BUSINESS ETHICS IN ISLAMIC LEADERSHIP AND MANAGEMENT

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Abstract: Ethics and Business ethics has been globally known as a field of applied phylosophy science. Nowadays business ethics, as a field of science, has widely accepted and implemented by many organizations and communities. Islamic teaching is one of the most influencing basic for ethical consideration in decision making process in management. The idea of this paper is to contribute an array of perspective on what Islamic business ethics might possibly influence to the management and leadership in decision making process within business economics. By Islamic business ethics is mean the islamic teaching that guide the behaviour of people or organization on business. The paper has three parts. The first part review the business ethics including theoretical scholarly writings and descriptions of Islamic teaching of leadership and management. The second part discusses business ethics and Islamic teaching in business leaderships and business managements. The part include result of deep interviews with 5 (Five) business owners and managers in 5 (Five) Business fields to get evidences of business ethics in Islamic business leaders. In the third part, the conclusions. The research produce evidence that Islamic teaching do exist in the business ethics decision making process in islamic leaders and management of islamic business. The future research should be of practical issues to this original field of business ethics management.

Keywords: Ethics, Business ethics, Islamic teaching, decision making process.

1. INTRODUCTIONS

The basic Islamic teaching about man is that the mission of humankind in this world is only to worship Allah and be HIS vicegerents to this Earth by submitting to His will (Jabnoun, 2005). As stated in Al-Qur’an:

56. and I did not create jinn and mankind except only to worship Me > dan aku tidak menciptakan jin dan manusia melainkan supaya mereka mengabdi kepada-Ku (Q.S Adz-Dzariyaat [51]: 56).

Allah SWT has created man to be leader (khalifah) on the Earth. As a leader man has duties to preserve, care, develop and nurture the Earth and its potentials for the shake of human and other creature’s welfare and happyness (As-Suwaiddan dan Basyarahil, 2009, hal.215-216 ). In the Holly Al-Qur’an Allah SWT stated that:

and:

61. “…. HE had created you from earth (Clay) and making you as it prosperous - Dia telah menciptakan kamu dari bumi (tanah) dan menjadikan kamu pemakmurnya[726], ” (Al-Qur’an: S. Huud [12]:61)

[726] Meaning: Man is inhabiting the world to and to prosper the world - Maksudnya: manusia dijadikan penghuni dunia untuk menguasai dan memakmurkan dunia.

According to Islam, man had an agreement to lead on Earth before he was sent to it (Chodim, 2003. P.95). Men’s duties on Earth is to lead, to manage, to develop, and to care, not to overexplored or to destroy the Earth and its content (As-Suwaidan and Basyarahil, 2009, hal.215-216 ), Manager is dinamic element and life of every business (Drucker, 1954/1979, in Sheldrake, 2003). but Maslow (1943) in Sheldrake (2003) stated that human is animal who continously wanting which mean wanting more monopolize conciusness. So, when there is human who does not pay attentions and guard the goodness on Earth, then that men can be said as unethical managers according to religious view or according to social and Law.

Ethical behavior in business has not yet being standarized (Bertens, 2000; hal. 384; Kim, Fisher, and McCalman, 2009), but for the time being to judge ethics in business is that bind to the law and follow the good norms in society and good according to the religion (Beekun, 1996; Bertens, 2000; Fauroni, 2003; Kim, Fisher, and McCalman., 2009). then Imaniati, (2009; hal.248-255) propose 5 (five) principal in business ethics that are: otonomy, honesty, good conduct / not being evil, justice, and self respect. This five principal based on philosophical view of ‘respect to the man as a person’ which is in this view human in business are good person, as a being who valuable to himself.

In the Islamic contecs, business which is in ethics will have Khayr / khoir (goodness), birr (truth/honesty), qist (equal), adl / adil (justice/balance), haqq (right), ma`raf (known/agreed), dan taqwa (iman/obey/bind) (Beekun, 1996).

Looking to the above consequens, unethical behavior in business can be devine as: theft, forgery, lying, poisoning, corruption (Norman, Roux, and B`elanger, 2008), KKN (corrupt, collusion, and Nepotism) (Arifin, 2008), lying (Umphress, Ren, Bingham, and Gogus, 2009), piracy (Wang, Chen, Yang, and Farn, 2009), theft (Mitchell, Ballabanis, Schlegelmilch, and Cornwell, 2009), not honest (Kidwell and Valentine, 2008), and Cheating (Jia, Ding, Li, and Wu, 2009), far more Fauroni (2003) stated that according islamic teaching unethical business is having element of evil, mean, destructive, in small or at large, hiding or obvious. Islamic teaching forbid cheating, and it clearly stated in the holy book of Al-Qur’an Surat Al-Muthaffifin[830]: ayat 1-6, as follow:
Good and ethical businessmen will always uphold the rule and norms. Good Business has meaning of morality and business has to be ethical for its own purposes (Bertens, 2000, p.377 & 387).

Although business ethics have widely known, the islamic teaching of ethics in business sometime misunderstood and not known by managers. Most management, and management scientist, thinks that Islam does not have anything in building business ethics in management. They tend to think that good business ethics came from the western society (US, Europe), and ignoring the teaching of ethical value of Islam and the East.

The idea of this paper is to contribute an array of perspective on what Islamic business ethics might possibly influence to the management and leadership in decision making process within business economics. By Islamic business ethics is mean the islamic teaching that guide the behaviour of people or organization on business management.

The study was designed to answer a question of how does the implementation of Islamic business ethics in management. The method used in this paper is qualitatific descriptive with philosophycal inquiry approach and critical theory paradigm (Salladien. 2007). First we review the devinision of business ethics and theoretical sclarly writing on business ethics. Second we dug the islamic teaching on ethics and business. Third we discuss relationship between business ethics and islamic teaching on business management, then we concluded the paper.

2. BUSINESS ETHICS

The word “Ethics” according to Oxford Advanced Learner’s Dictionary (2005) mean moral principles that control or influence a person’s behaviour. Taylor (1975) in Tseng, Duan, Tung, and Kung, (2009) devine ethics as “inquiry into the nature and grounds of morality” where the terms morality is taken to mean moral judgement, standards, and rules of conduct. Combine the devinition of “ethics” Tseng et al. (2009) view the word “ethics” as the study and philosophy of human conduct with an emphasis on the determination of right or wrong. Beekun (1996) devine ethics as the set of moral principles that distinguish what is right from what is wrong. For Muslim society (people who embrace Islam religion) they believes that the holy book Al-Qur’an, Sunnah – behavior, and Hadist – speech- of the prophet Muhammad S.A.W., and Syari’ah (Islamic law) give every answer for ethical questions and guidance to ethical behavior (Rise, 2006; and Abbasi et al., 1989, in Tsalikis, and Lassar, 2009). Ethical feeling is devined as a set of moral principal or value that bound societies together (Donaldson, 2003; Rodgers, 2009; Rodgers &Gago, 2001; in Rodgers, 2009).

Utilitarian theory in ethics stated that a behavior is good if its useful to society as a whole, ethics in deontologi theory stated that a behavior is good if it is serve a duty. (Bertens, 2000, hal.66-80).

The word “business” in english, according to Oxford Advanced Learner’s Dictionary (2005) mean the activity of making, buying, selling, or supplying goods or services for money. Rise (1999) in Tsalikis and Lassar (2009) stated that Islam views business as social functions which is very usefull and prophet Muhammad (Peace upon him) himself involve in trading world, but the individual profit is not main motivation in islamic law. moreover Salim (2010) explain that islamic business can be devine as a set of business actifties in many forms that are not limited to the quantity of goods owned including its profit, but it limited in the way of having the goods and how they use the goods they owned (there are the rule of halal and haram in their management).
Fauroni (2003), stated Al-Qur’an in asking human to believe and perform its teaching in all aspect of life often use the term “sell-buy”, ‘profit-not’, etc. In Al-Qur’an surah At-Taubah (9) ayat 11 stated that:

111. Ye! Allah had bought from Mukmin themselves and their wealth with heaven for them. They faiht in Allah’s way; then they kill or to be killed. …

Sesungguhnya Allah telah membeli dari orang-orang mukmin diri dan harta mereka dengan memberikan surga untuk mereka. mereka berperang pada jalan Allah; lalu mereka membunuh atau terbunuh. (Itu telah menjadi) janji yang benar dari Allah di dalam Taurat, Injil dan Al Quran. dan siapakah yang lebih menepati janjinya (selain) daripada Allah? Maka bergembiralah dengan jual beli yang telah kamu lakukan itu, dan Itulah kemenangan yang besar.

Robin and Reidenbach (1987) in Tseng, et al., (2009) says that business ethics business ethics requires that the organization or individual behave in accordance with the carefully thought-out rules of moral philosophy. Jeanne, 2009., in her blog business.lovetoknow.com says that: “Business ethics can be defined as written and unwritten codes of principles and values that govern decisions and actions within a company. In the business world, the organization’s culture sets standards for determining the difference between good and bad decision making and behavior. In the most basic terms, a definition for business ethics boils down to knowing the difference between right and wrong and choosing to do what is right. The phrase ‘business ethics’ can be used to describe the actions of individuals within an organization, as well as the organization as a whole”.

Business ethics is important, becouse business ethics is one of the factors in corporate social responsibility (Carroll, 1991; Schwartz and Carroll, 2003 in Rodriguez-Dominguez, Gallego-Alvarez, and Garcia-Sanchez, 2009), and corporate governance has a great deal of implications in an organization’s approach to corporate social responsibility and business ethics (Bonn and Fisher, 2005 in Rodriguez-Dominguez, et al., 2009).

Now business ethics are learned, thought, and developed all over the world. We heard business ethics in Latin America, Asia, Eastern Europe, and other part of the World (Bertens, 2000, hal. 42) this means including Indonesia.

Rules that govern business ethics can came from family, culture, environment, eductional institution, religion, and government rules and law (Kim, Fisher, and McCalman, 2009). In recent years, in Europe, Australia, and the United States, there has been a great increase in number of corporations choosing to adopt an ethical code of conduct (Adam and Rachman-Moore, 2004; Barenbeim, 2000; Stevens, 2004 in Roriguez-Dominguez, et al., 2009).

In Islam, Al-Qur’an, Sunnah, and Syari’ah provide guidance of ethics that derived from the concept of Unity (tawhid), Justice (adalah), and Trusteeship (khilafah) (Rice, 1999, in Tsalikis and Lassar, 2009), the concept of “unity” means equality and brotherhood among society lead to corporations and equal partnership in business transactions. The concept of “justice” forbid unfair agreement, and order every moslem not to cheat or lie and uphold promises and business agreements. The concept of “trusteeship” is similar to the idea of sustainable development, whereas over consumptions is not suggested (Tsalikis and Lassar, 2009). In the principal of trading proposed by four Great teachers ( Imam Mazhab) in Islam also require that trading must be conducted by grown up people / baligh, sensible / akil, on their own will, and have the right for selling and/or buying, if not then selling-buying / trading is not legal (Mohammad, 2001; pl.214; Baheisyi, --- -; p.505.).
Business ethics is a mind or a reflection of morality in economy and business (Bertens, 2000). Business ethics can be defined as moral principles of commercial activities from making, buying, selling, or supplying goods or services that not hazard and in line with social norms, law, and religious norms.

**Islamic Teaching in Leadership and Management**

Islam is a universal religion for all mankind. It is therefore, not restricted to any nation, race, or gender. Islam stressed corporation and the sense of collectiveness. Islam requires Muslims to be united together and warns against division:

103. and hold fast, all together to the rope of Allah, and be not divided among yourselves……>

Muslims have to work in organized groups (Jabnoun, 2005). Stoner and Freeman (1994) defined an organization as two or more individuals that work together in a structured way to achieve specific goals.

Organization needs a leader. In Islam good leader have to fulfill some requirements such as ability to manage, to develop, and to care, not to overexplored or to destroy Earth. Since Al-Qur'an, Sunnah, and Syari'ah provide guidance for all aspect of lives in Islam, so that for characteristics of the leader is based on those too. The prophet Muhammad (p.u.h) is the most ideal model of a leader (Antonio, 2008). Al-Qur'an stated that:

21. Truth. There are in Rosulullah good example for thee that are for those who expect gratitude from Allah…. > Sesungguhnya telah ada pada (diri) Rasulullah itu suri teladan yang baik bagimu (yaitu) bagi orang yang mengharap (rahmat) Allah dan (kedatangan) hari kiamat dan Dia banyak menyebut Allah. (Q.S Al-Ahzaab [33]: 21).

Prophet Muhammad (SAW) is well known as a charismatic leader, a truthful person, He is also charitable, brave, just, patient, and honest. He always maintains good relationship with people. (Sunarto, 1997). So, as a model prophet Muhammad SAW is an excellent model for leaders. Almost all leadership theories are in Prophet Muhammad SAW. Even ‘the 4 roles of leadership’ of Steven Covey, path finding – aligning – empowering – modeling, Mohammad SAW had it (Antonio, 2008).

Mohammad’s characters of leadership are followed by most Islamic leader and managements. These characters mostly include truthful (Siddik), reliable (amanah), dependable (tabligh), and Visional (fathonah).

Antonio (2008) explains Steven Covey’s ‘the 4 roles of leadership’ in Prophet Muhammad’s life as follows:

Roles **path findings** unfold how leader understand and fulfill the main needs of his stakeholders, missions, and values they embraced, also vision and strategy how firm reach its goal. Muhammad SAW did various steps to make mankind go to the right path, He succeed building a set of modern social rules which introduced values of universal equality, multiculturalism rule of law. This social system was admitted too modern compare to the era of his age and then continued by Khalifah / leaders after him.

**Aligning** function is deal with how leaders aligning all systems within organization to be able to work and synergizes, leader has to understand what are components in firm systems. Then aligning those parts in order to achieve underlining vision. Muhammad SAW capable aligns many strategies to reach his goals in spreading Islamic teaching and developing good and modern social rules. He did develop the strong law systems, diplomatic relationships, and building strong defense systems, so that Madinah become new influencing nations on that time.
Empowering function is leader ability to upgrade environment so that every person in firm organization capable doing their best and always have strong commitment to the organization. Leader has to understand the nature of his work and can delegate responsibilities and authority of his inferior. History of the Prophet Muhammad SAW tells us how his ability to synergizes potentialities of his companions in order to reach the goals.

Modeling told us how a leader become model for his employee. How his responsibility on his talks, attitudes, behavior, and decisions he made. How he does what he said. Muhammad SAW was known strict to the agreement that has been agreed. He was a man who ‘walks the talk’; he did what he said to do. And there are more proof that Muhammad SAW is qualified to all aspect for good leader that gurus of leadership and modern management said to be.

The second successor of Prophet Muhammad SAW is Umar Ibn al_Khattab r.a. He is considered as the founding father of modern administrations. He was the only Muslim besides Prophet Muhammad SAW to be chosen by Michael Hart (1979) among the one hundred most influential persons in history (Jabnoun, 2005).

Furthermore, Jabnoun (2005) in “Islam and Management” describe the characteristics of Umar ibn al-Khattab leadership. Umar possesses a great mental maturity and strong physique. He was a great fighter and he was tough. He came from very intelligent, wise and educated family, that’s why he was very smart and possesses a great deal of intuition. Prophet Muhammad SAW complimented Umar by saying:”Allah SWT had put truth and righteousness on the tongue of Umar.”

The major accomplishment of Muslim on Umar’s era can be briefly stated as follows:

- Conquest Egypt, parts of North Africa that were under The Romans.
- Conquest Greater Syria includes Lebanon, and Palestine that were under the Romans.
- Building new cities such as Al-Kufa and Al-Basra in Iraq.
- The organization of the country into states and province.
- The establishment of new institutions such as the police, prisons, tax collection agency.
- The adoption of new calendar starting from the date of migration or hijrah.
- The installation of a canal linking the Nile River to the Red Sea.

Characteristic of Umar’s leadership was his great responsibility. This sense of responsibility made him care for all his people. Umar established the agency of complaints. He wanted to get first hand information on how his people were doing. Umar is considered to be historical champion of participative management. Participative management is the continuous involvement of people in decision-making. Participation is a must in Islam. It is accomplished through consultations, righting the wrong, and advice, which are all mandatory in Islam.

Umar’s feeling of responsibility and his ever present awareness of his accountability before Allah on the Day of Judgement led him to be accurate and very rigorous in taking any action. Umar was also very committed to high quality if not perfect performance in every act of life. This total quality management was performed by Umar in every aspect of his leadership / khalif.

The teaching of Islam emphasizes quality very much. Prophet Muhammad SAW said:

“Allah the Almighty wants that when one of you does a job, he/she does it well.” (H.R Bayhaqi).

As mentioned earlier the Prophet Muhammad SAW also involve in business / trading. As a businessman Muhammad SAW gave us good example how to do business according Islamic Ethics. In conducting business relationship Prophet Muhammad SAW maintain good business relationships, he never cheat, lie, and never fight.

Prophet Muhammad SAW enter business world in the age of 12 years. He was doing internship with his uncle. He started his own business by partnership (mudharabah) with fee based and/or profit sharing. Becouse his honesty and truthfulness Many people wanted to have business with him. Therefore in young age prophet Muhammad had already became regional trader and his business almost all area of Arab Land (Antonio, 2008).
As a merchand Prophet Muhammad SAW knew a lot of selling – buying processes and the trics of bad trader to cheat consumers. That’s why he conduct many examples and rules to make business benefit to all parties involved. The rules such as prohibit merchans to sell goods to minors or to those who is not grown up / baligh yet, or to to those who do not have the right to sell or to buy. The Prophet Muhammad SAW also prohibit selling haram stuff.

The way prophet Muhammad SAW doing business was made everyone satisfied and happy. He conducted the auction way to sell his merchandises. So everyone can bargain and pay the price they afford to pay. When describing his mechanisdes, he told the real condition of his merchandises. He never lie.

Profit Muhammad SAW always keep his promises. When he owe someone, he will pay his debt and give more to the lender as long as it does not make unhappy feeling or feeling that he have to or as an obligations. Prophet Muhammad SAW forbid people to borrow or lend with promise to pay more. It is consider riba.

3. DISCUSSION

Data for this paper was gathered by making deep interview with informan from 4(Four) firms with categories of: Travel Agent, Real Estate Developer, Traditional Market, and building contractors. Interview is taken in the office of informan, some times continue to the site of their activities. We did not ask for specific timing. We follow to their day-to-day activities such as visit real estate site, go around the markets (when the informan have to control his market) and so on. Data, interview results, was analized and concluded as narratives explanations.

There many ways to evaluate ethical dimension of descision. One way to evaluate the ethical dimension of decision is the use of Integrative Social Control Theory. This theory allows for formal diversity among various culture while maintaining certain universal norms. This tolerance of diversity will reduces the ethnocentric and western bias.

When making business decision, business ethics involve the use of moral standars. Before the decision is made one of the followin dimension will be considered: economics, politics, technological, social, and ethical. Manager will evaluate the moral dimention of a decision prior to the decision being made.

Business ethics sometimes hard to implement in management, becouse it cantradict with self-interest in term to pursuit of profit. When ethics conflict with profits, most business management always chose profit. But some companies proofs that choosing ethics over profit creates the kind of good will and reputasion that expand opportunities for profit (Valasquez. 2002).

For companies to be ethical they must have strong, sensitive, and responsible management. This caracteristics of management are strongly emphasizes in Islam. The caracteristic of management to be ethical is to fulfill moral standars which are embraced by the management and shareholders. In Islamic teaching moral standar is devined as doing what Allah SWT order us to do and avoid what Allah forbid us.

In business, Islam already have its moral standars which are shown by the example given by Prophet Mohammad and His Companions. This very clear ,since Prophet Muhammad SAW and His Companions always doing what pleases Allah, for us to do what is good and avoid what is bad. As mentioned earlier, business which is in ethics will have Khayr / khoir (goodness), birr (truth/honesty), qist (equal), adl / adil (justice/balance), haqq (right), ma’raf (known /agreed), dan taqwa (iman/obey/bind) (Beekun, 1996), and Fauroni (2003) stated that according islamic teaching unethical business is having element of evil, mean, destructive, in small or at large, hiding or obvious. We then understand clearly when making business decision Islamic management should consider this as their moral standard. So the decision will be ethical.

Implication for management

Impact for managers suggested themselves from theory and data of research. There are the meaning of business ethics, management values of Jabnour, and characteristics of business ethics and unethical business.

Most managers still confused when they are asked about business ethics, since there are no consensus concerning ethics in business. They answer to such questions with confused look in their face. They seemed do not really understand when we talked about business ethics. Do business ethics exist? Or do people care about business ethics? They mostly do not aware of ethical conduct, they just do what they think good and acceptable to society and/or religions.
We suggest that, given data in the study, business ethics appear to be meaningful when they implanted in social situation. This means that managers need to think of business ethics as their responsibility to Allah and to society. In other words, business ethics can be acted as day-to-day behavior.

The data shows that Islamic teaching influence the decision making process of Islamic management. When the informant, management, considering to make a business decision, they remember the Islamic teaching that they had will guide his considerations of decision he made.

In order Islamic teaching to be used in business ethics decision making process, we suggest that manager make more social interactions, since it will produce positive influence to understand the need of society and the advantage of firm from society. This we call good interactions will gain the degree of social responsibility. Social interactions grew the feeling of togetherness and gain the sense of belonging toward community.

Jabnour (2005) had list values to be considered for management for making ethical decision. These values as follows:

2. Humbleness, Charity never decreases wealth and Allah only increases a forgiving person in honour.
3. Tawakkul, doing our best and putting our trust in Allah.
4. Abstaining from Haram, do what Allah told you to do, avoid what Allah told you to avoid. – Abstaining from evil, not hurting ourselves and other.
5. Flexibility, Satisfaction with high degree of freedom, Innovation, avoiding conflicts.
6. Fairness, All people are equal – employee’s satisfaction – producing good quality.
7. Caring and sharing, *Ihsan*, The believers are like one man if his head in pain his whole body suffers. – Loyalty – satisfaction of community.
8. Cooperation, help one another unto righteousness and pious duty.
9. Dignity and respect, Allah have honoured thy children of Adam.
10. Trust, Leader who is suspicious of his people will lead them to mischief.
11. Cost efficiency, verily spendtrifts are brother of satan and satan to his Lord is ungratiful.
12. Time efficiency, man will be asked about his life, how he spen it, his youth, how he used it and his money, how he earn it and how he spend it.
13. Quality / diligence, He whose two days are equal (in accomplishment) is a loser.
15. Unity of purpose, Muslim should not be devided between their dunia and akhirah.
16. Discipline, Obedience is Islamic duty.
17. Participative management.
18. Eagerness to learn and to share knowledge.

Characteristics of business which is ethical in Islamic teaching:

1. Goodness (khoir).
2. Truth / honest (birr).
3. Equal (qist).
5. Right (haqq).
6. Known / Agreed (ma’ruf).
7. Obey / bind (Iman / Taqwa).
Characteristics of Unethical business:
1. Opposite to the above characters.
2. Evil.
3. Mean.
4. Destructive.
5. Dangerous.
6. Cheating.
7. Kill.

4. CONCLUSION AND FUTURE RESEARCH AGENDA

Men are created to worship Allah SWT, to be His vicegerents / kholifah to His Earth by submitting His will. As Allah’s vicegerents / kholifah on Earth, man have to care, to prospour, to preserve, to develop the Earth for the shake of human & other beings welfare and happiness. Men is forbidden to destroy and to over explored the Earth and its contents.

Business ethics that Prophet Muhammad SAW implemented in his business among other things are honest, truthfulness, never cheat, fair, keeping his word / never brake promises, selling good stuff, telling the truth about goods he sell, etc.

Islam teaches us that we are only the vicegerents and not the real owner of whatever is within our sphere of influence. Goods, money, and power belong to Allah SWT Who alocates them to whomever He pleases. So doing good and ethical business is one way for us to serve Allah Azza Wa Jalla.

This paper has limitations on the number of informan being interviews, and the informan only did not represent generalization of organizations. Furthur research should be conducted in the practical corporations with greater number and kind of informans.

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