

## The Ethical and Social Dimension of Financial Institutions in the Context of Islamic Finance Governance

**Bouchikhi Ahmed**

University of Tamanghasset, Algeria.

[ahmed.bouchikhi@univ-tam.dz](mailto:ahmed.bouchikhi@univ-tam.dz)

**Salmi Rachid**

University of Tamanghasset, Algeria.

[salmi.rachid@univ-tam.dz](mailto:salmi.rachid@univ-tam.dz)

### ABSTRACT

The spread and development of Islamic financial institutions have led to the emergence of modern concepts aligned with the principles of Sharia, aiming to achieve the investors' goals and their social priorities, regardless of their diverse objectives and desires. Additionally, these institutions strive to achieve familial, social, and ethical harmony within the community. Therefore, social and ethical responsibility plays a significant role in contributing to the formation, improvement, and protection of community welfare and in safeguarding the social interests and goals of its investors. This is achieved through the formulation of procedures and the activation of methods and approaches that lead to this end, contributing to the establishment of solidarity, cooperation, and social awareness, and achieving comprehensive development. Furthermore, these institutions mobilize individuals' funds and savings and direct them towards investment to serve the community in accordance with Sharia principles. Hence, Islamic financial institutions have taken serious steps towards Islamic finance governance with social and ethical dimensions to ensure that neither investors nor community members are harmed, giving them an advantage over other institutions.

**Keywords:** Social and Ethical Responsibility, Islamic Financial Institutions, Finance Governance finance governance.

### Introduction:

One of the significant objectives emphasized by the provisions of Islamic Sharia is the preservation of the nation's wealth. Since the nation's wealth is a collective entity, its preservation is achieved by regulating the methods of managing its entirety and by regulating the methods of preserving and managing individual wealth. The preservation of the whole depends on the preservation of its parts. Most financial legislation rules are related to preserving individual wealth, which in turn preserves the nation's wealth, as the benefit of private wealth contributes to the public benefit of the nation's wealth. The funds circulated by individuals benefit both their owners and the entire nation. On this basis, the social and ethical role of Islamic financial institutions aims to enhance the trust of shareholders, clients, and investors due to the religious nature of contracts in Islamic institutions, which are based on trust, and the limited regulatory bodies in Islamic countries. The importance of this topic is further highlighted by the fact that most challenges faced by Islamic institutions revolve around breaches of agreements and contracts between parties, lack of transparency in financial transactions, low standards in contracts and commitments, and doubts about the credibility of some Sharia-compliant products.

Social and ethical responsibility is also a crucial topic that has garnered the attention of economists due to its significant impact on society and the environment. This makes our research an urgent necessity dictated by current realities. Therefore, we aim to highlight the concept of social and ethical responsibility in Islamic financial institutions, focusing on Islamic finance governance and the various financing methods adopted by Islamic financial institutions through their commitment to social and ethical responsibility in its different aspects.

**Research Problem:** This research attempts to highlight the importance of the social and ethical dimensions of Islamic financial institutions in light of their orientation towards Islamic finance governance and the various methods and forms based on the objectives of Islamic Sharia. Thus, we pose our research problem as follows:

### What is the importance of social and ethical responsibility for Islamic financial institutions in light of the orientation towards Islamic finance governance?

To address the research problem, we will cover the following topics:

- ✓ Theoretical framework on the social and ethical dimension of Islamic financial institutions.
- ✓ Islamic finance governance.
- ✓ The relationship between social responsibility and Islamic finance governance.
- ✓ The social responsibility of Qatar Islamic Bank and its adoption of the principle of Islamic finance governance.

### I. Theoretical Framework on the Social and Ethical Dimension of Islamic Financial Institutions:

Social responsibility is one of the key areas that Islamic banks focus on, as it represents the means through which they fulfill their duty towards society by contributing to poverty alleviation, wealth distribution, and the promotion of justice.

Islamic financial institutions use a variety of products to meet their social responsibility, such as donations, benevolent loans, financing small and medium-sized enterprises, and supporting health and educational services, in addition to supporting charitable and religious organizations and managing zakat funds in terms of collection and distribution. Focusing on social services is considered an ethical duty, but it is also an effective means to improve productivity and increase profits. Scientific research has shown that banks that are more sensitive to their social environment enjoy higher profitability in the long term.

Currently, many Islamic financial institutions, according to the specificities of the environment in which they operate, are developing plans and programs and creating products that align with the modern concept of social responsibility. These institutions have increasingly focused on social services, as evidenced by the organization of social work. For example, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) recently issued 13 standards related to responsibility. The World Business Council for Sustainable Development defines social responsibility as "the continuous commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as the local community and society at large."

Social responsibility is one of the main areas of activity for Islamic financial institutions, serving as the bridge that allows these institutions to fulfill their duty towards society by participating in poverty alleviation, wealth distribution, and the promotion of justice. Islamic financial institutions use a range of products to meet their social responsibility, such as donations, benevolent loans, financing small and medium-sized enterprises, supporting health and educational services, in addition to supporting charitable and religious organizations, and managing zakat funds in terms of collection and distribution. Attention to social services is considered an ethical duty, but it is also a means to improve productivity and increase profits. Scientific research has shown that banks that are more sensitive to their social environment enjoy higher profitability in the long term.<sup>1</sup>

According to Dr. Abdelhamid Maghrebi, social responsibility in Islamic banks refers to the commitment of these banks to participate in a range of social activities and programs that meet the needs of stakeholders affected by their activities, both within and outside the institution. This commitment aims to please God and promote social progress and awareness among individuals, while considering balance and justice in attending to the interests of different groups.

The World Business Council for Sustainable Development (WBCSD) defines corporate social responsibility (CSR) as "the commitment by the private sector to contribute to sustainable economic development by working with employees, their families, the local and regional communities to improve their quality of life." Social responsibility standards are expected to play a role in enhancing the three pillars of sustainable development: economic development, social development, and environmental protection.

The International Chamber of Commerce defines social responsibility as all the efforts made by organizations voluntarily to achieve development, based on ethical and social considerations. It is also defined as the activities that the enterprise voluntarily undertakes, which relate to its obligations towards society, in addition to its obligations towards its owners. This means that the enterprise considers social activities alongside its traditional goal of increasing profits. Consequently, these activities contribute to promoting the principle of social solidarity within the organization through the policies and programs it adopts.<sup>2</sup>

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines social responsibility in its Governance Standard No. (7) as the activities undertaken by the Islamic financial institution to fulfill its religious, economic, legal, ethical, and discretionary obligations.<sup>3</sup>

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<sup>1</sup> Al-Arabi Mustafa, "Social Responsibility of Islamic Banks - Analysis of the Islamic Development Bank Experience," paper presented at the Third International Conference on Business Organizations and Social Responsibility, University of Bechar, February 14-15, 2012, p. 13.

<sup>2</sup> Mona Lotfi Bitar, Mona Khaled Farhat, "Accounting Disclosure of Social Responsibility in Islamic Banks," [www.kantakji.com](http://www.kantakji.com), dated 2016.09.03, at 20:57.

<sup>3</sup> Anabi Ben Issa and Fatima Zahra Qassoul, "Management of Ethical Behavior and Social Responsibility in Business Organizations," Third International Conference on Business Organizations and Social Responsibility, Faculty of Economic and Commercial Sciences and Management Sciences, University of Bechar, February 2012.

<b>Religious Responsibility</b>	The commitment of the Islamic financial institution to the provisions and principles of Islamic Sharia in all its transactions.
<b>Economic Responsibility</b>	The commitment of the Islamic financial institution to be viable, profitable, and efficient.
<b>Legal Responsibility</b>	The commitment of the Islamic financial institution to comply with laws and regulations.
<b>Ethical Responsibility</b>	The commitment of the Islamic financial institution to the recognized social and religious customs and traditions.
<b>Discretionary Responsibility</b>	Refers to the expectations of stakeholders that the Islamic financial institution will undertake a social role in applying Islamic ideals and values

### 1. Approaches to Social Responsibility:

**a. Participation:** Participation is a democratic concept that highlights the importance of involving community members in achieving social development. This participation represents the highest level of social responsibility. It can manifest through providing opinions and suggestions, effort and work, or even financial contributions through projects and donations. Participation also includes involvement in planning, implementation, coordination, monitoring, and evaluation processes to achieve a better level of development.

**b. Cooperation:** Cooperation is a social phenomenon aimed at joint work or sharing responsibilities with another party to achieve a common goal, whether direct or indirect. Cooperation can be voluntary, such as when individuals collaborate to help those in need or during natural disasters, or it can be mandatory due to surrounding circumstances. Contractual cooperation appears through social and economic organizations built on contractual foundations, such as cooperative and charitable associations, driven by empathy or common goals among their members.

**c. Concern:** Concern is the essence of social relationships and the motivation for positive change and effective action. It also forms the basis for other social responsibilities such as participation and cooperation.<sup>4</sup>

Social responsibility is a fundamental aspect of the activities of Islamic financial institutions, serving as the means through which they fulfill their duty towards society by contributing to addressing challenges such as poverty and ignorance, wealth distribution, and the promotion of justice. These institutions use a variety of products to meet their social responsibility, such as donations, benevolent loans, financing small and medium-sized enterprises, supporting health and educational services, in addition to supporting charitable and religious organizations, and managing zakat funds in terms of collection and distribution.

### 2. Principles of Organizational Social Responsibility:

From the above, it is evident that the social responsibility of business organizations is based on fundamental principles that can be summarized as follows:

- **Sustainability:** This involves meeting the basic economic, social, and environmental needs of all individuals, encompassing all opportunities available to achieve a better life. It also reflects the ability to endure and take responsibility.

<sup>4</sup> Moulay Lakhdar Abdelrazak, Bouzid Sayeh, "The Role of Islamic Economics in Enhancing the Principles of Corporate Social Responsibility," paper presented at the International Conference: Islamic Economics, Reality... and Future Challenges, Institute of Economic Sciences, Commercial Sciences and Management Sciences, University Center of Ghardaia, no publication year.

- **Transparency:** The function of higher regulatory bodies is to provide accurate, immediate, and useful information regarding their status, activities, financial management, operations, and performance towards the society in which they operate. The concept of transparency also includes the importance of disclosing oversight processes, allowing concerned individuals to obtain necessary information about the social activities of the entity.<sup>5</sup>
- **Accountability:** The concept of accountability relates to the legal framework and organizational structure, as well as the strategies and procedures that ensure the regulatory body in the company addresses the following points:<sup>6</sup>
  - The entity assumes its legal responsibilities in resource distribution and performance evaluation, reflecting the legality and efficiency of public fund usage, in addition to the procedures and activities it undertakes. The head and employees of the body are accountable for their actions.

### 3. The Social and Ethical Dimension of Islamic Financial Institutions:

The social dimension of Islamic financial institutions is evident in their role in meeting the basic needs of society and combating poverty and unemployment by financing real productive projects that contribute to job creation and add value, whether these projects are large, small, or medium-sized. These institutions also contribute to financing healthcare and social projects, enhancing education, combating illiteracy, and increasing investment awareness among members of society.

The social dimension of Islamic financial institutions is also linked to ethics, as fulfilling the desires and preferences of investors, which may not be directly achievable in the markets, is one of the main motivations for the emergence of socially responsible financial institutions. Among these preferences are social priorities, as many investors seek to achieve profits, but they prefer these profits to be associated with religious, social, or political goals.

Moreover, these institutions aim to achieve socially acceptable outcomes without causing long-term macroeconomic or environmental imbalances, or harming familial and social harmony or the ethical fabric of society.<sup>7</sup>

### 4. Elements of Social and Ethical Responsibility:

These elements are based on the beneficiaries of the social responsibility of Islamic financial institutions.<sup>8</sup>

Element	Mechanisms Used by Islamic Financial Institutions to Achieve Social Responsibility Towards It
Shareholders	Continuously enhancing equity rights, achieving a competitive position for the Islamic bank, developing investment fields, and enabling shareholders to monitor the bank's activities and access necessary information.
Employees	Implementing profit-sharing, ensuring job fairness, providing healthcare, paying salaries and wages, granting paid leaves, offering opportunities for advancement and promotion, providing continuous training, securing housing and transportation for employees, and creating a suitable work environment.
Customers	Maintaining the legitimacy and integrity of transactions, striving to achieve depositor satisfaction, and facilitating transaction procedures to gain customer trust. Regularly studying the motivations and behavior of bank clients, addressing depositor complaints and suggestions, offering competitive prices, and committing to honest advertising.
Competitors	Providing reliable information, not poaching employees from others through unfair means, and ensuring fair and honest competition.

<sup>5</sup> Hamza Ben Zain, "Environmental and Social Responsibility of Petroleum Companies," Master's thesis, Faculty of Economic Sciences and Management Sciences, Kasdi Merbah University, Ouargla, 2013, p. 15.

<sup>6</sup> Ariwa Mohad, "The Role of the Balanced Scorecard in Evaluating and Measuring Sustainable Performance in Medium-Sized Food Industry Enterprises – A Comparative Study between Al-Hodna Dairy in M'sila and Al-Tal Dairy in Setif," unpublished Master's thesis, Faculty of Economic Sciences and Management Sciences, University of Setif, 2011, p. 55.

<sup>7</sup> Mohamed Al-Sirfi, "Social Responsibility of Management," Dar Al-Wafaa for Printing and Publishing, Egypt, 2007, pp 70-72.

<sup>8</sup> Fatima Boudia, Fatiha Kahli, "The Nature of the Economic and Social Dimension of Islamic Investment Funds and Their Contribution to Achieving Sustainable Development," paper presented at the Second International Conference on Islamic Finance, Sfax, Republic of Tunisia, June 27-29, 2013.

Suppliers	Offering fair prices, ensuring continuity of supply, fulfilling financial obligations, and maintaining honesty in dealings.
Community	Combating poverty and unemployment by creating job opportunities and financing real productive projects that contribute to job creation and add value, whether these projects are large, small, or medium-sized. Supporting the financing of healthcare and social projects, increasing savings awareness among community members by facilitating access to savings tools and means, especially for small savers. Additionally, focusing on scientific qualification and combating illiteracy, enhancing banking awareness among community members, respecting customs and traditions, employing people with disabilities, supporting social activities, enhancing infrastructure, and contributing to relief efforts during disasters.
Environment	Investing in afforestation programs and managing green spaces, as well as environmentally friendly products.
Government (State)	Complying with laws, addressing social issues, fulfilling tax obligations, and managing zakat funds in terms of collection and distribution.
Pressure Groups	Honest communication with the media, appreciating the role of labor unions, and effective cooperation with them.

## II. Islamic Finance:

### 1. Concept of Transition to Islamic Finance:

The traditional global financial system is witnessing a significant shift towards Islamic finance, with global Islamic banking assets achieving a cumulative annual growth rate of 16% from 2008 to 2012. The UAE is a major hub in the Islamic finance sector, with total Islamic banking assets in the UAE rising to \$95 billion in 2013, compared to \$83 billion in 2012, achieving a growth rate of 14.5%. This growth trend is expected to continue until 2018, with Islamic banking assets in the UAE projected to record a compound annual growth rate of 17%.<sup>9</sup>

Governance in Islamic financial institutions combines traditional standards that focus on financial and administrative aspects, such as achieving transparency, integrity, and disclosure, with Sharia standards that ensure the activities of these institutions comply with Sharia rulings. Ensuring that investment, financing, and credit activities comply with Islamic Sharia is a fundamental aspect of governance, as this Sharia aspect significantly impacts the administrative and financial aspects of Islamic financial institutions.

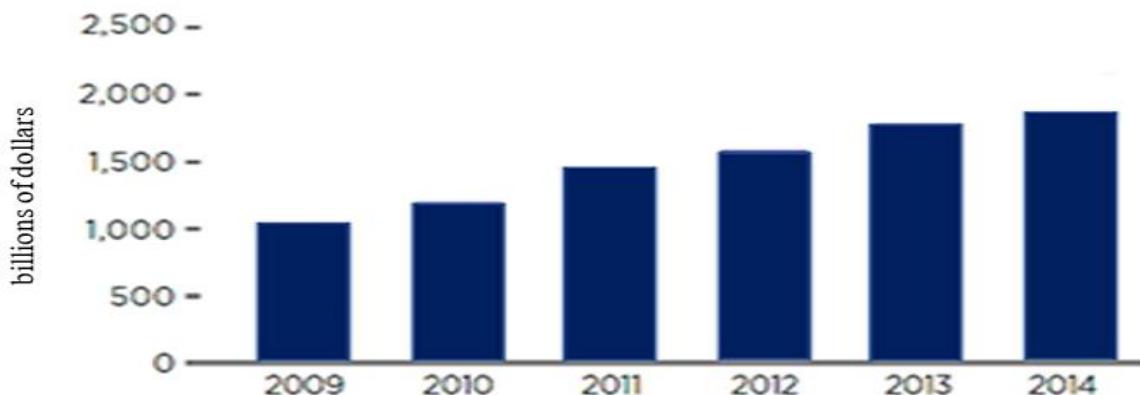
Effective and sound governance practices are undoubtedly enhanced through the development of standards via training, organizing seminars, issuing periodic bulletins, and preparing research. It also requires reviewing and amending accounting and auditing standards specific to these institutions to align with the principles and provisions of Islamic Sharia. By establishing unified and internationally recognized accounting standards, the accounting profession can become similar to other professions that have internationally recognized standards, principles, and ethics. This will help reduce individual interpretations and multiple treatments of the same issue. The term "generally accepted accounting principles" is a technical expression agreed upon among accountants, encompassing all that is considered acceptable in the field of accounting at a given time. These accounting standards have been gradually compiled to address transactions arising from changes over time.

It is important that appropriate corporate governance practices in financial institutions add value by enhancing the protection of depositors' and investors' rights, facilitating access to finance and financial services, reducing the cost of capital, improving operational efficiency, and increasing the security of these institutions against external shocks. Therefore, strong corporate governance standards must be ensured to achieve stability and safety for all financial institutions worldwide.

Good governance is a fundamental priority in the field of Islamic finance, which is a branch of international finance that has seen remarkable growth over the past decade. The financial assets managed according to Islamic Sharia principles are estimated at approximately \$2 trillion, with these assets achieving an average cumulative annual growth rate of about 16% since 2009.

<sup>9</sup> "The Role of Regulatory Bodies in the Governance of Islamic Financial Institutions," [www.aliqtisadislami.net](http://www.aliqtisadislami.net), dated 2016.10.16, at 18:03.

**Graph 1: Size of Islamic Finance Assets (in billions of dollars)**



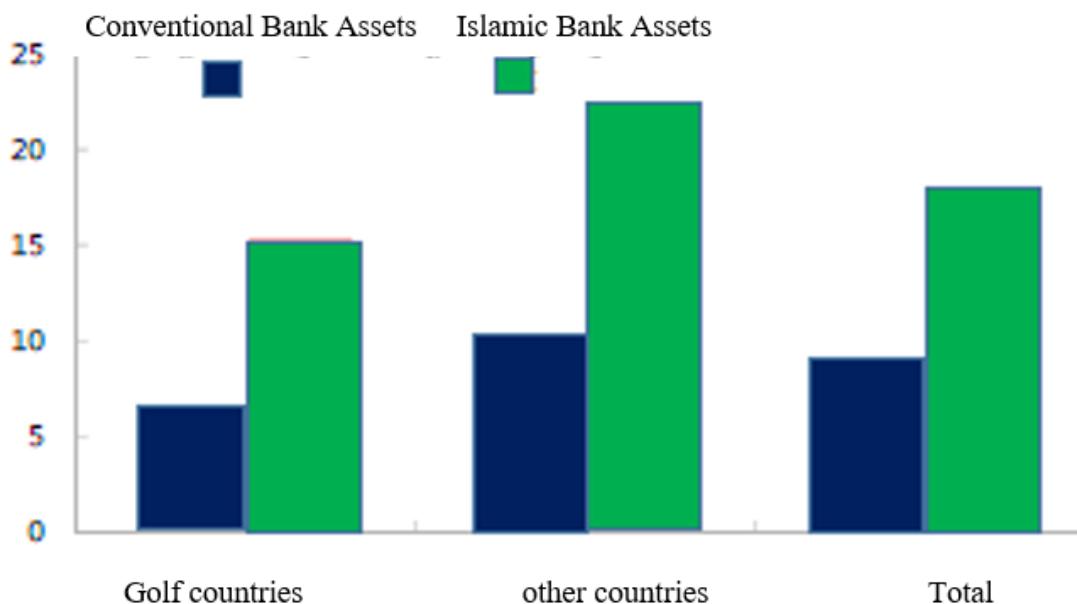
Source: Islamic Finance: Strong Standards of Corporate Governance: On the website:

[blogs.worldbank.org/.../ar/.../islamic-finance-strong-corporate-governance-sine-qua-n...](http://blogs.worldbank.org/.../ar/.../islamic-finance-strong-corporate-governance-sine-qua-n...), dated 2016.10.30, at 18:17.

The banking sector is traditionally the leader in Islamic finance, but the share of other products and institutions within the overall framework of Islamic financial assets is continuously increasing. For example, the sukuk sector, which focuses on securitization (asset-backed securities), has seen significant growth over the past six years, with the value of its operations exceeding \$300 billion in 2014. Similarly, there is a momentum currently driving the growth of Islamic funds and takaful (Islamic insurance) sectors. Between 2009 and 2014, the value of assets managed by Islamic funds increased from approximately \$40 billion to about \$60 billion, while the total contributions in Islamic insurance saw a notable rise from \$7 billion to over \$14 billion.

With the rapid growth of Islamic finance, it has become essential to emphasize the importance of strong corporate governance practices. This will enable Islamic finance to enhance its contribution to comprehensive economic development. Therefore, establishing appropriate mechanisms for corporate governance is crucial, especially in the field of Islamic banking, which has seen significant growth compared to conventional banks in countries where the Islamic banking sector has flourished.<sup>10</sup>

**Graph 3: Growth of Conventional and Islamic Bank Assets - Compound Annual Growth Rate (%) in the years 2009 – 2013**



<sup>10</sup> "Islamic Finance: Strong Corporate Governance Standards," [blogs.worldbank.org/](http://blogs.worldbank.org/), dated 2016.10.30, at 18:17.

**Source:** Islamic Finance: Strong Corporate Governance Standards: Available at: [blogs.worldbank.org/.../ar/.../islamic-finance-strong-corporate-governance-sine-qua-n...](http://blogs.worldbank.org/.../ar/.../islamic-finance-strong-corporate-governance-sine-qua-n...), dated 2016.10.30, at 18:17.

Islamic finance and Islamic banking rely on the importance of risk-sharing in all transactions, in addition to the necessity of having real assets backing these transactions. The first principle requires the parties involved in the transactions to bear relative risks related to the business activity or the asset being financed. The second principle avoids risks associated with indebtedness, as operations are limited to the exchange of funds without any religious obligations. Consequently, equity-based financing is promoted, making financing an activity that supports a real economy rather than merely a financial activity.

## 2. Principles of Islamic Finance:

The principles of Islamic finance are based on the Quran, which Muslims believe to be the true and unchanging word of God, as revealed to the Prophet Muhammad (peace be upon him).

We can summarize the principles of Islamic finance into four main concepts as follows:<sup>11</sup>

- ✓ Prohibition of interest (riba).
- ✓ Ethical standards.
- ✓ Moral and social values.
- ✓ Responsibility for business risks.

- a) **Prohibition of Interest (Riba):** The first and most important concept is the absolute prohibition of interest, whether it is taken or given, known as riba. Money alone cannot generate profits, and when riba spreads in an economy, it endangers the welfare of every individual in society. When investors focus more on interest rates and guaranteed returns rather than how the money is used, the results will inevitably be negative.
- b) **Ethical Standards:** The second principle deals with ethical standards, where a Muslim is required to ensure that their investments bring about benefit and goodness. Therefore, Islamic investment requires a thorough study of the targeted project, including its policies, products, and services, as well as its impact on society and the environment. In other words, a Muslim must carefully examine the business they intend to participate in. In all aspects of the financial system, Islam has established rules and regulations that determine how Muslims should engage in these activities. For example, regarding stock trading or dealing in the stock market, Islam emphasizes the need to verify the activities of companies to ensure they comply with Islamic Sharia.
- c) **Moral and Social Values:** The third principle relates to moral and social values, where Islam, through the Quran, encourages its followers to care for and assist the poor and needy. Islamic financial institutions are expected to provide services tailored to the needy, not only through charitable donations but also in the form of interest-free loans, known as qard hasan. Part of the activity of an Islamic bank involves executing some social projects, where acts of charity and supporting charitable organizations are essential components of these activities. Islamic banks also provide interest-free loans. For example, if an individual needs to go to the hospital for treatment or enroll in a university, the Islamic bank provides what is known as qard hasan. This qard hasan is usually granted for one year without the Islamic bank charging any fees or interest.
- d) **Responsibility for Business Risks:** The fourth and final principle addresses the comprehensive concept of justice and fairness, which stipulates that all parties involved must equally share the risks and profits resulting from any project or business. For any return to be legitimate, the financier must bear the risks associated with the activity or project, or provide other services such as supplying assets. Otherwise, the financier, according to Islamic Sharia, is not only an economic parasite but also sinful. This principle is derived from the prophetic saying "Al-Kharaj bil Daman," which means that a person becomes entitled to profit only when they bear the responsibility for the risk of loss, linking profit to the possibility of loss. Islamic law distinguishes between legitimate profit and other forms of gain.

Profit is a fundamental element in Islamic banks, but it is not sufficient on its own. The focus on social responsibility is a natural outcome of the presence of these banks in society, as it helps maintain long-term profitability. The benefits of companies' attention to social responsibility accrue to both the company and society. Islamic banks rely on economic and social foundations, aiming to achieve social development, either directly through executing some social activities or indirectly through their participation in investment projects.

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<sup>11</sup> Basic Principles of Islamic Finance," [www.albaraka.com](http://www.albaraka.com), dated 2016.10.15, at 18:31.

### **III. Governance of Islamic Financial Institutions:**

Proper and sound governance, both from a Sharia and administrative perspective, acts as a safety shield that protects Islamic financial institutions from fluctuations and enhances their competitiveness in the global banking market. It also contributes to attracting and retaining depositors' funds, enabling these institutions to play their desired role in promoting economic development in Islamic societies. It is worth noting that governance is not limited to standards, principles, and mechanisms of control and auditing; it represents a genuine investment for institutions that adopt these principles and operate with transparency and conviction. Consequently, governance becomes an ingrained administrative and behavioral culture within these institutions, rather than just rigid texts.

The desired development and advancement in Islamic financial institutions must proceed along Sharia, financial, and administrative paths. Given that Sharia aspects are the fundamental and prominent feature of these institutions, and because financial and administrative aspects are often influenced by Sharia considerations, the focus of this research will be on the Sharia aspects of governance without neglecting the other aspects. This necessitates improving the performance of Sharia supervision in Islamic financial institutions<sup>12</sup>.

#### **1. The Role of Behavior and Ethics in Strengthening Governance in Islamic Financial Institutions:**

The role of behavior and ethics in enhancing the trust of shareholders, clients, and investors is a vital topic due to the religious nature of contracts in Islamic institutions, which rely on trust, and the lack of regulatory bodies in Islamic countries. The importance of this topic is highlighted by the numerous challenges faced by Islamic institutions, which mainly revolve around breaches of agreements and contracts between parties, lack of transparency in financial transactions, low standards in contracts and commitments, and doubts about the credibility of some Sharia-compliant products.

These issues all underscore the importance of values and ethics in financial transactions. When examining the trajectory of Islamic institutions, it becomes clear that there is a pressing need to apply these ethical values in various activities, based on the Islamic principles that govern them. This is due to the fact that it is an emerging industry and lacks sufficient regulatory guarantees. Additionally, Islamic institutions have not yet reached the desired level of standardization and regulatory development, which further emphasizes the importance of values and ethics. Some suggest that certain Islamic banking institutions may experience ethical lapses in their dealings, such as not fully disclosing the total financing amount to the client. Banks may advertise low financing costs, only for the client to discover that the rate has increased and is calculated cumulatively based on the years of financing repayment.

These observations and others necessitate a focus on the importance of values and ethics in enhancing the trust of shareholders, clients, and investors. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has emphasized the importance of values and ethics, stating in its charter that Islamic banking is a profession influenced by the values and ethics of society. Therefore, this influence should be based on the values and ethics of the Islamic society and should be reflected in the personal development, technical qualification, and professional practice of the institution's employees in practical reality.

One of the factors that diminish the value of ethics is the constant pressure on the board of directors and executive management to achieve improvements in financial revenues, which drives companies to compromise on the importance of values and ethics in their financial dealings. Additionally, the dominance of greed, selfishness, and miserly ethics leads to the spread of financial misconduct and corruption.

#### **2. The Impact of Behavior and Ethics on the Performance of Islamic Institutions:**

Ignoring the importance of ethics in the workplace means denying the existence of right and wrong ways to conduct business. The more these behaviors and ethics align with Islamic manners and rulings, the greater their positive impact within Islamic institutions, as follows:

- a) **Transformation in Efficiency Concepts and Objectives of Islamic Institutions:** The primary goal of companies has traditionally been to generate profits for their owners, according to market rules without any fraud or deceit. Profitability was emphasized as companies were seen as machines for generating profits, meaning that a company's efficiency was closely tied to its ability to generate profits as the best measure of performance. Therefore, it was not surprising that maximizing shareholder value became the common goal in both theoretical and practical aspects since the early decades of the last century. The increase in stock prices justified many

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<sup>12</sup> Abdelmajid Al-Salahi, "Governance in Islamic Financial Institutions," paper presented at the Islamic Financial Services Conference, available on [iefpedia.com](http://iefpedia.com), dated 2016.10.16, at 17:52.

corporate behaviors, including granting huge salaries to executives, ignoring workers' rights, lowering safety and health standards, and overlooking vital factors that contribute to the company's long-term interests.

- b) **Impact on Efficiency, Profitability, and Growth:** Applied values and ethics positively affect efficiency, profitability, and performance. Good adherence to these values has an increasing impact on the institution's profitability and business growth. This is because the institution's commitment to ethical standards is one of the fundamental factors that investors rely on when directing their investments, leading to increased invested funds in the institution and the expansion of its activities.
- c) **Ethical Standards for Profit Calculation in Banks and Investment Companies:** Issuing fatwas and setting Sharia standards are the responsibilities of scholars, while accountants and auditors are concerned with interpreting and analyzing financial data and records. There is no doubt that individuals who make work-related decisions and act on them express ethical choices, whether they intend to or not. These standards are based on values of honesty, integrity, and good conduct, in line with Sharia, as well as transparency, trustworthiness, and returning rights to their owners. They also require accuracy in the accounting system and the calculation of clients' and investors' rights, as well as the preparation of precise marketing and economic studies used in profit distribution and adherence to internationally recognized standards by regulatory bodies.

#### IV. Islamic Financing Modes:

- **Murabaha:** Murabaha is a type of sale where the initial price is determined with an added profit margin. It is a trust-based sale that relies on the seller's honesty in determining the cost. Islamic banks have developed the concept of "Murabaha to the Purchase Orderer," where Murabaha involves financing arrangements in which the bank agrees to purchase an asset (commodity) based on the client's request. The bank legally acquires the commodity and then sells it to the client at an agreed price, which includes the financing amount plus a profit margin. Murabaha is widely used in financing both individuals and companies.
- **Mudarabah:** Mudarabah and Qirad refer to the same concept, which is an agreement between two parties where one provides the capital while the other contributes effort and activity in trade and investment. The profits are distributed between them according to their agreement. Mudarabah is an Islamic financing method that involves a relationship between the bank, which provides a certain amount of capital, and the entrepreneur (mudarib), who manages the project, trade, or service with the aim of generating profit.
- **Musharakah:** Musharakah is defined as an agreement between two or more parties who share in the capital and profits. In the case of Mudarabah, the financing is entirely from the bank, whereas in Musharakah, both the bank and the client contribute to the capital. Musharakah is an Islamic financing mode that involves a partnership between the bank and the client, where each party contributes to the capital either equally or in varying proportions, whether to establish a new project or to participate in an existing one. The Musharakah contract can be short-term or long-term, and the capital provided by the bank may remain fixed throughout the contract duration, known as "permanent Musharakah." Alternatively, the bank may gradually transfer its share to the other party, reducing its share over time with the aim of transferring full ownership of the project to the other party, known as "diminishing Musharakah."
- **Ijarah and Ijarah Muntahia Bittamleek:**
  - **Ijarah:** This process involves leasing an asset for a specified period in exchange for a payment. It is a means to facilitate individuals' access to the benefits they need without owning the assets themselves. The need for benefits is equivalent to the need for assets. This process involves an operational lease contract where the bank purchases the equipment required by the client and leases it to them for an agreed rent. This contract does not include any promise to transfer ownership of the leased asset to the lessee at the end of the lease term.
  - **Ijarah Muntahia Bittamleek:** This is a lease contract where the bank purchases equipment needed by the client and leases it to them for an agreed rent. This contract differs from a traditional lease in that it grants the lessee the option to own the leased equipment at the end of the specified lease term.

#### V. Social Responsibility of Qatar Islamic Bank:

Governance is a vital issue that forms an essential part of Qatar Islamic Bank's operations. The bank is committed to implementing robust governance practices that define the rights and responsibilities of shareholders, the board of directors, and executive management. This aims to achieve effective oversight and management that enhances the bank's value for shareholders.

The bank adheres to governance principles, which represent the approach of sound corporate management, as an integral part of its culture in managing its daily and strategic activities. In addition to promoting its culture towards institutions and companies, the governance practices adopted by the institution aim to improve its internal and external controls.

As a responsible national entity, the bank is committed to the principle of social responsibility towards the community in which it operates. The bank continuously strives to promote values of development, protect human life, health, natural resources, and the environment. It is keen to add real value to the community, recognizing the importance of commitment through financial and non-financial contributions.

The bank's Zakat Committee distributes zakat to those eligible, in addition to providing financial assistance to settle the debts of insolvent or deceased individuals in cooperation with the Zakat Fund of the Ministry of Awqaf, by waiving or settling their debts.

The bank also contributes to a variety of fields, including education, healthcare, cultural activities, as well as supporting sports clubs, social needs, and charitable organizations. The bank has provided numerous scholarships and sponsored many conferences, exhibitions, and sports events over the past years.<sup>13</sup>

#### ■ Benefits of Social Responsibility for Banking Institutions:

Institutions can achieve significant benefits by integrating corporate social responsibility (CSR) into decision-making processes and activities. This integration helps facilitate decision-making by providing a deeper understanding of societal expectations and opportunities associated with social responsibility, as well as the risks that may arise from non-compliance.

- Enhancing the institution's reputation and increasing public trust, in addition to improving brand image and reputation, which contributes to increased sales and customer loyalty.
- Boosting employee loyalty and morale, as well as improving their safety and health, which positively impacts the institution's ability to attract, motivate, and retain employees.
- Achieving savings by enhancing productivity and resource efficiency, reducing energy and water consumption, minimizing waste, recovering by-products, and increasing the availability of raw materials, which contributes to improved financial performance and reduced operating costs.
- Promoting the sustainability of natural resources and environmental services to contribute to the institution's long-term vitality.
- Contributing to the public good and enhancing the role of civil society and institutions.
- Improving environmental performance and reducing emissions of climate-changing gases, as well as decreasing the use of pesticides.
- Reducing waste management expenses through the implementation of recycling activities.
- Enhancing productivity, quality, effectiveness, and efficiency.

#### Conclusion:

Islamic finance and its various modes represent one of the modern trends for Islamic financial institutions, which gather investors' funds in the form of investment units or sukuk and entrust their management to experts and specialists to invest them according to appropriate Islamic investment modes. Through these modes, Islamic financial institutions aim to instill Islamic values in society across various human, economic, and social transactions through social and ethical responsibility. In light of the trend of various Islamic financial institutions towards governance, this responsibility has become crucial for Muslims. It can serve as a tool to achieve economic solidarity among Muslims by facilitating the transfer of savings from surplus countries to deficit countries and paving the way for the Islamization of banks as part of a program to strengthen the foundations of interest-free banking in any Muslim country.

Finally, it is expected that Islamic financial governance will play a significant role and be an important resource by linking local investments and capital with global capital and directing them towards financing economic projects. It will also help support the privatization of public sector businesses by converting them into joint-stock companies and encouraging social and ethical responsibility through the marketing of joint-stock companies' shares and providing the necessary financing by pooling funds. Additionally, it will improve the national economy and contribute to the movement of the financial market by attracting investors to invest in securities, thereby mitigating many of the risks that investors might face if they operate alone in unfamiliar markets. This will be achieved by providing the necessary legislation in this field that does not conflict with the provisions of Islamic Sharia, with regulations that prevent falling into what is prohibited by Sharia.

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<sup>13</sup> Governance, Qatar Islamic Bank, available at: [www.qib.com.qa/ar/investor-relations/corporate-governance.aspx](http://www.qib.com.qa/ar/investor-relations/corporate-governance.aspx), accessed on 2016.11.01, at 11:08.

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