

Directors' Islamic Code of Ethics

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Abstract—This paper discusses a new model of Islamic code of ethics for directors. Several corporate scandals and local (example Transmile and Megan Media) and overseas corporate (example Parmalat and Enron) collapses show that the current corporate governance and regulatory reform are unable to prevent these events from recurring. Arguably, the code of ethics for directors is under research and the current code of ethics only concentrates on binding the work of the employee of the organization as a whole, without specifically putting direct attention to the directors, the group of people responsible for the performance of the company. This study used a semi-structured interview survey of well-known Islamic scholars such as the *Mufti* to develop the model. It is expected that the outcome of the research is a comprehensive model of code of ethics based on the Islamic principles that can be applied and used by the company to construct a code of ethics for their directors.

Keywords—Code of ethics, director, Islam, ethics

I. INTRODUCTION

THE sudden failure of high profile companies in a business and many corporate scandals have triggered much interest to researchers on the work of the directors, arguably the front liner responsible for the ups and downs of the company. A lot of studies have been conducted on directors such as board committee [1], board responsibility [2], board independence [3] and board composition [4].

However, one particular area that is substantially missing from the literature is the directors' code of ethics [5] that becomes the interest of this research. Previous studies give too much attention of the impact of this code of ethics to the lower levels of management such as to managers [6], employees [7], corporate performance [8] and accounting professionals such as auditors [9]. Furthermore, the study on ethics from an Islamic teaching also does not receive much consideration from the scholars.

This situation has motivated the current research to study and establish the code of ethics for the directors from the Islamic perspective. The development of the code of ethics based on religious teachings is crucially important as the literature on business ethics find that there is a positive impact on the business ethics of the employees with their religious beliefs [10].

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In addition, the research in other areas of businesses such as Islamic finance, bond issuance and syariah-compliance investment transactions shows that the Islamic model of finance is less impacted with the financial crisis. Thus, it is worth to explore the other related business and finance area such as business ethics to see whether this area also possibly giving similar results of a sustainable model than non-Islamic like Western model of ethics to curb with various financial problems.

In short, this paper will try to answer this research question -

What are the basic features of the directors' code of ethics that comply with the Islamic principles?

II. LITERATURE REVIEW

Many studies have been conducted regarding ethics in the business arena. Generally, the studies conducted on ethics can be divided into two distinct phases [11]. The first phase from 1997-2001 concentrated on the ethical decision making and the relationship between corporate and social responsibility and corporate performance.

The second phase from 2001-2006 concentrated on the stakeholder theory in business ethics and the relationship between consumer behaviour and corporate social responsibility.

It is noted that the studies on code of ethics for directors are widely missing in the literature. More studies have been conducted and there is emphasis on the code of business ethics as a whole, but not solely tied to the work of directors. References [12], [13], [14] and [15] are examples of studies conducted to assess and evaluate the content and construction of the code of ethics by applying a set of standards and finding its evolution over the years. These studies, however did not present much value as the public still do not know how these codes work, communicated and transformed inside organizations [16]. After all, arguably, it all starts with the director who is responsible to navigate the company towards a better performance and direction [5].

Only a few studies have been conducted by involving directors and ethics, example a research conducted by [17] and [18]. Researcher [20] found that ethics have little value for business leaders in decision making because these leaders believe that many of their peers pursue a legal course of action in maximising the shareholders' value although they still recognize the implication of their decisions to ethics and social.

Another area absent in the literature is whether an Islamic value can play an important role in developing the code of ethics for directors. It is worth to study and explore the impact of the Islamic values in relation to ethics. In other related areas such as finance and business, several researchers found

empirical evidences suggesting that companies with syariah compliant transactions and investments are more efficient and sustainable as well as less impacted by the financial crisis [19] and [20].

This is because the Islamic model of business and economy such as syariah-compliance transactions prohibit gambling, uncertainty, speculation, interest and any business that is considered unethical and can bring damage to society such as drugs, money laundering, alcohol, prostitution and so forth. Thus, this will motivate the current research to explore the Islamic values that can be applied and instilled in developing the code of ethics for directors.

III. RESEARCH METHODOLOGY

A semi-structured interview was conducted to answer the research question and achieve the objectives of this study.

The semi-structured interview was selected as the study only gathered data that were related to the fundamental and basic attributes of the code of ethics for directors. Thus, interview is the basic method adopted as compared to other data collection methods such as survey because rich information with not only breadth and but also in depth is expected be collected to fulfill the aim of the study. A semi-structured interview was conducted with the ex-Mufti of one of the states in Malaysia who is currently a Religious Adviser to the King. He is a prominent speaker in various areas of Islamic studies such as Islamic Finance, Islamic Management and Economics and sits in as a syariah adviser for a few public listed companies.

The information collected is analyzed in three steps [21]. The first step is data reduction. At this stage, information that is emphasized will be considered as utmost important while non-important facts will be removed. The second step is data display. At this level, a visual interpretation of the data will be displayed to help illuminate data patterns and interrelationship. The final step is the conclusion. In this step the meaning of the analyzed data is considered and its implication on the research question is assessed. In addition to these three steps, another step will be added to ensure the reliability and validity of the data collected.

IV. FINDINGS

From the interview it was found that there are three fundamental principles in establishing the Islamic code of ethics for directors, namely Aqidah, Syariah and Akhlak.

Aqidah, is defined as a heartfelt conviction and is divine, and born from emotions to the feeling of love and ultimate believe and confidence to God alone [22]. Aqidah is closely related to the principle of Tawheed, the most cardinal principle of Islamic ideology [23]. This means oneness or unity of God. The person with a strong principle of tawheed in his or her life will declare that there is no God but Allah, who is the Creator and Sustainer of all universe. The concept of Tawheed gives significant implication to the ethics of humans generally and to Muslims particularly.

[24] further posited that tawheed created a consistency in human thinking as well as in the behavior that presented several impacts.

First, humans will avoid serving too extensively to a particular group of people. This is because he or she knows that the ultimate responsibility and accountability is only to serve God. It will prevent man from practicing self-centeredness, becoming selfish, narrow minded and having prejudices.

Second, human will not fear any threat and intimidation as a result of his or her decision, action and behavior that will jeopardize the interest of a certain particular group, as long as his or her decision is consistent with the order and command of God. His or her belief in God makes him of her fearless to fight and contest to any demand that leads to unethical behavior and action.

Finally, someone who possesses tawheed will not discriminate and exercise double-standards in his action and decision. This is because he believes that as a human, he is entrusted with amanah by God.

The second fundamental feature of the code of ethics for top management is Shariah. Shariah based on [22] literally stands for a straight path which guides man to the true path of Islam. It leads and binds the moral, spiritual and intellectual life of a Muslim. [24] posited that Shariah is the total sum of rules that God ordains His servants, encompassing their beliefs, worship, morality, dealings and all other affairs relating to the various aspects of lives. The primary objective of Shariah is to maintain man's well-being in this world and in the hereafter.

Syariah, when it is properly put into practice will have an impact and contribute to good conduct in its five categories: command, prohibition, recommendation, reprehensible, and optional [25]. Command means order and instruction. In this context, syariah will command the Muslim to perform certain action which is compulsory and obligatory as this action is important to preserve the harmony of the life of a man.

Prohibition has an objective of prevention and exclusion of certain activities because this kind of activity will bring chaos and damage not only to the individual life but also to the ummah or society as a whole. For example, Islam clearly prohibits any element of gambling, uncertainty, usury in business dealings and transactions. Under the recommendation category, the action or behavior is highly commendable. Not practicing this behavior will leave nothing to the Muslim, but the act will bring kindness and benevolent to ummah. For example, exercising corporate social responsibility (CSR) such as donation to the orphanage is not obligatory. However, this CSR activity is indeed very encouraging in Islam as it helps other groups of people recuperate their lives.

Reprehensible indicates wrongdoing, guilt, liability and blameworthy. There are many ways and examples in business from the Islamic perspective that fall under this category. Cheating, lying, dishonesty and falsehood are clearly dangerous to personal life and society. The final category of syariah is an optional conduct. This conduct is normally related more to action in life that is not related to the

worshipper. For example, the number of products to be sold and the location of the business. The businessmen need to decide on the issues on their own. In other words, optional is the situation when the businessmen need to use their maturity, judgment and discretion to decide and choose any "option" that is the best for their business. The third fundamental feature in creating the code of ethics for the directors is akhlaq. Reference [26] defined akhlaq as a trait that is embedded in one's soul. It produces all acts easily (instantaneously without the need of the common sense. In Islam, akhlaq can be divided into two main categories – good or akhlaq mahmudah and bad or akhlaq mazmumah. Akhlaq mahmudah is a good behavior that encourages good deeds such as honesty, integrity, sincerity, patience, forgiveness, love, care and others. The strong foundation of akhlaq of the business and organization is based on the leadership's akhlaq such as director. Always valued as "leadership by example", Islam views that the tone of the behavior practices of the followers starts from the top. [23] posited that there are eleven (11) requisite moral qualities for Muslims, by which must also become the requirements in creating the code of ethics for directors. The moral qualities are (1) God-consciousness, (2) sincerity, (3) honesty and truthfulness, (4) humility, (5) dignity and self-esteem, (6) purity, modesty and chastity, (7) kindness and cooperation, (8) generosity and charitability, (9) brotherliness, (10) striving and hard work, and (11) economy and moderation.

V. CONCLUSIONS

This study is conducted with the aim of seeking an alternative way or in more specific, Islamic teaching to construct a good code of ethics for the top management. This study found that the three most important factors to be cultivated are aqidah, syariah and akhlaq. Aqidah is the ultimate confidence and total trust to the creator, while akhlaq is the spontaneous behavior without much thinking of the mind. Finally, syariah is the main guidance that leads our action and behaviour to that complied as what has been required by the Creator. The limitation of this study is it only focused on the religious people who sat at the top of the religious department or council of the Islamic State in Malaysia. Future research can be conducted to other groups of religious people but still prominent in the Islamic community such as the members of the state fatwa council, prominent missionaries and Islamic academics and professors in colleges and universities.

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