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Islamic Social Business for Sustainable Development and Subjective Wellbeing

I. Introduction

Free market capitalism has succeeded in producing more goods and services, but has failed to bring about the promised subjective well-being and desired social goods. Despite its material success, it has failed socially, morally, financially, and environmentally. It has widened the gap between the poor and the rich by rewarding owners of capital more than the overall growth of the economy. Social business in its various forms emerged in the West as a way to save capitalism and offer solutions to social problems. This paper first discusses the failure of free market capitalism and the emergence of social business in the capitalist system. It then defines Islamic social business and lays out its axiomatic foundation based on the Islamic worldview. It presents Islamic financial instruments and funds for social business. Finally, it makes a case for sustainable development and subjective well-being within the Islamic development paradigm.

II. Free Market Capitalism and Self-interest

Free market capitalism is more than free market. It is an earthly paradise project of the Enlightenment based on a secular paradigm with its secular ontology, epistemology, anthropology, and teleology. It uses free market as an effective tool to fulfill its promise. The system is developed based on a certain understanding of human nature. It assumes that the human being is essentially a self-interested creature seeking utility maximization through rational choices. It sets its worldly paradise on the pillars of pleasure, power, and praise. It defines human endeavor as `Will to Pleasure`, `Will to Power[1]`, and `Will to Praise`. In other words, everything we do is to gain pleasure, power, and praise. This is the default mode of our nature. Going against them is like going against gravity: It is doomed to fail. As stated by Jeremy Bentham (2007), pleasure-seeking human nature is the governing master of human behaviors.

Free market capitalism assumes that societal interests will be maximized through self-interested decisions. The invisible hand (or self-interested human nature) will help accomplish efficiency in both production and consumption. Individuals will demand and supply optimum goods and services to maximize their own utility. They will produce what others like. They will find the best way to minimize the cost for their own interests and then exchange the products of their works with those of others through the free market. Eventually, in a competitive free market, everyone works very hard to maximize his/her pleasure by pleasing others through exchanging

[1] "Will to Power" is a prominent concept in the philosophy of Friedrich Nietzsche. We think it is good, but sufficient to define the driving force behind secular human actions. Therefore, we add Will to Pleasure and Will to Praise.

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the value produced. Thus, the core economic questions of what, how, and for whom to produce are answered through the invisible hand with very limited involvement of the government hand.

Indeed, free market capitalism has succeeded in producing promised means for the promised paradise. However, it fails to increase subjective well-being. As well documented in the literature (Easterbrook, 2003b; Myers, 2000), unprecedented economic progress did not produce the promised paradise. Easterlin (1974) was the first to reveal the failed promise of capitalism. Examining the economic and subjective well-being data from the United States for 1946–1970, he discovered that—despite a great advancement in the real income per capita during that period—minimal change occurred in subjective well-being. Many studies subsequently confirmed the Easterlin paradox, showing that longitudinally, a hike in economic growth does not increase personal happiness as expected. Some happiness researchers have argued that money only matters to a certain extent. For instance, Layard (2005) found that a change in per capita income of $20,000 or more is not associated with additional happiness.

Although free market capitalism fails to bring the promised paradise, it is credited with contributing many social, psychological, moral, and environmental problems. It has widened economic inequality to a level that might threaten the future of democratic societies, as suggested by Thomas Piketty. In his new book *Capital in the Twenty-First Century* (2014), Piketty documented the historical trend of increasing income inequality due to the inherent dynamic of capitalist economic system. His data analysis clearly revealed that free market capitalism rewards capital much more than the rate of economic growth. In other words, capitalists who own capital assets receive a higher return when compared to the economic growth rate. This means that the system redistributes income in favor of capitalists. Through complicated financial instruments, the owners of capital assets earn more than the growth of added value in economy. Piketty revealed that, since 1973, the rate of economic growth has declined while the return on capital has risen to its pre-World War I levels.

III. Social Entrepreneurship and Social Business for Saving Capitalism

The failure of capitalism in distributing wealth relatively fairly among individuals and in bringing a higher subjective well-being with higher consumption along other socio-economic crises ignited a search for modifications or alternatives. This first resulted in the rise of non-profit organizations because both the market and the government failed to produce the desired public goods for certain groups. Non-profit organizations were also called a “third way” in addition to the market and government ways. However, they were not quite successful in terms of following the market principles. Therefore, they were blamed for being inefficient and incompetent (Grove & Berg, 2014). Yet in the United States in particular, they grew substantially, mainly due to their tax-exempt status.

Hart (2007), in *Capitalism at the Crossroads: Aligning Business, Earth and Humanity*, argued that we need to develop new business models to move toward sustainable economic growth. According to Hart, it is not possible to accomplish such a goal with government intervention

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through welfare programs because resources are controlled mainly by corporate business. Thus, we can only come up with a sustainable world economy once we develop a different business model that offers the dominant profit-making one.

In the 1990s, social entrepreneurship, corporate social responsibility, and social business all emerged as a "fourth way" in response to the ineffectiveness of non-governmental organizations (NGOs) to bring about the desired social goods. Frances (2008), in his book *The End of Charity: Time for Social Enterprise*, made a strong case against charity and business and argued that it is time to produce social goods through market principles. Social entrepreneurship is a profit-driven business aimed at meeting social needs. The essential mission of a business entity is to create and sustain social value rather than pursuing profit at any cost (Dees, Emerson, & Economy, 2001). Broadly speaking, social entrepreneurship can be defined as "innovative, social value-creating activity that can occur within or across the non-profit, business, or government sector" (Wei-Skillern, 2007, p. 2). Likewise, Elkington and Hartigan (2008) classified social entrepreneur organizations into three categories: leveraged non-profits, hybrid non-profits, and social business.

Porter and Kramer, in an article published by *Harvard Business Review*, acknowledged that "the capitalist system is under siege" because increasingly business "has been viewed as a major cause of social, environmental, and economic problems" (Porter & Kramer, 2011, p. 4). They defined social entrepreneurship based on the concept of "shared value." They clearly stated that the ultimate purpose behind such a movement is to transform capitalism through the creation of shared value, "which involves creating economic value in a way that also creates value for society by addressing its needs and challenges" (Porter & Kramer, 2011, p. 4). Porter and Kramer defined shared value as simultaneous value created with economic value. Shared value involves doing business not just to generate profits, but also to meet social needs such as reducing health problems, improving safety, and protecting the environment. It includes bringing innovative market tools to address social issues. It is the use of market efficiency in solving social problems. Social entrepreneurship differs from the conventional capitalist business in terms of its focus on shared value production rather than profit. It does not seek profit at the expense of societal needs (Porter & Kramer, 2011). Porter and Kramer called profit made by social entrepreneurs a higher form of profit: "not all profit is equal. Profits involving a social purpose represent a higher form of capitalism, one that creates a positive cycle of company and community prosperity" (Porter & Kramer, 2011, p. 15).

The real transformation of capitalism toward shared value will be possible once we transform the minds of future entrepreneurs through a radical change in business education. This will require teaching them to think about doing business for both social benefit and profit. That is why Porter called for new business curricula, teaching shared value creation as a core business goal through the understanding of deeper human needs. He suggested the integration of shared value into many of the core business courses.

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Both social entrepreneurs and social businesses differ from non-profit organizations in terms of their recognition of market efficiency in dealing with social issues. They see self-interest-driven market forces to be better than voluntary acts in solving social problems. Both models offer market solutions to certain issues traditionally solved by non-profit organizations. This is another way of expanding market power (Dey & Steyaert, 2010).

Despite the significant differences, one can consider social entrepreneurship as a continuum that ranges from socially oriented non-profit organizations to traditional profit-driven enterprises (Yunus, 2006). Indeed, Nobel Laureate Muhammed Yunus defined social entrepreneurship more broadly. In his terms, "a social entrepreneur may not involve a business at all, it could just be helping your neighborhood, improving health care, helping people to do that in a new way" (Kickul et al., 2012, p. 456). The key difference between conventional and social business is that social business is "totally de-linked from the very idea of making personal profit. It is very important to underline the word 'very idea' because once you keep the idea of profit, you get back to the old logic" (Kickul et al., 2012, p. 457).

Yunus had a problem with the conventional idea of "trickle-down economics," which argues that allowing more money to flow to the rich will lead them to invest in business and create economic growth that benefits everyone. Instead, Yunus embraced "bubble up economics," which argues that allowing more money to flow to the poor will lead them to engage in greater consumption, which will drive higher economic growth (Bornstein, 1996).

Corporate social responsibility is a yardstick used to assess whether profit-driven corporates act responsibly while pursuing profit. It is ultimately at discretion of managers and shareholders to act responsibly. The primary goal is still profit maximization. Social business is essentially social entrepreneurship with the reinvestment of profits, rather than distributions to the investors. Investors can get their money back, but not earn profits. They receive their return in terms of positive social change. Social business is seen as a revolution for capitalism and has even been called "enlightened capitalism" (Grove et al., 2014, p. 3).

Social business is expected to make capitalism more inclusive by extending opportunity to more people. Indeed, after the 2008 financial crisis, the call for "a more ethical and socially inclusive capitalism" (Dacin, Dacin, & Tracey, 2011, p. 3) became even louder. Social business received a lot attention with the success of the Grameen model pioneered by Mohammed Yunus. The Grameen Bank was created after both the government and non-profits failed to help the poor in Bangladesh (Grove & Berg, 2014, p. 9). It effectively applied human capability theory, which was developed by another Nobel Laureate. Sen (1999) linked freedom directly to economic opportunity and argued that those who do not have sufficient economic means are deprived in terms of their great capability. In other words, he saw poverty as a deprived capability and made a strong moral case for its alleviation. After gaining many followers, Sen called for the use of business strategy in eliminating poverty (Wankel, 2008). For instance, Prahalad (2010), in *Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, described the poor in

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the world as an untapped market for business. He suggested that we should look at the poor not as unfortunate, but as creative entrepreneurs and potential consumers.

Yunus (2003) began experimenting with microcrediting with a small loan in 1977. In his widely read first book, *Banker to the Poor: Micro-Lending and the Battle against World Poverty*, he told his story of giving a small loan to a group of women to buy bamboo for making and selling stools. In a short time, the women were able to establish their business and repay their loan while making enough money to support their families. After the successful outcome of the trial period, Yunus decided to establish the Grameen Bank in 1983 based on the following tenants of his business model: (1) credit is a fundamental human right that allows individuals to unleash their potential; (2) self-employment is better than wage employment as self-employment nurtures personal freedom; (3) women are a priority; (4) the focus should be on the poorest 50% of population for economic development; and (5) it is better to come up with actionable plans for poverty rather than absurd theoretical ones (Bornstein, 1996). Starting as an ambitious model, the Grameen Bank model has reached to more than 100 countries worldwide with an astonishing 2 percent rate of credit default. Since the mid-1990s, we have seen substantial growth in microfinance investment funds. Millions of investors provide capital to retail microfinance institutions in almost all developing countries to support small business.

The main difference between conventional banks and the Grameen Bank is the lack of collateral. Although conventional banks have ignored the poor due to their lack of collateral, the Grameen Bank came up with group assurance to prevent a possible "moral hazard" problem. The bank does not give individual loans; it gives loans to groups of five individuals, with only two members receiving the money up front. Once they make a few regular payments and prove their trustworthiness, the other two receive the loan. The team leader gets the loan once the rest of the team demonstrates a good credit score.

After the 2008 financial crisis, Yunus (2009) published an article calling for a change to the business model to bring economic security to the world. He began with an emphasis on the seriousness of the crisis: "capitalism is in serious crisis… one major change in the theoretical framework of capitalism is necessary—a change that will allow individuals to express themselves in multi-dimensional ways" (Yunus, 2009, p. 5). He argued that most crises of modern capitalism are due to "the inadequacy of the current economic system. In each case, we confront social problems that cannot be solved solely by the free market as it is traditionally understood" (Yunus, 2009, p. 6). He described capitalism as "a half-built structure," referring to the ideas of Adam Smith. According to Yunus, "we have chosen to disregard half of Smith's message. His landmark book, *The Wealth of Nations*, has drawn all the attention, while his equally important *Theory of Moral Sentiments* has been largely ignored" (2009, p. 8). He further argued that Smith, in his second book, captured the selfless dimension of human beings as well. However, capitalism in its current form makes "no room for selfless dimension of people" (Yunus, 2011, p. 13). Thus, we got it half-wrong by assuming that self-interest is the only driving force behind human choices and by assuming that "marketplace is uniquely for those who are interested in profit only." Yunus stated that "with human beings as they are—driven by conscience and

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sympathy as well as the desire for profit—'self-interest' includes both profit maximization and social contribution" (2009, p. 8).

Although Yunus acknowledged the contribution of charitable activities, he called for moving toward social business as an effective way of solving social problems, arguing that "business has a greater capacity than charity to innovate, to expand, and to reach more and more people through the power of the free market. If the efficiency, competitiveness, and dynamism of the business world can be harnessed to deal with specific social problems, the entire world will be a much better place" (Yunus, 2009, p. 8). He called for redirecting charity money toward social business because, rather than offering one-time help, "the money would then be recycled again and again, and the social impact could be that much more powerful" (Yunus, 2009, p. 10). In his recent book, *Building Social Business: The New Kind of Capitalism that Serves Humanity's Most Pressing Needs* (2010), Yunus chronicled the development of social business from a theory to a practice adopted by large corporations, social activists, and many entrepreneurs. He also provided practical guidance on how to create social business.

Yunus (2014) defined the pillars of social business as follows:

- The business objective is to overcome social problems such as poverty, health, and education, not profit maximization.
- The model should be financially and economically sustainable.
- Investors should receive their invested money only, without any profit or dividend.
- Once the investment money is paid, profits will be invested for the expansion.
- The business should be environmentally friendly.
- Workers should be paid based on market wages with better conditions.
- The business should be done with joy.

In short, social business acknowledges capitalist shortcomings in terms of its understanding of human nature. Currently, capitalism does not acknowledge comprehensive human needs due to its limited understanding of human nature. If we think that human preferences are driven by self-interest in terms of will to pleasure, showing off, and power, we do not have to care about moral, social, and spiritual needs. This paper argues that the social business model contradicts the essential axioms of free market capitalism. Therefore, it will stay marginal within the purely profit-driven capitalist business model. However, the social business model is quite compatible with the Islamic economic system due to its anthropological and teleological perspectives and economic axioms as discussed in the following section.

IV. Axiomatic Foundation of Islamic Social Business

Islamic economics is based on the Islamic worldview that differs from the secular worldview of free market capitalism. The Islamic worldview is like an operating system behind the way

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Muslims perceive the physical, social, moral, economic, and metaphysical reality. The Tawhidi[2] worldview of Islam consists of a physical structure (Tawhidi ontology), knowledge structure (Tawhidi epistemology), human structure (Tawhidi anthropology), wisdom structure (Tawhidi teleology), and value structure (Tawhidi axiology). The Islamic worldview differs significantly from the secular worldview. Therefore, reality, truth, wisdom, and life purpose are different from secular and Islamic perspectives.

Islamic economics with its axioms, goals (*maqasidi iqtisad*), theories, and policies are driven from the Tawhidi worldview. After outlining the paradigmatic foundation of the Islamic worldview, Aydin (2014) developed several defining axioms of Islamic economics. First, the ultimate goal (the final end) for consumers is not self-pleasure, but God's pleasure. Second, wealth is not a necessary means, but the preferred indifference for utility maximization. Third, human decision is driven by multiple selves, not a single one. Fourth, we are spiritual beings with a physical experience. Fifth, not all human desires are good. Sixth, we are predictably irrational. Acting upon these axioms, Aydin defined the key goals of Islamic economics (*maqasid-i iqtisad*): First, Islamic economics aims to accumulate social, moral, and spiritual capitals as well. Second, Islamic economics requires moral and spiritual filters for the free market system. Third, Islamic economics curbs, rather than promotes, conspicuous consumption. Finally, Islamic economics works for the success of God's human project, offering an antidote to alienation and animalization.

Aydin (2013) defined Islamic economics based on the Tawhidi paradigm of Islam: "Islamic economics foresees an economic system based on the Islamic worldview aiming to realize spiritual, moral, intellectual, social, and material well-beings of individuals in this life and the hereafter through the allocation and distribution of scarce resources in a morally guided market system." This comprehensive definition established a solid foundation for social business. Indeed, Islamic social business can be derived directly from teleological and anthropological views of the Tawhidi paradigm. Its instruments are the interest-free loan (*qard hasan*), charitable funds (*zakat* and *sadakah*), and a profit–loss share-based business model.

As previously discussed, the social business model contradicts key axioms of free market capitalism. It is very much in line with the Islamic economics within the Tawhidi paradigm. In other words, free market capitalism relies on the concept of self-interest, assuming a single dimension of human nature. As Smith also discussed, self-interest is the hidden hand of the free market, providing efficiency in both the production and allocation of resources. On the other hand, Islamic economics accept multiple dimensions of human nature that are compatible with social business model.

V. Islamic Social Business and Multiple Selves

[2] We prefer to call Islamic worldview as Tawhidi worldview because everything is centered on the oneness of God. Tawhid is the soul of Islamic worldview. It is the core message given to all prophets since Prophet Adam. It sets foundation for reality, truth, wisdom, and purpose in life for believers.

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Islamic economics assumes multiple selves, not just one self, due to the difference in the Islamic anthropology. As presented by Aydin (2012a), from an Islamic worldview, human nature consists of several elements: the heart (king), the mind (*wazir*), the conscience (judge), the animal soul (elephant), the power of anger (dog), the ego (showman), and free will (driver). Human perfection and happiness depend on a flourishing heart, mind, and conscience while restraining the animal soul, anger, and ego through choices made by free will. Thus, although a person acts as if he has a single self, in reality, he acts under the influence of multiple selves. For both individual and societal welfare, it is necessary to have a true knowledge of the inner selves. In other words, the revealed preferences do not come from a single source as argued by the free market capitalism, but rather from multiple selves. Responding to the revealed preferences is not the way to maximize human welfare from an Islamic perspective due to negative spillover effects among the residents (elements) of human nature. It is important that, while satisfying one element of our nature, we do not harm others. For instance, a pleasure for the animal soul might be poison for the heart and conscience; as a result, following the desire of the animal soul would not increase the overall human happiness, even though it would make the animal soul happy.

We can define several selves based on different elements of human nature: spiritual and social selves (heart), intellectual self (mind), moral self (conscience), animal self (animal soul), oppressive self (power of anger), egoistic self (ego), and decisive self (free will). Unlike free market capitalism, Islamic social business is driven by interests of social, spiritual, and moral selves rather than the self-interest. The concept of self-interest in free market capitalism overwhelmingly covers the interest of the animal, oppressive, and egoistic selves at the cost of the spiritual, social, and moral selves. The movement of the social economy is based on the recognition of the free market's failure in terms of responding to social needs. However, it does not appear that the movement would gain a defining feature in free market capitalism due to the overemphasis on self-interest. Perhaps one can argue that the ultimate motive behind social business in free market capitalism is still self-interest. This is not the case for Islamic economics. Indeed, one can foresee social business as the heart of the Islamic economic system once it is fully developed because, from an Islamic perspective, social business directly links to the spiritual, social, and moral selves. It would be fulfilling for entrepreneurs to initiate social business without any incentive for personal profit.

It is important to understand how social business differs from both non-profit and socialist business. Unlike non-profit business, social business is a for-profit business driven by market forces, but for social benefits rather than personal profit. Likewise, it is different from a socialist enterprise due to its reliance on the private ownership and market forces. Social business has the potential to be even more sustainable than profit-driven capitalist business in a Muslim society.

VI. Social Business and End of Wage Slavery

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Social business is important from an Islamic point of view in terms of nurturing personal freedom, which is the core quality for human dignity and development. From the Tawhidi anthropology, every human is granted limited free will in terms of the ability to decide freely between different options. The concept of free will is at the core of the life trial (exam) from the Qur'anic perspective. Even God does not interfere in the will of humans for the sake of fairness in the trial, which is why the Qur'an forbids the use of force in converting people. Actually, it is impossible to convert people with compulsion because belief is a confirmation by the heart through the exercise of free will rather acceptance by words. Therefore, Said Nursi (1996a) defined one of the ultimate goals for Shariah (the Divine law and ruling) is to eliminate oppression and bring true freedom and justice for actual human development. However, Nursi explained that real freedom has to be against both internal and external aggressors. Internal aggressors refer to animal soul (*nafs*) and ego (*ananiyah*), which are collaborators with Satan. Thus, Nursi argued that we gain true freedom once we become the slave of God only. We should not act to please anyone but God. As God is all good, if we live according to His guidance, the outcome will be true blessing in this life and the hereafter.

One can argue that the history of humanity is nothing but the history of slavery—both external (the one to human oppressors) and internal (the one to animal soul and ego)—versus freedom. Indeed, until very recently, even some human beings were treated like commodities for trade. Although free market capitalism makes human slavery obsolete, it creates wage slavery through its unfair distribution of income, as eloquently discussed by Piketty. For instance, very recently the CEO of Apple was making $1 million per day, which was almost equivalent of the average lifetime earning of high school graduates in the United States. In other words, the free market perceives the value of one day of work by one person as greater than the lifetime work of another person. Conventional economics provides justification for such a gap based on the market value difference for marginal products of two individuals.

Economic freedom is critical for political freedom, which is the freedom from fellow humans' aggression. Nursi (1996b) argued that humanity will eventually overcome wage slavery as well. This could be possible, particularly with new business models such as social business, in which workers are shareholders. Likewise, the expansion of microfinances would allow individuals to run their own business rather than working for someone else.

VII. Islamic Social Business Funds

Islam has historically provided several funds that can be directed toward social business. Islam provides certain social economic instruments in producing social goods for overall social well-being. *Zakat*, which is compulsory for everyone who owns a certain amount of wealth and income exceeding normal and customary personal and family expenditures (Hassan and Khan, 2007), is a means of income redistribution from the rich to the poor. *Sadaqah* and *qard-hasan* are also important instruments in producing social goods and helping the least unfortunate. These instruments can be a good source of establishing social business. Currently, they are mostly used as direct, one-time, person-to-person transfers—as if giving fish to the poor rather

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than teaching them how to fish. By following proven market principles, such funds can be more effective in solving socio-economic problems and producing shared values.

1. Sadaqah and Zakat Fund

Giving *sadaqah* is strongly recommended in the Qur'an and hadith. Indeed, the Qur'an describes giving *zakat* and *sadaqah* among the essential traits of believers:

And be steadfast in prayer; practice regular charity; and bow down your heads with those who bow down (in worship) (Qur'an, 2:43[3]).

Believers are promised great rewards in many verses if they give *zakat* and *sadaqah*:

> If ye disclose (acts of) charity, even so it is well, but if ye conceal them, and make them reach those (really) in need, that is best for you: It will remove from you some of your (stains of) evil. And Allah is well acquainted with what ye do (Qur'an, 2:271).
>
> But those among them, who are well-grounded in knowledge, and the believers, believe in what hath been revealed to thee and what was revealed before thee: And (especially) those who establish regular prayer and practice regular charity and believe in Allah and in the Last Day: To them shall We soon give a great reward (Qur'an, 4:162).

The following verse promises the reward of charity in terms of having a life without fear and grieving. The general expression of the promise implies that the charity would bring internal peace and happiness in this life as well.

> Those who (in charity) spend of their goods by night and by day, in secret and in public, have their reward with their Lord: on them shall be no fear, nor shall they grieve (Qur'an, 2:274).

The Qur'an also acknowledges the fear of loss in charitable giving as an obstacle and promise for real gains in giving in both this life and the hereafter:

> That which ye lay out for increase through the property of (other) people, will have no increase with Allah. But that which ye lay out for charity, seeking the Countenance of Allah, (will increase): it is these who will get recompense multiplied (Qur'an, 30:39).

Despite the promise of great reward and gain in this life and the hereafter, those believers who are not willing to give are warned severely:

[3] The verses provided in this section are from Yusuf Ali's translation, wherein the word "charity" appears - includes zakat (zakah) and sadaqa, both, i.e., obligatory as well as optional "charity" prescribed for the believers by Allah.

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> And let not those who covetously withhold of that which Allah has bestowed on them of His Bounty (Wealth) think that it is good for them (and so they do not pay the obligatory zakat). Nay, it will be worse for them; the things which they covetously withheld shall be tied to their necks like a collar on the Day of Resurrection. And to Allah belongs the heritage of the heavens and the earth; and Allah is Well Acquainted with all that you do (Qur'an, 3:180).
>
> On the Day when that (Al-Kanz: money, gold and silver, etc., the zakat of which has not been paid) will be heated in the Fire of Hell and with it will be branded their foreheads, their flanks, and their backs, (and it will be said unto them):-"This is the treasure which you hoarded for yourselves. Now taste of what you used to hoard."(Qur'an, 9:35)

It is clear that, once Muslims properly follow these Qur'anic verses, they will have access to great funds for social business. However, as seen below, the Qur'an clearly states to whom *zakat* shall be given; thus, one can argue that *zakat* funds cannot be used for social business:

> As-Sadaqat (here it means zakat) are only for the Fuqara (poor), and Al-Masakin (the poor) and those employed to collect (the funds); and to attract the hearts of those who have been inclined (towards Islam); and to free the captives; and for those in debt; and for Allah's Cause (i.e. for Mujahidoon - those fighting in the holy wars), and for the wayfarer (a traveller who is cut off from everything); a duty imposed by Allah. And Allah is All-Knower, All-Wise (The Qur'an, 9:60)
>
> They ask thee what they should spend (In charity). Say: Whatever ye spend that is good, is for parents and kindred and orphans and those in want and for wayfarers. And whatever ye do that is good, -Allah knoweth it well (The Qur'an, 2:215).
>
> (Charity is) for those in need, who, in Allah's cause are restricted (from travel), and cannot move about in the land, seeking (For trade or work): the ignorant man thinks, because of their modesty, that they are free from want. Thou shalt know them by their (Unfailing) mark: They beg not importunately from all the sundry. And whatever of good ye give, be assured Allah knoweth it well (The Qur'an, 2:273).

According to these verses, *zakat* and *sadakah* should be given directly to the specified individuals. Such an argument begs the question of how social business can be more effective in accomplishing the ultimate goal of *zakat*. Indeed, as proven in recent history, we can help more people via *zakat*-funded social business, which is owned by and benefits *zakat*-eligible people.

2. Waqf

Waqf is a form of social business with a long history in the Muslim society. As an endowment for the sustainable production of social goods, *waqf* has been an effective means for building educational institutions, hospitals, libraries, orphanages, etc. Although these funds can benefit the rich as well, their primary beneficiaries are the least unfortunate. The funds generally come with certain conditions from the donors. As *waqf*s are seen as charitable organizations, they do not utilize their resources as effectively as a free market system. Depending on its type, some

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*waqf*s engage in business to sustain its charitable activity while others rely on the regular income of its original endowment.

3. Qard Hasan

Qard hasan is a Qur'anic term meaning "beautiful loan" with zero interest, which is given to those in financial hardship. Ontologically speaking, from an Islamic point of view, we are not owners, but just trustees of our wealth. Therefore, it makes perfect sense to loan at zero interest if it is ordained by the real owner. The Qur'an mentions *qard hasan* several times:

> He who will give Allah qard al hasan, which Allah will double into his credit and multiply many times. [The Qur'an 2: 245]
>
> So fear Allah as much as you can; listen and obey, and spend in charity; that is better for you. And whosoever is saved from his own greed, they are the successful ones. If you give Allah qard al hasan. He will double it to your credit and he will grant you forgiveness. [The Qur'an 64:17]
>
> And give Allah qard al hasan. [The Qur'an 5: 12]
>
> Verily, those men and women who give charity and give Allah qard al hasan, it will be increased manifold to their credit. [The Qur'an 57: 18]
>
> Who is he that will give Allah qard al hasan? For Allah will increase it manifold to his credit. [The Qur'an 57:11]
>
> Establish regular prayer and give regular charity and give Allah qard al hasan. [The Qur'an 73: 20]

These verses describe *qard hasan* as a loan to God showing both the greatness of such a deed and its reward. In other words, the verses encourage believers not to consider the short-term economic loss of giving an interest-free loan because the ultimate reward will be much greater. The reward would occur in both worlds. In this world, there will be immediate benefit in terms of the pleasure received from compassionate acts and the fulfillment of the heart in following God's pleasure. Everyone will also gain from such solidarity in terms of social peace and harmony.

Qard hasan has an advantage over *sadaqah* because it does not create dependency. Rather, it is a dignified option for those who need help. It can potentially create greater social value because it can be loaned repeatedly. It can be used as a good means for supporting microfinance as well. Perhaps that is the reason that, in the following hadith, the Prophet (pbuh) praises *qard hasan* over *sadaqah*: "On the night on which I was taken on the Night Journey (Isra), I saw written at the gate of Paradise: 'Charity brings a tenfold reward and a loan brings an eighteen fold reward.' I said: 'O Jibril! Why is a loan better than charity?' He said: 'Because the beggar asks when he has something, but the one who asks for loan does so only because he is in need. (Ibn Majah, Vol. 3, Book 15, Hadith 2431)

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Indeed, *qard hasan* offers a great advantage over a conventional microfinance credit with a very high interest rate (Zada & Saba, 2013). Given the high initial cost and gradual improvement of new business, *qard hasan* could be more an effective way to boost small social business.

4. Murabaha, Musharakah, and Ijara

Murabaha (cost-plus-markup pricing) and *ijara* (leasing) could be used to finance both social business and social entrepreneurship. Indeed, Islamic banks should give priority to business that produces social or shared values. Likewise, they should use any available indicator for corporate social responsibility in funding decisions. Two essential instruments of Islamic banking, *mudaraba* (capital and labor/entrepreneur partnership) and *musharaka* (conventional partnership of both profit and loss), could also be used to finance for-profit social enterprise.

VIII. Social Business, Human Development, and Subjective Well-being

The success of social business depends on its compatibility with human development and subjective well-being. The development paradigm and happiness project of the Islamic and capitalist economic system are quite different. In capitalism, happiness is tied to consumption. The greatest good (the final end in the Aristotelian term) is happiness through the consumption of a commodity. According to Aydin, the three pillars of capitalist culture are power (control), pleasure (satisfaction), and praise (show) (Aydin, 2012b). Development is measured by utility maximization, not by virtue. Greater consumption brings about greater pleasure. As first outlined by Jeremy Bentham, this is because human choice is driven by nothing but pain and pleasure. As a rational agent, we use a utility calculator to minimize our pain and maximize our pleasure. Igniting the greedy nature of the animal soul and prestige-seeking ego, consumer culture exploits both human nature and physical nature, creating an upward trend of unsustainable consumption.

The global market economy based on capitalist ideology has been very successful in producing more wealth and giving more opportunity to people to consume more. The global capitalist culture has turned people into “consumption machines” with the promise of happiness. This is inevitable because, if a person believes greater happiness depends on greater material consumption, it will be hard for him/her to keep consumption under control. Paradoxically, conspicuous consumers not only deplete the environment, but also happiness. A large number of studies have revealed that more wealth and more consumption do not increase human happiness as promised. Rather, they increase stress, suicide, crime, alcohol and drug use, and depression. In the happiness literature, this is known as “progress paradox” (Easterbrook, 2003a) or the “American paradox” (Myers, 2000). With the rise of the consumer culture, these diseases of capitalism spread throughout the world, destroying the physical and spiritual nature for the sake of greater profits.

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Perhaps the main flaw in the materialistic happiness model is its perception of wealth, bodily satisfaction, and sensuous pleasure as either the sole or the greatest source of happiness. It ignores or sometimes denies intellectual and spiritual pleasures. Therefore, those who embrace materialistic values seek happiness through material possession and consumption instead of spiritual experience. However, some studies have paradoxically found that, the more materialistic a person is, the less happy he or she is. They concluded that once basic needs such as food and shelter are met, an increase in income has very little impact on happiness (accounting for 1 to 5 percent of the variation in the happiness level) (Aydin, 2010; Aydin, 2011; Aydin, 2012a).

The global consumer culture is a threat to the planet as well, as argued by a 2012 Royal Society study led by a Nobel Laureate. The study highlighted the dangers awaiting the people and planet if the current consumer culture is not stopped (Royal Society, 2012). The report warned that "rapid and widespread changes in the world's human population, coupled with unprecedented levels of consumption present profound challenges to human health and well-being, and the natural environment." Twenty-two scientists who contributed to the report offered nine recommendations to prevent "social, economic and environmental failures and catastrophes on a scale never imagined" within 30 to 40 years. They explicitly called for a reduction of material consumption and development of socio-economic systems and institutions that are not dependent on the continued material consumption growth.

The current UN Human Development Index (HDI) is based on the Western secular paradigm, which does not consider spiritual and moral dimensions of human nature. Aydin (2014) recently suggested an Islamic HDI based on the paradigmatic differences between secular and Tawhidi human development. He defined human development from an Islamic perspective as "becoming perfect human (*al-insan al-kameel*) through *taqwa* (abstaining from what is forbidden) and *amal-i saleeh* (implementing whatever is ordained or recommended)" (Aydin, 2014, p. 3). He described the main difference between Islamic civilization and secular Western civilization as follows: "If the latter is 'mall-centered', the former is 'mosque-centered' civilization. If the latter is 'fun-centered', the former is '*fadhillah* (virtue) centered' civilization. If the latter heads toward 'Hollywood', the former heads toward 'Holy Makkah'" (Aydin, 2014, p. 11). Thus, the Islamic human development paradigm/index has to be different. It has to be based on Tawhidi epistemology, anthropology, and axiology. The desired development is "the function of controlling the negative side of human nature while unleashing its positive sides. Thus, from an Islamic perspective, a human is supposed to develop toward perfect human (*insan-i kamel*) among all creatures fulfilling his mission of *khalifa* on the earth" (Aydin, 2014, p. 18). In other words, the ultimate measure of human development is not material possession or consumption, but rather spiritual, moral, and intellectual excellence through *taqwa* and *amali saleeh*.

In short, the social business model is also compatible with the Islamic human development paradigm and subjective well-being model. According to the Tawhidi anthropology and teleology, it is not necessary to consume more to achieve greater happiness. The path to

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happiness is not through greater material consumption, but through greater spiritual, moral, and intellectual excellence.

IX. Conclusion

The social business model emerged to save capitalism; however, it contradicts the essential axioms of the secular worldview that nurture capitalism. It conflicts with the concept of self-interest based on a one-dimensional understanding of human nature. Thus, a cosmetic change to capitalism is not sufficient for enabling the social business model to take the main stage in the free market system. We need a new paradigm of reality, truth, telos, and human nature to support social business.

This paper asserts that, by igniting the greedy nature of the animal soul and prestige-seeking ego, the capitalist consumer culture exploits both human nature and physical nature, creating an upward trend of unsustainable consumption and an unhappy generation. Islamic economics has the potential to break this cycle by showing ways to achieve utility maximization with less material consumption. Indeed, the Qur'an clearly states that real authentic happiness can be accomplished not through the many, but through the one alone: "Verily in the remembrance of God do hearts find rest!" (Ar'ad, 13:28). This is why Islam encourages believers to pursue material well-being not as the final end, but as a means to truth and virtuous deeds that lead to the one.

The social business model has great potential to succeed in an Islamic economic system due to its compatibility with the Islamic worldview. In particular, certain economic axioms within the Tawhidi anthropology, teleology, and axiology provide intrinsic causes for pursuing such a business model. The multi-dimensional nature of humans from the Tawhidi anthropology sets the intrinsic foundation for social business. Indeed, although the social business model is new to the West, it has been practiced in certain forms in the Muslim world throughout history. *Zakat*, *sadaqah*, and *qard hasan* can be used to support social business in addition to some Islamic banking instruments. Muslim countries should embrace the social business model for sustainable development and greater subjective well-being.

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