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COMPARATIVE ANALYSIS OF BUSINESS ETHICS IN ISLAMIC AND ECONOMIC PERSPECTIVE *

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ABSTRACT

Economic development of a nation is the result of proliferated business ethical dogmas and disciplines. Islamic teachings provide clear guidelines in this regard, as such as mutual understanding, honesty and ethics possess central place. These teachings not only prohibit from amalgamation, black-marketing, hoarding and deception but also direct to treat a customer amiably. Business ethics are broad Islamic due to the high moral values. One can estimate the importance of business ethics in Islam for economic development in Islamic society it is evident by the Hadith of Prophet Muhammad (PBUH) in which He excluded a trader from Muslim community who did not behave in good manner with his clients. In this study we present impact of business ethics on economic development of a Muslim society. This study is based on basic teachings of Quran, Sunnah, Fiqh and Economics. This study explores the behavior of Muslim traders and reveals useful inferences. Policy makers, traders, academicians, scholars and general get benefited from this study with respect to business ethics in Islamic perspective.

Keywords: Business Ethics; Islamic; Economic; Perspective; Muslim Traders.

INTRODUCTION

Profit maximization is the foremost objective of almost every business firm but there exists a contradiction of economic and social objectives which has highlighted the need of business ethics (Hosmer 1996). As present businesses have become complex and highly competitive, maintaining balance between these two objectives has become a difficult job (Stedham, Yamamura and Beekun 2007). Business ethics has become an indicator of corporate image in current business scenario. Ethical misconduct by firms causes disadvantages to the firm itself on one hand and on the other hand it may cause damages to the society. Importance of business ethics is evident from the fact that more than 90% Fortune 500 business firms require from their employees to sign business ethic code (Wade 1988). Contrary to a materialistic concept of life Islam does not approve of greed for property and wealth, craving for competition encourages and attainment of high office, power and glory. However, Islam encourages man to achieve material prosperity within proper limits, for without it the ideal of Falah (welfare) remains incomplete nor can the teaching of the

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Holy Quran be acted upon wherein it is said in Sura Al-Nisa that “Property and wealth are the mainstay of life” (Al-Nisa:4). According to this Sura, participating in the process of production and to strive within certain bounds for the attainment of property and wealth is not bad, but praiseworthy. However, certain legal and moral constrains have been imposed upon a Business firm or individual businessmen.

WHAT BUSINESS ETHICS IS?

Ethics is the combination of moral codes and rules of conduct. It can be defined as collection of standards for evaluating whether a person’s relationship with others is right or wrong on the basis of justice and truth (Mosley, Pietri and Megginson 1996). Ethics is normative in nature pointing out what we should do and should not be done. It is conduct of humans on individual and group level (Shaw 1999). Ethics is not the rule of law but it is moral standards of human actions (Francesco and Gold 1998). Beekun, Stedham, and Yamamura (2003) explained that, “Ethics often require behavior that meets higher standards than those established by law, including selfless behavior rather than calculated action intended to produce a tangible benefit”. Business ethics is code of conduct which describes that how business firms and their employees should act upon (Aldag and Stearns, 1991). Business ethics is “what constitutes right or wrong, or good or bad human conduct in a business context” (haw, 1999). Business ethics is related with broad spectrum of activities in business processes including HRM, management, marketing, commerce and accounting. Increasing globalization has highlighted the need of research on business ethics with reference to different cultures, civilizations and religions.

ISLAMIC PERSPECTIVE OF BUSINESS ETHICS

Despite wide spread education and training programs on business ethics real situation on business ethics has been deteriorated or remained stagnant in previous years. (Stedham, Yamamura and Beekun 2007) pointed out that this situation was because of the fact that economic and legal dimensions of business ethics may be learned through training and education whereas “principles of ‘right’ and ‘wrong’ cannot be taught” and recommended that, “These results reinforce the need for a deeper understanding of philosophic analysis as it relates to ethical dilemmas in business”. This study is therefore an attempt of describing Islamic philosophy to develop superior level of business ethics. Quran highlights the need of doing right and avoiding wrong in the following manner: “You are the best of peoples, evolved for mankind, enjoining what is right, forbidding what is wrong, and believing in Allah” (Qur’an 3:110). In Islam, ethics cover every aspect of life and not only limited to the business transaction. Many different words have been used in Holy Quran to notify ethics in different references. khayr (goodness), birr (righteousness), qist (equity), ‘adl (equilibrium and justice), haqq (truth and right), ma‘ruf (known and approved), and taqwa (piety) are various words used for ethics in Quran but most close to ethics is the word Khuluq. There are multiple alternate ethics systems as described by Beekun (1996):

- Relativism
- Utilitarianism
- Universalism
- Rights
- Distributive Justice
- Eternal Law

However, these secular systems of ethics are distant from the philosophy of religion. Islamic ethical system is different from these systems in many ways. Islamic ethical philosophy is based on Unity, Equilibrium, Free Will, Responsibility and Benevolence. Allah

describes people who attain success as those who are “inviting to all that is good (khayr), enjoining what is right (ma‘ruf) and forbidding what is wrong (munkar).”

The Qur’an and the Sunnah prohibit the idea of excessive risk, equating it with gambling. However, some degree of risk is allowed, with the definition of gharar focusing more on the idea of deception, whether through duplicitous business practices, or by using means where the outcome is unclear or sufficiently uncertain. Agreeing a transaction with an unspecified price, or deferring payment for an undefined time period are both considered gharar. The above has significant implications for many of the instruments used in capital markets; this is especially true with derivatives, the vast majority of which are unacceptable under Islamic law, as they are often complex, leveraged products, which do not represent a tangible object itself, but are merely linked to an object’s price.

DETERMINANTS OF ETHICAL BEHAVIOR IN ISLAM

Beekun (1996) described that in Islamic perspective individual ethics are determined by the following factors:

- Legal Interpretations
- Organizational Factors
- Individual Factors
- Moral Development
- Personal values
- Peer Influence
- Experience
- Situational Factors

In secular perspectives, legal interpretations keep on changing according to the changing culture and environment. For example, discriminate wages and other HR rules for minorities and women were norms in Western society. On the other hand, Islam has defined basic principles of ethics and forbids any sort of discrimination against women and minorities. Prophet Muhammad clearly refused any discrimination by saying that “You are not better than people with red or black skins unless you excel them in piety”. (Abu Dharr Mishkat Al-Masabih, 5198 and transmitted by Ahmad) If leader of a business firm has commitment towards business ethics, this commitment is transferred to the entire organization. Most of the medium and large level organizations have ethical code of conduct described in their policy statements, code of ethics or publications etc. Organizations of secular countries develop their ethical code on the moral or social grounds whereas in Islamic countries code of ethics is fabricated by religious guidelines. For example in Islamic code of ethics trading of haram (unlawful) things is forbidden although it may be legal and acceptable in secular world. Preparing and selling wine is a popular business in secular countries but Quran has strictly forbidden its use in the following words: They ask you concerning wine and gambling. Say, “In them is great sin, and some profit for men; but the sin is greater than the profit” (Quran 2:219). Similarly, moral values of an individual person are developed through different factors. These factors include moral development stages, personal values, family effect, effect of colleagues and experiences (Beekun 1996).

ETHICAL VALUES ACCORDING TO ISLAMIC GUIDELINES

Philosophical premises of business ethics are grounded in the Quranic instructions and teachings. To Create human attitude and to run the affairs along better lines the following three principle have been given at the end of Sura al-Baqarah:

- i. To abide by principles of Justice
- ii. To observed the principles of No injury.
- iii. To conduct affairs on the principles of Benevolence.

Allama Ibn al-Qasim regards the observance of these Principles as absolutely essential for the formation of business attitude.

Principles of Justice

This is an important and indispensable principle. It implies payment of man's right to the full. This principle holds great importance in economic dealings and in the formation of a firm's attitude. The principle of justice demands that no one should be dealt with an unjust manner and everyone should be given his due right. The right of no one should be ignored or violated. Prices and wages should be fixed on a just and equitable basis. The principle of justice serves as checks and balances in the business operations mentioned by Qura'nic principles.

Principle of No Injury

Injustice is the antonym of justice. It means to usurp the right of a person or to pay less than his due or to charge from him more. "This kind of dealing has been called *Tatfeef*" in Sura Al-Mutafaffeen "and those who indulge in such practices have been given the terrible news of great destruction and devastation." A business policy sometimes results in injustice and wrong to others. The principle of no injury demands that such business policy should either be completely changed or suitably amended so as to save others from loss. So the following points must be taken into consideration while formulating business policy:

- i. Will the hazardous aspect of this policy affect the majority or a small group or a few individuals among those who deal with the firm?
- ii. Is the adverse effect of this policy certain or of a limited possibility?
- iii. Is the nature of these damaging effects permanent or trivial or temporary?
- iv. Were the damaging effects were foreseen did the firm inevitable and were its advantages assessed to be very great as against minor losses.
- v. If the damaging effects are foreseen, then did the firm devise any steps to forestall them?
- vi. Was the adoption of this policy by the firm inevitable and were its advantages assessed to be very great as against minor losses.
- vii. Is general good on a very wide scale expected along with adverse effects and is the general good and profit more important than the damage which would result from the implementation of this policy.
- viii. Is there any alternative to this policy which contains no or little possibility of damage.

The principle of justice and the Principle of No injury jointly act as an instrument of checks and balances for the firm or industry. The principle of justice demands that economic factors should be honest and truthful. Hence it is essential that the firm should not indulge in fraud or take undue advantage of the ignorance of other party. The firm shouldn't involve itself in an uncertain doubtful and deceitful dealing. Similarly, it is essential to abstain from gambling, speculation and every other dealing in which the profit of one party is certain and that of the other is unknown. Similarly, interest-based dealings have been absolutely prohibited. It is essential that lawful dealings should be based on mutual agreement.

Principles of Benevolence

It implies good treatment, decent and benevolent dealing, sympathetic behavior, patience and tolerance, mutual toleration, showing respect to each other, and protecting the just rights of each other. Benevolence also means to give to others more than their right and agree to take from others less than one's right. Benevolence demands that the firm should formulate a policy, which takes into account the legitimate interest of others and is at the

same time conducive to efficient running of the business. Besides conducting a profitable business the firm should invest in projects, which facilitate and improve the provision goods, which the society needs.

Social service and contribution to the cause of Allah

Social service and spending in the way of Allah provide most important and most powerful motive for the struggle to produce and earn wealth. The first four motives can be quickly fulfilled and man's desires can be satisfied by achieving a certain measures of them. But there is no end to spend in the way of Allah to achieve recompense in the Hereafter. Besides, there is the strong motive of helping the poor and the needy and extending economic cooperation to them. The Apostle of Allah (S.A.W) described that: "The people are the family of Allah. Allah loves them the most who do good to His people (Mishkat)

"Whose supply the wants of his brother, Allah Almighty shall supply his wants."

In the light of these precepts a firm will perform the duty of production with the motive of benefitting and serving the society. The above-mentioned motives will induce a man to work so that besides he makes fulfilling his own needs he makes the present condition of the society better and lays the foundation of a better future. In this way he can achieve Allah's favour, besides his own needs. The jurists hold that the production of the necessities of life is an imperative duty of the society. In pursuance of these motives a firm will work to its maximum capacity to achieve maximum production. The basic purpose of a firm is to earn profit and to maximize it. Besides the firm's objectives include minimization of costs and maximum increase of its prestige and goodwill. However, the real target of a firm is the maximization of profit. Since Profit = Total Revenue (TR) – Total Cost (TC) So the firm wants to maximize the difference between (TR) and (TC). Moreover by balancing Maximum Cost (MC) against Maximum Revenue i.e., $MC = MR$, the firm wants to earn maximum profit. From the Islamic point of view the sole and ultimate objective of a firm is not to earn maximum profit, but, having regards to the demands of justice and benevolence, to achieve maximum good for self and for the people. Hence the objective of a firm may be enumerated as follows:

1. Having regards to the demand of justice, to earn maximum profit, and
2. A desire to contribute to social services for the promotions of welfare and good of others. In modern times also maximization of the profit is not the sole objective of a secular firm. In fact, it keeps the following objectives in view:
 - a. The firm wants to maintain its existence in the market.
 - b. Sometimes, due to some reasons, the firm wants to avoid earning maximum profit. For instance, if it earns great profit, it fears the entry of competitive firms in the market. It also keeps its margin of profit low because of the burden of the laws of corporate tax.
 - c. It keeps the profit-rate low to build up goodwill among the customers.
 - d. The firm is ready to keep its profit low for the triple purpose of stability, security and continuity of the firm.
 - i. to maximize its efficiency to earn maximum profit, and
 - ii. to fulfill social needs and discharge social responsibilities.

To achieve these objects the Islamic firm will use all its resources in the best possible manner and strive to earn a proper margin of profit. Hazrat Ali (Allah be pleased with him) said: "Do not spurn small profit or you will lose big profit" According to another maxim: "Low profit is the stepping stone to prosperity." Earning of a proper margin of profit is necessary to fulfill the Islamic institutional duties and social responsibilities so that the firm may distribute the profit among its shareholders, allocate resources for future needs (goods and services) and creating employment opportunities and to provide motive for future

entrepreneurs to invest in business. The second objective of the firm is to fulfill its social responsibilities. The most important duty of the firm is to achieve vital social purposes and social well-being. Imam Shatibi (RA) has enumerated five basic needs of human life. They are; life, property, faith, reason and preservation of race.

CONCLUSIONS AND RECOMMENDATIONS

An Islamic firm is not permitted to deal in unlawful goods. It is an act of injustice for the firm to act against Allah's Ordinances. Unlawful goods, unlawful business and unlawful dealings have been prohibited because they contain elements, which are harmful to individuals, to the economy and to the whole society. That is why the Holy Quran declares mutual agreement as essential condition for valid dealing. All wrong and unjust dealings are unethical. These dealings include:

- i. To forcibly take property without the owner's consent, which with or without payment. It is, therefore, essential that mutual dealings should be based on mutual consent.
- ii. To give or take bribes in all matters including loan dealings is unlawful for it comes under forbidden dealings. (2: 188)
- iii. To expropriate the property belonging to others or to usurp the rights of others. For example, forcibly taken into custody property belonging to someone else or to pay the rights of the workers or factors of production inadequately.
- iv. Embezzlement in private or public funds. (2:283) and (3:161)
- v. Procuring resources by theft or dacoit is unlawful. (5:38)
- vi. Undue use of orphan's property. If the firm is working with the capital provided by the orphan or has orphan shareholders, it should safeguard their rights. The firm is forbidden to use more of the orphan's money than his right.
- vii. Tampering with weights and measures is strictly forbidden for it encourages exploitation, injustice and selfishness in the society.
- viii. All kinds of business, which promote obscenity, are forbidden. Investment and Dealing in such business is also unlawful.
- ix. The profession of dancing and singing is unlawful. (Al-noor 33)
- x. Earning from prostitution and adultery are unlawful. (24:33)
- xi. Manufacture, sale, purchase and cartage of wine are unlawful.
- xii. Gambling or all other models of business in which the wealth of some people flows into the hands of other people by chance. (5:90)
- xiii. Sculpting, idol-making, sale of idol and providing services to idols houses (temples) are unlawful. (5:90)
- xiv. Adulteration is a crime. The Apostle of Allah (S.A.W) said: "whose deceives (indulges in adulteration) is not one of us" Business deals listed above have all been forbidden and proscribed according to Islamic ethical standards. The Holy Prophet (S.A.W) said: "The price of a thing forbidden by Allah is also forbidden". This means that production, sale and purchase, transaction, distribution and consumption of these things are unlawful. To create demand for unlawful things by producing them falls in the category of unjust and unethical acts. Hence any kind of dealing in forbidden things is prohibited.
 - i. Cut-throat competition should be discouraged. All negative strategies and tricks should be strictly avoided and firms should co-operate with each other in a constructive manner.
 - ii. While framing policy, it is essential to give the regard to the demand of justice and benevolence.

- iii. Goodwill of the firm, avoidance of injustice and adherence to the principles of justice and benevolence demand honest business dealings.
- iv. Misleading and false advertising is contrary to the demands of justice and principle of injury.
- v. Black marketing and hoarding of goods are also prohibited.
- vi. No uncertainty should be allowed to creep in business dealings. All parties should be given complete information on the prices of goods and services, their qualities and quantities and nothing should be kept hidden while making transactions.

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