Islamic management

Religion, Islam

Definition : Definition management “ The conventional definition of management is getting work done through people, but real management is developing people through work. ” Characteristic of conventional management : Examinees each resource sector andenvironmentcomponent in isolation Examines each resource sector and/or environmental component in isolation (e. g. , water, air, forests, fish) Focuses on biotic components; limited, if any, consideration of ecological processes (e. g. , hydrological process) Targets only specific resources of interest; typically those of commercial value Conflicting management policies

Comparision Islamic management and conventional management 1. 2 CONVENTIONAL AND ISLAMIC UNIT TRUSTS 1. 2. 1 CONVENTIONAL UNIT TRUSTS Based on the Guidelines on Unit Trust Funds issued by the Securities Commission in October 1991, a unit trust fund company can only invest in authorized Malaysian assets, which include listed and unlisted securities of Malaysian companies, Malaysian Government Securities, Cagamas bonds, bankers’ acceptances, Negotiable Certificates of Deposits, Government Investment Certificates and cash (Banker’s Journal Malaysia, 1995).

However, in March 1994, the Commission has provided a provision by which trust funds can invest (10% of portfolio) in overseas stock. Hence, conventional unit trust funds can invest in any of the above Malaysian assets without any restriction as long as the funds have not reached its maximum approved size. 3 1. 2. 2 ISLAMIC UNIT TRUSTS The Islamic unit trusts mainly focus on the investments in portfolios of ‘ halal’ stocks and bonds complying with the Syariah principles.

Such ‘ halal’ stocks exclude companies involving in activities, products or services related to conventional banking, insurance and financial services, gambling, alcoholic beverages and non-halalfoodproducts and also companies whose products can cause illness, death, disease or even promote social ills such as tobacco. From an Islamic perspective, the above industries are avoided as they represent elements that are forbidden by Allah and the harmful effects of such products on mankind (Smart Investor, 2002).

The returns of Islamic unit trusts also avoid the incidence of ‘ riba’ or usury interest through the process of cleaning or purification by the removal of such amounts representing the interest element. In instances where a fund has inadvertently made profits investing in non-permissible sectors, the fund will liquidate the investments. The proceeds of the gain will then be donated to charities. Mohd Nasir (2000) mentioned in his paper that the Syariah principle of ‘ musharakah’ acts as a base for Islamic unit trust whereby it is a participatory financing involving agreement between the contributor of capital and the user.

Therefore, the providers of funds or partners are the unitholders in an Islamic unit trust. A formal contract between the unitholders, capital or fund, profit, the offer, the acceptance and the investment activities are also available within the practice of the Islamic unit trust. The concept of ‘ al-wadiah yad dhamanah’ or guaranteed safe custody is involved in the operation of the Islamic unit trust fund. Prior to the funds existence, the owners of assets are the investors, custodian holder is the fund manager, and asset is themoneyinvested.

After the creation of the fund, the owners of assets are the unit holders, the custodian is the trustee and the assets include all assets of the fund. Besides that, the concept of ' al-bai'bithamin ajil' is also practiced in the Islamic unit trust whereby there is a transaction of buying and redemption of units of funds. In this case, the purchase or redemption price is the managers forward selling or buying price at the next valuation point when investors decide to buy or unitholders decide to redeem their shares. Moreover, the valuation point is the price at the close of business for the day.

Nonetheless, based on ' al-wakalah principle', the price must be determined at the time the contract of sale or purchase is executed. As a result, the current practice of Islamic unit trust does not conform to the ' al-wakalah' principle. Thus, it has been suggested that daily historical price would be more appropriate in order to observe the Syariah principles (Shariff, 2002). Apart from having the same standard criteria for other conventional unit trusts as explained in the Securities Commission's Guidelines on Unit Trust Funds (1997), the Islamic unit 4 trust funds must lso meet the criteria as advised by the Securities Commission's Syariah Advisory Council (SAC) 2 . For example, the Islamic unit trust funds can only invest in securities approved by the SAC. The trust funds are also required to appoint a Syariah committee or syariah consultant who must be approved by the Commission. As at October 25 th , 2002, the SAC has approved 684 securities [543 approved securities as at January 2 nd , 1999 (Arbi, 1999)] listed on the KLSE and classified them as ' halal' stocks thus can be bought by the Islamic trust fund managers