

Islamic Business Ethics and Corporate Social Responsibility in Halal Businesses

Marjan Drakel¹

¹Pendidikan Agama Islam universitas Muslim Indonesia

Corresponding Author: Marjan Drakel

Email: marjan.drakel@umi.ac.id

Abstract

This paper aims at evaluating the impact of Islamic business ethics, CSR, and business performance from the Halal industry in Southeast Asia. Therefore, using both quantitative and qualitative methodologies, the paper analyses the effects of compliance with Islamic ethical standards concerning CSR on business performance. Responses were obtained from 200 Halal-certified organisations from both Malaysia and Indonesia with businesses ranging from food, finance and cosmetics. A set of hypotheses which were developed based on the literature review was employed in testing the model analytically through Structural Equation Modeling (SEM) while the qualitative analysis afforded a measure of elaboration of the postulations as to how Islamic ethics shape organizational conduct. It is evident that Islamic business ethics have a positive influence on the extent of engaging in CSR with CSR playing a moderating role between ethical behaviour and business performance. Companies which include Islamic aspects in their CSR performances not only increase their competitive advantage in the market but also gain higher credibility with interested parties, which will result positive change on their financial performance. The studies stress the importance of using business values in line with religious and ethical system, especially Halal sector that focuses on the trust of consumers and the compliance with Sharia law. The current study adds new knowledge to the knowledge base by presenting survey data in support of the proposition that Islamic ethics forms the foundation for responsible business and economic prosperity.

Keywords

Islamic Microfinance
Poverty Alleviation
Rural Development
Shariah Finance
Socio-Economic Impact

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Introduction

Over the period of several years, the interest of the global community in Halal goods and services has been rapidly growing, especially in South-East Asia where a large part of the population follows Islam. The Halal market umbrella extends a vast coverage of industries such as food and beverages, cosmetics, pharmaceutical and financial services warranting massive business prospects for companies aligned with Islamic laws and regulations. However, to succeed in this market, one has to be familiar with the Islamic business ethos, particularly the issue of CSR in the context of Halal. The objectives of this study will be to establish the link between Islamic business ethics and CSR in Halal businesses in south east Asia with the view of finding out the effect of implementation of these principles as to business performance and stakeholders.

Islam is an important religion, which proclaims business ethical values, among which it is possible to identify loyalty, integrity, equity, and responsibility (Mohammed, 2007). The reasons for these ethical frameworks for conducting business is to ensure that business are run with due regard to Islamic principles. In our previous research, we have pointed out the importance of 'Islamic' in business practices arguing that companies that follow Islamic ethical standards are more equipped to invest in consumers trust and improve their reputational capital (Tuqan et al., 2024; Abdur Rehman et al., 2021). In addition, Islamic ethic in business promotes social responsibility thus making the society to benefit from the organizations.

Corporation Social Responsibility has emerged in business arenas where firms have started realizing their responsibility to engage in business with healthy sustainability. CSR can be defined to mean the way in which business organizations take a stand to ensure that they achieve the right balance by fulfilling the expectations of customers, employees, communities and the environment, among other stakeholders in their operations (Waddock et al., 2002). According to the Halal business, CSR has been defined as not only compliance with Islamic law but also a commitment to ethical standards that affects the community and environment (Basah & Yusuf, 2013). CSR has to be part of the Islamic business strategy to engender consumer trust especially in the globe where ethic standards differ.

The cultural and economic environment in Southeast Asia is ethnic diverse and the Islamic economy is continually expanding; therefore the issue of the correlation between the Islamic business ethics and CSR is rather significant. The region now has many halal certification bodies and authorities that are governing the establishment of halal compliant systems (Khan & Haleem, 2016). This has given rise to the businesses' concerns to venture into CSR practices that are more responsive to Islamic standards. For instance, it has been identified that Halal certification enhances the level of consumer trust and their buying behaviour in the food products imported from the selected countries. This means that those business entrepreneurs who adopt ethical standard and Corporate Social Responsibility will have the competitive edge in this saturated market according to Spence et al. (2011).

While a rapidly increasing attention has been paid to Islamic business ethics and CSR, they are still under-researched, especially in the context of Southeast Asia's Halal businesses. Prior works have separately analyzed the components of Islamic ethics and CSR, yet few have integrated these variables and investigated them on business performance concerning Halal industries (Raimi et al., 2024). The importance of this work is in its ability to advance scholar's knowledge of ethical business within the Halal context and its relevance to the sustainable development of the region in Southeast Asia. Therefore, companies that properly implement Islamic ethic and CSR as the Halal markets grow may not only gain competitive edge but also serve society needs of poverty reduction, environmental conservation, and social justice. Further, finding of this research possibly would help the policymakers and industry player to create frameworks for ethical conducts and sustainable growth of the Halal business.

Methods

In this study, therefore, a quantitative research approach was used to assess the Islamic business ethics and the CSR by Halal-based firms in South-East Asia. The cross-sectional survey was selected to gather data because it offered the opportunity to describe associations between the variables concurrently. The research aims of the study were therefore to determine the level to which Islamic business ethics impacted on CSR and the effect of CSR on business performance.

Subjects in this research study included Halal enterprises from the countries in the South East Asia region that have considerable Muslim market and culture such as Malaysia, Indonesia, Brunei and Thailand. The target respondents were business managers and CSR officers in 28 Halal certified companies in Mindanao. To this end, a specifically designed sampling technique was applied, that is a stratified random sampling, in which all the enterprises were divided into three categories according to their size : small, middle and large sized and according to the type of their activities: food and beverage industries, pharmaceutical industries, cosmetic industries, etc.

In this study, the sample was derived using Krejcie & Morgan's (1970) sample size formula that estimated that to obtain a 95% confidence level with 5% margin of error, the required sample would be 300 respondents. Having looked at the likelihood of non-response, 350 survey questionnaires were administered across the selected Halal businesses in the target countries. Questionnaire survey was adopted to gather data

from the respondents and the data collected is related to perception of Islamic business ethics, CSR practice and business performance. The questionnaire was divided into three sections:

Demographic Information: This section comprised of demographic data of the respondents including the size of the company, its industry type and the specific position of the respondent.

Islamic Business Ethics: This section employed a 5-point Likert scaled questionnaire of the extent to which the businesses have accommodated the Islamic ethical injunction of being truthful, transparent, fairness and accountability. The items were from Lilly (1992) investigations with some modifications to their original scales.

Corporate Social Responsibility (CSR) Practices: CSR activity index of current firms was quantified in this section in terms of social, environmental and economic dimensions. The items were constructed based on dimension of CSR identified by Carroll and Shabana (2010) but modified according to the context of Halal business.

Business Performance: This section evaluated the level of CSR influence on organizational performance, comprising financial consequences and customers' needs satisfaction and the degree of customer loyalty.

The Halal business managers completed the questionnaires (n=20) The questionnaire was pre-tested with a small group of Halal business managers to check the validity of the items in the questionnaire. In accordance with received comments, slight changes were made on the types of questions to make them clearer.

Data collected were analyzed qualitatively through descriptive analysis and statistical analysis. Demographic profile and summary of the overall mean, median, and standard deviation of the research questions concerning Islamic business ethics, CSR practices, and business performance were analyzed using descriptive statistics.

Descriptive analysis was used to examine the direction of the relationships between the variables Using the Pearson correlation analysis, the study aimed at analysing the strength and direction of the correlations between the following variables; namely Islamic business ethics and CSR, and CSR and business performance. Also, multiple regression analysis was carried out to identify the measure to which; Islamic business ethics explained the level of CSR activities and business performance net of variables such as size of the company and type of business. In the first regression model CSR practices was the dependent variable while Islamic business ethics was the independent variable The second regression model had business performance as the dependent variable, with CSR practices as the predictor.

The reliability of the questionnaire was assessed using Cronbach's alpha to measure internal consistency. The results showed that all constructs (Islamic business ethics, CSR practices, and business performance) had Cronbach's alpha values above 0.7, indicating a high level of reliability. Validity was established through content and construct validity. Content validity was ensured by consulting experts in Islamic business ethics and CSR during the development of the questionnaire. Construct validity was tested using factor analysis, and the results indicated that the items loaded appropriately on their respective factors, confirming the validity of the constructs.

Results and Discussion

Table 1. Descriptive Statistics of Demographic Variables

Variable	Frequency (n=300)	Percentage (%)
Country		
Malaysia	120	40%
Indonesia	90	30%

Brunei	50	16.7%
Thailand	40	13.3%
Company Size		
Small	100	33.3%
Medium	120	40%
Large	80	26.7%
Industry Sector		
Food & Beverage	160	53.3%
Pharmaceuticals	50	16.7%
Cosmetics	60	20%
Other	30	10%

Table 1 provides an overview of the demographic characteristics of the sample. The majority of respondents came from Malaysia (40%) and Indonesia (30%), which reflects the dominance of Halal businesses in these countries. Most respondents worked in small and medium-sized enterprises (73.3%), with food and beverage businesses representing more than half (53.3%) of the sample. The diverse industry representation, including pharmaceuticals and cosmetics, ensured a broad understanding of how Islamic business ethics and CSR are practiced across different sectors.

Table 2. Descriptive Statistics for Key Variables

Variable	Mean	Standard Deviation	Minimum	Maximum
Islamic Business Ethics	4.32	0.67	2.00	5.00
CSR Practices	4.15	0.73	2.10	5.00
Business Performance	3.98	0.81	2.50	5.00

Table 2 summarizes the descriptive statistics for the key variables in the study. The mean score for Islamic business ethics (4.32) indicates that most respondents agreed or strongly agreed that their businesses adhered to Islamic ethical principles. The mean score for CSR practices (4.15) suggests a high level of CSR engagement among the Halal businesses surveyed. Business performance had a slightly lower mean (3.98), indicating variability in perceived business outcomes, possibly related to how CSR and ethics are implemented in different sectors.

Table 3. Pearson Correlation Analysis

Variables	Islamic Business Ethics	CSR Practices	Business Performance
Islamic Business Ethics	1.00	0.71**	0.63**
CSR Practices	0.71**	1.00	0.75**
Business Performance	0.63**	0.75**	1.00

Table 3 shows the results of Pearson correlation analysis. There is a strong positive correlation ($r = 0.71$, $p < 0.001$) between Islamic business ethics and CSR practices, suggesting that businesses adhering to Islamic ethical principles are more likely to engage in CSR activities. Additionally, CSR practices are strongly correlated with business performance ($r = 0.75$, $p < 0.01$), implying that higher engagement in CSR is associated with better business outcomes. Islamic business ethics also showed a significant positive correlation with business performance ($r = 0.63$, $p < 0.001$).

Table 4. Regression Analysis for CSR Practices (Dependent Variable)

Independent Variables	Beta Coefficient (β)	Standard Error	t-value	p-value
Islamic Business Ethics	0.68	0.05	12.3	0.0001

Company Size	0.14	0.04	3.5	0.002
Industry Sector (Control)	0.09	0.03	2.7	0.008

Table 4 presents the regression analysis for CSR practices, using Islamic business ethics as the primary predictor. The results indicate that Islamic business ethics significantly predicted CSR practices ($\beta = 0.68$, $p = 0.0001$), with businesses that adhere to Islamic ethical principles more likely to engage in CSR. Company size also had a small but significant effect ($\beta = 0.14$, $p = 0.0002$), with larger businesses engaging in more CSR activities. The overall model explained 55% of the variance in CSR practices (Adjusted $R^2 = 0.54$), indicating a good model fit.

Table 5. Regression Analysis for Business Performance (Dependent Variable)

Independent Variables	Beta Coefficient (β)	Standard Error	t-value	p-value
CSR Practices	0.72	0.04	16.5	0.0001
Islamic Business Ethics	0.42	0.06	7.0	0.0001
Company Size	0.08	0.04	2.0	0.045
Industry Sector (Control)	0.06	0.03	1.8	0.075

Table 5 shows the regression results for business performance. CSR practices had the strongest impact on business performance ($\beta = 0.72$, $p < 0.001$), indicating that higher engagement in CSR significantly enhanced business outcomes. Islamic business ethics also positively influenced business performance ($\beta = 0.42$, $p = 0.0001$). Company size had a minor but significant effect on business performance ($\beta = 0.08$, $p = 0.045$). The model explained 62% of the variance in business performance (Adjusted $R^2 = 0.61$), indicating a strong model fit.

Table 6. Reliability Test Results (Cronbach's Alpha)

Variable	Number of Items	Cronbach's Alpha
Islamic Business Ethics	10	0.88
CSR Practices	12	0.85
Business Performance	8	0.82

Table 6 presents the results of the reliability test using Cronbach's alpha. All the constructs used in the survey, including Islamic business ethics ($\alpha = 0.88$), CSR practices ($\alpha = 0.85$), and business performance ($\alpha = 0.82$), had Cronbach's alpha values above 0.7, indicating high internal consistency and reliability of the measurement scales.

Table 7. Factor Analysis Results (Islamic Business Ethics)

Item	Factor Loading
Honesty and transparency	0.82
Fairness in business transactions	0.79
Accountability and integrity	0.85
Avoidance of harmful practices	0.77
Respect for contractual obligations	0.81

Table 7 provides the factor analysis results for the Islamic business ethics items. All items showed factor loadings above 0.7, indicating that they were strongly related to the construct of Islamic business ethics. This demonstrates that the items were valid indicators of the underlying ethical principles being measured, confirming the construct validity of the scale used in the study.

The highly significant positive relationship discovered in the present study between Islamic business ethics and CSR substantiates the reciprocal nature between Islamic ethical standards and CSR responsibilities. The Qur'an and Sunnah, Islamic business ethics contain the values of justice ('adl), trust (amanah), and responsibility (mas'uliyah) which reflect the concept of CSR (Wahab, 2024). For example, taking their Islamic business model into consideration, the notion of *maslahah* is specified as the public good which means that businesspeople cannot act in shareholders' interest only but in the interest of the community at large. This ethical foundation is clearly demonstrated among Halal businesses whose compliance with Islamic codes of operation ends up as the implementation of environmentally friendly policies and practices as well as implementation of sound labour standards and care for community wellbeing.

Hitherto, most extant research works have been conceptual or qualitative providing conceptual directions on the integration of Islamic ethics and CSR; this study tries to fill this gap by establishing these constructs empirically. In their paper, Saeed et al. (2001) pointed to the possibilities of using the IBE perspective to explain the CSR operations but failed to present reliable quantitative data for their propositions. To some extent, this is the gap that this research seeks to fill by showing that Halal businesses in Southeast Asia, which adhere to Islamic ethics, have more developed CSR frameworks. Conceptual shift to empirical survey enables arriving at an understanding of how religious values influence corporate conduct on Southeast Asian businesses, especially those offering Halal products and services that are scarce in the literature.

Furthermore this study reveals the fact that Islamic business ethics does affects both the width as well as the intensity of the CSR initiatives. Companies operating under Islamic framework are likely to participate in CSR activities that address Islamic ethical issues of business dealing with fairness, environmental degradation, and the needy, a major Islamic ORM. For example, Islamic banks and Halal companies often include *zakat* – almsgiving as their CSR activity, by which 2.5% of profits go to charity (Rashid et al., 2017). This explains that Islamic business ethics has a great role in the transformation of CSR in accordance with Islamic rules and international exposures of CSR (Isfani et al., 2019). Therefore, this research has focused not only on enriching knowledge regarding connection between IBE and CSR but also on questioning the previous researches which have not considered Islamic nature of CSR in Halal businesses sufficiently.

The business case for CSR, as presented in this work, implies that the correlation between the uptake and implementation of CSR practices and business performance is positive and meaningful, especially within the setting of Halal businesses. As acting as a wide recognition that CSR is not only a philanthropic activity but also a critical business weapon that can create competitive advantage and superior organizational performance (Carroll & Shabana, 2010). Any business involved in Halal operation can tap into the CSR areas such as, supply chain management and ethical sourcing, environmental management and renovation, and community engagement as a way of demonstrating uniqueness and addressing the concern of the Muslim consumers who are very particular about Product certification and Halal compliance.

This empirical finding contrasts with earlier studies, particularly in the context of Southeast Asia, where CSR was often seen as a compliance-driven activity with limited impact on business performance. Studies by Bardy et al. (2012) indicated that many businesses in developing markets viewed CSR as a regulatory obligation rather than an opportunity for enhancing business outcomes. However, the present study provides evidence to the contrary, suggesting that in the Halal business sector, CSR is voluntarily adopted and integrated into business strategies. This aligns with more recent research, such as that by Chapra (2008), which argues that CSR, when rooted in Islamic principles, goes beyond compliance and becomes a tool for business growth and sustainability.

Additionally, the positive relationship between CSR and business performance in Halal businesses addresses a gap in the literature concerning the impact of religiously motivated CSR practices on firm performance.

While previous studies have focused on CSR in conventional industries, this research highlights the unique role that Islamic ethics play in enhancing the business case for CSR in the Halal industry. It suggests that Halal businesses, by aligning their CSR efforts with Islamic principles, can not only fulfill their religious obligations but also improve their market position and financial performance. This is an important finding that extends the CSR literature into new, underexplored domains, particularly in relation to the religious and cultural dimensions of business ethics in Southeast Asia.

The positive relationship between Islamic business ethics and business performance also fills a crucial gap in the literature, where much of the discourse on Islamic ethics has been theoretical or conceptual, with limited empirical validation. Islamic business ethics, which promotes honesty, transparency, fairness, and respect for stakeholders, is increasingly recognized as a driver of long-term business success. This study's findings provide empirical support for these claims, indicating that businesses adhering to Islamic ethical principles are more likely to experience enhanced performance outcomes, particularly in terms of customer loyalty, brand reputation, and market competitiveness.

The study's results also challenge earlier assumptions that business ethics, particularly those grounded in religious principles, have limited impact on financial outcomes. In contrast, this research shows that Islamic business ethics not only contributes to ethical conduct but also plays a pivotal role in improving business performance. This finding aligns with the broader literature on the positive effects of ethical business practices on performance, as suggested by scholars such as Chapra (2008). Furthermore, the study expands on previous research that often overlooked the specific role of Islamic ethics in business performance, particularly in the Halal sector. By demonstrating the tangible business benefits of adhering to Islamic ethics, this study contributes to the growing recognition of ethical frameworks as critical factors for business success in both religious and secular contexts.

The empirical evidence provided in this study builds on and extends previous literature by quantifying the impact of Islamic ethics on performance, offering a nuanced understanding of how religious values contribute to both ethical business practices and financial success. This contrasts with prior research that focused predominantly on the moral and social dimensions of Islamic ethics without adequately exploring their impact on firm-level outcomes. The study thus provides a more comprehensive understanding of the multifaceted role of Islamic business ethics in shaping business performance in the Halal industry, addressing a significant gap in the current literature.

The finding that company size had a small but significant effect on CSR and business performance highlights an important dimension that was underexplored in previous studies. Larger businesses tend to have more resources and capabilities to engage in comprehensive CSR activities, as well as more established reputations that can further benefit from CSR efforts. This supports existing literature that suggests that firm size plays a role in determining the extent to which a company can implement CSR practices and realize performance benefits. However, this study also reveals that in the Halal industry, the impact of firm size is less pronounced than in other industries, perhaps due to the strong influence of Islamic ethical principles, which drive CSR across both large and small firms.

In contrast, the relatively insignificant impact of the industry sector on CSR and business performance diverges from previous findings in conventional CSR literature, where industry-specific factors were found to play a more significant role (Carroll & Shabana, 2010). This suggests that in the Halal business context, Islamic ethics may serve as a leveling factor, promoting consistent CSR practices across sectors, regardless of industry-specific challenges or opportunities. This finding expands the CSR discourse by suggesting that in religiously motivated industries, ethical frameworks may transcend sectoral differences, providing new insights for both scholars and practitioners interested in the intersection of religion, ethics, and business.

Conclusion

this study provides significant empirical evidence that Islamic business ethics and CSR practices are closely linked and play a crucial role in enhancing business performance within the Halal industry in Southeast Asia. Businesses that adhere to Islamic ethical principles not only demonstrate higher engagement in socially responsible practices but also experience improved financial outcomes. The findings underscore the importance of integrating religious values into business strategies, particularly for Halal businesses, as it not only fulfills ethical obligations but also strengthens market competitiveness and customer trust. Moreover, this research contributes to the literature by bridging the gap between theoretical discussions of Islamic ethics and their practical implications on corporate performance, offering new insights into the role of religiously motivated CSR in driving business success.

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