

1 Development of Ethical Business: An Islamic Framework

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5

6 **Abstract**

7 Ethical business attempts to establish justice to all of its stakeholders by satisfying their
8 ethical desires. But lack of ethical desires of the stakeholders is a major hindrance to
9 developing an ethical business. In a larger-scale-enterprise, owner, management, and
10 accountant play vital role in initiating, establishing, and ensuring ethical guidelines for all of
11 its stakeholders. In the way to ethical business development, one or two of these three parties
12 are not able to ensure justice independently rather needs a mutual cooperation

13

14 **Index terms**— ethics, ethical business, development, and framework.

15 **1 Introduction**

16 Ethics is the standard of differentiating the 'right' from the 'wrong'. Ethics can be recognized as 'doing the
17 right thing' in terms of morals, fairness, respect, caring, sharing, no false promises, no lying, cheating, stealing,
18 or unreasonable demands on employees and others, etc. In addition, business ethics calls for corporate social
19 responsibility and addressing social problems such as poverty, crime, environmental protection, equal rights,
20 public health and improving education. The present day global recession has evident that traditional business
21 practices are increasingly being brought into question and hence consequently, more people and organizations
22 are realizing the importance of acquiring services from ethical businesses. A truly ethical business can come in
23 many different shapes and sizes -what sets them apart is the way their ethical focus underpins everything they
24 do and also reflected in the way they talk about their work.

25 Development of organizational culture or organizational structure involves owners, managers and accountants
26 of the respective organization. Accountants provide suggestions, necessary information and alternative options
27 to both owners and managers who find ways to choose in developing an optimum organizational structure.
28 Managers choose the best alternative way and play vital role in implementing the selected alternative. Among
29 all, the owners are the most Powerful and influential party who evaluate the information received from both
30 managers and Accountants, choose the best alternative and suggest the managers taking necessary measures in
31 implementation of the selected alternative.

32 As the importance and necessity of ethical business is now acknowledged throughout the world, therefore,
33 many researchers conducted researches in directing guidelines in establishing ethical organizations and increasing
34 the ethical standards of the employees as well as organization itself. But, so far my knowledge concern, no study
35 was conducted providing an optimum framework for developing ethical business specifically developing ethical
36 business through a mutual cooperation among owner, management, and accountant in Islamic point of view.

37 **2 II.**

38 **3 Objectives of the Study**

39 The objective of the study is to formulate a framework for developing ethical business through a mutual
40 cooperation among owner, management, and accountant in Islamic point of view.

41 4 III.

42 5 Methodology of the Study

43 The methodology followed in this study is mainly of library work basically based on the study of Qur'an, Hadith
44 and the related literatures written in conventional and in ethical perspective. On the basis of the literatures,
45 the study identified the needs for an ethical business and tried to formulate a framework in developing ethical
46 business to meet the ethical desires of all stakeholders of the enterprise.

47 6 IV.

48 7 Needs for Ethical Business

49 Ethics are pivotal in determining the success or failure of an organization and they affect a company's reputation
50 and help to define a business model that will thrive even in adversity (Smart, Barman & Gunasekera, 2010).
51 Ethical business not only contributes more to society but also enhances competitiveness, helps to build greater
52 confidence in the brand and means the business is better prepared for the future. Ethical business is expected
53 to bring the company's core values to life as it translates them into specific commitments and expected behavior
54 in relation to the organization's key stakeholder groups like customers, employees, suppliers and contractors,
55 providers of E finance and community. Moreover, Ethical business offer positive social impact and take a 'more
56 than profit approach' to their work, which means that they are not entirely driven by their bottom line. This
57 doesn't mean to say that ethical businesses aren't profitable, far from it in fact as implementing a more ethically
58 minded approach is increasingly good for business; it's just a more considered way of working that is now more
59 sustainable for the future than traditional business practices. The link between ethics and business success has
60 become far clearer in recent years, as companies realize that corporate interests must be aligned with the broader
61 concerns of society if they are to survive (Smart, Barman & Gunasekera, 2010).

62 But unfortunately many business organizations behave unethically for generating short-term gain in which
63 process the involvement of owners, managers and accountants is directly noticeable. More specifically accountants
64 of the firm either for their own interest or because of the cooperation and pressure from managers and owners
65 provide misleading and wrong information in the name of 'creative accounting' or 'earnings management'. Creative
66 accounting, the widely used accounting techniques, permit corporations to report financial results that may not
67 accurately portray the substance of their business activities and hence it is recognized as a synonym for deceptive
68 accounting (Sen, andInanga, 2005, andMetcalf, 1977). On the other hand, 'earnings management' occurs when
69 managers use judgment in financial reporting and in structuring transactions to alter financial reports to either
70 mislead some stakeholders about the underlying economic performance of a company or influence contractual
71 outcomes that depend on reported accounting numbers (Healy and Wahlen, 1999). In other words, profit figures
72 are deliberately manipulated by management for the purpose of meeting company's objectives and finally making
73 the owners happy. But real world experience reveals that it is in most cases practiced in an undesirable way to
74 attract investors by presenting an exaggerated, sometimes misleading and deceptive state of an organization's
75 financial affairs (Sen, and Inanga, 2005). Sometimes, management creates unethical pressure on accountants in
76 different ways including pressure to overstate valuation, pressure to participate in fraudulent activity, pressure for
77 false accounting, breaching the rule of confidentiality and non-disclosure to auditors (CCAB, 2011). Most of the
78 recent sordid stories of corporate scandals (Enron, WorldCom and Martha Stewart) involve senior management
79 and CFOs that have manipulated the books to make their companies appear more profitable. The independence
80 of outside CPAs becomes compromised when management places pressure on them to accept such representations
81 at face value (Walter M. Einhorn, 2003).

82 V.

83 8 Interrelationship among Owners, Managers and Accountants

84 The relationship among owners, managers and accountants are interrelated with each other and one party
85 required depending on another party in discharging their own responsibilities in a particular organization. The
86 relationships among these three parties are discussed as below:

87 9 a) Relationship between Owners and Managers

88 Management plays a vital role in planning, controlling and decision-making in any business (Collis and Jarvis,
89 2000). Managers are the agent of the owners in business concern and hence manager must know the expectations
90 of the owners. The main purpose of financial reporting is to provide information 'for assessing the stewardship of
91 management and for making economic decisions' (ASB, 1999). But the profit figures are deliberately manipulated
92 by management for the purpose of meeting company's objectives and finally making the owners happy. Although
93 both parties may recognize that their welfare depends on the company's survival, management may not always
94 act in the best interest of the owners.

95 **10 b) Relationship between Owners and Accountants**

96 Business owners and managers typically rely on managerial accounting information in making decisions. Previous
97 research shows that the owner-managers are the main users of the annual financial accounts prepared by the
98 accountants (Page, 1981; Carsberg et al, 1985; Barker and Noonan, 1996 and Dugdale, Hussey and Jarvis, 1998)
99 and owners of companies see the statutory accounts as a primary aid to the management of the business (Carsberg
100 et al, 1985). In most of the cases, the owners of companies would rely on professional advice when it comes to
101 meeting their obligations in such a complex and heavily regulated area as financial reporting. But managerial
102 accountants who act unethically and report inaccurate or irrelevant information can distort the decision process
103 and ultimately they can also lose the trust of business owners and managers.

104 **11 Relationship between Managers and Accountants**

105 As Managers are generally held responsible for achieving financial performance targets, information provided by
106 accountants have a significant impact on the careers of managers ?? business. The study of Collis and Jarvis
107 (2000) found that great majority of companies (82%) receive some form of additional annual information from
108 their accountant out of which information regarding management advice is (41%). But sometimes management
109 creates unethical pressure on accountants in different ways (CCAB, 2011) and management accountants also
110 provide inaccurate information to the management.

111 **12 VI.**

112 **13 Ethical Business Development: An Islamic Framework**

113 Ethics differentiate between the 'Right' from the 'wrong'. The standards of determining the 'right' and 'wrong'
114 depend on the legal framework, culture, and organizational policies, etc. But the legal framework, culture, and
115 organizational policies, etc. differ organization to organization and one country to another country. There may
116 have some legal provisions and organizational policies which are not ethical in the light of Islam (the unified life
117 guidelines proved by the almighty for human being). Some provisions or policies may be ethical to owners but
118 not to the employees of the organizations. Therefore, organization should develop an ethical organization which
119 will ensure the rights of all the stakeholders of the organization and for developing that organization, an Islamic
120 framework is a must.

121 **14 Owner Management Accountant**

122 Ethical Business Development The framework suggested here should be based on absolute Islamic philosophy of
123 business concern and the rights and obligations of each Muslim as per Islamic Shari'ah. This framework suggest
124 Islamic ethical role of the owners, managers and accountants for establishing or developing an ethical business
125 because policy making, structuring and designing of an organization highly depend on the active participation of
126 these three parties. Especially following ethical values, standards, policy statements should be started from the
127 higher authority (Smart, Barman & Gunasekera, 2010 and Werner, 2009). As per Islamic views, higher authority
128 would be more responsible and accountable to Allah (SWT) as they are directing their followers and if they do
129 not guide them through right way then the higher authority (as initiator of the wrong work) would be asked for
130 their own activities and also of their followers.

131 The present framework place the owners at the highest level because of their role in the organizations and
132 basically the other two parties, that is, managers and accountants, are appointed and directed by the owners.
133 The framework designates the owners as the 'push factor' as they have the position of imposing and directing
134 anything to the other two parties in conducting the business (Collis and Jarvis, 2000). But the framework does
135 not ignore the role of other two parties as managers and accountants provide feedback, performance reports and
136 necessary information to the owners. The role of accountants designated here as 'pull factor' since they may pull
137 the managers and owners to a particular way by giving necessary information and recommendations for decision
138 making. That is, the accountants may influence the decision of the managers and owners by their information.
139 On the other side, owners and managers also direct and ask for necessary accounts and information from the
140 accountants. The managers are nominated here as middlemen who gets suggestions from owners and collect
141 information from the accountants and implement it in the organization. The framework depicts that these three
142 parties interrelated with each other and each of them have the role to affect the activities of other two parties.
143 Therefore, the role of all these three parties is acknowledged here in this framework in developing an ethical
144 business.

145 **15 VII.**

146 **16 Activities in Ethical Business Development Frame Work**

147 The following sequential activities are prerequisites and mandatorily required to be performed for developing an
148 ethical business:

149 The first step is Understanding the Needs for Ethical Business to be developed. The stakeholders, most
150 importantly the owners, managers and the accountants, who are directly involve in the decision making process

151 should understand and recognize the importance of ethical business and vice versa the negative consequence of
152 unethical business practices

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154 Volume XIV Issue I Version I Year () in terms of legal provisions and Islamic Shari'ah rulings. All the parties
155 involve must adhere that they would be asked for whatever they perform (Al-Qur'an, 2:281 and 2:284). It would
156 be better for the organization if other employees also understand the needs of such business (Lanen, Anderson
157 & Maher, 2011 and Werner, 2009).

158 Secondly, the decision makers should come forward in Developing Ethical Organizational Structure because
159 organizational structure can instigate ethical behavior or sometimes is responsible for giving the chance of
160 unethical behavior. The organization may appoint Shari'ah Supervisory Board and introduce Shari'ah audit
161 in the organizational system. Ethical or unethical behavior in organizations is a function of both individual
162 characteristics and contextual factors (Meyers, 2004). Among these contextual factors, organizational culture
163 is considered to be one of the most important influences (Trevino, 1986; Cohen, 1993; Meyers, 2004 and Werner,
164 2009). Policies where the owners and managers should develop ethical standards or policies that are to be followed
165 by all the people dealing with the ethical business. As the ethical values inevitably are influenced by the personal
166 and professional values and principles of the owner-managers, hence it is considered good practice to consult
167 employees (and even other stakeholders) about this (Al-Qur'an, 3:159).

168 Fourthly, the organization should ensure the Rights of all Related Parties. If any party is deprived of any right
169 then there will create conflict of interest and the deprived party will engage in unethical behavior for their rights.
170 Sen, and Inanga (2005) opined that the real causes of unethical behavior lie in the conflicts of interest among
171 different interest groups in the organization and unethical behavior puts one group or two to advantageous position
172 at the expense of others. Jamshidinavid and Kamari (2012) stated that the most fundamental reason people
173 engage in unethical behavior is that it benefits them in some way. Prophet Muhammad (pbuh) emphasized on the
174 rights of the weak people at the last moment of his life saying 'Uushiikum bis shalati, wa maa malakat aimanuku
175 -take care of the saalat and take care the weak people among you'. Therefore, personal values, particularly an
176 individual's concern for others, make that person less likely to engage in unethical behaviors (Shaub et al 2005).
177 Islam emphasizes on ensuring justice for all the staffs, employees and workers (Ather, 2006).

178 Fifth step suggests Identifying the Violations of Ethical Standards with Reasons that the evaluation of the
179 ethical behavior of the organization itself and also all the parties deals with the organization. The important
180 aspect in this step is the identification of the reasons of violation of the ethical standards because it would help the
181 firm to take effective necessary corrective measures in this process. Owners and managers need to be aware that
182 their behavior sets an example to their employees (Al-Qur'an, 61:2). For the standards to be effectively followed,
183 it is important that they are regarded as people of integrity, adhering to high ethical standards, as leadership is
184 often mentioned as one of the most important elements of an organization's ethical culture (Trevino, 1990; Brown
185 & Trevino, 2006).

186 Finally, Updating and Adjustment of Ethical Standards as per the needs of the changes in organization
187 structure, technology, culture, and employee behavior (Werner, 2009). The updating of the standards may also
188 upgrade the ethical standards of the organization.

189 In addition, Jamshidinavid and Kamari (2012) suggested four things for ethical developments in an
190 organization:

191 18 VIII. Recommendations of the Study

192 The present study recommends the following points to be adopted for making the framework a success: (a) Taking
193 pains in incorporating study of ethics in the curricula of the schools to make the people understand the importance
194 of ethics. (b) Taking steps in teaching ethics in the employing organization and trying to change the beliefs of the
195 employees as per the demand of ethical standards. (c) Ethics are to be embedded in decision making and long-
196 term strategy of the organization (Smart, Barman & Gunasekera, 2010). (d) As owner-managers emphasized the
197 importance of trust as a basis for continuing the relationship with their accountant and hence accountants must
198 maintain high ethical standards for ensuring the accuracy of the decision making process. (e) Senior managers
199 and business leaders must demonstrate an ethical approach by example. This will show that middle and junior
200 managers will be rewarded for taking an ethical stance and create the appropriate organizational culture (Smart,
201 Barman & Gunasekera, 2010). (f) Providing reward for high ethical standards and punishment for repeated
202 violations. (g) Ensuring an ethical strong bondage among the owners, managers and accountants.

203 IX.

204 19 Policy Implications of the Study

205 Among others, the present study expected to benefit the following parties: a) Owners are expected to have
206 guidelines from this article in developing and maintaining ethical business and harvesting the maximum benefits
207 from their business concerns. b) Managers are expected to have guidelines in discharging their responsibilities
208 ethically and maintaining an ethical relationship with owners and accountants of the organization. c)
209 Accountants in ethical business may usefully consider the issues Raised in this article in performing their recording,

210 valuation and reporting activities and maintaining an ethical relationship with the owners and managers of the
211 organizations. d) Researchers in ethical and Islamic business concerns may find the ways from this paper for
212 more comprehensive and practical study in this area.

213 X.

214 **20 Limitations of the Study**

215 Among others, the limitations of the study include: as the present work is almost a new one, the author found
216 very limited literatures for enriching it up to an expected level of standard and the author found very limited
217 time for the present study. The author has keen expectation to enrich work in future.

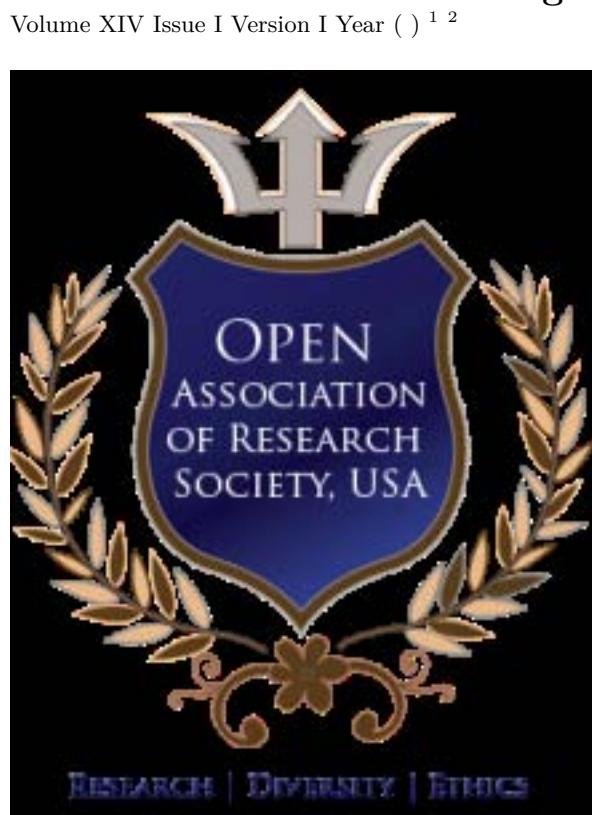
218 **21 XI.**

219 **22 Future Study Direction**

220 **23 Conclusion**

221 Developing ethical business organization is the demand of time at this crucial business arena. Developing a
222 meaningful and effective ethics policy and their successful implementation will support high standards of business
223 behavior and aid ethical decisionmaking that will ultimately help in achieving the target of ethical business
224 development.

225 **24 Global Journal of Management and Business Research**



226 Figure 1:

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