
Business Ethics in Islam

Discussion on business ethics in Islam is not new; it has been dealt with extensively since the early history of Islam. Significant discussion and analysis of the positions of the Qur'an and the Sunnah on morality and ethics were provided by the 4th Caliph Imam Ali (AS) in his book, *Nahjul Balaghah*, and by his grandson, Imam Zayn al-'Abidin (AS) in his book, *Risalah al-Huquq* (Treatise on Rights), which also included the *Risalah Al Huquq* (Treaties on Rights) covering moral and ethical behavior toward others according to the Qur'an and Sunnah.¹ Another important early work on morality and ethics in Islam is by Abu Ali ibn Mohammad ibn Ya'qub Miskawayh (born 320 AH, died 421). His work is considered to have influenced the thinking of leading thinkers such as Al-Ghazali and Nasiruddin Tusi on this topic.

Subsequently, the discussion mainly took place while developing principles underlying legal axioms. For example, scholars such as Al-Ghazālī (2005) dealt with the ethics of earning and living as he dedicated one full chapter in his classical work *Ihyā' 'Ulūm al-Dīn* (Revival of Islamic Sciences).² He identifies virtues of justice, truthfulness, and benevolence

¹ See Ali Ibn Abu Talib (1973, 1988) and Zayn Al'Abidin (1988). More recently Lakhani (2006) presented the concept of justice in light of the teaching by Imam Ali (AS).

² He dedicated a chapter on the ethics of earning and living (*Kitāb al-Ādāb al-Kasb wa al-Ma'āsh*), which precedes the chapter on lawful and unlawful matters (*Kitāb al-Ḥalāl wa al-Ḥaram*). Musa (2015).

as the main ethical values that must be internalized by agents in any business transactions. Similar work has been carried out throughout the history of Islam as ethics has always been considered as an integral part of Islamic teachings and Law.³ With deteriorating values and ethics globally, particularly in the financial markets and institutions, and the growing presence of Islamic finance, there is renewed interest in the ethics driven by religious principles. Recently, efforts have been made to partner with other religious groups to bring back ethics in business.⁴

The previous chapter discussed core virtues and character traits desirable in a human being in the Islamic perspective. These virtues lay the foundation of defining business ethics, and the internalization and actual realization of these virtues in day-to-day social and economic matters would ensure that decisions and actions taken lead to ethical practices. For example, internalization of core virtues such as the realization of the unity of creation, justice, and protection of rights would lead to ethical business practices in all cycles of business starting from production to consumption to distribution. In addition, core virtues would determine market conduct rules to promote transparent and just markets void of malpractices.

This chapter expands the application of virtues to business ethics and develops a framework of ethical business that has universal appeal and could address prevalent ethical challenges in economic and financial markets as highlighted in earlier chapters.

4.1 MARKET CONDUCT⁵

In the realm of conventional economics, reliance on markets is an ideology to some economists; this is not so in Islam. This is because markets and competition do not by themselves guarantee that social and economic justices will be served. In Islam, markets are seen as affording the best

³ Al-Nabahānī (1990) collected verses of the Qur’ān, Prophetic Traditions and sayings of scholars, which he felt should be given attention by those involved in business, in his treatise that serves as a simple reference for those who would like narrations on ethical issues related to business.

⁴ Prince Philip of Great Britain and Prince Hassan bin Talal of Jordan initiated consultations in 1984 with the objective to produce a common inter-religious (between Abrahamic/monotheist faiths; Judaism, Christianity, and Islam) declaration on ethics in international business (Dion 2002). As a result, in 1993 a Code of Ethics in International Business for Christians, Muslims, and Jews was finalized in Amman, Jordan.

⁵ See Mirakhor (1989) and Askari et al. (2015).

signaling mechanism to producers and consumers and thus the most efficient intermediary for resource allocation, economic production, distribution, and consumption. Therefore, markets are encouraged. Even then, markets must have rules that are just and insure their proper operation, and they must be supervised to guarantee that rules are followed and enforced. While these rules and their supervision and enforcement are seen as sufficient in the workings of the conventional market system, it is not so in Islam. In Islam, market participants, both buyers and sellers, must embrace a code of morality before they enter the market. Under such a system, the price that emerges from markets can be considered “just” in the sense that it is the result of proper functioning markets that are based on just rules that are followed and enforced and with market participants who are moral in their behavior. In the absence of morality and moral behavior by all market participants, markets can result in allocations that are socially unjust and even perverse—gross income inequities, opulence alongside poverty, excessive consumption and little savings, hoarding, and the like. Thus, markets left alone may not fulfill human material needs and are also not equipped to address human spiritual needs.

Islam’s emphasis on moral and just conduct in the marketplace is remarkable in its vigor. A producer or a businessman whose behavior complies with Islamic rules is said to be like the prophets, martyrs, and the truthful friends of Allah (swt). He is ranked with the prophets because he, like the prophets, follows the path of justice; like martyrs because they both fight with heavy odds in the path of honesty and virtue; and like the truthful because both are steadfast in their resolves. It asks participants to go beyond the rules of the Sharī’a’h and extend beneficence to one another as a safeguard against injustice. Beneficence implies helping others in ways not required by justice. It is thus different from justice, which prescribes just limits to selfishness. While justice regulates and limits selfishness, beneficence rises above it. Moreover, participants in the market are not only responsible for their own just behavior, but because of the obligation of “enjoining the good and forbidding the evil” (Qur’an 3:104), they are also made responsible for the behavior of their fellow participants. Islam maintains that if a man sees another committing an injustice toward a third party and fails to attempt to remove that injustice, he becomes a party to that injustice. If the person failing to help is himself a beneficiary of this injustice, then his failure is considered tantamount to supporting it. Although provisions are made for coercive and corrective action by legitimate authorities, the

clear preference is for self-management of the market. Any interference in the operations of such a market—through price controls, for example—is considered unjust, and represents a transgression and sin.

It was in response to the rules of market behavior imposed by Islamic tenets and laws that Muslims early in their history structured their markets in the form of bazaars, which looked almost the same all over the Muslim world and possessed characteristics that promoted compliance with the rules. Physically, bazaars were structured to guarantee maximum compliance with these rules. Each physical segment of the market was specialized with respect to specific products, and the prices showed little variation from one part of the market to the next. The institution of guilds made self-regulation of each profession and trade possible. Additionally, markets were inspected for compliance by a market supervisor (*muhtasib*) who was appointed by local judges. Unfortunately, the institution of bazaars did not have the opportunity to evolve to meet the requirements of an expanding economy or the growing complexity in economic relations. The bazaars that still exist in many parts of the Muslim world, while maintaining their underdeveloped physical and infrastructural nature—most are centuries-old and have not been expanded—lack many of the Islamic characteristics and requirements in their operations.

The market's institutional structure is built around five virtues: (a) protection of property rights; (b) free flow of information or transparency; (c) trust; (d) commitments to contracts; and (e) the right not to be harmed by others and the obligation not to harm anyone. Together, these virtues serve to reduce uncertainty and transaction costs and to enable cooperation and collective action to proceed unhindered.

Before the advent of Islam, trade had been the most important economic activity of the Arabian Peninsula. A number of thriving markets had developed throughout the area. Upon his arrival in Medina, the Prophet organized a market that was structured and governed by rules based on the Qur'an. He implemented a number of policies to encourage the expansion of trade and the market. The Prophet (SAAS) prohibited the imposition of taxes on individual merchants as well as on transactions. He also implemented policies to encourage trade among Muslims and non-Muslims by creating incentives for non-Muslim merchants in and outside of Medina. After the conquest of Mecca and the rest of Arabia, these and other market rules were institutionalized and generalized to all markets. These rules included, in addition to those mentioned above:

- No restrictions on international or interregional trade (including no taxation of imports and exports)
- Free spatial movement of resources, goods, and services from one market to another
- No barriers to market entry and exit
- Free and transparent information regarding the price, quality, and quantity of goods, particularly in the case of spot trade
- Specification of the exact date for the completion of trade in instances when trade was to take place over time
- Specification of the property and other rights of all participants in every contract
- Guaranteed contract enforcement by the state and its legal apparatus
- The prohibition against hoarding commodities and productive resources for the purpose of pushing up their price
- Prohibition on price controls
- A ban on sellers or buyers harming the interests of other market participants by, for example, allowing a third party to interrupt negotiations between two parties in order to influence the negotiations to the benefit of one of the parties
- A ban on the shortchanging of buyers by, for example, not giving full weight and measure

Moreover, sellers and buyers were given the right of annulment of a business agreement in these seven instances:

- Before leaving the location in which it was taking place.
- In the case of a buyer who had not seen the commodity and after seeing it found it unacceptable.
- If either the seller or the buyer discovered that the product had either been sold for less than, or bought for higher than, it was worth.
- If the buyer discovered that the quality of the product was not as expected.
- If side conditions were specified during the negotiations that were left unfulfilled.
- If a delivery period was specified but the product was not delivered on time.
- If the subject of the negotiations were pack animals, the buyer had the right to return the animal up to three days after the deal was finalized.

The moral-ethical foundation of market behavior prescribed by the Qur'an and implemented by the Prophet (SAAS) ensured the minimization of risk and of uncertainty for market participants and increased the efficiency of exchange. Its aim was to reduce transaction costs. Moreover, rules specified in the Qur'an regarding faith to the terms of contracts and the knowledge of their enforcement increased certainty and reduced transaction costs. Another important rule promulgated by the Prophet (SAAS) was the prohibition of interference with supply before entrance into the market. From the earliest period of operation of the Medina market, the Prophet (SAAS) appointed market supervisors, whose job was to ensure rule compliance, which in turn would result in markets that were just. The Prophet (SAAS) advised the participants to go beyond mere rule compliance and to treat their fellow humans with beneficence. The Prophet (SAAS) strongly encouraged market participants to accept the duty of "commanding the good and forbidding evil" by engaging in self-regulation.

4.2 WORK AND WORK ETHICS⁶

The concept of work (*al-amal*) in Islam is far broader, and has different characteristics and objectives, than the concept as it is understood in the Western economic tradition. In Islam, the work ethic is defined by the Qur'an itself, which stresses the need for work and action by human beings.⁷ Nasr (2011) articulates the following moral and ethical dimensions of the concept of work in Islam:

- (a) Work is tightly coupled with human action and the ethical considerations of Islam.
- (b) The basis of all work ethics in Islam is to be found in the inescapable moral character of all human action and the responsibility that

⁶Possumah et al. (2013) provides useful background reference reading on work ethics in Islam.

⁷See Nasr (2011) for the philosophical underpinning of the concept of work in Islam. For example, he maintains that the term "work" (*al-amal*) in Arabic is not distinguished from the word "action" in its most general sense and is treated by Shari'ah under the same category. In fact, if one were to look for the translation of the word "work" in an English-Arabic dictionary, one would usually find the two terms "*amal*" and "*sun*" given as its equivalents. The first of these terms means "action" in general as contrasted with "knowledge" and the second "making" or "producing" something in the artistic and artisanal sense of the word.

a human being bears for his or her actions, not only before the employer or employee, but also in relation to the work itself, which must be executed with the utmost perfection of which the “actor” or worker is capable.

- (c) There is no emphasis in Islam upon the virtue of work for the sake of work. Work is considered a mean and necessity to establish equilibrium in one’s individual, family, and social life but not to lead to greed and excessive accumulation of wealth.
- (d) Work considered in its economic aspect, should be carried out following a contract based upon justice and responsibility on the side of the employer as well as the employee. The worker is responsible to both the employer and to God to carry out, to the best of his or her ability, the work which he or she has undertaken to accomplish on terms agreed by the two sides.⁸

It is because of this emphasis on work that Islam is considered a religion of action. The Qur’an exalts work and raises it to the level of worship, considering work as an inseparable dimension of faith itself. Conversely, it considers idleness—or the squandering of time in pursuit of unproductive and non-beneficial work—as the manifestation of lack of faith and of unbelief.

Man is called on to utilize time in pursuit of work by declaring that Allah (SWT) has made the day as a means of seeking sustenance. A person who, through hard work, seeks the “bounty” of Allah (SWT)—which includes all appropriate means of earning one’s livelihood—is most highly praised. All able-bodied persons are exhorted to work in order to earn their living. No one who is physically and mentally able is allowed to become a liability to his family or to the state through idleness and voluntary unemployment. The work that everyone is required to perform must be “good” or “beneficial” (*al-amal as-salih*), but no work is considered inconsequential in relation to its rewards or punishments in this world and in the next. One will have to reap whatever rewards or retributions are due as a result of one’s work.

⁸There is a very strong element present among traditional Muslims concerning eating “halal bread”; that is, gaining an earning that one deserves in accordance with the accomplishment of an agreed piece of work. Any element of cheating on part of either employer or employee would make it non-halal (Nasr 2011).

Work, therefore, is regarded not only as a right but also as a duty and an obligation. Hence, based on its notion of individual rights and responsibilities, Islam extends to individuals the right to choose the type of work they desire. Along with this freedom come the obligation to consider the needs of society and to select the type of work permitted by the Shari'ah.

Since all class distinctions are negated by Islam, no line of work permissible by the Shari'ah is considered demeaning by Islam, which countenances only diversification on the basis of natural talents, skills, and technology—which are considered to be a grace or blessing (*fadl*) from Allah (SWT)—and which all Muslims are urged to acquire. Based on its concepts of justice and contracts, Islam makes it an obligation for workers to perform the tasks that they have contracted to the best of their abilities. But since individuals are endowed with different abilities and talents, this productivity will differ. Justice, however, demands that the return for every individual's work must be commensurate with his or her productivity, but not that all humans receive the same remuneration.

Virtues of unity and justice lay a bilateral working relationship and ethics between an employer and an employee. Elements of fairness and solidarity with fellow humans irrespective of race, religion, and creed are the corner stones of the employer-employee relationship. An employer has moral responsibility for the overall welfare, fair treatment, fair wages, good working conditions, suitable work, and the opportunity to have work-life balance.⁹ In return, the employee is expected to deliver work according to the best of his efforts and skills, work conscientiously and diligently,

⁹ Azmi (2013). Several sayings of the Prophet (SAAS) support just treatment of workers emphasizing the obligations of the employer to the employee.

“Those are your brothers [workers under you] who are around you, Allah has placed them under you. So, if anyone of you has someone under him, he should feed him out of what he himself eats, clothe him like what he himself puts on, and let him not put so much burden on him that he is not able to bear, [and if that be (the case), then lend your help to him”. (Bukhari, No: 2359)

“I will be foe to three persons on the Last Day: one of them being the one who, when he employs a person that has accomplished his duty, does not give him his due”. (Bukhari, No: 2109)

“The wages of the laborers must be paid to him before the sweat dries upon his body”. (Ibn Majah, No: 2434)

protect the property of the employer, and act as a trustworthy worker. Finally, Islam's concepts of work ethics and economic and social justice lay the foundation for policy-makers in formulating policies related to discrimination, minimum wages, avoidance of exploitation, facilitating adequate working environments, protection from any industrial hazards, and managing work-life balance.¹⁰

4.3 PRODUCTION, CONSUMPTION, AND DISTRIBUTION

Islam emphasizes that one must remain fully conscious of the human partnership throughout the process of wealth creation and the fact that they must redeem the rights of others in the created income and wealth. In practical terms, the Qur'an makes clear that the objective is to create a balanced society that avoids the extremes of wealth and poverty, a society in which all understand that wealth is a blessing provided by the Creator for the sole purpose of providing support for the lives of all. This can be achieved if the rules and ethics of the cycles of production, consumption, and distribution of Islam are followed.

Work ethics as described above and by which work is considered as an act of worship especially when it is done well is the corner stone of production. Properly understood, this concept is instrumental in motivating productivity to gain the ultimate pleasure of the Creator through productive work and is far beyond the mechanical concept of production and productivity. The production process itself is subject to large set of virtues such as contracts, property rights, excellence in work, and trustworthiness. Some examples of ethical concerns in the production processes are given below:

- (a) The production of goods and services can be considered as part of man's trusteeship role and therefore requires that all the conditions and obligations of that trust are met.
- (b) The method of production should not cause an undue and excessive harm to the Creator's resources and bounties that are for the benefit of all mankind.¹¹

¹⁰ Chapra (1983) quotes hadith "God loves that when any one of you does a job, he does it perfectly"; cited on the authority of Bayhaqi's *Shu'ab al-iman* by Suyuti, v.1, p. 75.

¹¹ The Qur'an speaks repeatedly against spreading mischief or corruption in the land (2:60,2:205,5:46,7:56). Prophet (SAAS) spoke of the punishment of anyone who kills a sparrow without a legitimate reason [e.g., for food], or one who cuts a tree for no good reason (Badawi 2013).

- (c) Productive resources are not to be left idle in the name of private ownership, especially resources that are crucial to the lives of people.¹²
- (d) The production process should not cause harm to others including to the environment. In situations where some harm is inevitable, a careful weighting of relative harms and benefits should be made. Furthermore, a party that may be harmed must be compensated, based on the cardinal rule in Islamic Law that harm must be removed or compensated if inevitable.¹³
- (e) The production process should maintain a healthy work-life balance and ensure that the processes do not put the workers under excessive stress. Processes should be designed to have fair opportunities for workers to maintain physical, mental, and spiritual health.

An imbalance in the production cycle could lead to an imbalance in wealth and income accumulation in any economy. The Islamic view holds that it is not possible to have many rich and wealthy people who continue to focus all their efforts on accumulating wealth without simultaneously creating a mass of economically deprived and destitute. The rich consume opulently while the poor suffer from deprivation because their rights in the wealth of the rich and powerful are not redeemed.

To avoid this, Islam prohibits the accumulation of wealth, and imposes limits on consumption through its rules prohibiting waste (*itlaf*), overspending, ostentatious and opulent spending (*israf*).¹⁴ It then ordains that the net surplus, after moderate spending necessary to maintain a modest living standard, must be returned to members of the community who, for a variety of reasons, are unable to work and hence whose resources they could have used to produce income and wealth have been utilized by the more able. The Qur'an considers the more able as trustee-agents in using

¹²Badawi (2013) quotes the following saying of the Prophet (SAAS) to endorse this argument and implying that resources should not be kept idle on the basis of personal preferences or constraints:

“If one of you possesses a piece of [cultivable] land, let him cultivate it. And if he is not able to cultivate by himself, let him give it to his brother.”

¹³Badawi (2013).

¹⁴For example, see Qur'an (7:31) "...eat and drink, but be not excessive. Indeed, He [Allah] likes not those who commit excesses"; and Qur'an (5:87) "O believers, do not prohibit the good things that Allah has made lawful to you and do not transgress. Indeed, Allah does not like transgressors."

these resources on behalf of the less able. In this view, property is not a means of exclusion but inclusion, in which the rights of those less able are redeemed in the income and wealth of the more able. The result would be a balanced economy without extremes of wealth and poverty.

Distribution takes place post-production and sale when all factors of production are given what is due to them commensurate with their contribution to production, exchange, and sale of goods and services. Redistribution refers to the post-distribution phase when the charge due to the less able are levied. These expenditures are essentially repatriation and redemption of the rights of others in one's income and wealth. Redeeming these rights is a manifestation of belief in the Oneness of the Creator and its corollary, the unity of the creation in general and of mankind in particular. It is the recognition and affirmation that Allah (SWT) has created the resources for all of mankind who must have unhindered access to them. Even the abilities that make access to resources possible are due to the Creator. This would mean that those who are less able or unable to use these resources are partners of the more able.

4.4 COMPETITION AND COOPERATION

The economic system designed in accordance with the fundamental principles of Islam ensures that humans can exercise their eminent dignity, freedom, responsibilities, and rights in the conduct of economic affairs. The economic system must be so ordered as not to assign to man a purely instrumental role in achieving the goals of the economy or the state. Islam seeks to guide man to direct individual action and responsible participation in economic affairs in a manner that commits him to community solidarity and cooperation, resulting in a dynamic and growing economy. Thus, the individual is made accountable for the moral effects of his social actions, including those in economic affairs, so that his own inner personal-spiritual transformation and growth is bound to the progress of the community.¹⁵

The Qur'an and the traditions of the Prophet (SAAS) make clear references to the dual nature of competition and cooperation; that is, human beings can cooperate and compete for good or evil. It is this that leads to the integration or disintegration of society. The fundamental sources, however, emphasize that competition and cooperation must be utilized in

¹⁵ Askari et al. (2015).

probity and piety rather than in evil and enmity. Thus the Qur'an declares: "Cooperate with one another unto righteousness and piety. Do not cooperate with one another unto sin and enmity" (5:2). Similarly, Muslims are urged to compete with one another in beneficial and righteous deeds. These sources do not allow suppression of competition or cooperation in favor of the other when they are used within the Shari'ah framework. Rather, all of the regulatory and supervisory authority invested in the legitimate political authority is directed toward a balanced and constructive utilization of these forces. The Shari'ah rules regarding the structure of the market and the behavior of market participants are examples of such balance. Although the rules of the Shari'ah regarding economic affairs demarcate limits and boundaries of desirable competitive and cooperative behavior necessary for the provision and preservation of the solidarity of society, the individual always remains the identifiable agent through whose action (and on whose behalf) all economic activity takes place.

4.5 STAKEHOLDERS' RIGHTS

Business ethics in Islam provide recognition and protection of the rights of stakeholders to the business under the virtues of preservation of rights, honoring of implicit contracts, mutual trust,¹⁶ and just treatment. These virtues define the ethical framework of bringing stakeholders their due right and giving a say in the governance framework of businesses.¹⁷

Whereas discussion on recognizing the rights of stakeholders is one matter, how to draw a line of distinction between a stakeholder and a non-stakeholder is another important issue. The existence of a stakeholder entity and its rights are easy to recognize, but the question still remains who really qualifies as an actual stakeholder? Another issue deals with the stakeholders' right to influence management decision making or to participate in governance of the firm. Questions arise why stakeholders should be given such a right and why managers should have a fiduciary duty to protect rights of non-investor or non-owner stakeholders if such stakeholders have protected their rights through bargaining in the terms

¹⁶Quddus et al. (2005), "God does command you to render back your trusts to those to whom they are due..." (Quran 4:58).

Quddus, Munir, Henri Bailey, III, and Larry White, *Business Ethics—Perspectives from Judaism, Christianity and Islam*, 2005 Proceedings of the Midwest Business Economics Association.

¹⁷Iqbal and Mirakhor (2004).

of the contracts. Whereas there appears to be a consensus on identifying the rights of non-owner stakeholders and an implicit agreement to protect these rights, there is still a debate on why such stakeholders should participate in the control and management processes of a firm. For example, the notion that property rights are embedded in human rights and that restrictions against harmful uses are intrinsic to the property rights concept clearly highlights the interests of other non-owner stakeholders, but it remains unclear which uses of property should be restricted and which persons should count as stakeholders. Simply bringing non-owner stakeholders into the conception of property rights does not provide by itself a justification for assigning any specific groups of stakeholders, such as employees and customers, managerial responsibilities.¹⁸ So far, discussions of the stakeholder model have not been able to articulate a convincing argument on either theoretical, moral, or legal grounds to recognize an active role of stakeholders in the management and control of a firm.

In considering an Islamic view of the role of stakeholders, it is noted that two fundamental concepts of the Islamic economic system pertaining to property rights and contracts govern the economic and social behavior of individuals, society, and the state. These two principles also dictate the objective function of economic agents, including legal entities like firms. A firm in the Islamic economic system can be viewed as “nexus-of-contracts” whose objective is to minimize transaction costs to maximize profits and returns to investors subject to the constraints that these objectives do not violate the property rights of any party whether it interacts with the firm directly or indirectly. In pursuit of these goals, the firm honors its obligations to explicit and implicit contracts without impinging on the social order. This definition incorporates the stakeholders’ role in its view of the firm and supports the recognition and protection of their rights.¹⁹

4.6 TRANSPARENCY

The virtue of truthfulness is the cornerstone of conducting ethical business where decisions are made in a transparent fashion and full disclosure is made to internal and external stakeholders. Islam encourages truthfulness in business transactions and raises the status of a truthful merchant so much so that he will be at par with the martyrs who give their lives in good causes. A business transaction void of transparency or

¹⁸ Donaldson and Preston (1995).

¹⁹ Iqbal and Mirakhor (2004).

willful misinformation may give the business monetary benefits but such a transaction will not only be considered void of any blessings but also subject to accountability on the Day of Judgment. The virtue of trustfulness would require both parties to a business transaction to be transparent and have full disclosure on all aspects of the transaction including the terms of the contract, quality of the product or services subject to exchange, and the terms and the modes of payment.

Transparency is becoming more important than ever due to market-based economies, where information is valuable and any relevant information could have an immediate impact on the value of a business. Corporations whose shares are traded on the stock markets are subject to share price volatility when the market's expectations change as result of the arrival of new information. Hiding or delaying bad information with potential negative impact on the share price, or creating a hype and increasing expectations to increase share prices, would be examples of unethical behavior.

Similarly, Islamic business ethics would expect full transparency of financial reporting and would disapprove of any tinkering or misrepresentation of information to mislead reporting, which therefore would be considered unethical. Despite efforts such as the Sarbanes–Oxley Act of 2002 introduced to enhance the transparency of financial statements and the conduct of business leadership, management, and boards of directors, unethical practices and reporting continued and led to the financial crisis. This pattern clearly calls for complementing laws with building the character of management and leadership for transparent business practices as advocated by Islam.

4.7 BUSINESS LEADERSHIP

Business leader or manager carries significant responsibility on his/her shoulders. First and foremost, manager is expected to carry best of character or virtues in conducting business and be accountable to superiors, subordinates, and stakeholders. Deteriorating values and ethics of top business leaders witnessed during the financial crisis is testimony to the importance of business leaders internalizing ethical behavior rather than focusing on personal interest and greed. As stated in previous chapter, in Islam, the character of the Prophet (SAAS) is the ultimate role model and his character traits are to be emulated in all personal, social, and economic behavior.

A good business leader ought to possess virtues of truthfulness, trustworthiness, striving for excellence, being conscious of the rights of all

stakeholders, and acting in prudence. A business leader should be truthful about financial statements, products being sold, and business practices. A business leader is expected to reflect the virtue of trustfulness in his/her conduct. Such trust has different dimensions. Whereas at one level, he/she is entrusted with the responsibility of managing the wealth of shareholders, at another level, internal stakeholders such as employees have put their trust in the expectation of fair treatment. Thus it becomes the responsibility of the leader to maintain a fair balance and be conscious of the responsibility and accountability of this trust.

The business manager will have the responsibility of developing and enforcing a complete code of ethics for the organization and have a comprehensive program to internalize these ethics by the employees and managers. Having a code of ethics itself is not sufficient; a business leader has the responsibility of ensuring that periodically training is provided to the employees making them aware of their ethical responsibilities. Having an incentive system in place to reward ethical behavior would be essential.²⁰ Finally, it would be the responsibility of the leader to have an internal justice system in place to which all are answerable, irrespective of their rank or position in the organization.

Leaders who are fully conscious of their responsibilities, limitations, and obligations as expected in Islam could never fall into a behavior that would promote arrogance, ignorance, greed, deceitfulness, non-transparency, and delinquency. Islam governs the behavior of leaders at least no less stringently than those of individuals. Although each member of society is expected to exhibit high moral values in the observance of contracts and covenants, many scholars are of the view that these requirements apply with even greater force to the actions of leaders. Therefore, a breach of faith on the part of a leader is more heinous in its nature and more serious in its consequence than a similar breach by an ordinary individual.

Finally, a business leader is to exhibit the virtue of humility rather than arrogance.²¹ Arrogance is considered a vice to be avoided because arrogance could lead to impairment of judgment to the point that one could violate the virtues of justice and preserving the rights of others. Arrogance has been known to be the cause of downfall not only of businesses but even of civilizations. Collins (2009) observed corporate behavior of leaders in

²⁰ Abbas et al. (2012).

²¹ See Quran (17: 36–37) “Do not be arrogant in one’s claims or beliefs: And pursue not that of which thou hast no knowledge; for every act of hearing, or of seeing or of (feeling in) the heart will be enquired into (on the Day of Reckoning). Nor walk on the earth with insolence: for thou canst not rend the earth asunder, nor reach the mountains in height.”

his famous work, *How the Mighty Fall*, and identified different stages through which a corporate leader might go through during the course of his fall. He notes that in the first stage, managers become arrogant, considering success virtually as an entitlement, and lose sight of the true underlying factors that created success in the first place. As a result, the leaders overestimate their own merit and capabilities and finally succumb to hubris. During the second phase, there is the undisciplined pursuit of more—more scale, more growth, more acclaim, more of whatever those in power see as “success.” Finally, in the third stage, leaders discount negative data, amplify positive data, and put a positive spin on ambiguous data. Those in power start to blame external factors for setbacks rather than accept responsibility. This represents the behavior of corporate leaders of the financial industry very accurately, as such behavior is prevalent industry-wide. In short, vices of arrogance, greed, untruthfulness, and no sense of accountability would destroy businesses and economies, having serious social impact.

4.8 RESPECTING AND PROTECTING ENVIRONMENT

Islamic scholars have maintained that humans have the responsibility toward actions that could degrade or destroy the environment. Professor Seyed Hossein Nasr was one of the earliest scholars to warn about the environmental crisis. His seminal work *The Encounter of Man and Nature: The Spiritual Crisis of Modern Man* published in 1968 remains one of the earliest writings on the environmental crisis by any conventional or Muslim writers. He cites gross ignorance as a leading cause of the on-going environment crisis, which he believes can be alleviated if the global community begins to recognize the multiple states of being that are possible within the environment.

Islam is a rules-based economic and social system with guidance for all human behavior, and includes teachings on protecting the environment. If for nothing else, Islam maintains that the environment was not a byproduct of human creation, or in any way random, but rather, its creation was incontrovertibly purposeful.²² “The creation of the heavens and the earth is far greater than the creation of mankind. But most of mankind do not know it,” is another Qur’anic verse that establishes the notion that man’s ability to analyze may lead him into thinking humans are superior to other species and systems found in the environment. The Qur’an

²²The Qur’an declares that the creation of the physical universe is purposeful. “We have not created the heavens and the earth and all that is between them for mere idle play...” (44: 38–39).

specifically indicates the fact that the significance of the environment should, in no way, be made reductive.

Unfortunately, man's presence on earth has altered the Creation in directions that are arguably negative when it comes to the environment and its depletable natural resources, as well as more generally for their preservation for generations to come. This is especially ruinous for the developing world, which relies largely on water, wood, and other commonly exploited resources for economic survival. As a result of greed and the absence of sharing among current generations and making provisions for future generations, some natural resources are rapidly deteriorating from waste and exhaustion. Aside from the obvious environmental issues, the economic stability of many regions of the world is likely to continue to be impaired by changes in resource availability. However, conventional economic policies for growth and development invariably ignore pertinent environmental issues. But in Islam, the physical development of the earth is an integral component of development that includes human and social dimensions.

The development of the physical-material world and the human collectivity alike can only be achieved if the actions of humans are made in consonance with the environment. The Islamic concept of development includes individual human development, physical-material development, and development of the human collectivity.²³ The simple fact that the physical world is integral to the first and third concepts makes clear its unquestionable importance. Therefore, environmental preservation is essential for the well-being of all humans today and for future generations. It is in part for this reason that Islamic teachings direct humans to modest living (avoiding opulence), limiting their wants to only their needs, and to sharing (with current and future generations). Excessive consumption, *israf*, is prohibited explicitly as it leads to the unbalancing of the earth's harmonies. Highlighted in this passage is the important implication of creating a harmonious balance between the environment and man in prohibiting "extravagance." Similar explicit prohibitions against opulent consumption underline the need for balance in the use of resources.

As "regents," or trustees, humans are ordered to act preemptively and reactively to natural resource-related environmental events. Indisputably, enjoining environmental protection and discouraging its degradation are covered by this capstone rule of Islamic teachings. Therefore, it is incumbent on business in the Islamic perspective to ensure that their actions do not lead to degradation of the environment and all efforts are made to

²³ See Chap. 7 on ethical and responsible economic development.

protect the environment either through individual business or collectively through collaboration across the industry. Business leaders and stakeholders including shareholders or owners should be pro-active in the preservation of the environment as expected by Islamic virtues.

4.9 AVOIDANCE OF VICES OR UNETHICAL PRACTICES

Virtues and vices are two faces of the same coin. Each virtue has implicit an opposite in the form of a vice that is a negative character trait to be avoided as it would lead to unethical behavior. For example, whereas truthfulness is a virtue, deceitfulness would be a vice. Whereas internalization of virtues is to be admired, the act of avoiding vices itself would become a virtuous act. There are several examples of vices that when practiced in a business would be considered unethical. A business practice would be considered unethical if one or more vices exist in the practice or in the intentions of an act.

In the Islamic perspective, corruption and bribery in any form are considered immoral and unacceptable. Corruption can take various forms ranging from favoritism, abuse of power or position, nepotism, and having personal gains. Corruption would violate the virtues of just behavior and encroach upon the rights of others. Similarly, bribery is another form of corruption that is condemned strongly by Islam. Bribery is a vice applicable not only to the receiver of the bribe but the giver is equally considered guilty and therefore subject to sanction.²⁴

Vices of dishonesty, deceitfulness, and untruthfulness give rise to common business mal-practices of fraud, misappropriation, non-disclosure, and cheating the stakeholders and are strongly condemned in Islamic ethics' teachings. In the Qur'an, one full chapter is devoted to traders and businessmen with warning of giving short-measures and corrupting the weights to defraud customers. The practice of giving short-measures violates the virtue of encroachment of someone's property and the vice of greed for personal gains. The Qur'an is strict in making the point that

²⁴Quddus et al. (2005). The Quran deals with bribery indirectly in the following verse (Chapter 2; v: 188), "And do not eat up your property among yourselves for vanities, nor use it as bait for the judges, with intent that ye may eat up wrongfully and knowingly a little of (other) people's property." This verse includes the use of one's own property for corrupting those in power or authority to obtain material gain even under the cover and protection of law. Definition of "other people's property" would apply to "public property."

traders and businesses who indulge in fraud are committing a grave sin in the eye of God and therefore, will be answerable.²⁵

The practice of giving short-measure could be extended to any business practice where values of goods or services exchanged are not based on fair exchange, i.e., giving too little in exchange for more than the fair value. This core principle is therefore applicable to business dealings with not only customers or suppliers but also to other stakeholders including employees when they are given less than they deserve as fair remuneration.

4.10 CONCLUSION

Moral and ethical theory of Islam can be summarized simply as set of rules or virtues specified by the Creator for the well-being and welfare of the humans. This set of rules and virtues applies to all aspects of human life without any exception. Adoption and internalization of these virtues ensure justice. Despite what some scholars suggest and write that there is a separate theory of Islamic justice or moral/ethical position of Islam, there is none. Once the virtues are internalized and behavior becomes compliant with the rules, then morality, ethics, justice all are obtained. This is why Allah (swt) points to the role of the Messengers and Prophets as to read His book of rules to people, cleanse them, then teach them the wisdom behind the rules in the book and then induce them to establish interpersonal justice (*qist*).

Based on the set of virtues that are to be internalized by individuals, businesses, and corporations, a framework of business ethics in Islam is drawn. Whereas the character traits of individuals are easy to understand and explain, the application of similar traits on businesses or legal entities such as corporation is not straightforward. Businesses and corporates are the sum of the character traits of the individuals managing and running the businesses. There is a need to develop a character of business entities that emulates the desirable moral character of individuals. Therefore, a business entity should also strive for internalizing virtues of justice, preservation of rights, commitment to contracts, transparency, and fairness. Once businesses adopt such core virtues and avoid associated vices, their practices and actions would be considered ethical.

²⁵ See Chapter 83 of Quran titled, "The Dealers in Fraud," which states "(1) Woe to those that deal in fraud; (2) Those who, when they have to receive by measure from men, exact full measure; (3) But when they have to give by measure or weight to men, give less than due; (4) Do they not think that they will be called to account? (5) On a mighty day, (6) A day when all mankind will stand before the Lord of the Worlds."

This chapter developed the framework of business ethics based on the virtues of Islam as explained in the previous chapter. Ethical business practices would reflect the application of single or multiple virtues and would ensure that a business' conduct is ethical and is devoid of any vices. Table 4.1 lists select business practices or issues and the relevant virtue or virtues to be applied.

Table 4.1 Virtues and business ethics

<i>Business practice/issue</i>	<i>Relative virtues</i>
Financial inclusion	Justice Unity Preservations of rights
Transparency	Truthfulness Trustful Honesty
Predatory lending	Truthfulness Trustworthiness Justice
Consumer protection	Preservations of rights Truthfulness Trustworthiness
Investor protection	Preservations of rights Trustworthiness Justice
Fair treatment of employees	Justice Justice Preservation of rights Compassion Generosity and leniency
Equal opportunity and discrimination	Unity Justice Preservation of rights
Price fixing	Truthfulness Trustful
Work-life balance	Work ethics Compassion
Fair compensation	Justice Preservation of rights Work ethics
Bargaining	Truthfulness Trustworthiness Generosity
Dumping	Truthfulness Preservation of rights
Sweat shops	Work ethics Justice Preservation of rights

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