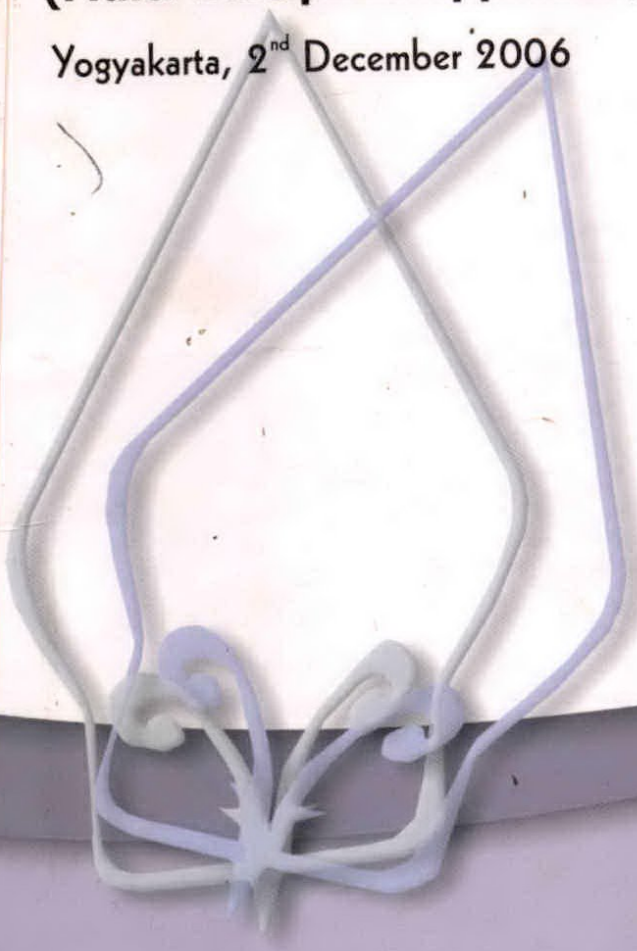


Proceeding

International Joint Seminar

**Muslim Countries and Development :
Achievements, Constraints and Alternative Solutions
(Multi-Discipline Approach)**

Yogyakarta, 2nd December 2006



Organized by:



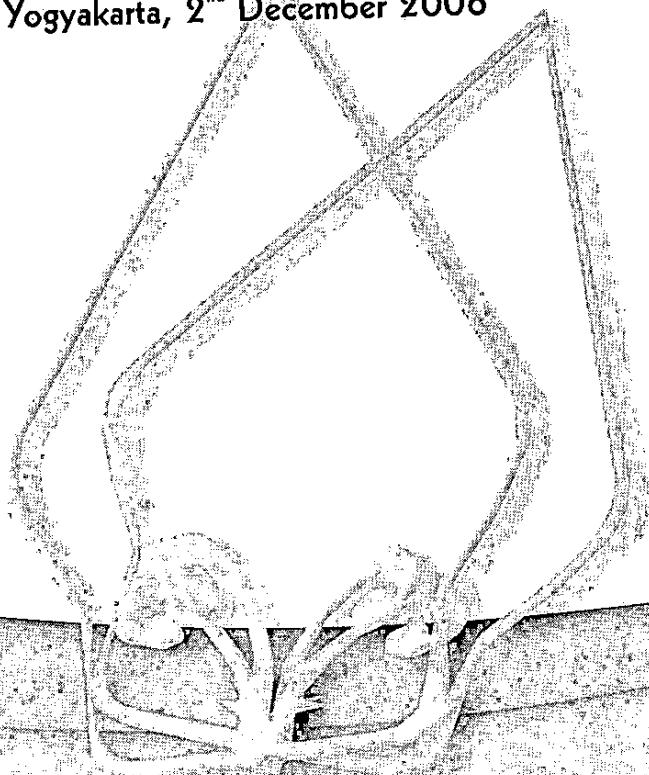
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Organized by:



Universitas
Muhammadiyah
Yogyakarta



International
Islamic
University
Malaysia



Education and
Cultural Attache
Embassy of The Republic
Indonesia in Malaysia

**MESSAGE FROM THE RECTOR OF
UNIVERSITAS MUHAMMADIYAH YOGYAKARTA (UMY)**

Assalamu'alaikum warahmatullahi wabarakatuh

All praise be to Allah SWT, Lord of the world. Peace and blessings on Muhammad SAW, His Servants and Messenger.

First of all, as the rector of Universitas Muhammadiyah Yogyakarta (UMY), I would like to welcome to the honourable guests, Rector, Dean of Postgraduate Studies (CPS), Dean of ISTAC, Dean of IRKHS, Deputy Deans and Head Departments from various Kulliyah, lecturers, postgraduate students of International Islamic University Malaysia (IIUM), and all participants in this joint seminar.

Academic cooperation between UMY and IIUM started several years ago. The cooperation between us is based on a solid foundation; both us are Islamic universities having same missions to develop Islamic society, to prepare future generations of Islamic intellectuals, and to cultivate Islamic civilization. In fact, improving academic quality and strengthening our position as the producers of knowledge and wisdom will offer a meaningful contribution to the development of Islamic civilization. This responsibility is particularly significant especially with the emergence of the information and knowledge society where value adding is mainly generated by the production and the dissemination of knowledge.

Today's joint seminar signifies our attempts to shoulder this responsibility. I am confident to say that this joint program will be a giant step for both of us to open other pathways of cooperation. I am also convinced that through strengthening our collaboration we can learn from each other and continue learning, as far as I am concerned, is a valuable ingredient to develop our universities.

I sincerely wish you good luck and success in joining this program

Wassalamu'alaikum Wr, Wb.

Dr. Khoiruddin Bashori

Rector, UMY

**MESSAGE FROM THE RECTOR OF
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA (IIUM)**

Assalamu'alaikum warahmatullahi wabarakatuh

In the name of Allah, the most Gracious and the most Merciful. Peace and blessings be upon our Prophet Muhammad (S.A.W).

First and foremost, I felt honoured, on behalf of the university to be warmly welcomed and to be given the opportunity to work hand in hand, organizing a respectable conference. Indeed, this is a great achievement towards a warmer bilateral tie between the International Islamic University Malaysia (IIUM) and Universitas Muhammadiyah Yogyakarta (UMY) after the MoU Phase.

I would also like to express my heartfelt thanks to Centre for Postgraduate Studies (CPS), Postgraduate Students Society (PGSS), contributors, paper presenters, participants and our Indonesian counterpart for making this program a prestigious event of the year.

This educational and cultural visit is not only an avenue to foster good relationship between organizations and individuals and to learn as much from one another but a step forward in promoting quality graduates who practices their ability outdoor and master his or her studies through first hand experience. The Islamic platform inculcated throughout the educational system namely the Islamization of knowledge, both theoretical and practical, will add value to our graduates. This comprehensive excellent we strived for must always be encouraged through conferences, seminars and intellectual-based activities in line with our lullaby: The journey of a thousand miles begin by a single step, the vision of centuries ahead must start from now.

My utmost support is with you always. Looking forward to a fruitful meeting.

Ma'assalamah

Wassalamu'alaikum Wr, Wb.

Prof. Dato' Dr. Syed Arabi Iddid

Rector, IIUM

**MESSAGE FROM EDUCATION AND CULTURAL ATTACHE
EMBASSY OF THE REPUBLIC OF INDONESIA
KUALA LUMPUR**

Assalamu 'alaikum warahmatullahi wabarakatuh

All praise be to Allah SWT. This is the moment where implementation of MoU between Universitas Muhammadiyah Yogyakarta (UMY) and International Islamic University Malaysia (IIUM) comes in the form of action by organizing this Joint Seminar. The efforts of both sides to implement the MoU are highly appreciated, especially, in the context of which both universities effort to enhance the quality of education.

Substantially, I believe that this Joint Seminar will bring many benefits. In term of the development of knowledge, it is a means for developing academic quality, for exchanging of information on academic development, as well as for constructing intellectual atmosphere at both universities. In term of international relations, both universities have taken part in increasing close relationship between Malaysia and Indonesia. RUM and UNY as well are using 'soft power' to increase bilateral relations among citizens which brings a lot of benefits for both nations.

Therefore, I hope that both RUM and UMY can make use of this program as a 'kick-off' for other programs in the future, especially in using UMY's vast networks with other Muhammadiyah Universities in various cities in Indonesia as well as IIUM's network. The support of IIUM for UMY also means a progress for IIUM and UMY. I hope such joint program will continue in future for betterment of both Indonesia and Malaysia. Embassy of the Republic of Indonesia in Kuala Lumpur will always support these efforts.

To our honorable guests, Rector, Dean of Postgraduate Studies (CPS), Dean of ISTAC, Dean of IRKHS, Deputy Deans and Head Departments from various Kulliyah, lecturers and students of IIUM, I warmly welcome you to Yogyakarta. I hope you enjoy your stay in the cultural city of Yogyakarta.

Finally, as the Attache of Education and Cultural, Embassy of the Republic of Indonesia, Kuala Lumpur, I sincerely wish you good luck *and a successful program with unforgettable memories.*

*Wabillahit Taufiq Wal Hidayah
Wassalamu 'alaikum warahmatullahi wabarakatuh.*

M.Imran Hanafi

Education and Cultural Attache, Embassy of the Republic of Indonesia

MESSAGE FROM DEAN CENTRE FOR POSTGRADUATE STUDIES

Assalamu'alaikum warahmatullahi wabarakatuh

Praise be to Allah. May the peace and blessings of Allah be on the last prophet and messenger, our master Muhammad and on his household and companions. It is a great privilege for me to foreword this message to this wonderful event that is jointly organized by the Universitas Muhammadiyah Yogyakarta (UMY) and International Islamic University (IIUM).

First and foremost I would like to record my special gratitude to management of Universitas Muhammadiyah Yogyakarta for their co-operation.

In order to obtain comprehensive excellence, the Centre for Postgraduate studies has always facilitates postgraduate students of the university to achieve the highest quality in their academic work. This seminar is one of the many programs that Centre for postgraduate studies has to ensure quality graduates.

I would therefore like to thank all the participants and programme coordinators who have worked hard to realize this event.

May Allah SWT shower His blessing upon us.

Wassalamu'alaikum Wr, Wb.

Prof. Dato' Dr. Wan Rafei Abdul Rahman
Dean, Centre For Postgraduate Studies

**MESSAGE FROM THE ACTIVE
PRESIDENT OF POSTGRADUATE STUDENTS'**

Assalamu'alaikum warahmatullahi wabarakatuh

On behalf of Postgraduate Students' Society (PGSS), my gratitude and appreciation to our beloved Dean of Studies, the Embassy of Indonesia in Kuala Lumpur, Muhammadiyah Yogyakarta and the organizing committee of IIUM and the Universitas Muhammadiyah Yogyakarta for their huge success. Postgraduate Students' Society (PGSS) under the supervision of the Center for Postgraduate Studies (CPG) is pleased to host this event.

As I strongly believe that the initial stages of unity are the key to building the new generation, who will represent the future more, such programs, not only achieve the mission of our universities but to achieve the global mission and vision. Therefore, I believe today, we have to have understanding and then only we can appreciate our diverse cultures. We should acknowledge the different strengths and weaknesses through knowledge in this age of information. I am sure this joint seminar will initiate unity among the future generations along with integrating them.

Thank you,

Mohd Nabi Habibi

Active President Postgraduate Students' Society (PGSS)

MESSAGE FROM PROGRAM DIRECTOR

Assalamu'alaikum warahmatullahi wabarakatuh.

Praise be to Allah. May the peace and blessings of Allah be on the last Prophet and Messenger, our master Muhammad and on his household and companions.

Honestly speaking, we are pleased to be trusted by Postgraduate Students' Society (PGSS) and Centre for Postgraduate Studies (CPS) to organize the programme named Educational and Cultural Visit to Yogyakarta, Indonesia. For this, We express our gratitude to the management of both PGSS and CPS. This programme is of immense value. It has the potentials to promote intellectual endeavor, develop leadership capabilities and enrich cross-cultural understandings. We sincerely believe and hope that program of this kind will be organized in a regular fashion in future.

It is a great privilege for us to play twofold role in organizing this event: *as a host* and *as guest*. In fact, this is a fascinating experience to manage this event. Since our inception here, we have found meaningful interaction of students in an interweaving of cultures into complicated, yet beautiful, embroidery of social fabric. We are proud to say that this dearly loved university has produced graduates of high quality, who are distinct from those of the local universities.

Finally, we wish to express our special thanks to Bapak M.Imran Hanafi, Education and Cultural Attache of Indonesian Embassy, Bapak Herdaus, S.H., Assistant of Immigration Attache of Indonesian Embassy, Bapak Tharian Taharuddin for their immensely valuable assistance and co-operation in making this program a success. I sincerely appreciate all local committees at Yogyakarta, the colleagues and program coordinators and committee members who worked diligently to materialize this event. We wish to pass on good wishes to the PGSS for their valuable efforts it expended for this event.

May Allah s.w.t shower His blessing upon us.

Wassalam,

Nasrullah

Programme Director

Todi Kurniawan

Co-Programme Director

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Synthesising A Corporate Paradox, Profit Maximisation Versus Social Responsibility: Based on The Quran

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Abstract

The paper aims to synthesise a conflicting business paradox of profit maximization versus corporate social responsibility (CSR). After examining the heated arguments of the two sides of the paradox and the prescriptions of the Qur'an, discussion on synthesis ensued. The crux of the matter is to support or not to support CSR. The Qur'anic Firman (words) can be used to synthesise the paradox. It has categorically requires mankind as vicegerents on earth to do justice to undertake Distributive Justice. This was stipulated over a thousand years ago. Where as CSR is a new phenomenon of less than 100 years ago. Without taking sides, it can be synthesised that organizations are supposed to undertake CSR as an islamised corporate duty. It can be done using many approaches, such as creating broad guidelines for countries to adopt as done by WTO recently or undertaking a win-win planned marketing approach or better still using the legalistic government support. Sooner or later CSR will have to be legalised to the chagrin of profit maximisers. The Qur'anic Firman is actually a shortcut guide to societal equilibrium and happiness yet mankind has to wait until the eventual legalisation of CSR.

Keywords: Qur'anic Firman; islamised corporate duty; conflicting business paradox.

Introduction

Synthesising a secular corporate paradox into the Islamic world view can result in a more focused analysis given that the Qur'an gives a clear basis. This paper intends to examine the possibility of synthesising a thorny corporate paradox of Profit Maximisation versus Corporate Social Responsibility (CSR). In order to achieve this objective the paper initially defines the two elements of the paradoxes. The main arguments related to the paradox will follow immediately after that. At this stage, it is necessary to define the Qur'anic Firman. The synthesis will combine the definitions, arguments, approaches and the Qur'anic Fatwa bearing in mind, its context, the impacts on society and economy before synthesising and concluding.

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Definition: Profit Maximization and Corporate Social Responsibility

Profit Maximization

Any business unit especially a large corporation seeks to make profits in order to survive. It has to generate sufficient revenue over and above its expenditure so as to make profits. This surplus over expenses serves as the coveted rewards to owners for taking risks involved in investing its money and time. It further motivates businesses to open and expand themselves. These profits are normally distributed to owners and stockholders. The remaining profits are then taxed by the government to support governmental activities.

From the economist standpoint, profit is said to be maximised at a point where output achieves its maximum difference (returns) between the output and its total cost. Graphically it can be shown as the distance between C and B of Diagram 1.

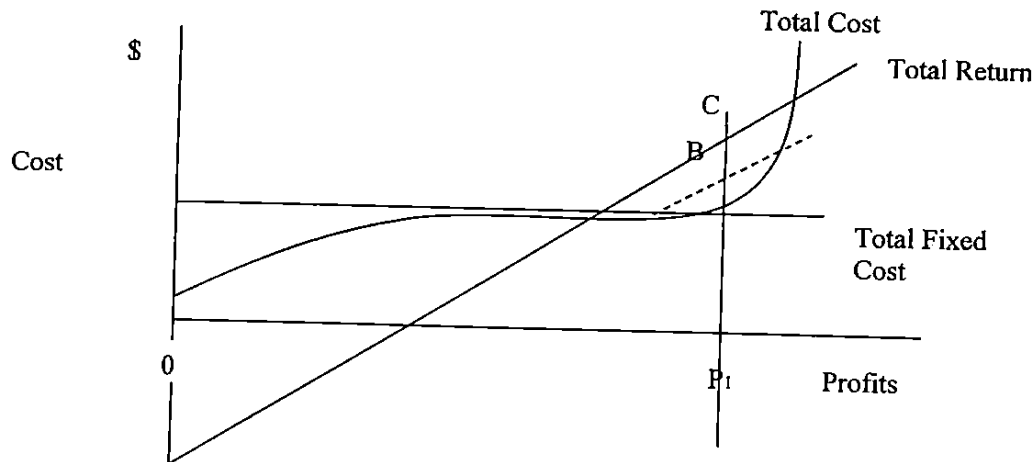


Diagram 1: Profit maximization of Total Revenue versus Total Cost

Point 'B' is the target on total cost curve (TC) parallel to the total revenue (TR). The surplus of revenue net of cost (B, C) is the maximum level of profit at P1.

The idea is to generate as much sales as possible and to minimise cost whenever possible. This will give maximum profits. Minimisation of cost at all costs may or may not be ethical e.g. using child labour or dumping toxic wastes anywhere by manufacturers. Similarly maximising sales at any cost e.g. discarding the safety of buildings by developers may impinge on ethical dimensions.

Corporate Social Responsibility (CSR)

According to Wheelen and Hunger (1998), the concept of CSR proposes that a private corporation has responsibilities to society and extend beyond making a profit. This is because corporate strategies and decisions could affect more than just the corporation. For

example on the decision disposal of toxic waste (the cheapest way) can affect the locality, environment, i.e. rivers, and forest resulting in pollution which will adversely affect animals, plants and fishes. Such a situation raises questions of the appropriateness of certain policies, even the corporate strategy of producing such polluting products. The ability to deal with the conflicting interest in an ethical manner is the precious social responsibility element required of the corporation.

The foundation of CSR principles initially took the form of charity and stewardship (Frederick, Davis, Post, (1988)). A charity a business should give voluntary aid to society's needy person and groups. As a steward a business should act as a public trustee, and should consider the interest of all who are affected by business decisions and policies. However the modern expression of CSR includes corporate philanthropy, voluntary actions to promote social good; acknowledging business and society interdependence and balancing the interests and needs of many diverse groups in society.

According to Singh (1984) in Wheelen and Hunger (1998) these are six broad areas to CSR. These are ecological balance; productivity; human element; ethics and economics balance; global pressures; and designing social partnership.

Lasserre (2003) itemised four main categories of social and ethical issue faced by global companies. These are:- (a) corruption, (b) environmental, (c) human rights and (d) labour practice. The demand for CSR at global level is becoming extensive as shown in Diagram 2 of Appendix A.

Environmentalism has of late come to the fore in Southeast Asia (Rao, 2000). There are Awareness Campaigns in many forms i.e. seminars, mass media documentaries, publications and setting up of Ministries with Departments of Environment (DOEs). Lasserre (2003) highlighted corruption and human rights by giving numerous examples in many parts of the world, while Schnietz and Epstein (2004) showed statistically the benefits of being reputed for social responsibility for environmentalism and good labour practices.

The Arguments: Secular Perspectives

There are two sets of proponents to the arguments of social responsibility (in Wheelen & Hunger 1998). The first is led by the late Milton Friedman who argued purely on profit maximization. The second set is by Archie Carroll who proposed that an organization has three other responsibilities besides economics (profits) alone. These are legal, ethical and discretionary.

The traditional Friedman's views are that "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" – Wheelen and Hunger (1998).

Carroll felt that of the four responsibilities proposed, economics is the most important followed in order of importance by legal, ethical and discretionary (voluntary). Carroll argued that a business has responsibilities beyond economics and legal aspects. These are fulfilling the ethical and discretionary responsibilities. A firm is to take actions on things which are valuable to society. It may or may not be enforced by the government. Discretionary actions of today (e.g. provision of day-care, paying for dental service, holidays on festivities) may become legal responsibilities of the future enforceable by law. Not adhering to them may make business more difficult to earn profits. On the other hand,

social responsibility may results in long-term benefits e.g. clean environment, attract good employees, suppliers, investors, and create outstanding goodwill.

Arguments for and against corporate social responsibilities are as shown in Table 1. The argument for social responsibility is an ethical balance which can be good for long-run profits and image. Whereas against CSR is the high costs whether manifest or hidden and lowers profits.

Table 1: Arguments for and against Corporate Social Responsibility (CSR)

Arguments for CSR	Arguments against CSR
<ul style="list-style-type: none"> ▪ Balances power with responsibility ▪ Discourages government regulation ▪ Promotes long-run profit ▪ Improves a company's image ▪ Responds to changing public needs and expectations ▪ Corrects social problems caused by business ▪ Applies useful resources to difficult problems ▪ Recognizes business's moral obligations 	<ul style="list-style-type: none"> ▪ Lowers economic efficiency and profits ▪ Imposes unequal costs among competitors ▪ Imposes hidden costs on society ▪ Creates internal confusion and unjustified public expectation ▪ Gives business too much power ▪ Requires special social skill which business lacks ▪ Lack of social accountability ▪ Places responsibility on the corporation instead of individuals

(Source: Wheelen & Hunger 1998)

Research by Schnietz and Epstein (2004) based on the 1999 Fortune 500 (usable sample 416) showed that there were more companies lacking in reputation for social responsibility (n=261) than those having a reputation for social responsibility (n=155). Industries such as paper, mining, oil and gas, chemicals, steel and utilities are included in the environmentally irresponsible group. The industries in the labour irresponsible sample were in apparel, footwear and toy industries.

Research by Ford, R and McLaughlin, F (1984) on executive attitudes on CSR is as follows in Table 2 (in Appendix B), very high percentage (92.2%) of respondents viewed undertaking CSR as a responsible corporate behaviour.

Qur'anic Firman on Social Responsibility

As stated in the Qur'an, one of the five pillars of Islam relevant to social responsibility as prescribed in the Qur'an is the payment of Zakat. Here, the required practice is to contribute to the Zakat Authorities a small portion of whatever wealth (profit, salary, dividends, and bonuses) that is earned by a Muslim individual or company. An organization may organise the individual contribution of the organization to the Zakat Authorities. The authorities will then distribute collections to the poor. There is a deep implication to business in that even as individual one has a responsibility to help the poor, what more for a group of individuals earning not more incomes but profits (over and above incomes). As stated in the Qur'an.... "And in their wealth there is a due share for the needy and deprived" (Qur'an 51:19)

“O ye who believe! Stand out firmly for Allah, as witnesses to fair dealing, and let not the hatred of others make you swerve to wrong and depart from justice. Be just: that is next to piety and fear Allah, for Allah is well acquainted with all ye do” (Qur’an 5:8)

“O ye who believe! Stand out firmly justice, as witnesses to Allah, even as against yourself, or your parents, or your kin, and whether it against rich or poor” (Qur’an 4:136)

“Whenever you judge between people, you should judge with (a sense of) justice” (Qur’an 4:58)

“Business responsibility in Islamic view of the economy, is regarded as something dependent on Allah i.e. the concept of Unity (*Tawheed*) Market mechanisms, regulates their workings to prevent market failure that is socially disruptive and in violation of norms of justice and fairness. Although self-interest is the driver of a business, it must be linked to an overall concept of justice. Distributive justice and social security are inbuilt parts of Islam through voluntary charity (*sadaqat*) and the state managed obligatory poor-due (*zakat*), as a legal right (*haq*).

The underlying prohibition of usury and interest according to Al-Qardawi (1985) is because of a deeper concern for moral, social and economic well-being of society. A business would otherwise create profits without work. It does not share the risk between the lender and borrower.

In Islam mankind has two missions to accomplish, i.e. to be a servant of Allah and the second as vicegerent of Allah on earth.

“Allah has promised to appoint those of you who believe and do good deeds as (His) representatives on earth” (Qur’an 24:55)

“It is He who made you the inheritors of the earth. He hath raised you in ranks, some above others that he may try you in the gifts He hath given to you – for thy Lord is quick in punishment, yet He is indeed Oft-forgiving, Most Merciful” (Qur’an 6:165)

Allah’s creation is not just nature and environment but also human beings and society as a whole. The stability of coexistence of the universe is reflected in a delicate balance of the divine equilibrium consisting of nature and the environment, human beings and society as a whole (Beekun & Badawi, 2005). As a vicegerent, a Muslim individual is to strive to keep this delicate balance which at the same time has dynamic characteristics of change.

The concept of vicegerent is one of representation or stewardship. He is not the owner (the owner of the entire contents of earth and sky being Allah).

“But to Allah belongs all things in the heavens and on the earth and it is He that encompasseth all things” (Qur’an 4:126)

The steward is to administer the assets in accordance to the owner’s institution within the moral limits of the stewards Allah’s ‘amanah’. The steward who does not fulfil the required condition would be abusing his authority and breaking the covenant implied in the concept of representation. In so doing man must realise that he is responsible for other human beings, for society and the environment and nature as stated in the Quran....

“Take not life, which Allah has made sacred except through justice and law” (Qur’an 6:152)

The vicegerent is understood to have a high sense of morality thus a very responsible attitude to man, animal and nature. The virtuous moral values are not highlighted as it is understood to be part and parcel of attributes belonging to vicegerents and would be too large to be encompassed here. So only the firman on the vicegerent and Distributive Justice from the Qur’an are singled out.

Synthesis of the Paradox

A synthesis combines sub elements of the main elements to form a coherent whole. In this case issues rose in conjunction with profit maximisation and CSR will be revisited, analysed and condensed. They can be bound by views on approaches to reconcile the two to form the combined acceptable way. However, the divine the Qur'anic firman is being used here to synthesise the paradox.

The profit maximisers often swayed by corporate greed e.g. in order to earn more revenue for example they resort to using child labour in producing products, corrupting police officers to fight its battle over land and oil rights (thus harming the innocents) and discarding the social impacts of gaseous linkages. As long as profits are maximised CSR is a secondary matter or not at all. The CSR group on the other hand are not overly considerate in total favour of CSR. Their stand is that CSR has its limits but they will not ignore CSR.

The divine revelation of the Qur'an stipulates two fundamental principles of importance to the paradox. The first being the role of mankind as vicegerents on earth as opposed to animals, fishes, birds and plants. Mankind is expected to take care of HIS creation, the earth, sky and planetary system and not to destroy them.

The second divine fundamental principle is that of Distributive Justice. Good tidings are to be shared, so they are to be distributed by the rich and the powerful to the poor and the weak. Respectively, the powerful should not adversely affect the weak. God given power and strength is not meant for such purposes. The distribution of wealth can be in the form of zakat, sadaqah, or even non-usury or prohibition of interest charges. There are other numerous modern forms of the 'sadaqah' e.g. philanthropy, commercial gifts, games competition and outright donations. The Qur'an does not refrain profit making. If that is so how can profit be redistributed? By deductive reasoning, generation of profit is necessary process of CSR and Distributive Justice.

Before coming to the synthesis it would be necessary to see numerous views categorised under the impacts on organization, society and economy and the synthesis.

a) Impacts on Organization, Society and Economy

In the USA, corporate greed and irresponsibility of the CEOs have caused corporate collapse and hardship to employees and society. Typical of these are the Martha Stewart (portfolio illicit trading), Kravis (Leverage Buy-outs) and Enron (financial fraud). To overcome such horandous misgivings, Hollander (2004) advocated a synthesis of an integration of values and belief system into a common vision across business units not only for shareholders but all stakeholders to create a truly long-term value for corporate survival. He also cautioned CEO to watch and control their influences of the business sizes, structures and economies-of-scale. The seriousness of the extent of the integration of spiritual and moral dimensions underlying the values and belief system proposed by the author are actually examples of fine moralities stipulated in the Qur'an. A true synthesis of CSR would actually require morally attuned employees and bosses.

As it is sensible to undertake CSR, there are new plans and models drawn up by companies to undertake it. According to Singh (1984 in Wheelen and Hunger 1998) businesses now have six fundamental social challenges. There are: 1. Achieving ecological balance; 2. Improving productivity; 3. Acknowledging the human element; 4. ...

Balancing ethics and economics; 5. Responding to global pressures, demands and needs; 6. Designing social partnerships. By ecological balance it is meant balancing the needs of the industry and nature. Improvement of productivity relates to business and social productivity. Acknowledging the human element in work integrates business goals and human factors. Balancing ethnics and economics requires balancing economic goals and ethical standards. Developments are beginning to indicate the need for responding business operations and global factors. Finally businesses are to design social partnership. Thus environmental disturbances will be the determinant of analysing into which of the six fundamentals social challenges the disturbance fall into that needs to be handled. A synthesis can be based on a reactive mode as proposed by Singh as one possible approach in fulfilling an islamised duty.

For Kotler (2005), there are simply too many social initiatives for companies to undertake. These are course promotion (e.g. fund raising); donations; social marketing (safety environment, public health and community well-being); corporate philanthropy (cash grants, in-kind service); community volunteering; and investments for social causes as in the case of microfinancing widespread in Arab States, Africa and Pakistan (Segrado, 2005). Kotler (2005) suggested for companies to be discretionary and pick the best options which could give the company maximum benefits e.g. using the best experience and resources, creating potential partners and meeting priority company objectives and goals. The optional approach suggested by Kotler is yet another way of performing social responsibility as a duty but in a win-win format performing the Islamic concept of distributive justice yet benefiting the company at the same time.

Schnietz and Epstein (2004) undertook an event study of the stock exchange between November 26th and November 29th 2004. This is following the WTO failure to conduct a meeting in Seattle partly due to violent protests (by 25,000 protesters, 500 arrest and bomb threats on environmental and labour abusing practices by companies). At that time there was already an internal conflict among the developed and developing nation representatives in the WTO meeting on the issue of harmonization of labour and environmental standards.

Arising from the above WTO failed meeting, Schnietz and Epstein (2004) examined whether there was financial value in having a reputation for CSR as shown in Table 3 – the sample of firm lacking a reputation for social responsibility experienced a statistically significant decline by 2.36 percent consisting a US\$378 million loss of shareholders value for the average firm in the sample. Those companies having the reputation for social responsibility did not suffer so heavily.

Table 3: Main Investor Reaction to 1999 WTO Failure Fortune 500 Segmented by Reputation for CSR

Stock Portfolio	Change in Portfolio Value*
Firms having Reputation for Social Responsibility (n=155)	- 1.10%
Firms lacking Reputation for Social Responsibility (n=261)	- 2.36%***

* 2-day cumulative investor reaction on Friday, November 26th and Monday, November 29th.

*** Statistically significant at the .001 level or lower

Subsequent analysis by Schnietz and Epstein (2004) segmented by industries and firm with no foreign sales stratified by reputation for social responsibility or otherwise also indicated the adverse effects on the group lacking reputation for social responsibility. Having the reputation for CSR as shown by the statistical evidence is an indicator in terms of time and reputation the benefit of social responsibility as in maintaining an acceptable equilibrium required of a vicegerent.

b) The Context: Country, Society and Economy

It can be assumed that CSR can be accomplished in countries and industries whereby being ethical are important. In non-Muslim countries where CSR is a legislated phenomena is easier to be implemented especially on environmentalism and child labour abuse. There are also pockets of ethical top leaders who undertake corporate social responsibilities very seriously indicating a natural synthesis of the undertaker of CSR and the organizational policies.

In Islamic countries, theoretically it should adopt an Islamisation of the CSR. But there are businesses run by non-Muslims in the Muslim countries. There is a need for the legalistic approach to be applied as well. Where there is a total will in Islamised distributive justice in corporations led by Muslim CEOs, corporate responsibilities should automatically be adopted otherwise the synthesis needs legal support.

Zinkin (2006) made a study on the compatibility between the tenets of Islam, the UN Global Compact (as shown in Table 4 – Appendix C) and the development of social, human and natural capital (prescription of the Global Compact are adopted by more than 300 companies and organizations). Zinkin (2006) concluded that not only could it be seen that Islam has prescriptions that are aligned with a modern view of what needs to be done to enhance social, human and natural capital, it is also in harmony with the principles of Global Compact. This is a broad guideline on CSR for countries throughout the world to adopt for the benefit of their societies and economies. Such guidelines (Islam compatible) can represent an approach to facilitate synthesising CSR in its adoption.

c) The Synthesis: CSR a Duty

The preponderance of companies in favour CSR indicated the appeal of an acceptable logic of the Islamic religious value. Synthesis of CSR can represent a duty in a voluntary, optional or even legal form. In most countries, CSR still remain either voluntary or optional. However, given the many mishaps in ecological balance, corruption, adverse labour practices and the general faulty redistributive practices, CSR will have to be legalised and be enforced. Man never learnt to take a shortcut as guided by the Qur'an until a business entity is too powerful, too antisocial or even too anticompetitive (monopolistic). Only after a total completion and adoption of the legalised stage will there be a true synthesis of the issue.

It can be synthesised that profits should be generated but to the extent that costs on CSR should already be incorporated. CSR is not an option but a duty to be duly undertaken as willed by the Qur'an. Otherwise he who runs the enterprise is abusing his rights as a vicegerent. This duty will be beneficial to the society in the long run and indirectly back to

the company. The cost borne for CSR although evident can actually be tax deductible, or subsumed under expenses. As shown in Diagram 3: Cost of CSR Before and after.

As shown in Diagram 3, the cost of CSR was zero before it was undertaken. It becomes RM 20 million afterwards. However, this is not a lost cause as the sum can be subsumed under expenses or even be tax deductible which will not cause the corporation much hardship (given it is a profitable undertaking). Such costs can actually be further fine-tuned to cover other ethical and discretionary dues for better imaging of the company in the long run e.g. charity for prescribed diseases, sudden calamities and philanthropic causes.

Before CSR (CSR)

Profit
RM 10 million

Cost of CSR =
zero

After CSR

Profit
RM 80 million

Cost of CSR =
RM 20 million

How to handle cost of CSR

Cost of CSR =
RM 20 million

- Can be tax deductible
- Can be subsumed under expenses
- Can be fine-tuned in terms of distributive justice to cover alternative legalized, ethical and discretionary duties for better imaging of company

Diagram 3: Cost of Corporate Social Responsibility Before and After

Undertaking CSR as a duty can transform into a virtuous business values although it emanated from a religious belief. In fulfilling preordained dictum on social responsibility one should go beyond the extrinsic and superficial short-term solution ordinarily adopted in business organizations. They should encompass spiritual and moral dimensions as rightly pointed out by Parvez and Ahmad (2004).

An Islamic and ethical perspective for businessman and his employees will underlie a healthy set of human resource in an organization, including the CEO who should actually exemplify ethical behaviours. These are the Islamic principles of truthfulness, trust, sincerity, brotherhood science and knowledge and justice (Khaliq Ahmad, 2006). Given those values CSR would be automatically undertaken. The synthesis not only emphasise on the approach and business values but the human ethics and morality of the implementers of policies, usually encompassed in vicegerents.

Conclusion

Using the Qur'an as the basis of Islamisation of the corporate paradox of profit maximization versus social responsibility makes the exercise easier and clearer. Allah the Creator of the Universe and Qur'an has laid down the rules that being socially responsible is a duty before the secular paradox even existed. It does not take sides of the paradox.

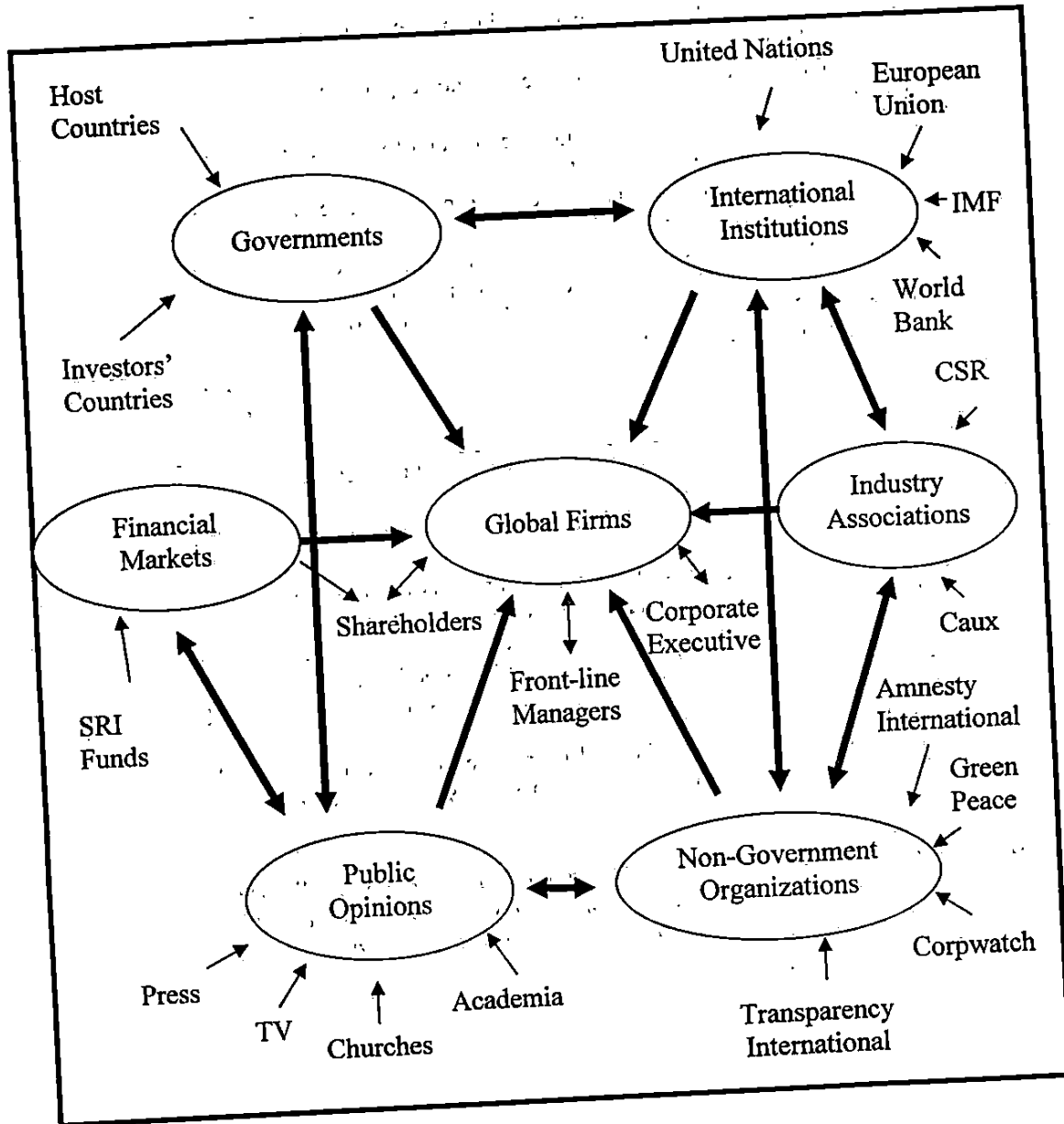
Although it does appear that Islamisation takes the side of CSR rather than for profit maximisation as the issue is actually whether to support CSR or not. It is the preordained wish of our Creator to undertake Distributive Justice long overdue. We are but vicegerents to his will and servitude. As vicegerent the good values and morality as stipulate also in the Qur'an would be understood and a basic prerequisite for a thorough synthesis of CSR. Some authors and analysts however have suggested to undertake CSR as a duty implementing it on a company-wide system of values and belief; some support a reactive mode; or a win-win option approach; drafting new plans and models for CSR implementation, enforcement by legislation or even prescribing broad guidelines for the world to adopt. That CSR has more adopters and supporters than otherwise indicates a brewing synthesis as prescribed by the Quran. A synthesis can be complete when legislation is completely enforced. It will be a long winded process when the Qur'an has actually prescribed a short-cut.

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Appendix A



Appendix B

Table 2: Executive Attitudes towards Corporate Social Responsibility

Statements for CSR	Percentage of CEOs Agreeing
<ul style="list-style-type: none"> ▪ Responsible corporate behaviour can be in the best economic interest of the stockholders. 	92.2%
<ul style="list-style-type: none"> ▪ Efficient production of goods and services is no longer the only thing society expects from business. 	88.8%
<ul style="list-style-type: none"> ▪ Involvement by business in improving its community's quality of life will also improve long run profitability. 	78.4%
<ul style="list-style-type: none"> ▪ A business that wishes to capture a favourable public image will have to show that it is socially responsible. 	77.6%
<ul style="list-style-type: none"> ▪ If business is more socially responsible, it will discourage additional regulation of the economic system by government. 	70.7%
<ul style="list-style-type: none"> ▪ The idea of social responsibility is needed to balance corporate power and discourage irresponsible behaviour. 	36.5%
Statements against CSR	Percentage of CEOs Disagreeing
<ul style="list-style-type: none"> ▪ Business already has too much social power and should not engage in social activities that might give it more. 	77.0%
<ul style="list-style-type: none"> ▪ A firm that ignores social responsibility can obtain a competitive advantage over a firm that does not. 	69.3%
<ul style="list-style-type: none"> ▪ Involvement in social responsible activities threatens business by diverting time and money away from its primary business purpose. 	68.1%
<ul style="list-style-type: none"> ▪ It is unwise to allow business to participate in social activities where there is no direct way to hold it accountable for its actions. 	67.6%
<ul style="list-style-type: none"> ▪ Business leaders are trained to manage economic institutions and not to work effectively on social issues. 	60.5%
<ul style="list-style-type: none"> ▪ Consumers and the general public will bear the costs of business social involvement because businesses will pass these costs along through their pricing structure. 	15.8%

(Source: Robert Ford and Frank McLaughlin, "Perceptions of Socially Responsible Activities and Attitudes: A Comparison of Business School Deans and Corporate Chief Executives," *Academy of Management Journal*, September 1984, pp.670-671)

Appendix C

Table 4: The Ten Principles of the UN Global Compact

Human Rights (Social Capital)

Principle 1: The support and respect of the protection of international human rights

Principle 2: The refusal to participate or condone human rights abuses

Labour (Human Capital)

Principle 3: The support of freedom of association and the recognition of the right to collective bargaining

Principle 4: The abolition of compulsory labour

Principle 5: The abolition of child labour

Principle 6: The elimination of discrimination in employment and occupation

Environment (Natural Capital)

Principle 7: The implementation of a precautionary and effective program to environmental issues

Principle 8: Initiatives that demonstrate environmental responsibility

Principle 9: The promotion of the diffusion of environmentally friendly technologies

Anti-Corruption (Social Capital)

Principle 10: The promotion and adoption of initiatives to counter all forms of corruption, including extortion and bribery

Source: www.unglobalcompact.org visited on November 3rd 2005