

Table 5¹⁷⁵
Arguments For and Against Social Responsibility

Arguments for Social Responsibility	Arguments Against Social Responsibility
Business creates problems and are responsible for solving them.	The purpose of business is profit maximization. By paying taxes and wages, they have done their share.
Business has the resources needed to solve problems.	Conflicts of interest may arise since charitable causes may become marketing tools for corporations.
Social responsibility enhances goodwill towards the organization.	Business may not know how to manage social programs.
Islam does not necessarily recognize businesses as legal entities whose obligations are separate from its owners. ¹⁷⁶	Corporations are merely legal entities, and cannot be held personally liable for problems they cause.

Social Response. Firms with a social response strategy observe their legal requirements, and exceed these requirements wherever possible. For example, IBM also gives surplus computers to schools. Other businesses work hard both at hiring minorities, and providing them with minority scholarships at various universities.

Social Contribution. Firms in this category are the most socially responsive. They embrace the demands of their social role, and actively seek out opportunities to help. Hewlett Packard not only asks users of toner for their laser printers to send back the potentially polluting toner cartridges, but will also pay for these cartridges to be sent back.

Managing Social Responsibility

Organizations must be proactive with respect to concerns involving social responsibility. Just as they mastermind strategic thrusts to develop competitive advantage in the marketplace, they need to use a number of

¹⁷⁵ Barney, Jay B. & Griffin, Ricky W. *The Management of Organizations*. © 1992 by Houghton Mifflin Company, pp. 732-734. Adapted with permission.

¹⁷⁶ Whether a firm can or cannot be a legal entity according to Islam is still being debated. See Gambling and Karim, pp. 36-37.

tools to enhance their social responsiveness. Some of these tools can be explicitly stated whereas others are more implicit.

Explicit Organizational Approaches

Developing a Code of Ethics

By developing a code of ethics with the participation of their employees, organizations are sending a signal to their stakeholders about their ethical intent. By training their employees in ethics and rewarding them for ethical behavior, they are encouraging organizational participants to behave ethically. Table 6 illustrates how Honeywell stresses certain key values through its code of ethics.

Table 6
Honeywell's Three R's¹⁷⁷

- ◆ *Under our ethical behavior model, every employee has the following responsibilities:*
 - *recognize an issue or situation*
 - *raise the issue or situation to the appropriate levels*
 - *see them through to resolution*
- ◆ *The company has the responsibility to create and clearly communicate policies and procedures so that employees know what is expected of them.*
- ◆ *We preach the concept of self-governance.*

In developing a code of ethics, Muslim managers should:¹⁷⁸

1. Identify the key stakeholders of the company, and the organization's responsibility to each in accordance to the Islamic moral code. The list of stakeholders that Muslim businesses may wish to consider are discussed in the section on stakeholders.
2. Define ethical values or draw up specific behavioral guidelines for each of the stakeholders the company interacts with. The abovementioned section on stakeholders surveys the Islamic ethical concepts that affect the company's stakeholders (Keeping promises, honesty, respect for people, benevolence, justice, etc.). Table 7 presents a sample code of ethics for Muslim businesses.

¹⁷⁷ Honeywell Corporation.

¹⁷⁸ Modified from material presented in (1) Luthans, F., Hodgetts, R. M. and Thompson, K. R. 1990. *Social Issues in Business: Strategic and Public Policy Perspectives*. New York: Macmillan, pp. 120-128, and (2) Collins, D. and O'Rourke, T. 1994. *Ethical Dilemmas in Business*. Cincinnati, OH: pp. 52-53.

3. Investigate what other ethical codes influence employees' behavior in the organization, and if possible, design the corporate code so as not to clash with these external codes of conduct.¹⁷⁹
4. Describe how the company actually deals with its stakeholders, and focus on areas where there may be a gap between the Islamic code of conduct and the *actual* behavior of the company.
5. Determine how to narrow the gap uncovered in step 3.
6. Form a system of internal controls in order to track specific practices.
7. Formulate a management policy for responding to unethical behavior and for encouraging ethical conduct.
8. Annually evaluate the code. What gaps still exist? What new ethical issues have emerged?
9. Adjust the code or its implementation. Although the Islamic code of behavior as outlined in the Qur'an and the Sunnah may not be modified, there may be alternate ways to encourage employees (including management) to behave ethically.

In implementing develop a code of ethics, several mechanisms are need to ensure its success:

- Managers must be involved during the whole process. They can guide employees towards ethical behavior by acting as role models. Using the earlier principles that al Qaradāwī developed to distinguish *ḥalāl* from *ḥarām* behavior, Muslim managers can clarify that rationalizations for unethical behavior are unacceptable. Should some executives pad their expense account because everybody else does it, the managers must send a clear message that such behavior will not be tolerated.¹⁸⁰
- New recruits must learn about the organization's ethical standards before they join. This step will deter potentially unethical employees from coming on board.
- Established employees need training in ethics. By knowing what the standards are, they will be less upset when they are censured for any unethical action.
- Provide alternate ways for employees to report potential violation of the code of ethics by peers, subordinates or superiors.

¹⁷⁹ Weiss, p. 269.

¹⁸⁰ Bhide, A. and Stevenson, H. H. "Why Be Honest if Honesty Doesn't Pay?" *Harvard Business Review*, September-October 1990, 121-129.

- Any report of an ethical problem should be followed by a fair, prompt and objective hearing.¹⁸¹
- Whistle blowing to an organization ombudsperson outside the chain of command will not be cause for retaliation.
- Top management support of the code of ethics should be demonstrated through strict enforcement against those who behave unethically.

Ethical Oversight

By appointing key organizational actors to a ethics review panel, and by having its actions reviewed by this panel, an organization will ensure compliance both with legal regulations and the ethical concerns of all key stakeholders.

Table 7
Sample Code of Ethics for Muslim Businesses



Insha Allah, we will behave Islamically towards:

- ***Our Customers:***
Our primary responsibility is to provide the best quality product to those who make use of our products and services. We must work to decrease our costs in order to charge reasonable prices. Orders will be processed speedily and without errors. We will neither misrepresent nor deny our products or services to any customer on the basis of race, religion or national origin.
- ***Our Suppliers and Distributors:***
We will work with our suppliers and distributors to maintain consistency in quality and service. We will ensure that they make a fair profit. We shall neither offer nor accept any premium, prize or other un-Islamic inducement in our transactions with our suppliers and distributors, or any other stakeholder.
- ***Our Employees:***
Every employee will work in safe and clean conditions. They will receive fair and adequate compensation. They will have ample opportunities to develop their skills. They must feel free to make suggestions, criticize or complain. We will safeguard their rights to privacy, protect them from any type of harassment and respect their dignity at all times. The company will clearly communicate to all employees what is expected of them. In all negotiations,

¹⁸¹ Weiss, pp. 268-269.

we will act in good faith. Every employee shall take responsibility to ensure that their actions are in agreement with Islamic values and the Code of ethics of this company.

- ***Our Competitors:***

We will not engage in monopolistic behavior and preclude others from competing with us. We will compete fairly without engaging in un-Islamic tactics.

- ***Our Stockholders:***

We must work to ensure a fair return to our stockholders. We will only engage in what is halal and stay away from the haram. We will manage our research and development projects wisely. We will compensate our employees equitably. We will maintain appropriate reserves for difficult times. We will not waste company resources on false needs. When we behave according to our code of ethics, we should be able to provide our stockholders with an Islamically acceptable rate of return.

- ***Our Community:***

We support the community we live in as well as the world ummah. We will be good citizens, paying our fair share of taxes and contributing to the welfare of the needy and the destitute. We will protect our environment and natural resources.

Appointment of an Ethics Advocate

This person can probe management's decisions regularly, checking into the rationale and purpose that underlie them. For an ethics advocate to fulfill his or her role effectively, management may not restrict the type of decisions that are called into question. Although a subordinate is often appointed to this role, the ethics of macro and strategic level decisions can better be explored by an advocate with adequate organizational experience, but outstanding moral credibility.

Selection and Training

By training new recruits in the code of ethics, and providing a realistic job preview where they learn about the firm's ethical behavior, those who join the firm will do so with a clear understanding of the ethical component of their job. They will also be more likely to behave ethically without the fear of downward pressure or the threat of losing their jobs.

Adjusting the Reward System

The law of effect¹⁸² suggests that behavior which is rewarded will be repeated. Behavior which is not rewarded will not be repeated. An organization which explicitly rewards Islamic behavior will encourage the re-occurrence of such behavior. Alternately, an organization which lets unethical behavior go unpunished will find itself in trouble sooner or later. The example of the Muslim banking firm BCCI filing for bankruptcy after it tolerated business improprieties should be kept in mind.

Implicit Organizational Approaches

Changing the Culture. An Islamic organization has a built-in set of values. These values stem from the Qur'an and Sunnah, and are incorporated with the Islamic Code of Ethics outlined earlier. Unfortunately, many Islamic organizations feel compelled to adopt alien, un-Islamic values when they come into contact with secular, global corporations. Adjusting an organization's culture is traumatic and lengthy, depending upon which level of culture the organizational leaders wish to change. At the surface level, artifacts such as symbols reflecting the ethical position of the organization are relatively easy to change. Deeper aspects of culture, such as the core beliefs and values of organizational participants will require consistent emphasis on an agreed upon set of ethical beliefs and values. Exemplary ethical behavior by the organizational leader will also be needed to steer his or her subordinates towards the desired types of behavior. Thus, the advent of Islam changed the pan-Arab culture from one based on tribal loyalties and *jāhiliyah* to one based on the command of Allah and the exemplary model of the Prophet (saw). Having been duly trained in the ethical code of Islam, the envoys of the Islamic state to distant lands such as Persia and Byzantium did not have to wait for a decision from the Caliph: they already knew what to do under different and often adverse circumstances.

Whistle-blowing. Whistle-blowing is an employee's reporting of unethical conduct by other co-workers. The term "whistle-blower" is used to refer to people who disclose wrong-doing for moral reasons.¹⁸³ Whistle-blowing is an important process whereby the organization can obtain information about activities that threaten the moral fiber of the organization. Whistle-blowers have traditionally had to risk their career or hostile reper-

¹⁸² Thorndike.

¹⁸³ James, Gene. 1990. "Whistle-blowing: Its Moral Justification." In P. Marsden and J. Shafritz, *Essentials of Business Ethics*. New York: Penguin, pp. 162-190.

cussions in order to get their message heard. Organizations need to develop an informal channel of communication whereby the whistle-blower can report the incident without any fear of a backlash. At times, the whistle-blower may have to go to an outside regulatory agency or to the media to report questionable organizational behavior.

Performing a Social Audit

A *corporate social audit* seeks to determine how effective an organization's social performance is.¹⁸⁴ To pass such an audit, the organization must clearly state its social objectives, determine whether it has the resources to meet each objective, assess how these objectives are being met, and suggest which areas need further improvement.

Two approaches developed to assess how corporations are responding to employee and community needs are: the General Electric approach and the First Bank Minneapolis approach. The General Electric approach helps the firm to (a) define both corporate and component goals and objectives, (b) explore how the company is using its resources, (c) trace out the consequences of managerial actions, and (d) distinguish among various courses of action. The First Bank Minneapolis approach identifies key constituents to which the firm feels responsible: public safety, income, health, transportation, etc. A firm following the bank approach will then set objectives for itself in each of these areas, and begin measuring its performance. The firm may simultaneously develop a Community Quality of Life Report, assessing trends in quality of life indicators such as education, housing, jobs, etc. in its market area. The results of the Bank approach indicate the bank's progress in meeting its community responsibilities and help to track which public priorities are being met. Table 8 describes the steps that may be undertaken during a social audit.

¹⁸⁴ Hellriegel, D. and Slocum, J. *Management*, Reading, MA: Addison-Wesley Publishing Co., 1992, p. 169.

Table 8¹⁸⁵
The Social Audit Process

Steps	Contents
Determine social expectations	Investigate what key stakeholders expect from the company and within what areas.
Outline firm's position and response	Determine where the firm stands with respect to various stakeholder demands, and explain how the firm will respond to these.
State program objectives and resources committed.	Break down response to stakeholder demands into program areas, and outline objectives for each program area. For example, cut down by 50% pollution produced by smokestacks through the use of special equipment.
Monitor progress and implement corrections	Assess the degree to which program objectives are being met, and make necessary corrections.

General Ethical Guidelines for Muslims in Business

Some general guidelines govern the Islamic code of ethics with relation to both one's daily life and business conduct. Muslims are required to behave Islamically in their business dealings because Allah Himself is witness to their transactions:

*In whatever business you may be, and whatever portion you may be reciting from the Qur'an—and whatever deed you (mankind) may be doing—We are Witnesses thereof when you are deeply engrossed therein. [...]*¹⁸⁶

Here are some key business principles that Muslims should follow.

Be Honest and Truthful. Honesty and truthfulness are qualities which a Muslim businessman should develop and practice in himself. Truth, for example, has a self-reinforcing effect. In a hadith reported in *Ṣaḥīḥ al Bukhārī*,

¹⁸⁵ Loc. cit.

¹⁸⁶ *Qur'an* 10:61.