



Islamic Ethics in Business Management: the Case of Transacting Parties

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Abstract

Purpose: This paper aims to examine and explore Islamic ethics in business management and transaction pertaining to transacting parties. **Design/methodology/approach:** The paper adopts the qualitative research methodology to analyse data concerning issues related to the topic. **Findings:** This research paper finds that Islamic business ethics and management reflect the parties involved in the transaction because when the parties are dealing with each other, they have to observe the principles and instructions of al-Qur'an and al-Sunnah which are concerning business transaction and management. **Research limitations/implications:** This paper emphasises on the transacting parties in business management and Islamic ethical influence on them and the society at large. The paper suggests to conduct empirical research on the theme for more information and finding out the practical influence of Islamic business ethics and management on the transacting parties and market movement. **Originality/value:** The paper focuses on the parties involving in the business transaction. It also finds that following principles and instructions of al-Qur'an and al-Sunnah in business management play a crucial role and influence on transacting parties and community. Those principles and regulations are milestones for the success of the business transaction. This can make the paper as exclusive and distinctive in this research field.

Keyword: Business Management, Islamic Ethics

1. Introduction

Islam is a system of life which a Muslim has to follow to better his life in this world. It comprises obeying Allah's commandments for His worship and the treatment of fellow human beings and the world we live in. Based on that, ethics play a crucial role in human life, particularly in Muslim societies. Ethical issues constantly arise in business and the workplace such as bribery, stealing, false information, abusing public funds, etc. A Muslim must uphold Islam's ethical code in business as guided by the principles of Islamic law. Muslim businessmen should conduct their business activities in permissible (*halal*) activities and not indulge in impermissible (non-*halal*) activities. Muslim business activities should differentiate from non-Muslim business activities in order to keep the image and beauty of Islam. In Islam, business is not confined to business activities and dealing with others only; rather it is to observe piety (*taqwa*), responsibility, justice and ethical principles while transacting and dealing with others [1] In addition, in Islam business transaction is not referred to self-interest and greedy rather it is to observe interest of company, customer and welfare of society at large. Wealth is a trust (*amanah*) that Allah (S.W.T) has given to human being and He will ask him about every single thing in hereafter where did he get it and where did he spend it? Islamic business management is obedience, respect and mutual consent from the all parties involving in the business transaction. It is also to control and purify soul from greed and wastage as the wasteful are brothers of shaitan as it was stated in *al-Qur'an* "Squanderers are brothers of the devil and the devil was ever an ingrate to his Lord (Allah)" (*al-Qur'an*, 17:27). Hence, ethics play a crucial role in business management and transaction.

Human beings are not self-sufficient. They have to deal, transact and cooperate with others in way that they cannot abuse rights of each other.

As a result, this paper aims to examine and explore Islamic ethical issues in relation to transacting parties. The paper tries to solve ethical issues in business management and transaction particularly issues pertaining to the transacting parties. This is because lack of ethics in business management and transaction as well as parties involved in transaction will amount to bribery, mismanagement, false information, stealing and eating others' properties unlawfully. Allah (S.W.T) said in *al-Qur'an* "O believers do not consume one another's wealth through unlawful means; instead do business with mutual consent do not kill yourselves by adopting unlawful means. Indeed, Allah is Merciful to you" (*al-Qur'an*, 4:29). To solve these ethical issues, the paper comes out with the following questions:

To what extent the influence of Islamic ethics in business management?

Why the transacting parties have to observe Islamic ethics in their transactions? This is because

lack of observing ethical issues in business transaction will lead to mismanagement, corruption and false information in the business management and transaction. For this reason, Islamic ethics are vital elements in business management in order to be successful business management. Islamic ethics are not designed on worldly basis but also to obtain the blessing of Allah (S.W.T) and rewards in the hereafter. Islamic business management is to combine between worldly affairs and hereafter. Therefore, from the aforesaid statements, one can say that the problem statement of this study is that recently many Muslim business activities are lack of observing Islamic ethics particularly the transacting parties who are involving in the business transaction. Therefore, the

hypothesis of this study is that observing Islamic ethical principles pertaining to the transacting parties while dealing with each other will influence on the parties and lead to success of the business transaction and management as well as healthy economic environment in the society. This is because there will be no bribery, mismanagement and corruption in the business activities which are not illegal activities only but also crimes in the business transactions. This paper is comprised of literature view, methodology including influence of Islamic ethics on business man and customer or shareholder as well as findings follow by conclusion and suggestion.

2. Review of Literature

The recent study outlined by [2] states that in Islam, there are two types of ethics, i.e. ethics in relation to Allah (S.W.T) and ethics in relation to other human beings. A Muslim must believe in Allah and worship Him alone. A Muslim businessman must treat other businessmen ethically and build a good relationship with them. Ethics refer to the just and equitable interaction with others. In Islamic law, business ethics refer to rules and principles based on the *al-Qur'an* and *al-Sunnah*. [3] argues that business ethics is a critical field requiring managerial skill and liability in accordance with the principles of Islamic law. This is because insufficient managerial skill may lead to bad decisions. Whereas ethical analytical skills are influential instruments in future planning. Thus, an effective ethical system can help solve many of life's challenges. Hence, there is a need to develop a management model that develops the respect and wealth of the community [4,5] claims that origin of the word ethic is the Greek word "ethos" which refers to custom and practice. It is study of what is right and good for human beings. Hence, Ethics are set of moral principles which assist a person to differentiate between what is good and what is bad. [6] defines business ethics as moral values and rules which administer the business areas. [7] says in Islam business refers to an organization which sells goods and offers services to the customers. Its products and services must be *halal*. [8] find that *al-Qur'an* and *Sunnah* were revealed to the Prophet (S.A.W) to ensure that his *Ummah* observe and practise good ethics in economic activities so that Islamic economic activities will differentiate from capitalism and socialism economic activities. [9] argue that the global financial crisis in 2008 was because of lack of ethics. Thus, all actions and decisions which are necessary to ensure that the business is fair to both parties should be taken into consideration in order to avoid fraud and oppression [10].

Islamic management is a holistic approach for organisations, leaders, employees, customers and shareholders to carry out their duties [11] Allah says, "O you believe fulfil your contractual obligations" (*al-Qur'an*, 5: 2). Islamic management adheres to guidelines and principles mentioned in *al-Qur'an* and *al-Sunnah* of the Prophet. It sets the company's procedures that comprise *halal* activities and using *halal* instruments with the intention to satisfy Allah [12]. Allah says "He is the one who has created death and life, He might test you-which of you is best in deeds" (*al-Qur'an*, 67:3). The Islamic business management system was established by the Prophet, by creating the first Muslim state in *al-Madinah* (Branine & Pollard, n.ds). Thus, Principles of Islamic management can return to the Prophet when he established Islamic community. Those principles were governed by a group of his companions (*Majlis al-Shura*) [13,14]. maintain that management is to get a work done by others. Therefore, Islam is not a religion which is about spirituality only. it encourages individual to seek for his sustenance as nothing cannot come unless he puts his efforts. Islam deals with all aspects of human life [15]. In Islam there is no difference between scope of business and scope of *ibadah*. Islamic law controls life of Muslims families and their social comportments [16].

From the above literature, one can say that many studies have discussed Islamic business ethics and management in general. However, this paper is focused on business ethics and management in relation to the parties involved in the business transaction. This can make the paper to be distinguished from other papers.

3. Research Methodology

The paper adopts qualitative research methodology which is exploratory study in nature which is based on data collected from books which discuss Islamic ethics in general, journals and articles from internet which also highlight Islamic management and ethical issues in business. This methodology is used to examine and explore ethical issues pertaining to the transacting parties and principles of Islamic law which derived from *al-Qur'an* and *al-Sunnah* which are discussed Islamic business ethics and management. Based on that the paper comes out to answer the research questions that were mentioned in the paper. The qualitative methodology is based on exploratory and deductive research in which the findings are deducted from the results that come out from the research study.

3.1. Influence of Islamic Ethics on Businessman in Business Management

A Muslim businessman has to follow the guidelines and teachings of *al-Qur'an* and *al-Sunnah* for conducting business transactions. A Muslim must acknowledge that wealth belongs to Allah and He has distributed it as He wishes and that everything is according to Allah's will. A Muslim's duty is to behave in piety (*taqwa*) and place his trust in Allah what He wants to give no one can refuse it and what He wants to refuse no one can give. If Allah does not like to do something, no one can make Him do it [17]. Islamic business is for both this world and the next. Accordingly, it is regulated by Islamic ethics [18]. This is because there is no effective management without observing ethical and moral values. Organisational management uses Islamic value schemes dictated by the *al-Qur'an* and *al-Sunnah* [19]. The second caliph Umar bin al-Khattab (R.A) used to go to the market to examine the merchants' understanding of business transactions. Anyone who failed was expelled from the market. He used to say that any merchant who does not know how to manage his business will likely engage in *riba* [20]. Thus, understanding and knowing principles of Islamic business management play a crucial role in business transactions. Islam recommends Muslim businessmen to observe quality in their work. Allah says in *al-Qur'an* that "He is the one who has created death and life, He might test you-which of you is best in deeds" (*al-Qur'an*, 67:3). In this verse, quality of work may refer to seeking *halal* income and involving in *halal* activities. In *al-hadith* the Prophet was reported to have said, Allah is good and accepts only what is good. [21,22].

From the aforesaid, one can deduct that business activities are also a form of *ibadah*. A businessman must be honest and transparent and not conceal defects in the contractual instruments. It was mentioned in *al-hadith* that. "The Prophet passed a pile of grain. He put his hand into its midst and felt moisture. He exclaimed. Oh merchant, what is this? The owner of the grain responded. It has been damaged by the rain, oh Prophet. The Prophet asked if this is the case, why did you not put the damaged grain on top of the pile so that people can see it? The Prophet concluded by making clear that whoever practices fraud is not one of us"[23,24,25]. This *hadith* underscores the importance of transparency and honesty in business. In Islam, business is for worldly benefits and rewards in the hereafter. The Prophet was reported to have said: "the trustworthy and honest Muslim businessman will be with the martyrs on the Day of Resurrection" (Ibn Majah, n.d). Accordingly, a Muslim businessman who conducts his business

activities in accordance with the principles and instructions of *al-Qur'an* and *al-Sunnah* is like a martyr who is reward is paradise. This underscores the importance of Islamic ethics in business transaction while observing the principles and regulations that derived from *al-Qur'an* and *al-Sunnah*.

3.2. Influence of Islamic Ethics on the Customer in Business Management

The customer has to observe the principles and instructions of *al-Qur'an* and *al-Sunnah* in any business transaction. He should not consider his interests alone, but also the interests of the other parties. The Prophet was reported to have said that, "One cannot be a true believer until he likes for his Muslim brother what he likes for himself" [26]. Therefore, as a business partner or customer, in Islam, it is not recommended to be selfish or show favouritism. All parties should deal with each other in trust, honesty and justice. They cannot lie or betray each other. The Prophet was reported to have said, "Allah is with partners as long as they did not betray each other. When they betray each other, He is going to leave them" (Abu Dawud, n.d). Hence, Allah will bless a transaction as long as the parties are dealing with each other based on the principles and teachings of *al-Qur'an* and *al-Sunnah* which have been set as blessing and success for business management. In business management, a company will only be successful if the manager obeys the rules and principles of the law which governs the company. In such a case, he puts the interests of the company first and observes ethical and moral values [27]. Obeying the principles and regulations of Islamic law in business management is a recipe for success of the business in this world and the rewards in hereafter. Islam is a religion that combines the affairs of this world and the next. Every action has a consequence in this world and the next. Everybody is judged by their actions and no one will bear the sin of another (*al-Qur'an*, 35:18). Furthermore, Islam regards business activities as a responsibility on everyone [28]. The Prophet was reported to have said that, "no one consumes a food which is better than that he got from his own hand's work" (Bukhari, n.d).

4. Findings

This research argues that observing Islamic business ethics and management principles and regulations will influence business activities and the treatment of the transacting parties. Once those principles and regulations are perceived in the management, business activities will benefit the transacting parties and the society. This is because fraud, cheating, misconduct, and false information, among others will be minimised in the society. Muslim businessmen have guidelines and regulations which they must follow to be successful. In the Islamic law point of view, business management is a kind of *ibadah* which means that a Muslim businessman has double rewards in his business and daily duties. Islamic business ethics and management are the most significant business activities in which companies and shareholders should engage for improved dealings among themselves and benefit to the community. In Islamic commercial law, the community has rights in a business transaction. Avoiding harm to the community can only be realised by engaging in business transactions in accordance with the principles and regulations of Islamic business law. In addition, this paper finds that principles and regulations of Islamic commercial law are a protection for business management. Hence, the transacting parties must observe those principles and regulation in the transaction.

5. Conclusion and Suggestion

Islamic ethics and management have materialised in business more than a thousand years ago. Islam recommends its followers to do engage in excellent work, to be honest, just, and trustworthy and deal with each other in accordance with the principles and guidelines of Islamic business law. Islamic business ethics and management are based on the principles of *al-Qur'an* and *al-Sunnah* and include honesty, justice, trustworthiness, righteousness and belief in Allah. The *al-Qur'an* and *al-Sunnah* describe the significance of justice, honesty, fairness and trust in business management. They also encourage the parties involved in the business activities to work hard in a way that they can benefit themselves and the society. They have to take all necessary measurements to prevent any loss to the business and believe that no one can bring benefit or loss to the business except Allah. Business management is a kind of *ibadah* that company, shareholders and, customers should observe while dealing with each other. Finally, this paper suggests to future researchers to conduct empirical research to investigate and examine practical the principles and rules of Islamic business ethics and management in relation to transacting parties.

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