

# Ethical Business Practices in Islam

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## ***Abstract***

*There are two primary sources of normative Islamic teachings. The first and most important source is the **Qur'an** [commonly misspelled Koran]. Muslims accept (believe is the suitable word here) the Qur'an as the verbatim word of Allah, revealed to Prophet Muhammad [PUBH] over a period of 23 years [610-632 C.E.] and dictated word-for-word by Archangel Gabriel. The second primary source is called "**Sunnah**" or "**Hadeeth**", which means the words, actions and approvals of Prophet Muhammad (PUBH). This study focuses mainly on widely accepted principles and norms relating to business ethics as stipulated in the two primary sources of Islam.*

## **Introduction**

The term "**Islam**" is derived from the Arabic root [SALAM] which means peace, submission, and acceptance. Religiously, the term means to achieve peace; with Allah; with oneself [inner peace] and with the creation of Allah through submission to Allah; putting one's trust in Him and acceptance of His guidance and injunctions. This broad definition explains why Islam is more than a "religion" in the commonly limited meaning, which concerns itself mainly with the spiritual and ritual aspects of life. In fact, the term "religion" is an imperfect translation of the Arabic term "**Deen**" which means literally a way of living? That way of living embraces the creedal, spiritual, moral, social, educational, economic and political aspects of life. A topic like business ethics is an integral part of the normative religious practice.

There are two primary sources of normative Islamic teachings. The first and most important source is the **Qur'an** [commonly misspelled Koran]. Muslims accept (believe is the suitable word here) the Qur'an as the verbatim word of Allah, revealed to Prophet Muhammad [PUBH] over a period of 23 years [610-632 C.E.] and dictated word-for-word by Archangel Gabriel. The second primary source is called "**Sunnah**" or "**Hadeeth**", which means the words, actions and approvals of Prophet Muhammad (PUBH). While the words of Hadeeth

are not those of Allah [verbatim], they are believed, however, to be another form of revelation to the Prophet [PUBH], in meaning only. Both primary sources provide broad principles and guidelines in conducting the normative Islamic life. These broad principles and precepts, such as social justice, mutual consultation [shura] or moral conduct are not subject to nullification or change. They are presumed to be valid for all times and places. The human endeavor is limited to understanding and implementing them in a manner that is suited to the needs of time, place and circumstances. While these sources focus on broader and guiding principles, they also contain injunctions that are more specific due to their importance. This study focuses mainly on widely accepted principles and norms relating to business ethics as stipulated in the two primary sources of Islam.

### **Entrepreneurship and Islam**

The relationship between Islam and trade is not well appreciated in the West. The Prophet Mohammad (PBUH) has practiced of some trading activities some time in his life and his wife Khadija was merchant. The Qur'an, the Muslim scripture, is filled with parables using the language of trade. It was merchants, not soldiers, who were mainly responsible for the spread of Islam throughout the world. Entrepreneurship is an integral part of Islamic culture. According to Prophet Mohammad (PBUH) and his companions, "*there are a lot of Muslims that are successful entrepreneurs in the world and Islam will always invite all Muslims to be innovative, entrepreneurial and active.*" Entrepreneurship has played a vital role in the formation of Islamic civilization. Most of the early Muslims were engaged in commerce and trade. These traders, mostly Arabs, travelled far and wide following sea routes to East Asia and Africa and land routes like the Silk Route to Central Asia, trading commodities like spices, herbs, dates, perfumes and frankincense. Thus, there is a long history of trade and commerce in Islam, indeed entrepreneurship is a cornerstone of the Islamic traditions and lifestyle (Bandai, 1996). Like their cousins, the Jews, the early Arabs had a strong commitment to trade and bargaining. The rise of Islam did not change, nor did it seek to change, the centrality of trade and commerce to the Arab way of life. On the contrary, the establishment of commercial law, concept of trusteeship, the expansion of property rights for women, the prohibition of fraud, the call for the establishment of clear standards of weights and measures, and the uncompromising defense of property rights (even while calling for a greater responsibility for alleviating the plight of the poor and needy) pushed the Islamic civilization to the front of the world's economic stage and made the Muslim world the defining force in international trade for over 800 years. (Ahmed, Imad A., 2010) Islam has laid down clear rules and regulations as to what is ethical (**Halaal**) and unethical (**Haraam**) in business transactions. The Qur'an lays the foundation of understanding and harnessing the Allah-given resources in numerous areas of economic pursuits.

### Concept of Trusteeship

The concept of trusteeship is among the most basic of Islamic teachings. As Islam considers human beings as the trustees of Allah on earth, it follows that his/her actions in the social order must be in accordance with the conditions of that trust. *Tawheed* upholds the exclusive sovereignty of Allah as the real owner of the universe and His foil rights to determine how His "property" should be used. As such, the concept of property in Islam is qualified by the condition of "trust" of the **Real Owner**.

The attributes of property in the Qur'an vary depending on the related context. On one level all property is attributed to Allah alone.

*"To Allah belongs the dominion of the heavens and the earth, and all that is therein, and it is He who has power over all things."* [Qur'an, 5:123]

On another level, property is attributed to persons, individually or collectively. This is recognition of the innate desire to own property common among all humans, provided that it is not seen as an absolute ownership, but rather an ownership by way of trust as given by Allah. As such, the use of such ownership is permissible as qualified by the conditions of the "trust". This is clearly expressed in the Qur'an when it commands its adherents give "... out of the means which He has given to you" [Qur'an, 24:33] "and spend out of the sustenance whereof He has made you trustees." [Qur'an, 57:7]

The conditions of the trust include:

- (a) Legitimacy of the method of acquisition of property, excluding theft, extortion, cheating of other illegitimate dealings, from the Islamic perspective.
- (b) That the enjoyment of one's property should not infringe on the similar rights of others [(e.g. establishing a factory in a residential area), or preventing access to natural resources (e.g. Beaches or waterways). This also includes the consideration of public interest as in the case of necessary expropriation of property deemed to be in public interest, such as the construction of public highways or other public facilities, provided that a just compensation is paid to the owner
- (c) That the owner should be mentally capable of looking after his/her property or else a guardian may act on his/her behalf (e.g. in the case of a minor).
- (d) To pay whatever is due on property (*Zakah*) as determined by the Ultimate Owner (Allah). *Zakah* is neither a tithe nor a tax. It is above all a highly reward able act of worship and an application of *Tawheed* as it relates to property. This is intended to

achieve a fairer distribution of wealth, and to promote an attitude of material security, sympathy and love in society.

In addition to the minimum prescribed Zakah, open general charity is much encouraged. Charity may be announced without boasting only of the purpose is to encourage others to donate. It is better, however, to pay in secret. [Qur'an, 2:271] Prophet Muhammad (Pbuh) included among the highest acts of piety, "*one who gave a charity in secret so that his left hand did not know what his right hand spent.*" As avoidance of boastfulness and advertising is a fruit of sincerity and love of Allah, it is a common virtue taught by all prophets to their followers. Prophet Muhammad (Pbuh) taught that "in [one's] wealth there are claims other than Zakah"

The Qur'an does not present the universe as an adversary of mankind. It is presented, rather, as a friend and means of human endeavors on earth. Following are a few examples from the Qur'an which clearly stimulate research, discovery, development and improvement of the quality of life.

“And in the earth are tracts (diverse though) neighboring and gardens of vines and fields sown with corn and palm trees growing out of single roots or otherwise: watered with the same water yet some of them we make more excellent than others to eat. Behold, verily in these things are signs for those who understand!” [Qur'an, 13:4]

“See you not that Allah sends down rain from the sky and leads it through springs in the earth? Then He causes to grow therewith produce of various colors: then it withers; you will see it grow yellow; then He makes it dry up and crumble away. Truly in this is a message of remembrance to persons of understanding.” [Qur'an, 39:21]

“It is Allah Who has subjected the sea to you that ships may sail through it by His command that you may seek of His bounty and that you may be grateful.” [Qur'an, 45:12]

“It is He who made the sea subject that you may eat there of flesh that is fresh and tender and that you may extract there from ornaments to wear; and you see the ships there in that plough the waves that you may seek (thus) of the bounty of Allah and that you may be grateful.” [Qur'an, 16:14]

“And cattle He has created for you; from them you derive warmth and numerous benefits and of their (meat) you eat. And you have a sense of pride and beauty in them as you drive them home in the evening and as you lead them forth to pasture in the morning. And they carry their heavy loads to lands that you could not (otherwise) reach except with souls distressed: for your Lord is indeed Most Kind, Most Merciful. And (He has created) horses, mules and donkeys for you to ride and use for show; and He has created (other) things about

which you have no knowledge.” [Qur'an, 16:5-8]

It is noted that the above quotes deal with the fundamental resources: agricultural, water, fisheries and animal resources.

In a sweeping statement, the Qur'an indicates that everything on earth and even in the heavens was created for the benefit of mankind.

“It is He who has created for you all things that are on earth; moreover His design comprehended the heavens for He gave order and perfection to the seven firmaments; and of all things he has perfected knowledge.” [Qur'an, 2:29]

“And He has subjected to you as from Him all that is in the heavens and on earth: behold in that are signs indeed for those who reflect.” [Qur'an, 45:13]

### **Role and Nature of Ethics in Islam**

It was indicated earlier that Islam is more than a “religion” in the common restricted sense. It is rather a complete way of living. As such, ethics is not one of its “compartments”, but something at its very core. This may explain why Prophet Muhammad summed up his mission in the following words:

*“I was not sent except to perfect moral characters”*

The basic principles governing Islamic ethics are Unity, Iman (faith), Trusteeship, Balance, Justice and Free Will.

The Qur'an does not speak of Iman [faith] as an abstract concept or a quality that is independent of action. It ties between “faith” and righteous deeds as inseparable components of what constitutes a true believer. Prophet Muhammad was even more explicit when he negated the quality of faith from a dishonest person even if he/she claims to be a “believer”

*“There is no faith for one who lacks honesty”*

Conversely, he tied faith to acts of kindness to others.

“Whoever believes in Allah and the [life] hereafter, let him be hospitable to his guest, and whoever believes in Allah and the [life] hereafter, let him not hurt his neighbor, and whoever believes in Allah and the [life] hereafter, let him say something beneficial or remain quiet”.

While acts of pure worship constitute essential pillars of Islam, both primary sources of

Islam, the Qur'an and Hadeeth indicate that they are not always meant for themselves as mere rituals. The five daily mandatory prayers are described in the Qur'an as acts to help restraint the believer from immorality and wrongdoing [29:45]. Zakah [charity] as a means of purification; of the giver from greed, stinginess, ungratefulness and apathy; of the receiver from envy and hate of the uncaring well-to-do persons; and of society from injustice, oppression and social instability [9:103]. Fasting is described as a means of attaining righteousness [2:183]. Even the highly structured rituals of pilgrimage to Makah are tied to good moral behavior [2:197]. In fact, the restrictions on the pilgrim not to hunt an animal for food or even pluck a tree leaf is a form of training on how to live in harmony with all the creation of Allah.

This may explain why Prophet Muhammad [PBUH] said:

*“There may be someone who gains nothing from his fasting except for hunger and there may be someone who gains nothing from his night prayers except for staying up late,”*

*“Anyone who does not desist from falsehood in words and deeds, Allah has no need for him/her to abstain from food and drink”*

Such explanation of the nature and purpose of the essential acts of worship in Islam might have led the noted scholar Muhammad Al-Ghazali to describe acts of worship as “**practical drills**” on moral behavior

As the broader Islamic ethics are anchored in the Islamic worldview, they are also the foundation of specific applications in the economic sphere of life. We shall look at these aspects in the economic activities of Production, Marketing, and Consumption etc.

### **Islamic Ethics in Production**

It was previously indicated that the Qur'an clearly and explicitly stimulates research, development and improvement of the quality of life through the wise use and harnessing of the resources which Allah created for the benefit and comfort of the humankind. Harnessing these resources, however, requires labor as a primary factor of production. The Qur'an exhort people to “go about in the spacious sides of the earth and to eat of His provision” [67:15]. It affirms that Allah has established the human race on earth and for him/her means of livelihood [7:10]. Devotional acts are not meant to restrict one's pursuit of livelihood. Even on Fridays, when a mid-mandatory congregational prayer is performed, the Muslim may “disperse in the land and seek of the bounties of Allah” [62: day 10].

Labor is a potential act of “worship”. In fact, all legitimate activities and efforts exerted with pure intentions are potential acts of “worship” in the broader Islamic meaning. They are seen

as part of the fulfillment of one's role as a trustee of Allah on earth. That role, in turn, is called "worship" in the Qur'an [51:56]. It follows that work is not only a means survival, but also a reward able act of worship. Properly understood, this concept can be instrumental in motivating productivity as the time scale, the reward expected, and the Ultimate One to please by productive work are far beyond any finite concept or person.

The Qur'an affirms also the entitlement of reward that is commensurate with effort [7:170; 3:136; 99:7 and 46:19]. This rule applies to the immediate reward in this life as well as the deferred reward in the hereafter. The pursuit of excellence in work is not motivated, not only by material reward, but also by the pursuit of Allah's pleasure. The Qur'an promises:

*"...Indeed, Allah will not allow to be lost the reward of any who does a good work"* [18:30]

Performance evaluation of one's work is not only done and rewarded by other humans, but is also done, appreciated and rewarded by Allah.

*"And say, do [as you will], for Allah will see your deeds, and [so will] His Messenger and the believers. And you will be returned to the knower of the unseen and the witnessed, and He will inform you of what you used to do"* [9:105].

### **Restrictions on the Production Process**

As production of goods and services or any "value added" is part of one's trusteeship role, it has to abide by the conditions of that trust. Hence, production is restricted by the following conditions:

1. The product or service must be lawful and does not involve "trespassing the limits of Allah" [Qur'an, 2:229]. For example, the production of wines or other intoxicants is prohibited in Islam; wines are not regarded as a commodity of value. Likewise, any activity connected with gambling, prostitution or other "indecentcies" is restricted.
2. The method of production should not cause an undue and excessive harm to Allah-given resources and bounties for the benefit of all mankind. The Qur'an speaks repeatedly against spreading mischief or corruption in the land. [2:60,2:205,5:46,7:56]. Prophet Muhammad [Pbuh] spoke of the punishment of anyone who kills a sparrow without a legitimate reason[e.g. for food], or one who cuts a tree for no good reason.
3. Productive resources are not to be left idle in the name of private ownership, especially resources that are crucial to the lives of people. The following Hadeeth provides an illustration of this concept:

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

Whatever arrangement made with one's "brother", the message of this Hadeeth is clear; do not leave productive assets idle. This makes ownership of resources a social function, rather than an absolute right.

4. The production process should not cause harm to others [e.g. building a noisy factory in the middle of a residential area] as restricted currently by zoning regulations. This is based on the instruction of the Prophet:

*"One should not harm himself or others"*

In situations where some harm is inevitable, a careful weighting of relative harms and benefits should be made. Furthermore, a party that may be harmed must be compensated, based on the cardinal rule in Islamic Law that harm must be removed [or compensated if inevitable].

### **Islamic Ethics in Consumption**

The basic rule in consumption is that everything is deemed lawful, unless there is evidence to the contrary.

*"O mankind, eat from whatever is on earth [that is] lawful and good and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy" [Qur'an, 2:168]*

It is noted that the above passage places **lawfulness ahead of goodness**. This signifies that it is Allah-determined lawfulness that defines what is "good" or wholesome. For example, intoxicants do not fall within the scope of "goods" as an economist would consider them. In other words, definition and value of "goods" in Islam is not determined exclusively by market forces such as supply and demand. There is supposed to be no "supply" produced in the first place, nor is there supposed to be "demand" either in a community that accept such injunctions.

As it is forbidden to consume the unlawful, it is also forbidden to restrict the consumption of the lawful without a valid reason.

*"Say, 'who has forbidden the adornment of Allah which He produced for His servants and the good [lawful] things...'" [Qur'an, 7:32]*



In order to partake the lawful, spending [Infaaq] is a must. The Qur'an encourages spending [as opposed to hoarding], whether for one's own needs, those of his dependents, close relatives and for charity at large. Prophet Muhammad [Pbuh] included several categories of spending in one Hadeeth; spending in the Way of Allah [for the defense and security of the community], to help set a slave free, to give to the needy and to support one's own family. In fact, failure to spend to support one's family is regarded as sin

*“Suffice as sin for anyone is to be unsupportive to one's dependents”* (what is this Qur'an or Hadeeth)

Both consumption and spending are qualified, however, by the ethical rule of moderation and avoidance of extravagance.

*“...and eat and drink, but be not excessive. Indeed, He [Allah] likes not those who commit excesses”* [Qur'an, 7:31]

This ethic of spending has economic implications. Moderate spending is necessary to generate jobs and contribute to economic activities and development. That moderation allows for some savings which, in turn, can be invested and hence contribute further to development. Capital investment is likely to be more productive than extravagant spending, particularly in the long term. Aside from reducing wasteful use of resources, it may help rationalize the use of scarce resources to cater to the needs of society at large, especially crucial needs. The issue here is not the permissibility of production of luxury items, which is not unlawful.

### **Islamic Ethics in The Area of Distribution**

A link between production and consumption is distribution. Ethics of distribution may be summarized in the following:

1. Permissibility of lawful trade: The Qur'an explicitly states that trade in itself is permissible

*“... but Allah has permitted trade and has forbidden interest”* [Qur'an, 2:275]

2. Prohibition of trading in “unlawful” items

One basic rule in Islamic Law is that if an item is unlawful, then buying or selling that item is also unlawful. Examples of that include trading in intoxicants, living off prostitution or other “immoral” activities, also trading in stolen goods.

*“Allah has made wine and its price unlawful, and made the dead animal and its price*

*unlawful and made the swine and its price unlawful”*

3. Refraining 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. The Prophet 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 Allah's blessing”

4. Honesty in all dealing is an ethical requirement, including the fulfillment of all contracts, commitments and covenants.

“And those who keep their trusts and promises” [Qur'an, 23:8] One aspect of honesty is to give the full weight and measure

“Give full measure and do not be of those who cause loss [to others]. And weigh with an even [honest] balance” [Qur'an 26:181-182]

“And give full measure when you measure, and weigh with an even [honest] balance. That is good and the better at the end” [Qur'an, 17:35] The Qur'an warns those who violate this injunction:

“Woe to those who give less [than due]. Who, when they take a measure from people [as buyers], they take in full. But if they give by measure or by weight [as sellers], they cause loss [to others by giving less than due]. Do they not think that they will be resurrected? For a momentous Day [the Day of Judgment]. The Day when mankind will stand before the Lord of the worlds?” [Qur'an, 83: 1-6]

The Prophet addressed the problem of cheating in more than one Hadeeth. Following is an example:

“Anyone who cheats us is not of us”

5. Refraining from the exploitation of the ignorance or desperate needs of others by giving them less than a fair price [or wage]

The Qur'an enjoins”. *And do not deprive people of their due*” [Qur'an, 7:85]

One form of that exploitation which the prophet forbade is “Tanajush”. This refers to

deceptive practices 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” in the deal.

6. Restriction of unfair monopoly: It may be argued that some “monopolies” may be more efficient and beneficial to society at large, such as the case of utilities, provided that proper controls and regulations are in place to prevent abuses. On the other hand, monopolies which are designed to create an artificially higher price or to create artificial shortages are forbidden. It is this type of monopolies that that the Prophet condemned, especially in respect to foodstuff

*“He who monopolizes is sinful”*

*“Whoever monopolizes foodstuff for forty days, he has dissociated himself from Allah and Allah has dissociated Himself from him”*

The Prophet forbade also the practice where a town dweller withhold and store foodstuff that belongs to an desert dweller, wait until the price goes up [possibly due to this artificial shortage], then he sells that foodstuff [and thus get a higher commission] for his services.

7. Ethical competition: It is lawful for sellers to compete in order to attract buyers.

However, attempting to “snatch” a customer who has already negotiated a deal with another seller is regarded as unethical, unless the earlier negotiation broke down or was cancelled for some other reason.

## Conclusion

This study made an attempt to explore and understand the teachings put forth in Islam with regards to various spheres of economic activity. It was concluded that the human is the “trustee” of Allah on earth. To fulfill that trust, the human was granted access to various bounties in the world in order to harness subject to certain condition of that “trust”.

An examination of the nature of ethics in Islam was discussed, and it was seen that Islam has very clear and explicit injunctions regarding moral and ethical business practices in the areas of production, distribution and consumption. 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, international management, and management of diversity and the broader process of globalization.

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### **Qur'an... The Holy Book of ISLAM**