiritual needs of the Muslim decision-makers (Haniffa & Hudaib 2002).

This study attempted to discuss Islamic Corporate Sustainability Reporting (ICSR) from Islamic views. Muslim decision-makers were expecting corporations to disclose more information that would help them fulfil their spiritual needs. This was because the current corporate sustainability reporting initiatives, although they fulfilled a wider audience’s needs, lacked the most pertinent items from an Islamic perspective (Othman and Thani 2010). This may impair the judgement of Muslim decision-makers and adversely affect their spiritual being (Haniffa & Hudaib 2002). Moreover, a full disclosure in the annual report of relevant and reliable information would assist the Muslim stakeholders to make both economic and religious decisions, as well as assist management in fulfilling their accountability to Allah SWT and the society (Haniffa & Hudaib 2002).

2. Literature Review

Corporate Sustainability Reporting

According to Mohd Rizal, et al. (2006) the concept of corporate social responsibility disclosure of Islamic business organisations should include a different set of requirement from the conventional western format. The main objective of Islamic corporate social responsibility disclosure is to show compliance with Islamic Shari’ah, i.e. to demonstrate accountability to Allah. Disclosure from an Islamic perspective of accounting means disclosing information that would aid economics as well as religious decision making.

Baydoun and Willet (2000) suggested that from the perspective of corporate reporting, two essential principles underlie the concept of accountability in Islam, viz., the principle of full disclosure and the concept of social accountability. The concept of social accountability under Islam was related to the principle of full disclosure, where the preparer of accounts had

to disclose everything that was believed to be „of importance to the Islamic users for purposes of serving God“. The concept of full disclosure was thus related to the concept of accountability. Hence the key objectives of the ISR were; to show whether the organisation was compliant with Islamic principles; to show how the operations of the organisation had affected the well-being of the Islamic community; and to help Muslims perform their religious duties (Maali et al., 2006).

According to Sutan Emir Hidayat and Suliman Abdulrahman Alhur in their article about “Corporate Social Responsibility for Islamic Banks” (2012), general concept of CSR has three aspects namely sustainability, accountability, and transparency, whereas Islamic concept of CSR based on AAOIFI’s Governance Standard No. 7 has five aspect of responsibilities namely religious, economic, legal, ethical, and discretionary.

a. Aspects in general concept of CSR

- Sustainability which is not permitted to do natural resources exploitation unless it can be regenerated.
- Accountability which is the corporation has responsibility for the effects of its activities on the external environment.
- Transparency which is the corporation should communicate truthful information to the public about its operations.

b. Aspects in Islamic concept of CSR

- Religious Responsibility refers to the obligation to obey Shari’ah in all dealings and operations.
- Ethical Responsibility refers to the obligation to respect mass of societal, religious, and customary norms which are not codified in law.
- Discretionary Responsibility refers to the expectation from stakeholders to perform a social role in implementing Islamic deals over and above the religious, economic, legal, and ethical responsibility.

According to Asfadillah et al., (2012), in Islamic Accounting, when performing their jobs, accountants must consider the aspect in Islamic concept of CSR which is more complex than general concept of CSR to seriously fulfill their accountability to society and environment that require the transparency, accurateness, justice, and goodwill to mainly share happiness to the others as Allah command us and not mainly subjected to establish good reputation of the corporation (worldly gain).

“But seek, with the (wealth) which Allah has bestowed on thee, the Home of the Hereafter, nor forget thy portion in this world: but do thou good, as Allah has been good to thee, and seek not (occasion for) mischief in the land: for Allah loves not those who do mischief.”

(Al-Qur’an, Al-Qasas: 77)

Zakat Accounting on Business Wealth and Financial Assets that aims to distribute wealth to reduce gap between the poor and rich, to achieve the economic and spiritual well-being of zakat payer and zakat recipients, and to act of submission to God. In this case calculation zakat must be objectively determined by Shari’ah.

- a. Thus to enable zakat assessment to be true and fair, the zakat payer needs to truthfully disclose all of his/her financial facts.

“...but that which you give for charity, seeking the Countenance of Allah, (will increase): it is these who will get a recompense multiplied.”

(Al-Qur’an, Ar-Ruum: 39)

- b. Maintaining the welfare of employees and their family such as health and education facilities.
- c. Pay wages to your employees before their sweat has been dry, and tell their Using the Green Accounting concept in which in accounting practice the accountant should include indirect costs and benefits of a product/activity needed to minimize its environmental impact such as waste cost although it will reduce the profit at first because of increasing cost.
- d. Reduction of adverse impact on the environment by using renewable resources and minimizing the usage of non-renewable sources, making the best use of natural resources, using energy more efficient, etc.

“And withhold not things justly due to men, nor do evil in the land, working mischief.”

(Al-Qur’an, Asy-Syu’araa’:183)

- e. By appreciating Islamic concept for CSR activities such as Zakat and reduction of adverse impact on the environment, it can reduce the destruction of environment, reducing poverty and increasing the welfare of the society around the business then indirectly it will increase the purchasing power of the poor that will give positive contribution to the economic growth through the increasing of consumption expenditures and aggregate demand.

Then, the company itself will also get some benefits such as increased profits, customers’ loyalty, trust, positive brand attitude, combating negative publicity, and having a rightful place in the business world by contributing to the betterment of society, being ethical in trading, protecting the environment, and getting involved in the local community and the most important is the sustainability of the company for the long time as long as the company has intention for sharing happiness not for good reputation.

Principles of Sustainability Reporting from Islamic Perspectives

The Holy Quran highlighted some principles and guidelines on sustainability, which include:

i. Adl (Justice)

Governing human relationships and other living creatures. It is mentioned in a hadith that the Prophet S.A.W said, “The Earth is a mosque for you, so wherever you are at the time of prayer, pray there”. Treating the Earth like a mosque means treating the natural world with full respect, in a just and fair manner (adl). It means that we as humankind must accept our role as the custodian or steward of the planet, whenever it comes under assault from the actions of our fellow humankind in his/her greed for economic gain and profits.

ii. Mizan (Balance)

Everything in creation is made to exist in a perfect, harmonious balance (mizan). Think of the sun and the moon, which gave us night and day. Since the beginning of time, for millions of years, we have been able to benefit from this balanced system to raise our crops and to know when to sleep, work and pray. Everything has its place on Earth. The Quran says, “...He has created man. He has taught him speech and Intelligence. The sun and the moon follow courses (exactly) computed. And the herbs (or stars) and the trees both prostrate to Allah. And the Firmament has He raised high, and He has set up the Balance of (Justice), in order that you may not transgress (due) balance. So establish weight with justice and fall short not in the balance. It is He who has spread out the e earth for (His) creatures...”

(Ar-Rahman: 3 – 10)

Everything has been ordered into this delicate balance and reflecting on this balance is a form of worship.

iii. Wasat (Middleness)

Choosing the middle path in economic planning, social conduct, scientific pursuits, ideological views, material, water and energy consumption. . The Quran says, "...But waste not by excess, for God loves not the wasters...." (Al-A'raf: 31). iv. Amanah (Trustworthiness and Custodianship) We have been entrusted (amanah) with this planet, this is a sacred covenant with our Creator. This trust is an obligation to protect the planet, and it comes with the gifts of many unique abilities such as thought, knowledge, speech and the wisdom to make appropriate decisions

iv. Rahmah (Mercy)

Governing all aspects of human relationships and treatment of all living animals, plants and insects including micro-organisms; . The Quran says, "...But waste not by excess, for God loves not the wasters...."

(Al-A'raf: 31)

v. Amanah (Trustworthiness and Custodianship)

Humankind is considered to be a trustee appointed by the Creator, for all earth's assets. This trust is an obligation to protect the planet, and it comes with the gifts of many unique abilities such as thought, knowledge, speech and the wisdom to make appropriate decisions. Amanah is directly linked to the principle of khalifah (steward or vicegerent) of the Earth. As vicegerent of this Earth, we should always remind ourselves that its True Owner is the Creator and all other creations have their rights to inhabit the Earth. God says in the Quran, "...And (remember) when your Lord said to the angels: Verily, I am going to place (mankind) generations after generations on Earth. They said: Will You place therein those who will make mischief and shed blood, while we glorify You with praises and thanks and sanctify You. He (God) said: I know that which you do not know..." (Al-Baqarah:30) Thus in the scheme of God, humankind is the most dignified and precious of created beings in this universe as the Creator made him His vicegerent. Regrettably, however, humankind rarely acts in the light of this truth, or in an appropriate manner, whether with regard to himself or the people or environment

vi. Taharah (Spiritual Purity and Physical Cleanliness)

Generating contented individuals through spiritual purity, conscious of the presence of his/her Creator, that would result in a balanced society, living in harmony with the environment; cleanliness that would generate a healthy society devoid of air and water pollution, as well as generating a clean economy devoid of usury and deceitful marketing techniques and business transactions.

vii. Haq (Truthfulness and Rights)

Truthfulness in all dealings that recognises the respective rights of others (humans, animals and plants).

viii. Ilm Nafi' (Usefulness of Knowledge and Science)

Knowledge, whether theological, scientific or technological, must be beneficial to others (individuals and society) including future generations.

2. Conventional Corporate Sustainability Reporting (CSR) vs. Islamic Corporate Sustainability Reporting (ICSR)

Global Reporting Initiative (GRI), a prominent organization in the field of sustainability defines Sustainability Reporting as the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development (Global Reporting Initiatives, 2011), which is synonymous

with other reports used to describe the economic, environmental and social impact, and consistent with TBL and CSR reporting (Global Reporting Initiatives, 2011).

In Islamic perspective, CSR encompasses a broader meaning embracing the value of righteousness (*taqwa*) in all situations, by which everyone in the organization must play his/her roles and responsibilities as servant and vicegerent (Dusuki, 2008). A person with righteousness value understands their role in this worldly life is to manage and develop the world in accordance with the *shari'ah* principle and value. The core principles of *i*-CSR are derived from Qur'an and *Sunnah*, while the major foundations of *i*-CSR principles are unity, vicegerency and trusteeship, justice and equilibrium, and rights and responsibilities (Mohammed Shamim & Md. Nesarul, 2011).

a. Unity

Unity of Allah is the first principle in Islam, because Allah is the One and absolutely One who creates the earth and universe. The Qur'an (57:5) states that Allah is the ultimate owner of everything on earth and universe. The Qur'an (57:5) states that Allah is the ultimate owner of everything on earth and universe and man is ultimately accountable to Allah (Qur'an, 2:28). It means that, by accepting Unity of Allah, all commercial activities must be in accordance to *shari'ah* principle and value (Haniffa, Hudaib & Malik, 2002).

b. Vicegerency and Trusteeship

Man is a vicegerent (*khalifah*) or representative of Allah on earth and trustee of Allah resources. As a *khalifah* or leader in organization, they have greater responsibility to utilize things that belongs to Allah to utilize all these given facilities by Allah to best of their abilities to create maximum added value to the organization itself and to the whole community as well (Bardai, 2002).

c. Justice and Equilibrium

According to Parvez (2000), human beings are equal and human interactions should be based on trust, equity and justice. In Islam, human beings are *khalifah* (leaders). In order to fulfill their role as vicegerencies, they should collaborate and support each other, be honest, sincere, keep the promises and truthful in their business dealings. Equilibrium must be practiced by treating people fairly and justly in wage distribution without discrimination. Through justice and equilibrium principle, organization can create harmonious lives in all societies.

d) Rights and Responsibilities

Every individual is accountable and responsible for his/her own actions. They are free or have a right to steer their own lives because humans have been endowed with intellectual capabilities to choose either to be ethical or unethical. But these rights must always conform to *shar'iah* rules and ethics as well as preserve and protect the interest of collective well-being (Iqbal & Mirakhor, 2003).

3. Sustainability Reporting Framework

Islamic Reporting Initiatives

The Islamic Reporting Initiatives (IRI) is a not-for profit organization leading the creation of the IRI framework; the guiding integrated Corporate Sustainability and Social Responsibility (CSR) reporting framework based on Islamic principles and values that works towards achieving international standards of best practice. The framework will enable organizations to inclusively assess, report, verify and certify their CSR and philanthropics programs supporting the United Nations Sustainable Development Goals.

Founded on 4 April 2015, the IRI seeks to make CSR reporting standard practice in organizations across the Islamic World and OIC countries in particular. The IRI is headquartered in Dubai, UAE, and (as of 2015) has members in more than 40 countries. In 2015, the IRI was commended by the Organisation of Islamic Cooperation (OIC), the second

largest inter-governmental organization after the United Nations with membership of 57 states over four continents.

The IRI was created in response to research that identified low rates of CSR reporting despite prevalence of CSR practice in organizations where Islamic principles and values are an important element of corporate culture. Such findings indicate that existing sustainability reporting standards, such as the Global Reporting Initiative (GRI) and ISO Standards among others, are not always as practical or relevant in a local and cultural context.

The IRI is a culturally-responsive reporting framework based on Islamic principles and values and the embedded widespread practice of philanthropy. Such values shape organizational cultures and ground CSR as an economic and moral initiative, founded on the understanding that an organization aspires to be a 'good corporate citizen. The framework will be compatible with elements specific to the culture, such as Zakat and other organizational codes of conduct. At the same time, the IRI framework will be compatible with Sharia Compliant finance, one of the fastest growing types of finance between 2009 and 2013 Islamic banking assets grew at an annual rate of 17.6%, and are expected to grow annually by an average of 19.7% until 2018.

The IRI deems the need for CSR reporting to be culturally-responsive in order to maximize the nuances that lend themselves to the overall ambition of CSR and to maximize stakeholder engagement. With CSR reports primarily used by stakeholders, it is important that the motivations for CSR practice are framed within the local context and use a language that is familiar, meaningful and relatable to culture. Once such a framework "fits into its place", it creates stable, flourishing and interconnected economic, social and cultural environments.

The IRI enables CSR and sustainability metrics to be incorporated into wider business practice through the integrated nature of the framework. CSR and sustainability reporting is a modern concept encouraging businesses and institutions to report on their social and environmental performance. The combination of non-financial and financial metrics provides an additional layer of information important to stakeholders and investors in the measurement and management of risk in the and of risk.

4. Conclusion

CSR is an obligation for every organization in order to show their accountability to society as a whole. Although CSR is part of voluntary disclosure, in Islam, the implementation of CSR is an obligation for every Muslims who are the khalifah of the ummah. This is the best way to show the accountability to society and Allah as well. Islamic business organisations should disclose all information necessary to advise the Islamic ummah about their operations, even if such information would work against the firm itself. Islam thought offers a universal spiritual view based on the Quran and Sunnah to present an alternative philosophical framework for man's interaction with the environment and social matters. When sustainability development becomes a religious duty, companies and individuals endeavour to protect the environment and social matters as a response to a religious order. This response is combined with the strong motivation to please Allah Islamic CSR and conventional CSR have different values and aspiration because they are operating in different philosophical grounds such as *halal* (lawful) and *haram* (unlawful) in its economic system. For the earning livelihood and wealth that have been declared unlawful such as *riba* (interest), bribery, gambling, short weighing, short measuring and sales of *al-gharar* (uncertainty, risk, speculation) need to be considered seriously.

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