

DOES ETHICS MATTER IN CORPORATE BUSINESS MANAGEMENT FROM VIEW POINT OF ISLAM?

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Abstract

Purpose - There is impunity in corporate business management under the current economic system of capitalism and neo-liberalism. This has plunged the global economy into total pandemonium as seen in the recent occupation of the Wall Street under "we are 99%" campaign; financial crisis in the Euro-zone especially in Greece and recent cases in Italy and many other cases on going. All this emanates from ethical problems in managing businesses that form the global economy. So, the question is: Does Ethics Matter in Corporate Business Management? The purpose of this paper is to answer this question from view point of Islam.

Design/methodology/approach – This is qualitative conceptual paper. It has been written from literature review on business ethics from both conventional and Islamic sources.

Findings – Corporate decisions are made on selfish manner; the current economic system has offered too much unchecked freedom in business operation; businesses run on the Darwinian principle of profit making and survival for the fittest. This leaves the world in total disarray. The world is seeking for a new economic system that is more harmonious, restrictive and robust. Islamic business ethics system seems to be offering a viable alternative.

Research limitations/implications – There is limited literature on practices of corporate business management from Islamic ethical point of view. Future research should examine practices of Business Ethics in practical quantitative manner.

Originality/value – This paper provides Islamic ethical practices that if faithfully practiced may keep the human society in harmony world over.

Key words – Corporate business management, business ethics, Islamic business ethics, capitalism neoliberalism, economic systems.

Type of paper – Conceptual paper.

Introduction

The Corporate Business Management a phrase referred to as CBM is an objective corporate function. CBM as an objective business function aims at achieving performance based on predetermined objectives or targets of the corporation. In general however, corporate bodies vary depending on certain their size that is, amount of resources involved; business environment, management competence, target markets, culture, and other parameters relevant for comparison. Though different in such aspects, corporations pursue basically common goals such as profit making, long term survival, market share leadership, reputation, brand recognition, brand loyalty, global power and many other goals. In pursuance of the goals, the companies exhibit a lot of differences in behavior depending on the industry situations they operate in, the economic system, general business environment, and so on Morgan (2011). The different behaviors have ethical or moral implications to its stakeholders especially the shareholders, target market and the general community around them. Therefore, the purpose of this paper is to examine whether ethics matters in business management from Islamic point of view.

Since the focus of this paper is examining how important ethics is in CBM, the author will gain insight into the subject matter from review of related literature on ethics as is perceived and practiced in managing the business and achieving the business objectives. The review of the literature will be deliberately focused on business management and decision making. In undertaking the study, the following questions will be explored: what are the implications of ethics for CBM; does the corporation incorporate ethics in business managerial functions; and what are the Islamic perspectives on business ethics.

Theoretical background

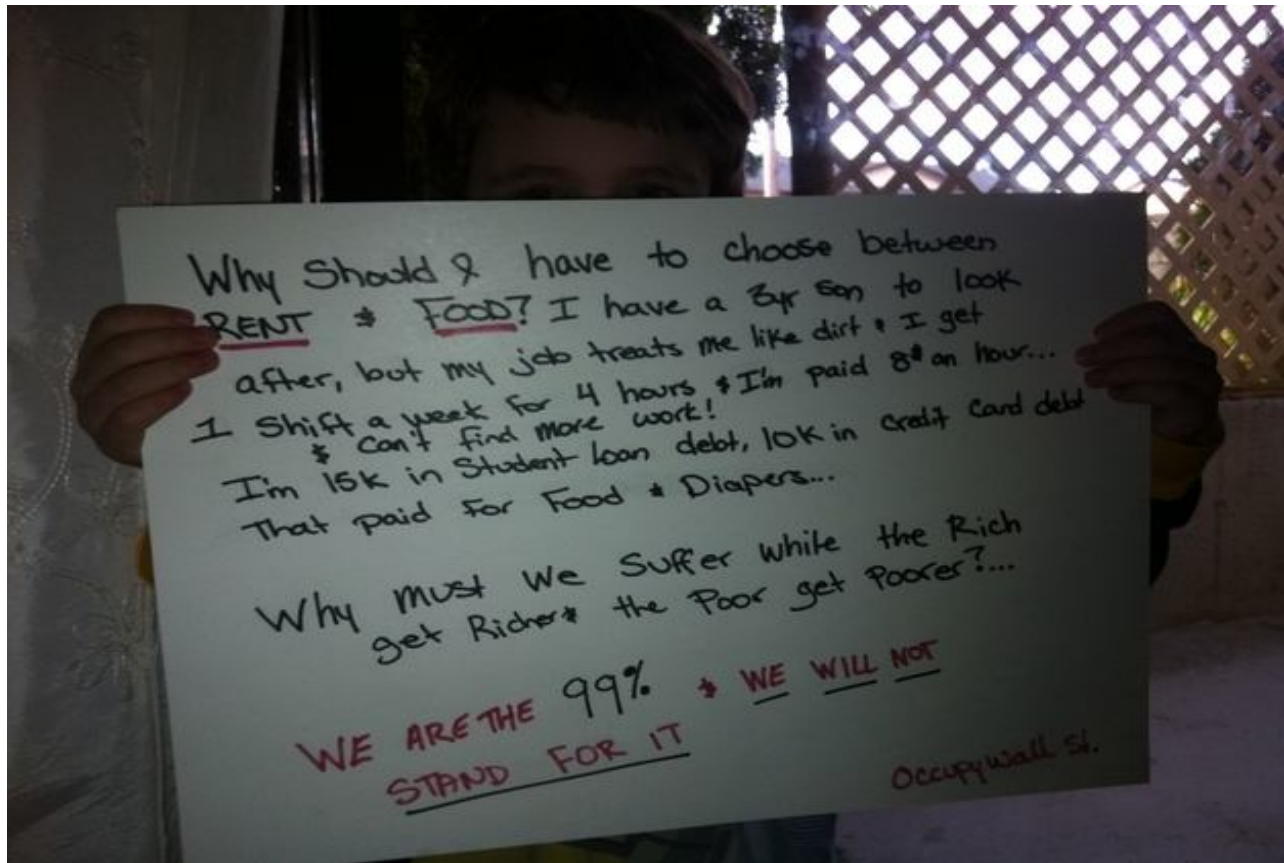
Corporate Business Management style and decision making a lot relates to the economic system in which the business operates. It is undeniable that there are different economic systems being practiced in different parts of the world at the moment. The most widely known and practices economic system is capitalism, though neoliberalism seems to be in rampant practice as well. Capitalism by its general nature leaves the economies to be guided by the forces of demand and supply; work is done for wages, business for profit making and growth. This system gives total freedom for anyone to participate in the economy in the way that is fit for his/her purpose. Since inception of capitalist economic system, it has undergone tremendous developments through, neoliberalism, free market economy and democratic capitalism (Maitra, 1993). Yet another form of capitalism has emerged in some countries especially China, where the state has interventions in operations of the economy, a system referred to as state capitalism (Miron, 2010). In this system, productive forces are owned and run by the state in a capitalist way, celebrates growth, does not redistribute wealth unlike communism, and does not allow individuals to be greedy. The current dominantly practiced economic system is capitalism and neoliberalism. Neoliberalism is the system that emerged around 1970 and is characterized by free trade, financialization, deregulation, commoditization, privatization, accumulation by dispossession, cut labour costs and social wage and increase in inequalities Rechleff (2006). By all standards, a neoliberalism is a true sister to capitalism.

In fact, the state capitalism is coming in with a view of taking care of the neglected areas of human needs that corporate bodies do not consider worth investing in, which is a great weakness of other forms of capitalism and neoliberalism. In state capitalism, the state does not still impose rules on

the private business entities with authority especially as to which areas of the sectors of the economy should be invested in; how they should go about achieving their corporate objectives, and so on.

The failure of these systems have apparent impacts such as unemployment, depletion of natural resources, environmental pollution, economic crises in the world major example being the “we are the 99’ campaign where demonstrators are occupying the Wall Street, in Washington, USA.

Figure 1: Picture showing Wall Street demonstration, November, 2011



As a result of weaknesses of all the economic systems especially failure to guide corporate bodies on how to achieve the corporate objectives, regulatory institutions such as governments, intergovernmental organizations and others have come up to design policies to guide CBM (Werhane, 2010). For example, former UN Secretary General Kofi Anan announced in the United Nations Global Compact (UNGC), at the World Economic Forum in 1999; the Caux Principles developed in 1994; Organization for Economic Cooperation for Development (OECD) guidelines for Multinational Enterprises were developed; Global Economic Ethic; International Organization for Standardization ISO 26000 standards for corporate responsibility (Werhane, 2010). All these guidelines advocate for responsible corporate behaviour in CBM (Gordon, 2001) and all promoting good practices and avoid bad ones. This would go a long way to avoid impairment of peoples' health through adverse working conditions'; promote sustainable development of the natural environment; avoidance of waste'; and lastly advocate that businesses should support a precautionary approach to environmental challenges, Werhane (2010). The characteristics of the current economic system (s) whatever you call it are that, there is private property ownership;

freedom of business investment decision; financial consideration is central in whatever economic activity undertaken, expansionary tendency that is profit making and growth are some the major factors that determine CBM and decision making.

Literature review

Bill Gates (2008), a great CBM decision maker in Microsoft, said:

Capitalism has improved the lives of billions of people--something that's easy to forget at a time of great economic uncertainty. But it has left out billions more. They have great needs, but they can't express those needs in ways that matter to markets. So they are stuck in poverty, suffer from preventable diseases and never have a chance to make the most of their lives. Governments and nonprofit groups have an irreplaceable role in helping them, but it will take too long if they try to do it alone. It is mainly corporations that have the skills to make technological innovations work for the poor. To make the most of those skills, we need a more creative capitalism: an attempt to stretch the reach of market forces so that more companies can benefit from doing work that makes more people better off. We need new ways to bring far more people into the system--capitalism--that has done so much good in the world.

This is paradoxical statement. There is need to further separate 'the blood from the milk'. This statement does not guide us how we should bring more people to capitalism to improve it. To note, although it may seem to be seeking for better form of capitalism, there is now way forward suggested. Ultimately, in the absence of effective suggestion for an alternative way, it does seek for continuation of the current economic situation. Forbes (2009), reports that capitalists are being blamed, and said:

Even those individuals not normally hostile to free markets now hold suspicions that capitalism is fundamentally based on greed and is immoral; that it enables the rich to get richer at the expense of the poor; that free markets are Darwinian places where the most ruthless operators unfairly crush smaller competitors and where the cost of vital products and services, such as health care and energy, are almost beyond the reach of those who need them; and that capitalism unchecked breeds corruption à la Bernie Madoff and Enron and encourages obscene bonuses, excessive pay packages and unwarranted golden parachutes. Capitalism is also being blamed with renewed vigor for a range of social ills, from air pollution to obesity.

All these kind of profound discontent suggests need to design an alternative economic system that can attempt to redress seemingly deep rooted problems that are as a result of unchecked economic systems. Bohle and Béla (2006) agreed that under capitalist system, corporate decisions are based on expansionary motives, especially profits and business growth. During the recession that hit Eastern in 1990-1995, all businesses collapsed, workers laid off but by the time of recovery in 1996-2002, most of the big multinational corporations like the IBM, Mannesmann, Philips, Kenwood, Samsung, Siemens, Flextronics, and others competitively moved to Eastern Europe because profit making opportunities had opened up there in.

Management of business functions

In this section, discussion of the practice of managerial function is discussed, particularly in the light of capitalist economic system.

Planning

When it comes to business planning, the process is always driven by target sales figures that have clear indication for profits to be earned; business planning is premised equivocally on maximization of profits (Clarke, 2004). The achievement of the target is monitored strictly to ensure maximum profit outcome. This is with total disregard to needs of the disadvantaged society as long as the economically powerful see it a viable wealth amassing venture.

Human Resource Management

Rachleff (2006), laments that the labour conditions will always be appalling under the capitalist system and said, "...with wage and benefit cuts, economic insecurity, draconian reorganizations of work rules and job descriptions, declining rates of unionization and declining effectiveness of conventional strikes, the prospects for the emergence of a global labor movement have never been better". Human resource management practices emphasize high level skill training, (CIEM, 1992), compensation for labour is linked to employee and firm performance (Vo and Dinh, 1997), incentive compensation rather than the base wage (Hoang, 1995), and performance appraisal is the basis for job retention, King-Kauanui and Ngoc (2006).

Financial Management

Corporations financing decisions are basically two i.e. share capital and debt or funds borrowed. Unfortunately, the financial markets under the neoliberal system are characterized by speculation, credit, and stock manipulations, finance capital siphons wealth not only from the working class, but also from manufacturing, retail, and other industries (Rechleff, 2006). The financial decisions are seriously scrutinized by auditing system both internally and external. This is an expression of suspicion and lack of trust in those who handle the corporate funds.

Production Decisions

Production is considered investment in this case. Corporations invest to produce goods and services whose calculated returns are acceptable (Bohle and Greskovits, 2006). Human needs areas that do not support investment decision criteria are a dead end and consequently no investment in such areas.

Marketing Management Decisions

Corporations produce products, distribute, price them and communicate or promote them as economic forces warrant. They may produce products that may be immoral; charge prices high or low depending on the motive at hand; communicate about the product at will and they choose where to locate the products. There is no rule, but the invisible hand of demand and supply forces. The errors of inappropriate production, pricing, distributing and promotion may occur as marketing decisions may not be morally guided but economically driven.

From the literature review, there is clear evidence that capitalism and neoliberalism as economic systems have failed to guide CBM to make business decisions that keep the human society in harmony. There is a lot of chaos and crisis suggesting a failure of the current system, hence need for an alternative system. Porter and Kramer (2011) critically analyzed capitalism and neo-liberalism as economic systems and suggested reforms by introducing the concept of 'Creating Shared

Value'. Accordingly, this system will not only be running on the profit motive model but rather consider offering benefits to the community as well as the less privileged. Birkin (2001) suggests another alternative economic system he referred to as 'Natural Capitalism' to be the way out of all the forms of crisis that the world is experiencing as result of practicing capitalism.

Islamic point of view on ethics of CBM

The term ethics is basically simple one, though meaning different things to different people. For the purpose of this paper, the term ethics will mean the study and evaluation of human conduct in the light of moral principles. The moral principles appraise good and evil, right and wrong from heavenly rather than human being point of view. The thesis of ethics from Islamic view point is that there is supernatural structure - *Allah* i.e. the creator, cherisher and sustainer of the worlds, Khaliq and AbulHassan (2001); and His message to man, Khaliq and Fontain (2011). So, man should pay allegiance to Him in all that he - man does. The normative primary sources of Islamic Business Ethics are *Al- Qur'ān* - the revealed book of Islam and *Hadith* - the traditions and practices the *Allah's* messenger. This is because the prophet has in him beautiful character as said: "You have indeed in the Apostle of Allah a beautiful pattern (of conduct) for anyone whose hope is in Allah and Final Day, and who engages much in the praise of Allah", (*Al-Qur'ān*, 3:31); and the other two additional information can be derived from *Ijmaā*, that is consensus of scholars, and *Qiyaas* - analogy, (Beekun and Badawi, 2005).

Allah states the purpose of His creation and said, *Al-Qur'an* (51:56), "I have only created the jinn and men, that they may serve Me", (Badawi, 1991); and He further said, *Al- Qur'ān* (53:39), "That man has nothing but what he strives for". In this case, Islam permits man to engage in lawful wealth creation, one of the ways of the wealth creation is commerce (Arham, 2010). He also sounds strong warning to protect the wealth creation process, and said:

O you who believe! Eat not up your property-among yourselves in vanities: but let there be amongst you traffic and trade by mutual good-will: nor kill (or destroy) yourselves: for verily Allah has been to you most merciful! If any do that in rancor and in justice – soon shall we cast them into the Fire: and easy it is for Allah. (Al-Qur'ān 4:29-30).

The case for Islamic Ethical System in CBM

Capitalism and other economic systems are man crafted, for example, capitalism originates from individual opinions of those of Adam Smith in 1770s, and Adam Smith spread the ideology through his book - *The Wealth of Nations* published in 1776, (McConnel, 2011). Neoliberalism emerged in 1970s nearly 200 years later trying to address capitalism short falls, even fails much more terribly and faster before others economic systems like state capitalism emerge within short time. From growth of Islamic ideology perspective, there are countries like Malaysia, Egypt, Iran, Indonesia, Algeria and others trying to Islamize their social economic systems, and building a major trading block (Saeed et al., 2001). In all these cases, there is apparently clear evidence of search for a more stable and robust natural system that will keep the world societies in total harmony.

Islamic Business Ethics

Source of ethics can be human wisdom derived from traditions of the society on one hand, and divine source i.e. from supernatural being, in this case almighty Allah on the other (Khaliq and AbulHassan, 2001). The belief in stability in application of Islamic business ethics as a viable and more stable economic system is its broad base and robustness in covering business areas and economics. It is characterized by divine guide; its validity is irrespective of time, space and societies (Khaliq and AbulHasan, 2001). Islamic Business Ethics is based on principle of responsibility;

human relationship based on trust, safety and security of property, self-discipline, creativity, application of integrated and holistic body of knowledge; and equilibrium in social order based on natural justice (Khaliq and AbulHasan, 2001; Abuznaid, 2009; and Noor, 2007). Based on the purpose of *Allah's* creation, man should always secure an opportunity of worship (*ibaadah*) in all the activities he is involved in. As an *ibaadah*, all the activities should be those that Allah is pleased with those guided by demand and supply forces. Taking this as the bottom line, all forms of malpractices naturally disappear, justice and harmony crops into human societies.

Corporate Business Management using Islamic Business Ethics

Some of the recommended practices based on Islamic Business Ethics are as tabulated below:

Table 1: CBM under Islamic Ethical System

Business Function	Islamic Business Ethics Practices	Divine commands
Planning	• Vision-the say goes, "Without vision people shall perish", Abeng (1997); • Commitment, Implementation decision and Delegation (Khaliq and Fountain, 2011)	• The following sections of <i>Al-Qur'ān</i> stress necessity and how it should be done: 53:30; 53:40-41, 13:11; 22:41.
Human Resources Management	• Fair wages based on need and brotherhood (ikhuwwah), (Khaliq and AbulHasan, 2001) • Hiring-and-firing be justice based, fair working condition, no sexism, honesty, necessity fairness, respect for employees (Khaliq and AbulHasan, 2001; Beekun and Badawi, 2005) • No worker exploitation • Prompt wage payment	• In <i>Al-Qur'ān</i> sections 4:1, 3:195, and 7:189 command man for equal treatment of men and women at work place. • Qur'an emphasizes human dignity, responsibility and trusteeship when it comes to HRM , <i>Al-Qur'ān</i> 32:9, 15:29 and 2:29 • Prophet is reported to have commanded that labour should be paid when the sweat is still on.
Investment & Production Decisions	• Protection of natural resources and environment as production takes place; • Ensure justice, righteousness, and truthfulness in invest and production process; • Comprehensiveness and integratedness; and • Responsibility and accountability (Salleh, 1995)	• The following sections of <i>Al-Qur'ān</i> portray man as servant and vicegerent of Allah 51:56 and 2:30; • Man should be just, righteous and truthful 2:177, 36:40, 4:135 and 40:78; • Thorough, 54:43-44; • Responsible and accountable for his actions 2:217.
Marketing Management: Marketing mix management is the core of decision making	• Be honest, truthful, patient, humble, complacent, generous, dignified, trustful, consultative, friendly, equitable, do not be fraudulent, no bribery and keep your promise, (Abuznaid, 2009)	The sections of o <i>Al-Qur'ān</i> outlined below make strong warning against the cases listed in this row: 5:119, 39:33, 9:24, 25:63, 3:134,2:278-279, 26:215, 16:90, 4:58, 2:188 and 17:36

in marketing
Financial
Management

- Usury (*Riba*) strictly prohibited, *Zakat* be paid, borrowing allowed (Rahman, 2010)
 - Accountability and record keeping
 - Prohibition against waste, avarice & unfair trading (Pomeranz, 2004)
- The following sections of *Al-Qur'ān* guide on *Riba*, 2:27-30; 395-276; accountability, 2:278-279; and *zakat* 3:130-131;

General findings

It is clear that the world is looking for an alternative economic system as capitalism and all its forms are seen as failed. Corporations are being questioned for their unacceptable business ethics on the areas of human rights, labour standards, bribery and /or corruption, environmental protection, and financial probity and the control of money laundering, (Warren, 2010). It is within powers of corporate managers to develop socially responsible business practices although the business environment within which they operate is still unfavorable, (Delios 2010). Corporate bodies are trying to portray themselves as non-evil organizations in societies by beginning to participate in the societal affairs by undertaking what is becoming known as Corporate Social Responsibility (CSR), Aurelija and Juozas, (2011), and Pomeranz (2004). This is because CSR caters for both the business and society interest, "... the obligation of decision makers to take actions which protect and improve the welfare of the society as a whole along with their own interest", Grbac, and Lončarć, (2009). Young (2009) advocated for better corporate governance that is more responsible, and suggested ten principles for the North American corporations to adopt. The summary of the ten principles is: transparency, responsibility, competency/commitment, accountability, leadership for board and management, appropriate culture based on integrity, ethics and CSR, stakeholder involvement, and communication with the stake holders. Porter and Kramer (2011) are busy developing an alternative economic system being referred to as 'Shared Value', expected to be next evolution in capitalism. The current global financial system is characterized by speculation and contractions. All the cases discussed suggest a search for an alternative more accommodative system. Islamic Business system stands enormous chance to be the next global economic system unfortunately it grows at a slow pace.

Conclusion

Corporate Business Management is a goal-oriented and impactful activity. Without acceptable ethical guidelines, it can plunge the economies into crises. This paper therefore attempted to provide business ethics from Islamic point of view. This is because unethical society is dangerous society. Islam as a robust way of life has ethical perspectives that can align human behaviour that can bring about harmonious living.

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