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ISLAMIC FINANCE LEADERSHIP AND CONVERGENCE TO VALUES

It is too simple to fall into a recurring trap of discussing social responsibility and sustainability using the concept of doing well by doing good. The argument that investments that do good in the world can also make money is dreadfully tired. It is an emotive plea that preys on investor avarice as an enticement to change hard set behaviour. Ideally, one can invest in companies that have a greater sense of societal benefit and not give up on economic returns. But investor behaviour is not prone to such enticements. Even when the enticement works, as soon as the relative value generation component fails for only a brief instant, traditional investors rapidly abandon the theme for better returns elsewhere. It is a ruse that can only last if there is widespread adoption of responsible behaviour at both the corporate level and throughout the investment community. An emotive plea has proven to be completely insufficient.

Moreover, there is ample empirical evidence to make credible arguments both ways. Companies that are considered to be responsible and sustainable can and do fail just like those that are considered neither responsible nor sustainable. In the same vein, there are as many badly-run companies with women on the board as there are well-run companies with women on the board. The point is not women on boards nor social contribution when measuring a business, whether that is done through traditional investment or through a more impactful lens of responsibility, sustainability or anything else. A business should be measured not only by how many social boxes it ticks or how much return it can generate. It should also be measured by how it goes about its business and what kind of impact, both positive and negative, it has on its community and its environment.

Sustainability in a Corporate Context

The concept of sustainability in a corporate context should be addressed very simply as a capacity to endure. Can this company - indeed, will this company - be able to sustain itself for 10 or 20 years if it continues to make decisions into the future in the manner that it is making decisions today? Will it be competitive? Does it have sufficient resources? Will people want to work for it? Those kinds of questions can only be addressed by assessing the core values held firm by that company from the top of its structure through to the very ends of its marketplace, inclusive of all the stakeholders that it effects.

The industrial revolution, mostly in Western economies, gave birth to modern collectively-owned corporations. The accumulated wealth of the collective masses was mobilised to help create a greater, more progressive society. At some point in the brief history of collective ownership the element of societal benefit became less important than the element of return to investors. More accurately, financial performance was glorified as a measure of contribution to economic prosperity, ends being justified by returns without examination of means. Long-term endurance was thereby defined by financial success rather than by collective benefit. Core values became aligned with activities that did not examine the means for many years.

It eventually became clear towards the end of the last century that prosperity for one was not prosperity for all. In fact, it became clear that exploitation of resources, not just natural resources but human resources, was virtually a requirement for the level of prosperity enjoyed by a relative minority of people. More than that, it became unambiguously evident that the unintended consequences by which returns were justified presented a threat to more than just the endurance of a single company or an industry. They threaten our entire way of life and perhaps human life itself.

The initial pushback had voice. As far back as 1987, the Brudtland report defined sustainability as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. A decade later, the Kyoto Protocol was adopted by 192 countries. Yet these voices saw little real support from the investment community in the face of more rapidly growing consumer-driven prosperity. That is not to say that there is a lack of intent or a failure of values. The truth is that there is an extraordinarily complex struggle at hand. It is the very real dilemma of greater societal benefit versus individual prosperity in an age of highly competitive consumerism.

The Occupy movement was a stark example. It grew rapidly as a legitimate voice of frustration over the destruction of an economic future for many young people. The message was clear – a cavalier attitude of the financial services industry had robbed many young people of opportunities and created increasing and unfair economic disparity for many people the world over. Yet Occupy ultimately gained little traction, while arguably the cavalier attitudes of the financial services industry have changed little. In fact, we have gone to great lengths to protect the financial services industry in the wake of the financial crisis. Why? It is not because the values held by those young people are more or less noble than those held by the financial services industry. No, it is because society, particularly amongst the more influential economies of the world, tends to place greater importance on value, especially individual value, over the wider sense of community values.

Yet Islam teaches very clearly that value is the shared outcome of a values-based activity. Islam is naturally imbued with a strong sense of values. In fact, no company in the world can have an inherently greater sense of social justice or charity than companies that adhere to the values and principles of Islam. This does not suggest that returns are unimportant. Islam accepts that businesses that are unable to generate consistently sufficient returns to endure should not exist. It is only that the values of a business should be directed at a greater good and that value is a result and not a target.

Islamic Finance Leadership

Islamic finance is a balanced model. It links risks and returns in a fair and transparent manner for both the user and the provider of capital. It is based on a set of values that have not only withstood the test of time over many centuries, but are also accepted by nearly a quarter of the world's population extending to nearly every country on the planet. Islamic finance contributes significantly to social justice by addressing poverty, inequality and social stability. It stimulates economic activity and supports environmental stewardship. What's more, these values are not alien, and not even dissimilar to the most basic of values held by people of all races, religions and cultures throughout the world.

Fortunately, there are encouraging signs that a convergence to values may truly be under way. In examining some of these signs, it is incumbent upon those involved in Islamic finance to show leadership and help to bring the world closer together in a shared community. Particularly at a time when Islam is so badly misunderstood and mischaracterised, advancing the values of tolerance, justice, sincerity, peace and human dignity that Islamic finance naturally supports can only help to show the true nature of Islam and its contribution to the global economy.

There are strong indicators that both the millennial and centennial generations favour values over value. Generations have been given monikers since the end of the Second World War and the beginning of the baby boomers. Millennials are those people born roughly between the years 1978 and 2000. They are currently a large portion of the young workforce. Together with Centennials, those born after about 1996, they will make up a vast majority of the workforce within a decade.

Across a spectrum of research reports on this group of young people, there are some striking aspects that pervade. Their social needs are more dominant than the transactional needs of their predecessors. They strive to give back to society. They support causes that align with their values and personal belief systems. They want to make a difference, have a positive impact on people's lives and push business forward, not back. They are tech savvy, diverse and connected. Although early in their careers and potentially still somewhat naïve, very few list fame or wealth accumulation as a high priority, unlike their baby boomer parents and grandparents. Although still relatively young, Centennials have a very similar outlook. They tend to be self-aware, self-reliant, innovative and goal-oriented. They also have a sense of making a positive impact.

As these people come to fill positions of leadership throughout the world, their exposure to the challenges of peace across a growing population that is finding it more and more difficult to feed itself and find sufficient drinking water will form the core of their decision-making values. They will inherit a warmer planet and all the issues that come with that prospect. The indications are that they will have a values-based approach when it becomes their turn to address these challenges. Some of them are already participating actively in that pursuit.

The 2016 ratification of the Paris Agreement from the COP21 by more than 130 countries is the most significant development in climate change politics since the Kyoto Protocol. It is an ambitious undertaking to combat climate change and adapt to its effects. Principally, it mobilises the efforts of most of the world, including for the first time those of significant contributors to greenhouse gas emissions, to stabilise temperature change within specific targets. Crucially, it is a commitment to transparency through action by all signatories based on the shared values of community and honesty. Unlike the preceding Kyoto agreement of 1992, each country sets publicly-stated targets, and reports to the world the results of their activities.

The significance of the Paris Agreement may not be felt for several years, but the coming together of the majority of the world to hammer out an agreement is a strong indication that the challenge is real and that only by concerted community effort can it be fully met.

In the months leading up to the Paris meeting, Islamic leaders from around the world came together to generate a unified Islamic voice against 'the corruption (fasad) that humans have caused on the Earth due to our relentless pursuit of economic growth and consumption.' The International Islamic Climate Change Symposium took place in Istanbul and issued a unified affirmation to set in motion a fresh model of well-being that replaces the current financial model which depletes resources, degrades the environment and deepens inequality. That declaration finishes with the words of the Prophet: 'the world is sweet and verdant, and verily Allah has made you stewards in it, and He sees how you acquit yourselves'.

Convergence to Values

Perhaps the greatest recent achievement in a convergence to values is the modification of the United Nations' Millennium Goals into the Sustainable Development Goals (SDGs) at the end of 2015. The SDGs bring new performance language to sustainability that promotes peace, prosperity, equality and stewardship. Each of the 16 goals lists specific targets to be achieved over the course of the next 15 years. The Business and Sustainable Development Commission, launched in Davos in January 2016, is a group of leaders from business, finance, civil society, labour, and international organisations that aim to map the economic opportunities that could be available to business if the SDGs are achieved and describe how business can contribute to delivering these goals. They have identified a laundry list of market opportunities to an estimated value of more than US$10 trillion that could double or triple if all of the goals are achieved. More impactful, they believe that achievement of the goals will create nearly 400 million new jobs before 2030, just over a decade away.

However, there is a recognised bias. The SDGs do not directly address some of the issues that have helped to create many of the world's problems, particularly a targeted growth paradigm that places an emphasis on economic growth over societal benefit. The goals do, however, put people and the environment at the centre of the global policy debate, serving to mainstream concepts that have been previously seen as anathema by the business community.

The release of King IV in late 2016 is the first outcomes-based governance code in the world and is grounded in the purpose, values and activities of a business. The first King report was released in 1994 in South Africa by a committee chaired by a retired supreme court judge, Mervyn King. It has evolved through its four iterations over the years based on a code that traditionally consisted of the elements of leadership, sustainability and good corporate citizenship. It is regarded as the most effective summary of the best international practices in corporate governance.

King IV stands out in many ways from its predecessors, but its inclusion of two particular features is noteworthy. Historically, King espoused an 'apply or explain' approach to its code on corporate governance whereas King IV requires an 'apply and explain' approach. Essentially, management is being asked to move beyond a simple compliance box-ticking towards giving effect to each of the principles. The report also incorporates the concept of Integrated Reporting into the corporate governance of a company. Effectively, this requires the governing body of a company to keep sight of the value-creation process including its inputs, outputs, and importantly, its outcomes sufficiently to govern appropriately. That is, a company should be able to reconcile its stated values to its outcomes through an integrated report and the corporate governance process.

There are many more activities of note including the Principles of Responsible Investment and the Circular Economy movement of the Ellen MacArthur Foundation that are having significant impact on responsible and sustainable activities based on a values approach and supporting the argument that there is a convergence to values. Equally, there are arguments that many of these initiatives are misleading or insufficient to shift the world to a values-based approach to investment and corporate activity.

It is clear that values have to replace value as an end game in the investment world. And it cannot be an incentive-laced behavioural change. It must be a fundamental shift driven by an acceptance that greater outcomes result from shared prosperity. Islamic finance may play an insignificant role in the global financial services market today, measured in terms of dollar contribution. But clearly, the basis upon which Islamic finance functions are the values and principles of Islam.

The world is trying desperately to find a way to alter behaviours of companies so that they take into consideration the kind of values and principles that Islam enjoys naturally. The UN has adopted principles to encourage investors to act in a manner that reflects Islamic teachings. There are new development goals setting guidelines for the next decade in order to bring concepts of peace, health and equality to all corners of the earth. Countries have committed to becoming better stewards of the planet after having plundered and destroyed much of the earth and its atmosphere. The next generation seems compelled to make a difference and their optimism generates hope.

The opportunity for Islam through Islamic finance to take a leadership role in advancing all of these initiatives in the world is incredible. It is common in human history that the ideal solution has been right there all along. The additional opportunity is to correct the pervasive mischaracterisation of Islam by holding up the ideals of Islamic finance as an example of how values and finance can work hand in hand. Islamic finance is rooted in a set of values that have not changed for centuries. The world is converging to these very principles. Moving forward, Islamic finance has the potential to contribute to the achievement of the Sustainable Development Goals given its principles that support social inclusive and development activities. To this effect, the leadership role of Islamic finance in sustainable development should be merited.

BOX ARTICLE 1

Islamic Reporting Initiative

The Islamic Reporting Initiative (IRI) is part of a growing international alliance of thought leaders who believe that the interconnectedness of global business provides a real opportunity to address social and environmental challenges by focusing on shared values. Bound together by an unshakable trust in moral and socio-economic values, the Member States of the Organisation of Islamic Cooperation (OIC) share a set of cultural principles and beliefs which are in harmony with the notion of sustainability and corporate social responsibility.

The vision of the IRI is a sustainable global economy that contributes actively to society and the environment integrating the values of peace, compassion, tolerance, justice, environmental stewardship and human dignity into corporate culture. The mission of the IRI is to enable organisations throughout the world to examine the values that guide their activities and express with clarity and simplicity their contribution to sustainability in society and the environment.

Commended by the OIC, the UN Global Compact Foundation, former World Bank executives, and members in more than 50 countries, the IRI sees the values of peace, compassion, tolerance, justice, environmental stewardship and human dignity as a firm foundation for implementing corporate sustainability and social responsibility on a universal scale. The IRI aims to provide a range of internationally-recognised business tools, guidelines and standards to accelerate the mainstream implementation of the shared post-2015 goals as outlined in both the OIC-2025 plan of action and the UN Sustainable Development Goals 2030.