

Balancing Ethical Responsibility among Multiple Organizational Stakeholders: The Islamic Perspective¹

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ABSTRACT. In spite of a renewed interest in the relationship between spirituality and managerial thinking, the literature covering the link between Islam and management has been sparse – especially in the area of ethics. One potential reason may be the cultural diversity of nearly 1.3 billion Muslims globally. Yet, one common element binding Muslim individuals and countries is normative Islam. Using all four sources of this religion's teachings, we outline the parameters of an Islamic model of normative business ethics. We explain how this ethics model seeks to balance the needs of multiple stakeholders, and discuss its enforcement mechanisms. This Islamic approach to business ethics is centered around criteria that

are in common with stakeholder theory such as justice and balance, and includes unique additional criteria such as trust and benevolence.

KEY WORDS: stakeholder theory, ethics, Islam, spirituality, bribery, corporate responsibility, enforcement, pollution, consumers, trust, justice, equity

Give full measure when you measure, and weigh with a balance that is straight: that is the most fitting and the most advantageous in the final determination.

Qur'an, 17: 35.

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The recent attention paid to the link between spirituality and management has led to a flurry of articles linking different faiths to various aspects of business, workplace behavior and ethics (Giacalone and Jurkiewicz, 2003; Julian, 2001; Jurkiewicz and Giacalone, 2004; Saeed et al, 2001). Whereas much has been published in this area linking Christianity (Jones, 1995; Lee et al, 2003) or Judaism to business ethics (Baron, 1999; Pava, 1997, 1998), few articles have been forthcoming on the topic of Islamic business ethics. This dearth results partly from the great cultural diversity of about 1.3 billion Muslims worldwide; their varying levels of religious commitment and practice pose a major challenge when one attempts to understand business ethics from an Islamic perspective.

In spite of the above gap in the literature on business ethics, it is important for firms to understand Islamic business ethics for several reasons. First, Muslim countries represent some of the more affluent customers in the world, and countries like Saudi Arabia have investments of over \$800 billion in the USA alone (Saeed et al., 2001; Uddin, 2003). Second, countries like Egypt, Malaysia, Sudan,

Algeria, Iran and Indonesia are moving towards greater “Islamization” and/or an Islamic trading bloc like the European Union (Saeed et al., 2001). Third, the Muslim population is spread globally across many countries some of which own a lion’s share of the planet’s crude oil resources. Finally, the tide of globalization has stressed the need for a greater appreciation of diversity – including one based on religion (Uddin, 2003). In this context, it is important for businesspersons and researchers not to confuse Arab culture with Islam. Arabs represent a minority in the Muslim world, and Arabic business customs do not necessarily equate with the mode of conduct of Muslim businesspersons.

One helpful “linking pin” connecting Muslim countries and individuals is normative Islam and its globally accepted sources and teachings. Understanding normative Islam’s approach to business ethics may help the world at large grasp the mindset of Muslim businesspersons. Building on the sparse material available in the area of Islamic business ethics (Beekun, 1997; Rice, 1999; Saeed et al., 2001; Uddin, 2003), we will present the normative Islamic ethical system from a stakeholders’ perspective, and discuss how it attempts to balance potentially conflicting stakeholder demands. For the purposes of this paper, we will define a stakeholder as any person or party that has a claim or “stake” in what an organization does. Freeman (2001, p. 59) defines stakeholders as “groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions”.

Stakeholder theory

Stakeholder theory focuses on what an organization owes to the various constituencies that it is dependent on for its success (Phillips, 2003). It challenges the “separation thesis” in business, i.e., that business and ethics do not overlap (Freeman, 1994). It also questions the view of managerial capitalism that managers work to achieve stockholders’ interests in exchange for control of the business. According to Freeman (2001), stakeholder theory focuses on a core issue: on whose behalf and at whose expense is the business being run? As Donaldson and Preston (1995) indicate, stakeholder theory goes beyond the

vacuous statement that all organizations have stakeholders; rather, it suggests that all persons or groups with legitimate interests participating in an enterprise have a right to make claims and their interests or benefits should be adjudicated similarly.

Stakeholder theory is not without its critics. What makes one a stakeholder and what is the nature of the claims that stakeholders other than the shareholders can make? Is there a legal duty to respond to their needs or might one be violating the fiduciary interests of the shareholders (Goodpaster, 2001)? Specifically, Goodpaster (1991) points to a “stakeholder paradox” when he states:

‘It seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic shareholder considerations to multi-fiduciary ones. (p. 63)’

Marcoux (2003) also challenges the multi-fiduciary thesis advanced by some, and believes that just as there is a fiduciary relationship between a doctor and patient, the same deep moral relationship exists between a manager and shareholders. Other stakeholder relationships are seen as necessarily non-fiduciary. When portrayed in moral terms in the manner advanced by Marcoux, stakeholder theorists have some additional issues to answer. What moral duties exist between a business and its stakeholders? How does a business adjudicate among the demands of multiple stakeholders?

Islam adopts a stakeholder perspective that is somewhere between Freeman’s approach (1984, 2001) and Goodpaster’s (1991). Whereas Freeman considers the claims of all stakeholders (defined as employees, management, owners/financiers, customers, suppliers and the community) as equally valid, Islam recognizes the fact that the owners/financiers of a firm have the right to make a profit, but not at the expense of the claims of various other stakeholders. The firm does have a multi-fiduciary responsibility but in contrast to what Freeman (1984) proposes, Islam does not view all stakeholders as having equal claims. Owners/financiers and employees (including management) form part of a first priority group of stakeholders; the next group include suppliers and customers; the final group includes all external parties. Unlike some stakeholder theorists’ suggestion that these claims are nonmoral

(Goodpaster, 2001), Islam suggests that these are moral claims. This approach is akin to what more recent theorists (Phillips, 2003) have asserted. In fact; Islam suggests that an emphasis on the moral core of business may *protect* rather than threaten the free market system, and is an act of faith. The moral business in Islam can pursue its economic goals, but not at the expense of its moral obligations to society and to others affected by its actions.

To understand how Islam views business ethics from a stakeholders' perspective, and answer some of the questions raised in the above paragraph, we now explore the sources upon which Islam relies when dealing with human behavior in general and with respect to business in particular. Then we outline some of the criteria Islam uses to advocate for certain normative modes of behavior.

The sources of normative business ethics in Islam

There are two primary sources of normative business ethics in Islamic teaching. The first and most important source is the Qur'an². Muslims accept the Qur'an as the verbatim word of Allah or God, revealed to Prophet Muhammad (P).³ The second primary source is called *Sunnah* or *Hadith*, which means the words, actions, and approvals of the Prophet Muhammad (P). While the words of the Hadith are not those of God verbatim, they are believed, however, to be another form of revelation – in meaning – to the Prophet (P).

Both primary sources offer broad principles and guidelines for conducting Islamic life. These principles and precepts, such as social justice, benevolence or moral conduct are not subject to nullification or change. Although they may or may not coincide with the actions of Muslim individuals, they are presumed to be valid for all times and places. While the Qur'an and Hadith focus on broader and guiding principles, they also contain injunctions that are more specific due to their importance. Both broad principles and specific injunctions enunciated in these two sources constitute the normative teachings of Islam.

Two other widely accepted sources are consensus of scholars (*Ijmaa'*) and analogy (*Qiyaas*). These sources, however, are themselves derived from

the Qur'an and Hadith. Analogy (or analogical deduction), by definition, means the derivation of a ruling concerning a new situation or problem based on analogy with a similar situation dealt with in the Qur'an and/or Hadith. In this paper, we will use all four sources of normative Islam to discuss the special role given to mankind by God as his trustee and to present Islamic business ethics from a stakeholders' perspective.

The Islamic concept of trusteeship and of work

Based on the Qur'an, the human race is considered to be the *Khalifah* (trustee) of God on earth, and life on earth is a 'test' for mankind (Qur'an, 67: 2). As the trustee of God on earth, his/her actions must be in accordance with the conditions of that trust. To fulfill his/her role properly as God's trustee, he/she is to emulate the Prophet (P) as the quintessential role model. God uses the word *khuluq* in describing the Prophet's (P) pattern of behavior (Qur'an, 68: 4). This word is a derivative of the word *akhlaq*, the comparable word for ethics in Islam (Siddiqui, 1997). Hence, it can be said that the normative model of behavior for Muslims is based on ethics.

Whenever he or she is properly acting out his or her role as God's trustee, a Muslim is performing an act of worship (Qur'an, 21: 107, 9: 34, 48: 28, 61: 9, and 34: 28). Indeed, the concept of "worship" or *ibadah* is all-inclusive in Islam (Al-Faruqi, 1992). Any act is a potential act of worship if it is done with "pure" intention, and within the limits prescribed by God. This broader definition of worship excludes any compartmentalization of the various aspects of human living. Accordingly, work (*'amal*) and business-related activities may be regarded as acts of worship and therefore moral if they meet the above two conditions. The Qur'an confirms this by mentioning *'amal* in more than 50 verses in conjunction with *iman* (faith) (Ahmad, 1995). Hence, the desire to please God through productive work can be a tremendous intrinsic motivator for the Muslim worker – at whatever level he or she is working at.

The emphasis upon man's role as God's trustee and upon work as worship conditions Islam's stakeholder approach to business, and is itself anchored in a multidimensional ethical system.

Islamic ethical system

Several criteria are of relevance when examining the Islamic ethical system from a stakeholders' perspective: justice and balance, trust, and benevolence.

First, the criterion of justice is described by two words in the Qur'an: *'adl* and *qist*; *'adl* means "equity, balance". In normative Islam, Muslims are encouraged to behave justly towards all. Just behavior is tied to an individual's very faith as a Muslim: "Be just! For justice is nearest to piety" (Qur'an, 5: 8). Acting justly in this life means that one can expect similar justice from God in the Hereafter: "Deal not unjustly and ye shall not be dealt with unjustly" (Qur'an, 2: 279).

At the same time, the term *'adl* also applies to the concept of balance and equilibrium. It means doing things in a proportionate manner, avoiding extremes. At a more metaphysical level, equilibrium, or *'adl*, relates to the all-embracing harmony in the universe. The law and order that we see in the universe reflect this delicate balance. The property of equilibrium is more than a characteristic of nature; it is a dynamic characteristic which each Muslim must strive for in his or her life. Thus, a balanced transaction is also just (Gibson et al., 2001). This notion of balance is consistent with the concepts of equity and justice.

Justice is also described in the Qur'an by another important word: *Qist*. It means "share, portion, measure, allotment, [or] amount". As Siddiqui (2002) has indicated, justice as described by the word *qist* means to give every one and every thing their proper due. God says "... and be fair: for God loves those who are fair (and just)" (Qur'an, 49: 9). Thus, normative Islam teaches that a person should be just in every aspect of his/her life, to all people and things and at all times. Overall, justice as described by *'adl* and *qist* means maintaining the balance between the needs of the body, mind and soul while providing everyone and everything their due.

The second criterion of Islamic ethics relates to the concept of *Amanah* or trust. To reiterate what we stated earlier, man is God's trustee on earth and as such must bear responsibility for his actions. "Every soul will be (held) in pledge for its deeds". (Qur'an, 74: 38). As indicated by Ahmad (1995), the realization of God's will by behaving morally is part of man's trusteeship and a responsibility that he has

taken upon himself to fulfill. More importantly, the wealth and other resources that mankind has access to are not his, but have been loaned to him by God as tools to fulfill the responsibilities of the trusteeship. As we will discuss later, the executives of a company have a fiduciary responsibility towards the shareholders of the company just as employees of the company have a fiduciary responsibility towards the company itself.

The third criterion of Islamic ethics is benevolence or excellence. Benevolence (*Ihsaan*) or kindness to others is defined as "an act which benefits persons other than those from whom the act proceeds without any obligation". (Umar-ud-din, 1991, p. 241). Kindness is encouraged in Islam. The Prophet (P) is reported to have said that among the inhabitants of Paradise will be:

"... one who wields authority and is just and fair; one who is truthful and has been endowed with power to do good deeds; and the person who is merciful and kindhearted towards his relatives and to every pious Muslim, and who does not stretch out his hand in spite of having a large family to support".⁴

In contrasting the concepts of *Ihsaan* (benevolence) and *'adl* (justice), Al-Qurtubi (1966) expounds on the Qur'anic verse 'Lo! God enjoins justice and kindness' (16: 90), and suggests that *'adl* (justice) is mandatory while *Ihsaan* (benevolence) is what is above and beyond the mandatory. Quoting Sufiaan Ibn 'Oyaynah, Al-Qurtubi (1966, 10: 165) also states that *'adl* means that the person's inner intentions and feelings should be consistent with his/her declared words and actions, while *Ihsaan* means that the person's inner intentions and feelings are even better than his/her outwardly words and actions.

At its core, the word *Ihsaan* is derived from the Arabic root h-s-n which means "suitable", "beautiful", "proper" or "fitting" (Siddiqui, 1997), and this concept is the core of Islamic ethics because it focuses on behavior for the love of the God. As explained earlier, the concept of worship in Islam includes any constructive endeavor or work. This implies that a committed Muslim employee at any organizational level should perform his/her work for the love of God and with the realization that God is watching his/her behavior, even if the boss is not around.

The concept of *Ihsaan* also means excellence. Thus, Islam stresses not only productivity but also excellence at work. The Qur'an emphasizes that reward should be commensurate with effort (3: 136, 99: 7, 48: 19). This rule applies to the immediate reward in this life as well as the deferred reward in the hereafter. Performance evaluation of one's work is done and rewarded not only by other humans, but also by God (Qur'an, 18: 30). Prophet Muhammad (P) taught: "God has ordained excellence in everything..."⁵ and "God loves, when one of you is doing something, that he [or she] do it in the most excellent manner" (Al-Qaradawi, 1995).

A stakeholders' perspective of business ethics in Islam

The criteria we have discussed above have a tremendous impact on how Islamic ethics view multiple stakeholders. Whereas traditional stakeholder theory fails because of its non-moral approach (Goodpaster, 1991), Islam explicitly asserts that the introduction of moral reasoning may contribute to an organization's effectiveness rather than undermine it. This normative stance is also in stark contrast to Pfeffer's (1982) amoral resource dependence perspective which states that "an organization must

attend to the demands of those in its environment that provide resources necessary and important for its continued survival". Islam's approach to the stakeholders' perspective can be easily seen in how the firm relates to its primary stakeholders (shareholders/owners and employees), and its derivative stakeholders (suppliers, buyers/customers, debtors, competitors and the natural environment). Table I summarizes the relationship between a firm and its key stakeholders based on Islam.

Relationship of the firm to its shareholders

In Islam, the fact that a corporation is a fictitious entity does not diminish the responsibility of its owners (shareholders) or their representatives (managers) for its actions. For example, should a firm engage in areas of business that are prohibited in Islam (*haram*) such as the production/sale of alcoholic drinks, prostitution, etc., then a shareholder should withdraw her/his investment from that firm and invest in permissible (*halal*) areas of business. As the representatives of the shareholders, managers too are responsible for safeguarding the investments of the shareholders because of the *amana* (trust) principle discussed earlier. They need to ensure that the firm engages only in *halal* activities, and

TABLE I
Islam's emphasis on key ethical issues by stakeholder

Relationship	Stakeholder(s)	Issues
Relationship of the firm to its shareholders	Shareholders	Safeguarding and fructifying the investments; transparent and ethical business transactions in permissible (<i>halal</i>) business ventures
Relationship of the firm to its employees	Employees	Hiring and firing; emphasis on competence and fair working conditions; rejection of sexism; wages and working condition; privacy
Relationship of employees to the firm	Firm	Conflicts of interest; secrecy; honesty; skills training and qualifications
Relationship of firm to derivative stakeholders	Suppliers	Cost of inputs; transparent production process; provision of <i>halal</i> products/services
	Buyers	Hoarding and price manipulation; quantity and quality of goods sold; selling strategy; use of <i>riba</i> in financing sales
	Debtors	Repayment terms
	Competitors	Fair competition
	The environment	Use does not imply abuse; stewardship

that day-to-day business activities are conducted in a transparent and ethical manner along the criteria of *adl*, *qist* and *Ihsaan*. Instead of trying to maximize profits by any means in any type of business activity, the primary stakeholders of a business in Islam are to seek value maximization (Saeed et al., 2001) within the ethical parameters of Islam which we have already discussed. As the President Director of an Indonesian Islamic Bank stated recently,

Of course, like a normal (conventional) bank, we have to be profit-oriented. We're doing this since we have *amana* (trust); that's why we have to work hard for this... We have to be responsible for shareholders, and society at large, and, of course, Our God.⁶

An explicit example of an Islamic business's goal to balance the need to maximize value while respecting the needs of other stakeholders is seen in the prohibition of interest (*riba*). In Islam, a shareholder's money capital is not considered as a factor of production, and cannot earn a return until it is turned into physical assets (Iqbal, 1988). This distinction is clearly made when God states in the Qur'an: "[They] say: 'Trade is like usury', but God has permitted trade and forbidden usury" (2: 275) Thus, capital expansion through lending on interest is prohibited. The size of the rate of interest charged is inconsequential; there is no opportunity cost of lending money in Islam. Yet, it is important to note that Islam does not forbid a return of capital; what is not allowed is a predetermined rate of return on *money* capital regardless of the outcome of the enterprise. This principle stresses the criteria of '*adl* and *qist*: the shareholders cannot receive income with little or no risk while other stakeholders bear all the risk.

To avoid interest-based transactions, Islam encourages business partnerships where all parties share equally in the risk of gain and/or loss. For example, in one type of such partnership (*sharikah*), the Islamic bank provides part of the required capital while the businessperson provides the balance. The businessperson is also responsible for supervision and management. The two parties agree to share any profit or loss in proportion to their investment participation. Should there be a loss, it is considered sufficient if the businessperson forfeits remuneration for his labor. Trust (*amanah*) plays an important role in business, e.g., in partnerships. "Do not devour

one another's property by false and illegal means". (Qur'an, 2: 188) The partner who uses another's property in trust should be an *amin*, a trustworthy person. Because of his integrity, honesty, sincerity, and faith in God, he does not "devour" his partner's property by 'false' or 'illegal' means nor does he substitute his partner's superior possessions with something inferior. The Holy Prophet (P) said: "God, Most High says: I make a third with two partners as long as one of them does not cheat the other, but when one cheats, I depart from them." ⁷ (*Scholar Professional*, 2000).

A different type of partnership that avoids interest-bearing transactions is *musharakah* – a joint enterprise in which all the partners share in the profit or loss of the joint venture. An excellent contemporary example of *musharakah* is the Sudanese Islamic Bank (SIB) in rural development. SIB targets small farmers, rural women, craftsmen, artisans and small entrepreneurs (Osman, 1999). The major obstacle usually facing the small farmer is his/her inability to provide an acceptable collateral before any financing can be provided. Under *musharakah*, no collateral is required *a priori*. Instead, SIB owns the equipment, e.g., tractors, water pumps, etc., and operates and maintains them, thus providing services to the farmer at cost. The farmer contributes his/her land, management and labor. SIB even makes available the services of agriculturists and veterinarians. In any net profit distribution, the farmer receives 75% whereas the bank receives 25%. In case of crop failure resulting from any *force majeure*, all losses are born by the bank. The result of this partnering program has been quite positive: farmers and families have been able to increase their income and standard of living; yields of different food crops have increased, and in the case of potato growers in Western Ondurman, the partnership resulted in a rate of return on capital of 60% in 6 months.

Relationship of the firm to its employees

Islamic *Shari'ah* (Islamic-law) has set clear ethical guidelines governing the relationship of the firm to its employees and vice-versa. For example, in hiring, promoting or any other decision where a manager is evaluating one person's performance against another's, giving the employee his/her due (*qist*) and

behaving in an equitable and balanced manner (*'adl*) are a must. God directs Muslims to do so: "God commands you to render back your trusts to those whom they are due; and when you judge between man and man, that you judge with justice" (Qur'an, 4: 58). This emphasis on fairness is also why Muslims are encouraged to pay special attention to competence. In spite of the unacceptably low involvement of highly competent women in the labor force in Arab countries (UNDP, 2002), normative Islam in the following hadith by Prophet Muhammad (P) stresses the importance of a meritocracy based on competence:

Whoever delegates a position to someone whereas he sees someone else as more competent (for the position), verily he has cheated God and His Apostle and all the Muslims. (Ibn Taymiyya, 1996)

Saudi Arabia is an example where competence has been set aside by an overly conservative interpretation of Islamic precepts – only about 3% of its labor force is women although it has an abundance of highly competent, university trained women. It is important to contrast this instance with the fact that the Prophet (p) himself was once the employee of his first wife, and she was a very successful business-woman.

Normative Islam rejects sexism in business as well as in other areas of life. The Qur'an depicts women as spiritually equal to men (4: 1, 7: 189, 3: 195, 4: 124, 33: 35, and 57: 12). Central concepts such as trusteeship, human dignity, and responsibility are presented in a gender-neutral manner (Qur'an, 32: 9, 15: 29, 2: 29). The only basis for superiority in the Qur'an is piety and righteousness, not gender (49: 13). Unfortunately, as summarized in the UNDP (2002) report, Islam's normative teachings are inconsistently followed in the Muslim world, and are set aside either by too conservative an approach or by cultural bias.

Islam also wants to make sure that workers are not exploited, and that work conditions are good. It insists that an employee not be asked to do more than he/she can reasonably perform. "God demands not from a soul, except what he is able to do" (Qur'an, 2: 286). Good work conditions also imply that the employer will look after the welfare of his/her employee. The Prophet (P) has stated that

"(each) one of you is a shepherd and each one is responsible for the flock under him". The term "shepherd" implies that the business owner will guide, look after, protect, and provide for his/her employees. It also implies that the business owner will not allow the employee to engage in work behavior that may hurt him/her.

The term "shepherd" also implies benevolence (*ihsaan*) on the part of the employer. One aspect of benevolence is to abstain from pressuring employees to conform blindly or to engage in unethical behavior. An unfortunate result of such pressure can be seen in a recent survey by *CFO* magazine: about one in six chief financial officers reported being pressured by chief executives to misrepresent financial results (Fink, 2002).

Fair wages

Ibn Taymiyya (1966) suggests that an employer is under obligation to pay a fair remuneration to his employees. Some employers may take advantage of a worker and underpay him or her because of the scarcity of jobs. Quite a few employers in Muslim (and non-Muslim) countries pressure employees into working overtime without any compensation. Islam is against such exploitation: "Pay the laborer his wages, before his sweat dries up" (Mishkat, 2: 301) (*Scholar Professional*, 2000). If the wage level is too low or not equitable (Gibson et al., 2001), the individual may not feel motivated to put in an adequate amount of effort. Similarly if the wage level is too high, the employer may not be able to make a profit and keep the business going. In an Islamic business, wages must be set in an equitable manner both with respect to employees and the employer. The emphasis on wage equity has permeated Islamic history for centuries. In early Islamic history, one of the duties of the *muhtasib* (ethics officer) was to arbitrate in disputes over wages. He would often propose the *ujrat al- mithl* (wage acceptable for a similar work by others) as an equitable wage (Ibn Taymiyya, 1966). This is an example of the principles of *qist* and *'adl* at work again.

Islam in its emphasis on justice condemns the practice of unfair or exploitative wages. This is especially true in the cases of sweatshops and child

labor. Both are based on exploiting the vulnerable in society. When sweatshops are situated in economically developed countries, their operations are largely underground so the owners can dodge legal requirements pertaining to pay, benefits, employment policies, health and safety requirements, and child labor. In the most populous Muslim country in the world, Indonesia, Nike with the implicit acceptance of the governmental authorities employed minors working for \$1 per day (versus \$24.40 in South Korea) in its factories. Here is an excerpt from the documentary film *The Big One* (1997) where Michael Moore is talking to Phil Knight, Nike CEO:

Moore: Twelve year olds working in [Indonesian] factories? That's O.K. with you?

Knight: They're not 12-year-olds working in factories ... the minimum age is 14.

Moore: How about 14 then? Does that bother you?

Knight: No

In Pakistan, another majority Muslim country, Nike with the consent of the authorities and parents was using children as young as 12 years old to stitch together soccer balls (*Life Magazine*, 1996). The problem of child labor relates not only to the question of exploitation, but also to the Prophet's (P) emphasis on education as a mandatory duty on every Muslim. The right to education is a legitimate right of the child from an Islamic perspective on religious and moral grounds.⁸ Although the most opportune time to begin acquiring knowledge is during childhood, many Muslim parents sacrifice this right when confronted with the need of the family to survive. Currently, some Muslim charities will pay parents the wages a child would have earned in order that he or she may attend school.

While Islamic teachings safeguard the rights of the vulnerable, they also encourage hard work and productivity. One way of inducing productivity at the macro level is to discourage the welfare mentality, not welfare itself. Islamic law recognizes the entitlement of the weak, young and poor to a minimum level of decent life, but it discourages the abuse of welfare systems or exploitation of people's kindness when the person is able to seek work and earn his living. Following is a saying of the Prophet Muhammad (P) to illustrate this aspect of work ethics: "Charity is not permissible for [someone who

is] rich [i.e., has enough to get by decently] or to [someone who is] able-bodied".⁹

Earning money through a *halal* or permissible trade is vastly preferred over begging. This principle is emphasized in the following hadith:

A man of the Ansar came to the Prophet (P) and begged from him. He (the Prophet) asked, "Have you nothing in your house?" He replied, "Yes, a piece of cloth, a part of which we wear and a part of which we spread (on the ground), and a wooden bowl from which we drink water".

He said, "Bring them to me". He then brought these articles to him and he (the Prophet) took them in his hands and asked, "Who will buy these?" A man said, "I shall buy them for one dirham". He said twice or thrice, "Who will offer more than one dirham?" A man said, "I shall buy them for two dirhams".

He (the Prophet) gave these to him and took the two dirhams and, giving them to the Ansari, he said, "Buy food with one of them and hand it to your family, and buy an ax and bring it to me". He then brought it to him. The Apostle of God (P) fixed a handle on it with his own hands and said, "Go, gather firewood and sell it, and do not let me see you for a fortnight". The man went away and gathered firewood and sold it. When he had earned ten dirhams, he came to him and bought a garment with some of them and food with the others.

The Apostle of God (P) then said, "This is better for you than that begging should come as a spot on your face on the Day of Judgment. Begging is right only for three people: one who is in grinding poverty, one who is seriously in debt, or one who is responsible for compensation and finds it difficult to pay".¹⁰

What is important to note in the above *hadith* is not only the emphasis on work, but also the consequences of not working and of becoming a burden on society. Just as work in is an act of worship, the reverse is true: not working and begging for handouts will be held against the human being on the Day of Judgment.

Respect for employee's beliefs

The general criteria of *Ihsaan* (benevolence) and of justice (*adl* and *qist*) apply to all aspects of the

relationship between a firm and its employees. Businesspersons should not treat their employees as though their religious beliefs are inconsequential during business hours. For example, Muslim and non-Muslim employees should be given reasonable time to do their mandatory daily prayers, should be given respite if they are sick and cannot perform, and should not be harassed sexually or otherwise. This emphasis is clear in the Qur'an: "Unto you your religion, and unto me my religion". (106: 8). This practice is consistent with the early days of Islam when the Jewish population in the Islamic city of Medina lived under their own rules and laws rather than the rules and laws of Islam. For several years now, Savola, a leading Saudi food manufacturer, has successfully implemented the principles of *'adl*, *amana* and *ihsaan* in its relations with its Muslim and non-Muslim employees.

Right to privacy

If an employee has a physical problem which prevents him or her from performing certain tasks or if an employee has committed a blunder in the past, the employer must not publicize it. This would breach the privacy of the employee. "Whether you publish a good deed or conceal it or cover evil with pardon verily God does blot out (sins) and has power (in the judgment of values)". (Qur'an, 4: 149) Unless explicitly needed for a specific job and even then under the strictest conditions of confidentiality, Islam would not agree to potential employees being submitted to invasive queries such as genetic testing.

Relationship of employees to the firm

An employee has many responsibilities to his employer. In many instances, the employee is a representative of the employer. It is imperative that in his work, he fulfills the trust (*amanah*) that the employer has bestowed on him, and that he does his best (*Ihsaan*). The Prophet (P) stated: "An office is a trust; it is a humiliation except for those who rise equal to the task" (*Scholar Professional*, 2000).

The worker must be honest, truthful and guard against any matter that is harmful to his employer

and look after the property and tools of the employer. He must neither use nor allow anyone else to use anything that belongs to his employer without the employer's permission. "Do not betray nor misappropriate knowingly things entrusted to you" (Qur'an, 8: 27) Thus, the common practice of stealing one's competitor's proprietary technology or know-how by hiring its key employees would not be approved by Islam. Again, the worker should not steal time or deceive his employer, as the Prophet (P) said: "Whosoever deceives is not one of us".

Many ethical issues characterize the relationship of the employee to the firm, especially with respect to honesty, secrecy, and conflicts of interest. Thus, an employee must neither embezzle the funds of the company, nor reveal company secrets to outsiders. Another unethical practice occurs when managers add false charges for meals and other services to their company expense account. Some of them cheat because they feel underpaid, and wish to restore equity. At other times, their behavior is due to pure greed. Recently, Pakistan's leading nuclear scientist traded away his country's nuclear secrets to countries like Libya in exchange for money. For Muslim employees who betray the trust of their employer, God gives them a clear warning in the Qur'an: "Say: 'The things that my Lord has indeed forbidden are: shameful deeds whether open or secret; sins and trespasses against truth or reason' " (7: 33)

Relationship of the firm to derivative stakeholders

After fulfilling the claims of the primary stakeholders (shareholders and employees), Islam encourages the firm to respect the claims of several derivative stakeholders. As stated before, these include: suppliers, buyers/customers, debtors, competitors and the environment.

Suppliers

When dealing with suppliers or when engaged in any business transaction, Islam wishes to preclude any future misunderstanding. God has enjoined Muslims to put contractual obligations in writing. "O you who believe! When you deal with each

other in transactions involving future obligations in a fixed period of time, reduce them to writing” (Qur’an, 2: 282). In the transactions between suppliers and buyers, the fulfillment of all contracts, commitments and promises is an ethical requirement in Islam (Qur’an, 23: 8).

In all transactions with buyers, suppliers are prohibited from interfering with the free market system. An example of market interference which is not tolerated in Islam is hoarding and price manipulation. As Al-Qaradawi (1995, 255–257) points out, the market system is free in Islam, and is allowed to respond to supply and demand. Prophet Muhammad [P] said: “He who hoards is a sinner”.¹¹

Although monopolistic exploitation is clearly harmful, one could argue that some monopolies may be more efficient and beneficial to society at large, such as in the case of utilities, provided that proper controls and regulations are in place to prevent abuses. What the Prophet (P) condemned were monopolies designed to create an artificially higher price or to create artificial shortages, especially with respect to foodstuffs. This is why he said: “Whoever monopolizes foodstuff for 40 days, he has dissociated himself from God and God has dissociated Himself from him” (Al-Qaradawi, 1995, p. 293).

In cases where businessmen are engaging in hoarding and other forms of price manipulation, Islam allows price controls in order to meet the needs of society and to provide protection against greed. However, if a commodity is being sold without any hoarding, and its price rises because of natural shortages or scarcity or an increase in demand, then this circumstance is due to God. Businesspersons cannot then be compelled to sell at a fixed price (Al-Qaradawi, 1995, p. 256).

A third type of market interference by suppliers is through fraud. The supplier may cheat by using incorrect weights and measures. In the story of Shu’ayb, God says: “Give just measure, and cause no loss (to others by fraud). And weigh with scales true and upright. And withhold not things justly due to men...” (Qur’an, 26: 181–3). The Muslim businessperson should not demand honesty from others while being himself or herself dishonest. In other words, the Islamic moral code applies to all stakeholders of a Muslim business equally.

Besides barring market interference and fraud, Islamic business ethics insists that the product being

sold be lawful and of good quality. Specifically, the supplier cannot provide “unlawful” or illegal items. The reason is that, in Islam, trade in itself is lawful. Hence, items of trade must themselves be lawful. One basic rule in Islamic Law is that if an item is unlawful, then buying or selling that item is also unlawful. Examples of unlawful items for trading include intoxicants, prostitution and stolen goods.¹²

Even when he is supplying lawful items, the supplier cannot sell adulterated or spoiled products. Islam prohibits any kind of fraudulent transaction either during a purchase or a sale. Transparency in all aspects of a trade and with all stakeholders is emphasized repeatedly. The following hadith narrated by Abu Huraira exemplifies how the Islamic moral code views deceptive business practices:

“The Messenger of God (P) happened to pass by a heap of eatables (corn). He thrust his hand in that (heap) and his fingers were moistened. He said to the owner of the heap of eatables (corn), ‘What is this?’ ‘Messenger of God, these have been drenched by rainfall.’ He (the Prophet) remarked, ‘Why did you not place this (the drenched part of the heap) over other eatables so that the people could see it? He who deceives is not of me (is not my follower).’”¹³

Besides being limited to the sale and purchase of lawful items, the process of trade itself must be lawful as well. There is no *caveat emptor* in Islam. A merchant, therefore, must refrain from hiding any known defect in an item offered for sale. The buyer should be informed about such defect(s) and it is up to him/her to accept to buy it or not and at what price. Prophet Muhammad (P) taught: “The buyer and the seller have the option (to cancel or confirm the bargain). And if they spoke the truth and made clear (the defects of the goods), then they would be blessed in their bargain. And if they told lies and hid some defects, their bargain would be deprived of God’s blessing”.¹⁴ Thus, a car dealer may make a profit by selling a customer a car that he knows to be a lemon, but his action will not reap God’s blessing and will not be counted as an act of worship.

The businessperson must also abstain from behaving improperly in the trading process simply to make a sale. First, he/she cannot swear to support a sale. When engaged in deceiving a buyer, the sin resulting from this deception is increased if the businessman

validates his sales pitch through false oaths. The Prophet Muhammad (P) said, “The swearing (by the seller) may persuade the buyer to purchase the goods but that will be deprived of God’s blessing”.¹⁵

Second, he/she cannot engage in price manipulation (Saeed et al., 2001). One such form of exploitation takes place when the same merchandise is priced differently depending upon whether the buyer is a bargainer (*mumakis*) or a non-bargainer (*mustarsil*). Another forbidden form of price manipulation which is *Tanajush*. This refers to “shilling” or the deceptive practice in auctions, where persons who do not intend to buy simply keep bidding the price upwards (often in conspiracy with the seller), so as to get others “stuck” with the deal.¹⁶

Third, he/she cannot engage in bribery. A contemporary form of “snatching” contracts is to bribe employees or officials who have the power to decide on tenders or suppliers. To conceal their actions, some may use a euphemistic name for bribes such as BFP, or ‘business facilitation payments’. Both primary sources of Islam forbid bribery (Qur’an, 2: 188). This prohibition is especially strict when the payment of a bribe was intended to get a privilege to which the person is not entitled, usually at the expense of others. It is unfortunate that bribery and corruption are part of business practices in several Muslim countries. According to Transparency International (2003), the two most corrupt countries in the world are countries with Muslim majority populations, i.e., Nigeria and Bangladesh. While there are other Muslim countries that are relatively more ethical (e.g., Oman, Bahrain and Qatar), it is clear that there is a wide gap between normative Islam and the practices in some Muslim countries.

Normative Islam, however, is quite pragmatic. For example, there are instances where prompt securing of necessary clearances or papers, relating to a legitimate and ethical deal, is almost impossible without the payment of a ‘fee’. In this extreme case relating specifically to a deal that is inherently legitimate and ethical, bribery may become the lesser of two evils, the other being a major loss or bankruptcy.

Buyers/consumers

In Islam, businesses are to deal with their buyers/consumers in a manner that is very consistent with

the Kennedy Consumer Bill of Rights (Ferrell, 2004). Issues such as privacy, disclosure of product information and appropriate methods of addressing conflict have been addressed in Islam. Since Islam does not believe in the principle of *caveat emptor*, it stresses that the product which the buyer is purchasing must have been produced in a wholesome manner. Saeed et al. (2001, p. 131) citing AJ-Ukhuwa (1983) give the example of bakers engaged in bread-making:

[For] kneading, men may not use their feet, knees and elbows as doing so implies a lack of respect for the food; also drops of sweat may fall into it. Smocks with tight sleeves must be worn-in the task and the face should be veiled. During the day time, a man with a fly whisk should drive away the flies.

Buyers should also expect to receive lawful goods that are in working condition and priced fairly. To begin with, advertising should not misrepresent the firm’s products in any way. They should also be notified of any deficiencies. The Prophet Muhammad (P) is reported to have said, “A Muslim is the brother of a Muslim. It is not permissible for a Muslim to sell a commodity that contains some defect in it except that he describes that (defect) to him (the buyer)”.¹⁷ Many of the guidelines that apply to suppliers also apply to buyers: they should not bribe, should not purchase stolen goods or “unlawful” items, should not engage in *riba* transactions, should commit all agreements to writing and should respect all contractual obligations.

In order to avoid unfair risk to buyers, the sale of an item which is not available and whose delivery is doubtful is prohibited. This is known as *Bay’u!-gharar*.¹⁸ Examples include selling fish in the river or selling agricultural products before the plant becomes viable and takes roots. Exception could be made in cases of necessity, where fairness and transparency could be preserved. Contemporary examples of such exceptions are contracts to supply an item like oil, which may not be readily available in storage, but which is abundantly available on the market.

In addition to the above guidelines, the Muslim businessman must not knowingly purchase stolen property either for himself or for resale. By so doing,

he sanctions the crime of the robber. The Prophet (P) said, “He who buys the stolen property, with the knowledge that it was stolen, shares in the sin and shame of stealing” (Al-Qaradawi, n.d.). Further, the passage of time does not make a *haram* piece of property *halal*. The original owner of the stolen goods retains his right on it.

Debtors

In general, Islam encourages benevolence (*Ihsaan*). If any debtor is in financial trouble, God encourages kindness: “If the debtor is in a difficulty, grant him time till it is easy for him to repay. But if you remit it by way of charity, that is best for you if you only knew” (2: 280). At the same time, however, Islam does not wish for creditors to be taken advantage of. Once a business extends credit to a customer, and these terms of the credit agreement are mutually approved, it becomes the “obligation” of the organization to fulfill these terms. “God does command you to render back the trust of the people” (Qur’an, 4: 58). In Islam, a debt is a trust which must be returned to its owner.

Competitors

Although many countries claim to be for market competition, a cursory reading of key business publications will reveal that businesses are constantly seeking to assert themselves over and to eliminate their competitors. In its bid to ensure fair competition, Islam prohibits price manipulation aimed at undermining potential competitors. For instance, Saeed et al. (2001) cite the following incident about Umar Al-Khattab, the second Caliph in Islam:

Once Umar Al-Khattab passed by Hatib Ibn Abi Balta’ah and found him selling raisins at a much lower price with the intention of putting his competitors to loss. Umar Al-Khattab told him: “Either enhance your rate or get away from our market”.

Thus, Islam abhors any type of price manipulation while at the same time it encourages a free-market system and fair competition (*munafasah*). Another reason behind Umar’s decree is the potential for

monopolistic pricing; by eliminating their competitors, firms can then reap above average economic returns.

In outlining the ethical responsibility of multiple stakeholders, this article will not be complete without addressing the social responsibility of business from a normative Islamic perspective. A key domain of social responsibility is the natural environment, and it is increasingly a major stakeholder for businesses. It meets the three criteria that determine whether a stakeholder matters to CEOs or not (Mitchell, et al., 1997): power, legitimacy and urgency. Very powerful stakeholders such as the US government with its Clean Air Act and its Clean Water Act (Freeman, 2001) have weighed in against environmental pollution. The fact that violations of treaties and laws are addressed by the law in many countries and by world bodies have elevated the legitimacy of the environment as a stakeholder. The real dangers posed by acid rain and by global warming to our ecosystem stress the urgent need for businesses to consider the environment in their pursuit of value maximization.

The natural environment

In the Qur’an (2: 30), man is described as God’s vicegerent on earth, and as such, is the trustee of the environment. Muslims are encouraged to appreciate the beauty of the natural environment. In fact, God refers to the beauty of the natural environment as one of His signs: “Don’t you see that God sends down rain from the sky? With it, we then bring out produce of various colors. And in the mountains are tracts white and red, of various shades of color and black intense in hue. And so amongst men and crawling creatures and cattle are they of various colors [...]” (Qur’an, 35: 27–28). Other living species are described by God (Qur’an, 6: 38) as being *ummahs* or communities of their own right. As mentioned by Denny (2004), the whole of creation is alive and is constantly praising and glorifying God (Qur’an, 59: 24). The earth itself is mentioned 453 times in the Qur’an, and man’s position as vicegerent is one where he is God’s steward of the earth, including the environment.

Man is encouraged to partake of the good things that God has provided him (Qur’an: 5: 88), but use does not imply abuse. The general principle with

respect to resources that are free, e.g., air, ocean water, etc. is the following: “Any person may make use of any thing that is free provided that in doing so no injury is inflicted upon any other person”.¹⁹ Should injury or pollution of any kind take place, the guilty party must then be responsible either of cleaning up after himself or of removing the cause of the problem.²⁰

Although Islam honors ownership rights, it does not consider these rights to be absolute especially if they may lead to environmental pollution and threaten public safety. Since the beginning of Islam, Muslims have been prevented from slaughtering animals in the streets or houses to avoid unsanitary conditions (Ibn Taymiyya, 1966). Similarly, to reduce the danger of public safety and environmental hazards, Muslims were not allowed to install a forge or a mill in residential areas.²¹ Nowadays, using the Islamic legal principle of analogy (*Qiyaas*), legitimate reasonable restrictions on methods of production may be imposed in the interest of environmental protection. Contemporary examples of these restrictions include the requirement of exhaust control devices in automobiles, sewage treatment regulations and restriction of dumping waste, especially chemical and nuclear waste.

Businesses engaged in the production of goods and services should not cause undue and excessive harm to God-given resources and bounties created for the benefit of all mankind. The Qur'an speaks repeatedly against spreading mischief or corruption in the land (Qur'an, 2: 60, 2: 205, 7: 56 and 28: 83). Prophet Muhammad (P) spoke of the punishment, on the Day of Judgment, of anyone who kills a sparrow without a legitimate reason (e.g., for food), or one who cuts a tree for no good reason. The Prophet (P) was keenly aware of the need for the sustainability of resources for the benefit of future generations. He also taught that if one plants a tree of which a human, and animal or bird eats, he/she will get a perpetual reward for all who benefit from it.²² The Prophet also forbade his followers from polluting rivers, stagnant water, roads and areas used as shades.²³

Enforcement mechanisms

Enforcement mechanisms of Islamic business ethics begin with the individual. They operate through the

appeal to the person's awareness and love of God, and the desire for His blessings in this life and in the life hereafter. These mechanisms are founded on the person's realization that God knows the manifest and the hidden, and will hold all accountable for their deeds. These are the most powerful enforcement mechanisms, more so than any government control. The sense of ultimate responsibility of mankind for his/her actions is exemplified in the Qur'anic warning: “And fear a Day when you will be returned to God. Then every soul will be compensated for what it earned, and they will not be wronged (i.e., treated unjustly)” (Qur'an, 2: 281).

Conclusion

Islam is a way of life, not just a religion. As a result, business ethics cannot be separated from ethics in the other aspects of a Muslim's daily life. The Islamic ethical system is balanced, fair, just, and benevolent, and seeks to respect the rights of both primary and derivative stakeholders without allowing for exploitation, nepotism and other human ills. Islam advocates a tiered, multi-fiduciary stakeholder approach that calibrates what various stakeholders of a business receive in proportion to their inputs. The responsibility of each stakeholder is morally anchored since it is based on the concepts of trust (*amana*), equity, balance and fairness (*'adl* and *qist*), benevolence and excellence (*Ihsaan*). At all times, mankind must not forget his/her role as God's steward or vicegerent on earth. For Muslims that understand and practice this ethical system, it also contains its own enforcement mechanisms. It is a system that is divinely inspired, atemporal and tailored to fit the needs and rights of God's trustee, man.

This article examined Islamic business ethics from a normative perspective. It would be interesting to see the extent to which such ideal norms are implemented in various parts of the Muslim world today, and how present realities affect international business, management of diversity and the broader process of globalization. The reader will likely be able to see a significant common ground, in the area of business ethics, between Islam and other major world religions. This may be especially true in relation to Judaism and Christianity. “Secular”

business ethics, in turn, may share many aspects with “religious” business ethics. Such common ground may contribute to the evolution of some form of global business ethics. Further dialogue and research are both needed and helpful as the topic of business ethics is taking its rightful place, both in the areas of spirituality and business management.

Notes

¹ This article extends thinking initially presented in the first author’s book, *Islamic Business Ethics*, published by Amana Publications, USA, 1997, and in an article by the second author entitled, *Islamic Business Ethics*, published by the International Business Trade Forum, Indianapolis, IN, 2001.

² The Qur’an is the holy book of Muslims revealed by God to Muhammad (P). When we refer to selected suras (chapters) and ayats (verses) in it, we will use the convention xx:yy where xx will refer the Qur’anic chapter and yy will refer the Qur’anic verse within that chapter. The following translations of the Qur’an were used; *The Holy Qur’an*, translated by Abdullah Y. Ali, Khalil Al-Rawaf, Washington, D.C., 1946; *The Holy, Qur’an: Text, Translation and Commentary*, translated by Abdullah Yusuf Ali and published by Amana publications, Beltsville, MD (1989), and *The Qur’an* published by Saheeh International, Jeddah, 1997. Some modifications were made by the second author when necessary for greater clarity.

³ (P) is an abbreviation of “peace be upon him”, an honorific formula that Muslims use when the name of a prophet is mentioned. This abbreviation will be used in the rest of this article. Memorizations of the traditions of the Prophet took place during his lifetime, and have been transmitted since via compilations or collections known as ‘Sahih’ or ‘Sunnan’ – as can be seen in these endnotes.

⁴ Iyad Ibn Himar, *Sahih Muslim*, hadith no. 6853.

⁵ Siddiqi, Abdul Hamid, n.d., Vol. 3, Hadith # 4810, p. 1078.

⁶ Unpublished manuscript, International Institute of Islamic Thought, Washington, D.C. 2004. Shari’ate Perspective on Organization and Accounting, p. 169.

⁷ Abu Huraira in *Sahih Bukhari*, Hadith no. 3377.

⁸ Al-Salih, Muhammad Ben Ahmad, n.d., pp. 213–225.

⁹ Abdul-Baqi, Muhammad F., *Sunan Al-Tirmidhi*, op. cit, Vol 3, n.d., Hadith # 652, p. 33. Translated by second author.

¹⁰ Anas ibn Malik, *Sunan Abu Dawud*, Hadith no. 1637.

¹¹ Narrated by Ma’mar ibn Abdullah al Adawi, *Sahih Muslim*, Hadith no. 3910.

¹² Abdul-Hameed, Muhammad, *Sunan Abu Dawood*, Vol. 3, Hadith 3485, p. 279. Translated by second author.

¹³ Abu Huraira, *Sahih Muslim*, Hadith 0183.

¹⁴ Khan, Muhammad, Vol 3, Hadith # 323, p. 183

¹⁵ Abu Huraira, *Sahih Muslim*, Hadith 0183.

¹⁶ Abdul-Baqi, Muhammad F., *Sunan Ibn Majah*, Vol. 2, Hadith 2174, p. 734. Translated by second author.

¹⁷ Narrated by ‘Uqba b. Amir in *Sunan Ibn Majah*, vol. 3 (12) Chapter 45, Hadith 2246.

¹⁸ Abdul-Baqi, *Sunan Ibn Majah*, Vol 2, Hadith 2195, p. 739. Translated by second author.

¹⁹ *Al Majalla*, serial no. 2486, paragraph 1254

²⁰ *Al Majalla*, serial no. 2497, paragraph 1265

²¹ *Al Majalla*, serial no. 2432, paragraph 1200

²² Khan, Muhammad M., *Sahih Al-Bukhari*, op. cit, Vol. 8, Hadith # 41, p. 26.

²³ Abdul-Baqi, *Sunan Ibn-Majah*, op. cit, Vol. 1, Hadith # 425, p. 147. Translated by second author.

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