Development of Ethical Business: An Islamic Framework

By Md. Hafij Ullah  
International Islamic University Chittagong

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

Keywords : ethics, ethical business, development, and framework.

GJMBR-A Classification : JEL Code: M16.

Strictly as per the compliance and regulations of:
Development of Ethical Business: An Islamic Framework

Md. Hafij Ullah

Abstract: Ethical business attempts to establish justice to all of its stakeholders by satisfying their ethical desires. But lack of ethical desires of the stakeholders is a major hindrance to developing an ethical business. In a larger-scale-enterprise, owner, management, and accountant play vital role in initiating, establishing, and ensuring ethical guidelines for all of its stakeholders. In the way to ethical business development, one or two of these three parties are not able to ensure justice independently rather needs a mutual cooperation. In this ethical business development process, management plays the role of middleman and owner and accountant play the role of push-factor and pull-factor respectively. The present study is a noble effort in formulating a framework for developing ethical business through a mutual cooperation among owner, management, and accountant in Islamic point of view.

Keywords: ethics, ethical business, development, and framework.

I. INTRODUCTION

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

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

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

II. OBJECTIVES OF THE STUDY

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

III. METHODOLOGY OF THE STUDY

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

IV. NEEDS FOR ETHICAL BUSINESS

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

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

V. INTERRELATIONSHIP AMONG OWNERS, MANAGERS AND ACCOUNTANTS

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

a) Relationship between Owners and Managers

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

b) Relationship between Owners and Accountants

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

c) Relationship between Managers and Accountants

As Managers are generally held responsible for achieving financial performance targets, information provided by accountants have a significant impact on the careers of managers (Lanen, Anderson & Maher, 2011). Previous research shows that the owner-managers are the main users of the annual financial accounts what they use as key sources of information for managing the company (Page, 1981; Carsberg et al, 1985; Barker and Noonan, 1996 and Dugdale, Hussey and Jarvis, 1998). Carsberg et al. (1985) also opined that the owners of companies see the statutory accounts as a primary aid to the management of the
business. The study of Collis and Jarvis (2000) found that a great majority of companies (82%) receive some form of additional annual information from their accountant out of which information regarding management advice is (41%). But sometimes management creates unethical pressure on accountants in different ways (CCAB, 2011) and management accountants also provide inaccurate information to the management.

VI. Ethical Business Development: An Islamic Framework

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

![Figure 1: Depicts framework ethical business development](image)

Source: Developed by Author

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

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

VII. Activities in Ethical Business Development Frame Work

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

The first step is Understanding the Needs for Ethical Business to be developed. The stakeholders, most importantly the owners, managers and the accountants, who are directly involve in the decision making process should understand and recognize the importance of ethical business and vice versa the negative consequence of unethical business practices
in terms of legal provisions and Islamic Shari`ah rulings. All the parties involved must adhere that they would be asked for whatever they perform (Al-Qur’an, 2:281 and 2:284). It would be better for the organization if other employees also understand the needs of such business (Lanen, Anderson & Maher, 2011 and Werner, 2009).

Secondly, the decision makers should come forward in Developing Ethical Organizational Structure because organizational structure can instigate ethical behavior or sometimes is responsible for giving the chance of unethical behavior. The organization may appoint Shari`ah Supervisory Board and introduce Shari`ah audit in the organizational system. Ethical or unethical behavior in organizations is a function of both individual characteristics and contextual factors (Meyers, 2004). Among these contextual factors, organizational culture is considered to be one of the most important influences (Trevino, 1986; Cohen, 1993; Meyers, 2004 and Werner, 2009).

Third step is Developing Ethical Standards or Policies where the owners and managers should develop ethical standards or policies that are to be followed by all the people dealing with the ethical business. As the ethical values inevitably are influenced by the personal and professional values and principles of the owner-managers, hence it is considered good practice to consult employees (and even other stakeholders) about this (Al-Qur’an, 3:159).

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

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

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

In addition, Jamshidinavid and Kamari (2012) suggested four things for ethical developments in an organization: (a) clearly articulate ethical values to employees (Mathenge 2012); (b) understand its employees’ values well enough in the hiring and promotion process to ensure that there is an adequate correlation between individual and corporate values (IMA, 2008); (c) one of organizational key resources is the degree of organization leaders’ commitment to

| Understanding the Needs for Ethical Business |
| Developing Ethical Organizational Structure |
| Developing Ethical Standards or Policies |
| Ensuring the Rights of all Related Parties |
| Identifying the Violations of Ethical Standards with Reasons |
| Updating and Adjustment of Ethical Standards |

Source: Developed by Author
VIII. Recommendations of the Study

The present study recommends the following points to be adopted for making the framework a success:

(a) Taking pains in incorporating study of ethics in the curricula of the schools to make the people understand the importance of ethics.

(b) Taking steps in teaching ethics in the employing organization and trying to change the beliefs of the employees as per the demand of ethical standards.

(c) Ethics are to be embedded in decision making and long-term strategy of the organization (Smart, Barman & Gunasekera, 2010).

(d) As owner-managers emphasized the importance of trust as a basis for continuing the relationship with their accountant and hence accountants must maintain high ethical standards for ensuring the accuracy of the decision making process.

(e) Senior managers and business leaders must demonstrate an ethical approach by example. This will show that middle and junior managers will be rewarded for taking an ethical stance and create the appropriate organizational culture (Smart, Barman & Gunasekera, 2010).

(f) Providing reward for high ethical standards and punishment for repeated violations.

(g) Ensuring an ethical strong bondage among the owners, managers and accountants.

IX. Policy Implications of the Study

Among others, the present study expected to benefit the following parties:

(a) Owners are expected to have guidelines from this article in developing and maintaining ethical business and harvesting the maximum benefits from their business concerns.

(b) Managers are expected to have guidelines in discharging their responsibilities ethically and maintaining an ethical relationship with owners and accountants of the organization.

(c) Accountants in ethical business may usefully consider the issues Raised in this article in performing their recording, valuation and reporting activities and maintaining an ethical relationship with the owners and managers of the organizations.

(d) Researchers in ethical and Islamic business concerns may find the ways from this paper for more comprehensive and practical study in this area.

X. Limitations of the Study

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

XI. Future Study Direction

The present study recommends the following future study in line with the present study:

(a) Ethical Business: Implications to the Stakeholders

(b) Constraints in Developing Ethical Business in Bangladesh

(c) Differences between Ethical Business and Islamic Business

XII. Conclusion

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

References Références Referencias


12. Institute of Management Accountants (IMA), (2008), Values And Ethics: From Inception to Practice, Published by IMA.


