

Ethics in business: islamic perspective



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According to Websters Dictionary, “ Ethics” is related to what is good or bad, having to do with moral duty and obligation. According to Fieser (2009), the field of ethics (or moral philosophy) involves systematizing, defending, and recommending concepts of right and wrong behavior. According to MacDonald (2010), “ Ethics” can be defined as the critical, structured examination of how we should behave – in particular, how we should constrain the pursuit of self-interest when our actions affect others.

Ethics is largely derived from the morality of the society and region. The values for the morality are derived mostly from religion, experience, logic as well as the fitrah[1]. Morals deemed normal for one society can seem outrageous to another. Although by default, we think of ‘ moral ethics’, there are other ways to look at it as well. The normative theory of ethics looks at moral standards based on consequences and hence establishing right from wrong by the outcome. However, regardless of where they come from, once morals are accepted by society, they become an unwritten code of ethics.

Business ethics which is sometimes referred to as management ethics or organizational ethics limits the frame of reference of ethics to organizations. According to MacDonlald (2010), “ Business Ethics” can be defined as the critical, structured examination of how people & institutions should behave in the world of commerce. According to him, it is particularly related to the examining of appropriate constraints on the pursuit of self-interest, or (for firms) profits, when the actions of individuals or firms affects others.

Ethics in Islam

According to Beekun (1996), within an Islamic context, the term most closely related to ethics in the Quran is khuluq. The Quran also uses a whole array of terms to describe the concept of goodness: khayr (goodness), birr (righteousness), qist (equity), 'adl (equilibrium and justice), haqq (truth and right) and ma'ruf (known and approved).

Islam places the highest emphasis on ethical values in all aspects of human life. In Islam, ethics governs all aspects of life. In fact, The Prophet ﷺ says in a hadith:

I have been sent for the purpose of perfecting good morals.

This is quite a significant statement from the prophet of Islam since he states that one of the objectives of him having been sent by Almighty is to perfect good morals.

Ethical norms and moral codes that can be deduced explicitly or implicitly from the verses of the Holy Qur'an and the teachings of the Prophet (sws) are numerous, far reaching and comprehensive.

Islamic teachings strongly stress the observance of ethical and moral code in human behaviour. Moral principles and codes of ethics are repeatedly stressed throughout the Holy Qur'an. Besides, there are numerous teachings of the Prophet (sws) which cover the area of moral and ethical values and principles.

Ye are the best of peoples evolved for mankind enjoining what is right forbidding what is wrong and believing in Allah.

[Surah Al-Imran 3: 110]

This goes without saying that there is a general consensus among human beings about certain fundamental ethical values. However, the Islamic ethical system substantially differs from the so-called secular ethical systems as well as from the moral code advocated by other religions and societies. In the Islamic scheme of things, adherence to moral code and ethical behaviour is a part of iman (faith) itself.

Islamic Ethics in Business

Islam has its own distinctive value-based ethical system for business dealings. It prescribes certain specific guidelines for governing business ethics. It (i) enumerates the general ethical rules of business conduct, (ii) identifies ethically desirable forms of business, and, (iii) specifies the undesirable modes of transactions.

Islam demands a certain type of behaviour from the economic agents – the consumers and the producers. The behaviour prescribed for the economic units of the society are so devised as to lead to a happy state of affairs, which is the ultimate goal of Islam. An Islamic market is characterized by certain norms that take care of the interests of both the buyer and the seller. There are a number of rules of ethical discipline in Islamic commercial transactions without which business contract would be regarded as lacking perfection in the light of the code of good manners, decency and ethical excellence.

Joy (2010) highlights some of the basic principles of Islamic ethics which include the following:

Every action has moral significance. Perhaps the phrase most often cited by Muslim ethicists comes from Sura 3: 104, where Muslims are told that they are people who should call all to do what is good and right and forbid what is wrong or dishonorable. This principle of calling to “do good and forbid evil” is a guiding light.

Moral actions are those which result in justice (‘adl, Sura 4: 58). In concrete circumstances, an action may involve both good and evil consequences and then one must choose that action which will maximize the good and minimize the evil, resulting in the greatest degree of justice, according to the prominent fourteenth century legal scholar, Ibn Taymiyya.

Faith and effort are both required. Sura 2: 23 says, “To those who believe and do acts of righteousness give the good news that they will go to paradise.” The moral choices one makes are serious as they play a role in determining one’s ultimate fate – to heaven or to hell.

Intentions are as important as deeds (as is true also in acts of worship) Sincerity is crucial. The trio of “heart, tongue, and deed” is frequently mentioned. Everyone agrees that it’s not enough to advocate moral actions (the action of the tongue) but then act differently. An action done just for external compliance, says Islam, isn’t nearly as good as one that comes from the heart. Something that comes from the heart will be accompanied by words and actions. If circumstances prevent accomplishment of the action, then commitment of the heart is still regarded as good.

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When it comes to doing what is morally right, having the proper character (consisting of virtues such as wisdom, concern for justice, modesty, and the avoidance of vices such as lust, greed, and anger) is as important as following a set of rules. In most situations people act instinctively, in accord with their basic character, rather than by consulting a set of rules. The great twelfth-century theologian al-Ghazali wrote extensively on the importance of cultivating virtue and avoiding inclination to vice. Sura 5: 105 says, “Believers, guard your own souls. The person who has gone astray cannot hurt you if you are rightly guided.”

Extremes should be avoided; follow the middle path, the way of balance. One shouldn't be arrogant or exalt oneself in the eyes of others. Sura 31: 18-19 says, “ Do not be disdainful of other people, nor walk in arrogance in the earth.

Some of the various tenets of Islamic business ethics are as follows:

Keeness to Earn Legitimate (Halal) Earnings

Trade through Mutual Consent

Truthfulness in Business Transactions

Trustworthiness in Business Transactions

Generosity and Leniency in Business Transactions

Honouring and fulfilling Business Obligations

Fair Treatment of Workers

Prohibition of Sale of Al-Gharar (Uncertainty, Risks, Speculation)

Exploitation of one's Ignorance of Market Conditions

Cheating and Fraud in Business Transactions

Contribution of Islamic Ethics to Corporate Governance of Profit and Non-Profit Organizations

Figure 1: Various Areas of Corporate Governance

(Source: Produced by author; Data from Basel Committee (2010), Basel Committee (1999))

I have highlighted some of the important areas of corporate governance. We will try to highlight various inputs for the corporate governance from the Islamic ethics perspective. Let us see some of the differences at the way corporate governance system looks like comparing the western and the Islamic system.

Western Business

Islamic Business

System

Secular humanist (conscience/rationale)

Almighty through prophets, religious scriptures and religious authority

Guide

Self-interest

Wider society

Roots

Agency

Stewardship

Governance

Managed Corporation model

Islamic corporate governance

Decision-making basis

CEO and senior management

Shuratic decision-making process: consultation and consensus-seeking

Legal concept of firm: decision-making by whom?

Maximize profits

Maximize shareholder value

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Financial governance by suppliers of finance

Institution of hisba

Role of muhtasib

Shari'a supervision with that resources

Religious audit

Economic concept of firm: decision-making for whom?

Accounting concept of firm: decision-making and to whom is accountability ue?

Western Business

Islamic Business

We can also formulate some contributions of the governance based on steps suggested by Abdullah (2010) for the purpose of business model creation based on Islamic ethics. Some of these suggestions are mentioned below.

Articulate a clear sense of purpose

Revisit the purpose of the business. The “ why” are we doing this business OR “ why” are we going into this business? This is the question which needs to be identified and answered with clarity. The articulation of purpose will bring forth the business mission.

The business mission should then be evaluated for the impact it would have on society. This would come about from the product or services it intends to market and how it affects the consumer. This social aspect of the business's

mission would also be the heart and soul of its brand identity (and be reflected through the overall brand experience).

Create a workforce committed to your purpose.

Articulating the business purpose creates two key points. You communicate a consumer benefit (and win a bit more trust). More importantly creating – employee engagement on the business mission- employees working together for a common goal.

Define “ how we do things around here”-Corporate Culture.

People, by nature, like to ‘ belong to groups’. In order to form such a group it is necessary to provide employees a clear value system and a common cause. These usually are called brand values and become the guiding principles of how business is to be done. There are three critical factors in detailing these values such as the belief of the business unit in what’s the social benefit of the business will be. These believes need to be genuine and strong enough to remain in place when tested and they need to be translated into practice.

ManagING the intangibles.

In bringing forth a strong Islamic business model, financial success is only one dimension of the value provided by the business unit. Other factors which add to the value of a business include:

-> A clear strategic direction based on practicing the values articulated (ie: ‘ walking the talk’)

-> A strong top management in order to champion the brand values and represent the brand identity to the brands' eco-system

-> This would enable having engaged employees representing the brand reputation and innovation

-> Developing a strong competitive advantage based on establishing and delivering the brand value and offer through brand experience

-> This in turn would lead to generating customer loyalty

5. Develop a clearly articulated governance policy.

The key governance factors of ethics, adherence to sharia etc would need to be clearly articulated and directions provided for employees dealing in the area of investment, compliance, competitive differentiation, improving reputation or winning customer loyalty. Thereby creating a process that will automatically provide for the “ good” (of society).

6. Create a brand with personality.

It's an organisation's employees that project the brand. In order to win over the stakeholders (the brand interacts with) one has to build trust. And trust comes through managing and delivering the brand values consistently.

Having trust leads to a relationship which is liked (by the stakeholders) due to the personality of the brand which is reflected in the way the brand's and the organisation's culture is delivered.

7. Listen and involve people.

The first step to gaining trust is to listen. If a brand does not have its finger on the pulse of stakeholder opinion, it doesn't have a feel for its brand

health. Listening, using the variety of mediums that are available, to hear what the stakeholders are saying and thereby get into a dialogue with them and engage them. The more engaged the people are the more they would want the brand to succeed.

8. Manage risk including risks relating to trust.

It's strange that “ risk management’ is still in the purview of the finance departments. New corporate governance regulations have come about which make the directors have responsibilities in the area of ‘ trust’ or customer satisfaction through transparent and authentic marketing claims. A part of risk management is to maintain transparency in terms of the claimed brands’ performance or delivery. Manage risk effectively and you can head off financial risks like additional legislation, taxes or consumer boycotts.

9. Leverage social change.

Businesses tend to think good corporate responsibility is about managing the footprint of their impact on society. But real progress will be achieved when they use their muscle to achieve genuine social change linked to their business. It can be done in a way which wins trust and leads to genuine social and business benefit.

10. Invest in communications but make it a dialogue.

There are many stories in almost every business. Bring these stories out. Communicate them to your stakeholders. After all the stories involve people and people are interested in people per se. And stories enable for a dialogue to take place thereby leading to engagement and a furthering a common cause.

Possibly, one day soon, we will have a business case study highlighting the sustainable business success of an organisation based on these strong, simple ethics.

Board Practices

Board qualifications, capabilities and responsibilities

Board's role regarding the bank's strategic objectives and corporate values

Lines of responsibility & accountability

Senior Management

Ensuring oversight by senior management

Risk Management and Internal Controls

Auditors and internal control functions

Compensation

Board & key executive compensation

Complex or Opaque Corporate Structures

“ Know your operational structure”

Disclosure and Transparency

Transparent governance

Contribution of Islamic Ethics

One of the most important ways in which Islamic ethics can contribute to corporate governance would be to have Shariah governance committee as a supervisory committee. The supervisory committee should be considered as

one which work not just to represent the stakeholders but as a guide for the company itself. It should be noted that the benefits of the company could also be sought in terms of barakah or blessings from the Almighty.

It is also important to know that many companies involve in business transactions which might not exactly be Shariah compliant. Hence,

The Shariah governance structure should be considered as a brand in itself. For example, we have the ‘ fair trade’ brand which is quite popular these days in the west. Products such as bananas initially had become a commodity product where there was hardly any competition between brands. Then came the ‘ fairtrade’ labeling of bananas as well as other products through which brands started competing with the other products. ‘ Fair trade’ is considered a financial relationship between producers, sellers, and consumers based on the principle of equity within the exchange of goods. Equity is achieved via creating a platform for trade that is transparent and therefore accountable for the just treatment of all producers. This includes providing market avenues that allow marginalized producers the opportunity to sell, ensuring humane working conditions, and all the while protecting environmental and cultural factors that play into the production process. There are nine main principles by which all fair trade abides: create opportunities for marginalized producers, develop transparent relationships, build capacity, promote fair trade, pay promptly and fairly, support empowering working conditions, ensure children’s rights, cultivate environmental stewardship, and respect cultural identity.

Discuss the recent guidelines on governance of financial institutions formulated by International Islamic Financial and Accounting Standard organizations. Explain why despite these standards, some Muslim countries are still adopting their own standards. Use the country example familiar to you.