Comparative Analysis of Ethical and Legal Principles in the Islamic Business Management Model

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Abstract. In recent decades, businesses based on Islamic principles have experienced significant growth. Business models that are in line with Islamic values have become a major concern for Islamic business and economic actors. This phenomenon has triggered intense discussions on the impact of ethics and Islamic law on Islamic business practices. This study will analyse the comparison between ethics and Islamic law in the context of Islamic business. This research is a qualitative literature study that incorporates data from 1991 to 2023 taken from sources found on Google Scholar. The qualitative literature review research method is used to investigate, analyse, and compile a comprehensive understanding of developments, trends, and significant findings in various fields of knowledge relevant to the topic of this research. The results show that business management in the Islamic context is based on ethical and legal principles derived from Islamic religious teachings. These principles complement each other and form the basis for the Islamic business management model. Ethical principles, such as taqwa, good deeds, justice and ihsan, encourage integrity, honesty and social responsibility in business. Meanwhile, legal principles, involving sharia, contracts, zakat, waqf, haram, and halal, govern the legal aspects of business, ensuring compliance with Islamic values and rules.

Keywords: Ethical Principles, Islamic Business Management, Legal Principles

1. Introduction

The analysis of the comparison of ethical and legal principles in the Islamic business management model is a profound and significant research endeavor within the framework of comprehending how businesses grounded in Islamic principles are administered. This research seeks to delve deep into the intricate aspects of how ethical values and Islamic legal principles influence the process of managing such businesses. In the context of Islamic business practices, both ethical principles and legal frameworks play a pivotal role in shaping the way businesses are conducted. They not only guide the day-to-day operations but also determine how businesses interact with their customers, business partners, and the broader society. Moreover, these principles are instrumental in ensuring that business activities align with the teachings and tenets of the Islamic faith. Consequently, this study is poised to shed light on the multifaceted dimensions of the synergy between ethical considerations and Islamic legal norms in the realm of business management.

In recent decades, there has been an unmistakable surge in the expansion of businesses rooted in Islamic principles. This burgeoning growth has significantly heightened the focus on the paramount significance of preserving both ethical integrity and adherence to legal standards within the overarching framework of business management [1]. Within the context of these Islamic enterprises, a fundamental aspiration emerges: the pursuit of sustainable business practices that remain intricately intertwined with the tenets of Islam and the steadfast values of ethics. This upward trajectory in Islamic-based business ventures has, in turn, catalyzed a growing and intellectually stimulating discourse. This discourse delves deeply into the multifaceted aspects of how Islamic ethical principles can be effectively transposed into the realm of day-to-day business operations. It has also spurred rigorous contemplation regarding the extent to which Islamic law, as enshrined within the Quran and Hadith, should serve as the principal guiding force in the stewardship of enterprises founded upon the bedrock of religious principles. As the global landscape continues to evolve, these questions resonate ever more profoundly within the realms of commerce and trade. The nexus between Islamic faith and business endeavors
remains a subject of continual exploration, where the interplay of ethics, law, and religion finds dynamic expression in the ever-evolving world of entrepreneurship [2].

The Ethical Principles in Islamic Business play an immensely significant role. Islamic business ethics encompass a wide spectrum of values, including honesty, justice, transparency, integrity, social responsibility, and empathy [3]. Businesses that adhere to Islamic ethical values are anticipated to yield greater benefits for society and the Muslim community as a whole [4]. Nonetheless, the day-to-day business practices often pose challenges when it comes to consistently implementing these ethical principles. This situation prompts questions about how Islamic companies can seamlessly integrate ethics into every aspect of their business management, ranging from corporate policies to employee actions. Consequently, the incorporation of ethical considerations into all facets of business operations becomes imperative for companies seeking to align their practices with Islamic principles, thereby promoting ethical conduct and social responsibility while ensuring the welfare of the broader community and the Muslim ummah at large.

Moreover, it is worth noting that Islamic Law, commonly referred to as Sharia, assumes a central and indispensable position when it comes to the regulation and governance of Islamic commercial activities. This multifaceted legal framework encompasses an extensive array of statutes and guidelines that exert authority over a wide spectrum of corporate undertakings, including but not limited to transactions, commercial exchanges, financial transactions, and a plethora of other business-related endeavors. Nevertheless, what emerges as a recurring and pressing concern in the realm of Islamic business is the noticeable divergence in how Sharia is interpreted and subsequently implemented within the intricate fabric of business management. This variance in interpretation and the ensuing disparities in the application of Sharia principles, particularly within the context of the business landscape, repeatedly surface as matters that necessitate meticulous investigation and further analysis. It becomes evident that these disparities introduce a degree of complexity and nuance into the functioning of Islamic enterprises. Therefore, the significance of delving into this subject matter through comprehensive research becomes even more pronounced, as it allows for a deeper understanding of the intricate dynamics and nuances that underlie the operations of Islamic businesses [5].

The comparison between ethical principles and legal norms within the context of Islamic business becomes exceedingly significant due to the frequent occurrence of discrepancies or tensions between the two. In certain instances, compliance with Islamic law may not necessarily translate into ethical behavior or adherence to the moral values expected within Islam [6]. This prompts inquiries into the extent to which a harmonious equilibrium between ethical principles and legal standards can be attained in the realm of Islamic business management, and how this equilibrium affects the sustainability and success of these enterprises. Such an examination underscores the intricate interplay between ethics and legality within the Islamic business landscape, necessitating a nuanced exploration of how businesses navigate these potentially conflicting dimensions. This intricate exploration is crucial for gaining insights into the multifaceted dynamics that govern Islamic businesses and for discerning the potential ramifications for their long-term viability and prosperity. Consequently, it becomes evident that a comprehensive investigation into the convergence and divergence of ethical and legal principles in the context of Islamic business practices can yield valuable perspectives on the intricacies of their operations and their enduring success in a complex business environment.

This research will provide a deeper insight into how the principles of ethics and Islamic law influence the model of Islamic business management. The findings of this research can serve as a foundation for the development of better guidelines, practices, and policies within Islamic business. The implications of this research encompass the potential to enhance the quality of Islamic business, address ethical and legal barriers that may arise, and enable Islamic businesses to make a more substantial contribution to both society and the global market. Hence, the Comparative Analysis of Ethical and Legal Principles in the Model of Islamic Business Management holds significant meaning in comprehending the framework underpinning Islamic-based businesses and can serve as a basis for the development of more sustainable and ethical business practices in the future. This research is not only academically profound but also carries significant practical implications for businesses and the broader Islamic community.

1.1 Ethical Principles

Ethical principles refer to a set of values, norms, and moral guidelines that govern the behavior and actions of individuals or groups in a particular context [7]. Ethical principles are used as a guide to determine what is considered good, right, or moral in a given situation. Ethical principles serve to guide individuals or groups in making moral or ethical decisions [8]. Ethical principles encompass various moral values and principles that are generally recognized in society, such as honesty, integrity, justice, empathy, and social responsibility [9]. Ethical principles may also include views on human rights, moral obligations, and the relationship between individuals and their community and environment.
Ethical principles are not always absolute, meaning these principles can change or be applied differently in different contexts. Ethical principles can also be subjective, as what is considered ethical by one individual or group may not be the same as the views of another individual or group [10]. Therefore, there are sometimes debates and moral conflicts that arise when ethical principles conflict in specific situations. However, despite being relative and subjective, ethical principles remain an important foundation in shaping good and responsible behavior in various aspects of life, including business, science, politics, and more. Ethical principles help individuals and society maintain integrity, make sustainable decisions, and lead lives that align with the moral values they hold [11].

1.2 Legal Principles

Legal principles refer to the rules, norms, and guidelines that form the basis of the legal system of a country or jurisdiction [12]. These principles are used to regulate the behavior of individuals, groups, or institutions and to enforce rules and determine legal consequences for violations. Legal principles are the foundation of a legal system that ensures justice, order, and legal certainty [13]. Some commonly recognized legal principles in various legal systems worldwide include:

1. Justice: This principle emphasizes the importance of fair and equal decision-making. Justice includes the right to fair treatment in legal proceedings and the right to speak and defend oneself in court.
2. Legal Certainty: This principle requires that laws be clear and understandable to everyone. Everyone should know what is prohibited and allowed by the law.
3. Legal Compliance: This principle emphasizes the importance of individuals and institutions complying with the law. The law should be obeyed by all without exception.
4. Proportionality: This principle means that punishments or sanctions applied should be proportionate to the legal violations committed. Excessive or disproportionate punishments are considered unfair.
5. Presumption of Innocence: This principle states that a person is presumed innocent until proven guilty in a court of law. This means that the burden of proof is on the accuser, not the defendant.
6. Transparency and Accountability: This principle highlights the importance of an open and accessible legal process. Legal transparency allows the public to monitor, understand, and oversee the justice system.
7. Freedom of Expression and Human Rights: This principle protects fundamental individual rights such as freedom of speech, religion, assembly, and other rights related to human dignity.

These legal principles form the basis of a legal system that serves as a framework for governing society and maintaining social order. They also provide the foundation for the creation and enforcement of fair and equal laws in a country or jurisdiction.

1.3 Islamic Business Management

Islamic Business Management is an approach or concept in managing businesses based on the principles and values of Islam [14]. This approach combines business principles with the teachings of Islam to create a management model that is sustainable, ethical, and in line with Islamic moral values. The primary goal of Islamic Business Management is to create businesses that not only generate financial profits but also make a positive contribution to society and adhere to Islamic law or Shariah [15]. Some distinctive principles and aspects of Islamic Business Management include:

1. Shariah Compliance: Businesses adopting Islamic Business Management must ensure that all their operations and transactions comply with Islamic law. This includes the prohibition of usury (interest), avoidance of uncertain transactions (gharar), and abstaining from activities considered haram (forbidden) in Islam, such as alcohol or gambling.
2. Emphasis on Ethics: Islamic Business Management emphasizes the importance of ethics and morality in business. Businesses should operate with honesty, integrity, and high social responsibility.
3. Community Empowerment: Islamic businesses must also consider their impact on the community. This involves providing benefits to the community through job creation, offering beneficial products or services, and engaging in charitable or social activities.
4. Profit-and-Loss Sharing: Islamic business models often use profit-and-loss sharing principles, where profits and risks are shared between business owners and partners or other involved parties.
5. Transparency: Islamic Business Management encourages transparency in financial and operational reporting, allowing stakeholders to clearly understand the business's performance and policies.
6. Avoidance of Riba: Riba, or interest, is avoided in financial transactions and investments. Therefore, Islamic Business Management often seeks alternatives that are compliant with Islamic law, such as profit-sharing financing.
Compliance with Human Rights: Internationally recognized Human Rights principles are also considered in Islamic Business Management, including the rights of workers and consumers. Islamic Business Management is not just about complying with Islamic legal rules; it's also about internalizing the values of Islam into the business culture and decision-making. The aim is to achieve sustainable business success while adhering to the moral and ethical principles of Islam. This approach has become relevant in the context of a globally diversified economy and business landscape.

2. Method

This research constitutes a qualitative literature study that integrates data from the period spanning 1991 to 2023, sourced from various materials available on Google Scholar. The qualitative literature review methodology has been employed to investigate, analyze, and construct a comprehensive understanding of the developments, trends, and significant findings across diverse fields of knowledge relevant to the research topic. In this study, the researcher has conducted searches and analyses of various scholarly articles, journals, conference papers, books, and other literary sources found within the Google Scholar database. The data utilized in this research encompass a wide array of perspectives, viewpoints, and research outcomes that have been published within the timeframe of 1991 to 2023.

The primary objectives of this research are twofold. Firstly, it seeks to identify theoretical and practical advancements across various aspects related to the research topic. Secondly, it aims to provide a comprehensive overview of pivotal findings, key concepts, and emerging trends within the literature during the specified period. The outcomes of this research endeavor are poised to enrich our understanding of the subject under examination and furnish a robust foundation for further research in this domain. Moreover, this research will offer deeper insights into the evolution and progression of academic thought over time, as well as the contributions of prior research endeavors to our comprehension of the topic of the comparative analysis of ethical and legal principles in the model of Islamic business management.

3. Result and Discussion

The effective management of businesses within the Islamic context is deeply entrenched in a rich tapestry of ethical and legal principles that find their origins in the teachings and tenets of the Islamic faith. These fundamental principles serve as the cornerstone upon which the entire edifice of the Islamic business management model is erected. Central to this model is a resolute commitment to upholding a set of values that encompass not only the ethical dimensions but also the social and just dimensions, all of which resonate harmoniously with the principles embedded within the Islamic tradition [16]. Within the framework of this discourse, we are poised to embark upon an elaborate exploration of the central and indispensable roles that ethical and legal principles assume within the realm of Islamic business management. By delving into this nuanced discussion, our intention is to illuminate the multifaceted dimensions of these principles and their far-reaching implications. It is not merely an examination of how these principles serve as guiding lights in the daily operations of Islamic enterprises, but also an exploration of their profound contributions to the broader fabric of society and the intricate tapestry of the global economy. Through this comprehensive analysis, we aim to gain a more profound understanding of the intricate dynamics and profound influences that ethical and legal principles wield within the context of Islamic business management.

Within the realm of Islamic business ethics, the paramount guiding principle is that of "taqwa," signifying a profound devotion and obedience to Allah. Taqwa encapsulates a spectrum of values, including but not limited to honesty, integrity, and a strong work ethic [17]. It is expected that Muslim business leaders conduct their affairs with an unwavering commitment to these principles, for they form the very foundation upon which the ethical fabric of Islamic business is woven. Furthermore, Islamic businesses are intrinsically tied to the principle of "amal baik," which translates to the concept of "doing good" [18]. This principle underlines the imperative for Islamic enterprises to extend positive benefits to the wider society. It encourages sustainable and responsible business practices that not only consider the bottom line but also emphasize the welfare of the environment and the community. At its core, justice is a cornerstone of Islamic business ethics, demanding that all stakeholders, including employees, customers, and business partners, are treated equitably and fairly [19]. The ethical compass of Islamic business also encompasses acts of kindness and generosity in the realm of commerce. This extends to acts of charity, philanthropy, and providing assistance to those in need. In sum, Islamic business ethics serve as a comprehensive guide for conducting business affairs that transcend mere profit-seeking, emphasizing the larger responsibility to society and the well-being of all involved parties.
In the realm of Islamic business management, the foundation is firmly anchored in the principles of Islamic law, also known as Sharia. Sharia constitutes a comprehensive legal framework governing various facets of business operations, ranging from financing and trade to contractual agreements [20]. Islamic businesses are mandated to adhere steadfastly to the tenets of Sharia, which include prohibitions against usury (interest) and transactions fraught with gharar (excessive uncertainty) [21]. Contracts within the sphere of Islamic business must not only be legally sound within the context of Islamic law but also possess attributes of clarity, transparency, and Sharia compliance, all while reflecting principles of fairness and justice. Furthermore, Islamic law imposes obligations such as zakat (charitable contributions) and wakaf (charitable endowments designated for specific purposes) on business profits [22]. These obligations underscore the social responsibility and wealth distribution ethos intrinsic to Islamic principles. Sharia also governs what is deemed “haram” (forbidden) and "halal" (permissible) in business operations, thereby delineating the boundaries within which Islamic enterprises must operate [23]. Examples of haram items include alcohol, pork, and gambling, all of which are considered impermissible within the Islamic faith. These intricate legal and ethical frameworks not only delineate the parameters for Islamic business practices but also emphasize the overarching responsibility of such enterprises to uphold Islamic values, social welfare, and economic justice. Thus, Islamic business management encompasses a comprehensive spectrum of principles, both ethical and legal, that not only guide business operations but also align them with the profound values and precepts of the Islamic faith.

When we delve into a comparative analysis of the ethical and legal principles within the framework of Islamic business management, it becomes evident that these two facets are inherently complementary. Ethics guides business actions based on moral values, while the law sets forth the legal boundaries that must be adhered to. Both these dimensions work in tandem to cultivate a business environment that is characterized by fairness, transparency, and sustainability. However, it is crucial to underscore that the ethical principles within Islam often encompass a broader spectrum of considerations that may not always be explicitly governed by legal regulations. For instance, while Islamic law may permit a specific action, Islamic ethics may discourage it if it is deemed detrimental or unbeneficial to society. This inherent flexibility within the ethical framework allows Islamic businesses to operate with a heightened sense of responsibility, going beyond mere legal compliance to consider the broader societal and moral implications of their actions. The synergy between ethics and law in Islamic business management ensures that businesses not only operate within the legal confines but also uphold a higher moral standard, creating an ecosystem where economic activities are not only legal but also just, equitable, and socially responsible. This interplay between ethics and law is a testament to the holistic and values-driven approach that underpins Islamic business practices, striving not only for profit but also for the betterment of society as a whole.

In practical terms, the path to success for Islamic businesses necessitates a nuanced and balanced understanding and application of both these principles. This entails not only strict adherence to Islamic law but also conducting business operations with unwavering integrity, honesty, and a strong sense of social responsibility. Therefore, the Islamic business management model aspires to foster organizations that transcend the mere pursuit of profits; it seeks to cultivate entities that make substantive and positive contributions to society while upholding the lofty moral standards inherent to the Islamic tradition. In essence, a successful Islamic business venture goes beyond mere compliance with legal frameworks. It embodies a commitment to ethical conduct that extends into every facet of its operations, from financial transactions to customer relations and employee well-being. Such a business enterprise becomes a beacon of integrity and a paragon of social responsibility, serving as a testament to the harmonious coexistence of ethical and legal principles within Islamic business management. By striking this equilibrium between ethics and law, Islamic businesses not only prosper in financial terms but also serve as pillars of moral and social rectitude. They emerge as agents of positive change, enriching the communities they operate in and adhering steadfastly to the profound moral precepts that underline the Islamic faith. This holistic approach to business management sets Islamic enterprises on a path towards enduring success while simultaneously enriching the fabric of society.

4. Conclusion

Business management in the context of Islam is based on ethical and legal principles derived from the teachings of the Islamic religion. These principles complement each other and form the foundation for the Islamic business management model. Ethical principles, such as taqwa (piety), good deeds, justice, and ihsan (excellence), promote integrity, honesty, and social responsibility in business. Meanwhile, legal principles, which include Shariah (Islamic law), contracts (akad), zakat (charity), wakaf (endowment), haram (forbidden), and halal (permissible), govern the legal aspects of business, ensuring compliance with Islamic values and rules. Some recommendations that can be drawn from the explanations above include:
1. In-Depth Understanding: Businesses operating in an Islamic environment should have a deep understanding of Islamic ethical and legal principles. This can be achieved through training and consultations with Islamic scholars or legal experts.

2. Balance of Ethics and Law: It is essential to strike a balance between complying with Islamic law and following ethical principles. This means not only running a legally compliant business but also committing to moral values, integrity, and social responsibility.

3. Transparency and Openness: Islamic businesses should practice transparency and openness, especially in contracts and transactions. This reflects the principles of justice and accountability in Islam.

4. Community Empowerment: Islamic businesses can make a positive contribution to society by engaging in charitable activities, contributing to zakat, and endowments that impact social and economic welfare.

5. Customer Education: Customers also need to understand the principles of Islamic business. Therefore, Islamic businesses can educate their customers about products and services that align with Islamic legal and ethical principles.

6. Compliance with International Standards: Islamic businesses operating in the global market should understand and comply with relevant international standards while maintaining Islamic principles.

7. Collaboration with Authorities: Collaboration with authorities in Islamic law and finance can help Islamic businesses comply with applicable regulations and standards.

By implementing the above recommendations, Islamic businesses can operate successfully, create a positive impact on society, and adhere to high Islamic moral and legal principles.

References


