

Shariah Compliant Model of Business Entities

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The twentieth first century has witnessed resurgence in the observance of fundamental Islamic business practices around the world. However, the fact cannot be denied that the current state of business under unbridled capitalism in the majority of cases in the Muslim world remains far from the Islamic ideal. This gap between the ideal and the reality is widening rapidly and has become a threat not only to the well being of the masses but also to the very peace and stability of Muslim societies. This paper try to describe the model of shariah compliant business entities. It presents the basic understanding of the concept of business in Islam and its business characteristics. It also explore the form of business management model that is shariah compliant. This paper will also propose a model of shariah compliant of business that is focusing on five aspects of business entities: the functions of management, the process of business, corporate culture, corporate governance, and corporate social responsibility. The findings from this study are very much different with previous studies, in the sense that this study provided the most aspects and characteristics so far that a business entities with shariah or Islamic brand should consider and apply. While on the other hand, the previous studies mostly concerned on only one or two aspects of business.

JEL Classifications: K00, M00, M10

1. Introduction

We all agree that every human being needs capital to accomplish all their goals. Because of that, man will always try to get that capital. One of the ways is through working, while one of the ways to work is doing business.

Islam advocates productive work and efficiency, and regards them as virtues. It encourages the physically capable to work and earn their living by being productive members of the society. In order to motivate the people to work hard and enjoy the fruits of their labor, Islam recognizes the profit motive, private ownership and the market. But the pursuit of wealth is subject to moral and ethical standards as it is guided by the criteria of Halal (permissible) and Haram (prohibited). What is beneficial and just, is permissible and what is harmful and unjust is prohibited. These criteria are drawn from Islamic Law (Shariah), which includes the Qur'an, Sunnah (the practice of Prophet Muhammad), and further opinions and deductions and logically applied principles from Islamic experts and adherents to the faith. Thus Shariah is at the root of Islamic business ethics.

The term 'success' in Islamic perspective is called *Falah*, which means successfulness in world and hereafter. Islamic business ethics recognizes profit as a motive for production, but production and profit making are not the end, but rather a means to achieve the objectives of Islamic law. The Shariah aims at achieving

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society's well being as defined by Maslahah (public interest). Public interest in Islam is regarded as seeking or promoting something which is useful, or removing something which is harmful. The objective of Islamic law is to protect and promote public interest by ensuring the preservation of the following five things: religion, life, reason, descendants, and property. If the nature of a business activity, product or service is such that it harms any of the above five, then it is considered to be harmful and unjust and is therefore prohibited, while a product, service or activity which protects and preserves the above five is permissible. Thus Islamic business ethics evaluates all the business decisions and activities on the criteria of public interest.

From the above explanation, Islamic business can be defined as all kinds of business activities that cannot limited (in terms of quantity) the ownership of goods or services including the profits, but can be limited in terms of the way it get and the way it use (according to Shariah law). However, the fact cannot be denied that the current state of business under unbridled capitalism in the majority of cases in the Muslim world remains far from the Islamic ideal. The reasons behind this study is because that gap between the ideal and the reality is widening rapidly and has become a threat not only to the well being of the masses but also to the very peace and stability of Muslim societies.

The findings from this study are very much different with previous studies, in the sense that this study provided the most aspects and characteristics so far that a business entities with shariah or Islamic brand should consider and apply. While on the other hand, the previous studies mostly concerned on only one or two aspects of business.

1.1. Statement of the Problem

There are several questions that can be raised as research problems:

1. What are the differences between shariah compliant business and non-shariah compliant business?
2. What criteria can be employed for identifying them?
3. What should be the best model or form of shariah compliant business?

1.2. Objective of the Study

The main objective of this study is to describe the structure of shariah compliant business entities. Specifically, the desired objectives are as follow:

1. To presents the basic understanding of the concept of business in Islam and its business characteristics.
2. To explore the form of business management model that is shariah complaint.
3. To propose a model of shariah compliant of business that is focusing on five aspects of business entities: the functions of management; the process of business; corporate culture; corporate governance; and corporate social responsibility; from the Islamic perspectives.

1.3. Significance of the Study

The studies concerning the gap between the ideal of shariah compliant business and the reality that is present currently. This study is aimed at providing scientific

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contribution to Islamic business by analyzing that gap. It is also expected to present a set of characteristics of shariah compliant business by looking at five aspects of business that can be implemented in economic development. A model of shariah compliant business entities would also be benefited from this study.

2. Review on Principles and Characteristics of Business in Islam

Previous studies has been beneficial on giving us a basic ground to understand the concept of business in Islamic point of view. Their effort on provided us on such matter should be given an appreciation. However, there has not been any study so far that discussed on five business characteristics on Islamic business: the functions of management; the process of business; corporate culture; corporate governance; and corporate social responsibility; from the Islamic perspectives.

Yusanto and Widjajakusuma (2002) for instance, has started this kind of study by elaborated about wealth in Shariah Law, that is defined as everything that can be used, legally, to Shariah law, such as business, debt, consumption, and gift. Based on this definition, we can say that everything, whether they are goods or services, that can be used by men in life is basically wealth.

Shariah law in Islam is a core value that becomes guidance, strategically as well as tactically, for business organization. With the guidance of Shariah, business is to get four main things (Yusanto and Widjajakusuma, 2002):

- target result: profit-material and benefit-nonmaterial,
- growth,
- continuity,
- Allah blessing.

Target Result: Profit-Material And Benefit-Nonmaterial

The company goals should not just to gain highest profit, but also should have to get and give benefit nonmaterial to the internal company organization as well as external (environment), such as brotherhood working condition, social careness and so on.

What we mean by benefit is not just to give value to material, but also to give value to something nonmaterial. The management of the company can give benefit in terms of humanity action through working opportunity, social aid and other kind of aid. The values of noble attitude is a must that should appear in all kind of company activities, so it can create Islamic brotherhood relationship, not just functional or professional relationship. All those actions were meant as part of worship to Allah.

Growth

While profit material and benefit nonmaterial has been achieved according to company target, company will try to achieve growth or constant development from those profit as well as the benefit. The outcome of the company should always growing and developing every year. This process of growing should be in line with the corridor of Shariah. Such as, in increasing the amount of production to be balance with market expansion, innovation development, to create new product and so on.

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Continuity

The management of a company is not yet perfect if it's stop in just achieving target result and growth. That is why, it always need to increase the target result that has been achieved, so that it can maintain the continuity in long term. All activities to maintain that continuity should be in line with the corridor of Shariah.

Allah Blessing

The factor or orientation to gain Allah blessing is the highest contentment for every Muslim. If they achieved this, it remarks the accomplishment of two condition for every men action, which are the element of sincerity and the way or the process that in line with the corridor of Shariah. That is why all business managers should consistently put this orientation of blessingness, so that the achievement of all orientations will always be in line with Shariah that guarantee the blessingness from Allah.

The evidence of those four main things above, best illustrate by the establishment of Hotel Sofyan in Indonesia. As reviewed in *Sharing - inspirator of Shariah economic and business magazine* – (2011), for the beginning, this hotel operate just like other common hotel we know these day. But the chief commissioner change the business strategy and transform it into the Shariah hotel concept, which more concern to the implementing of Islamic values and principles in managing daily operational activities. As the result, the existence of Hotel Sofyan Syariah Group is recognize. The average of occupancy level approximately 85% per year. They also can collaborate with other hotels as a partner with franchising or contract management scheme in several city in Indonesia.

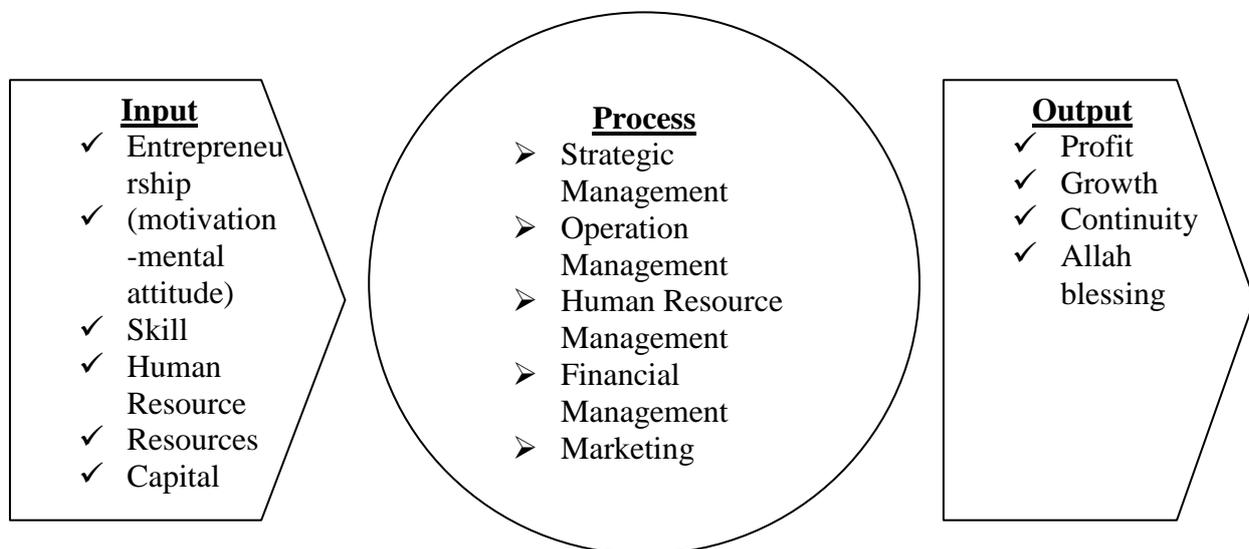


Figure 2.1: Islamic Business Anatomy

Source: adaptation of Yusanto, M. Ismail and Widjajakusuma, M. Karebet. (2002). *Menggagas Bisnis Islami*. Jakarta: Gema Insani Press.

Islamic business that controlled by Shariah law are pretty much different with non Islamic business, in terms of the way to get wealth and how to use it. With secularism as foundation which consist of material values, non Islamic business

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does not concern with Shariah law in every planning, executing and all effort that has been done to reach business goals.

From this secularism foundation, all the buildings of non Islamic business character are being directed to material things, while at the same time avoiding religious value and connectivity of businessman to the rules that was born from transcendental values. Even if there are rules, it's only in terms of ethical which has got nothing to do with reward and punishment from Allah.

The commitment of Islamic business ethics to the criteria of public interest and justice leads to the distinction between the ends and the means. In a market economy where the invisible hand is sovereign, the pursuit of profit maximization knows no bounds and may even lead the business to undertake economic activities that are harmful to public interest. On the other hand, in an Islamic economy, where the invisible hand is guided by the objectives of Shariah, the market will channel the business to pursue profit-maximization through only those economic activities that are in line with public interest. Thus Islamic business ethics accepts the profit motive as the goal of the producer but rejects all those means (to achieve this goal) that may harm the public interest in any way. The protection and promotion of public interest as the criteria of economic activities elevates the business entities from being (potentially) reckless profit-seekers to socially responsible profit-seekers.

Through the table below, we can see the differences of business characteristics between Islamic and non Islamic business.

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Islamic	Business Characteristics	Non Islamic
Transcendental value	Foundation	Secularism (material value)
Here and hereafter	Motivation	Here in this world only
Profit and Benefit (non material), Growth, Continuity, Allah blessing	Orientation	Profit, Growth, Continuity
High, business is part of worship to Allah	Work Ethos	High, business is only daily needs
Productive, manifestation as a muslim	Mental Attitude	Productive and consumptive at the same time, part of self actualization
Skillful, consequences from obligation as muslim	Skill	Skillful, consequences from reward and punishment motivation
Trusty and responsible, ends does not justify the means	Trust	Depend on the willingness of individual (capital owner), ends justify the means
Halal (according to Shariah law)	Capital	Does not care about Shariah
Based on working agreement	Human Resource	Based on working agreement or based on capital owner decision
Halal (according to Shariah law)	Resources	Does not care about Shariah

Figure 2.2: Business Characteristics

Source: adaptation of Yusanto, M. Ismail and Widjajakusuma, M. Karebet. (2002). *Menggagas Bisnis Islami*. Jakarta: Gema Insani Press.

Furthermore, when those Islamic values and principle has penetrated to the heart of every individual, it will create the spirit for worshiping Allah. As quoted in *Sharing - inspirator of Shariah economic and business magazine* – (2011), the founder and former Chief Director of Bank Muamalat Indonesia (BMI) said that :

“This is not a business anymore. The establishment of BMI is to fight for the economic of ummah. It is not an institutional who run economic activities based on Islamic values and principles but the Islamic institution who run the economic activities.”

This study is basically started from this ground, and continue it by exploring on a more comprehensive approach on five business characteristics from Islamic point of view, as well as proposing a model for shariah compliant business entities.

3. Methodology

The present study by nature is a library research. The research aimed to critically analyze how current business model that has been practicing. It will also look at the

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fundamental sources of Islamic principles and values on how Islam perceives business and gives guidelines on business matters, from various sources (journals and books). Content analysis is the key tools which we intend to use to extract necessary information materials. Any necessary information for the study will be extracted using exploratory method, and then will be critically analyzed and interpreted using explanatory method. The previous studies has been improved by giving a new model on business interrelationship, and furthermore by giving new model on shariah compliant business entities.

4. Findings and Discussions

4.1 Shariah Compliant Model of Business Entities

The modern form of shariah compliant business will be better if it follow the current business form that has been practicing by most of business entities currently. The differences are on the principles values and fundamental of rules on the essence of business activities. In the modern world we live in now, collaboration and networking between people, nations, as well as business entities can not be avoided, even it becomes importants for the development of mankind. The collaboration and networking are crossing different culture, values and faith or religion background, with ofcourse still have to respect the differences between those culture, values and religion.

Shariah compliant business entities should open itself to collaborate with other business entities (non shariah compliant), as long as its not againts the Islamic rules and values, and furthermore give benefits to the society and mankind. Therefore the model of shariah compliant business entities should also be acceptable by other kind of business entities. Without that, it will be difficult to have a collaboration. The combination of the modern form of business entities and Islamic rules and values is the important aspect that need to be consider by all shariah compliant business. That they need not only following the guidelines of Islamic principles, but also try to form themselves in the form that is acceptable by the modern business, without have to compromising their own essential principles and values.

This is the challenge for those business entities that has Islamic brand attach to it, e.g. Islamic banking, Islamic insurance, Islamic capital market, and other Islamic non financial institution and companies. Every business that has Islamic brand should follow the Islamic rules and values in all aspects of its activities, as well as form themselves in the form of current business practices and entities. What happened now, some of them tend to follow certain Islamic rules and values on certain aspects but tend to ignore it on other aspects, because they too much focusing themselves to suit their business form with the modern form.

The model of shariah compliant of business should focusing on at least five aspects of business entities: the functions of management, the process of business, corporate culture, corporate governance, and corporate social responsibility.

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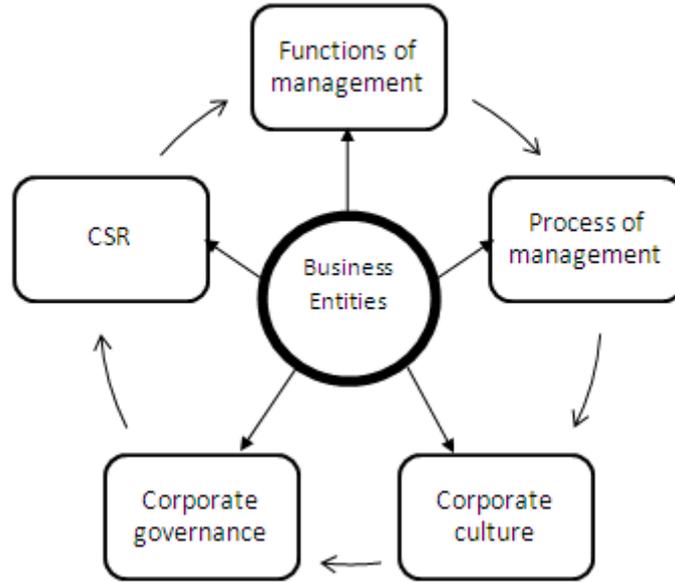


Figure 4.1.a : Business Entities Interrelationship
Source: Irawan Febianto (2011)

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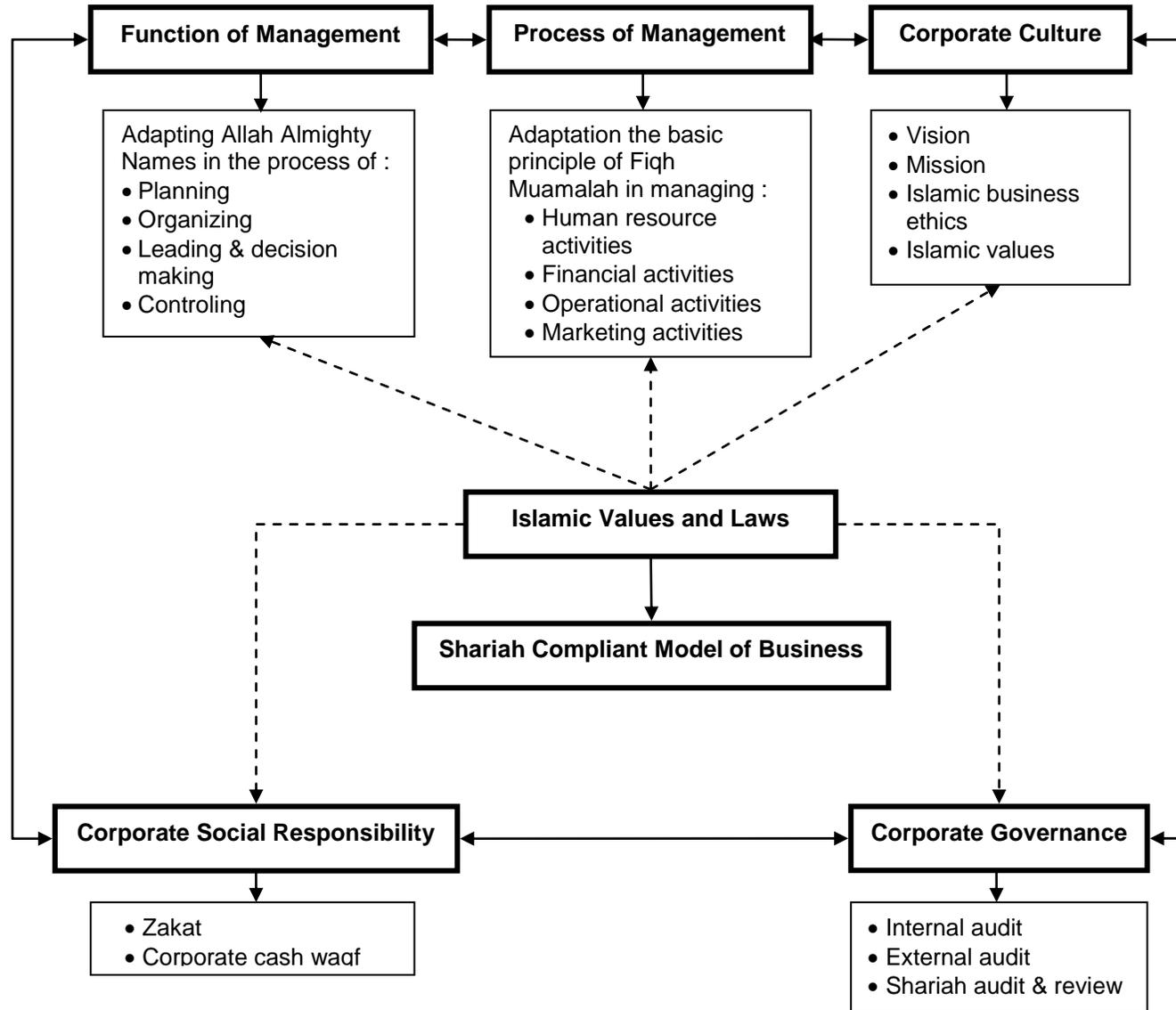


Figure 4.1.b : Shariah Compliant Model of Business Entities

Source: Irawan Febianto and Nita Kameswari (2011)

4.2. Management Functions

Management is creative problem solving. This creative problem solving is accomplished through four functions of management: planning, organizing, leading (decision making) and controlling. The intended result is the use of an organization's resources in a way that accomplishes its mission and objectives.

An interesting model of management functions based on Islamic principles is the model from Abuznaid (2006). He based the four functions of management on **Allah Almighty Names**.

Planning according to Abuznaid (2006) is no stranger to Islam and the Islamic civilization. The Koranic verse, "Against them make ready your strength to the utmost of your power, including steeds of war, to strike terror into (the hearts of) the enemies of Allah and your enemies, and others besides, whom ye may not know, but whom Allah doth know (Holy Koran, 8:60). Islam urges believers to plan in advance and then and only then put their trust in God. Imam Ali, one of the successors of the prophet Mohammed, said, "[F]or your world, act as if you live externally; and for your hereafter, act as if you will die tomorrow." The Moslem manager believes that Allah the Almighty is the administrator. He knows things, their consequences and runs things in his own way and wisdom. Also God the Almighty is known to be wise, allknowing, correct in every estimation, and in control of things; all of this gives the Moslem incentives to apply in his behavior the meanings of God's names and quality. (Abuznaid, 2006).

God the Almighty has the best, greatest, highest, and most honorable names, which he gave to himself and ordered. He should not be called and named by other names that are not mentioned in the *sharia* to avoid attributing to him meanings unfitting for his highness and greatness. (Abuznaid, 2006).

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Source: Dr. Samir Abuznaid

Figure 4.2: Management Functions based on Allah Almighty Names.

Source: Abuznaid, S. (2006). Islam and Management: What Can be Learned? Thunderbird International Business Review. 48 (1) (2006):125 – 140.

Also, God the Almighty is known to be wise, all-knowing, and correct in every estimation and everything, and in control of things. All of this gives the Moslem administrators incentives to apply in their behavior the meanings of God's names and qualities. In addition to that, God urges Moslems to pay more attention to the function of planning. (Abuznaid, 2006).

Organizing

Abuznaid (2006) discussed that there is much in God's names and qualities to indicate the importance of organizing in one's life like the Calculator, the Wise, the Chosen, and others. The Koranic verse says, "[the Lord] surrounds (all the mysteries) that are with them, and takes account of every single thing (Holy Qur'an, 72:28).

Leading and Decision Making

The ability to make decisions according to Abuznaid (2006), is not an easy task. In Islam, God is named the chooser: "Thy Lord does create and choose" (Holy Qur'an, 28:68).

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Controlling and Evaluating

According to Abuznaid (2006), functions like managerial control and performance evaluation are necessary for the success of any business. Organizations must give utmost importance to such functions, especially because they are connected to the name of God, Al-Rageeb, which means controller (e.g., “. . . and verily it is Allah who hears and sees [all things] [Holy Qur’an, 22:61]; “Allah doth watch over all things” [Holy Koran, 33:52]; and “for Allah ever watches over you” [Holy Qur’an, 4:1]).

4.3. Business Process

In every activity of business management process, there are aspects that Shariah is concerned about. These activities which includes: Financial, Marketing, Human Resources, and Operations Management, should follow the Shariah rules, called *Fiqh Muamalah*. *Fiqh Muamalah* is the Islamic laws that regulate the relations among humans being and all their acts and interconnections. (Anything is permitted up to there are some provisions that forbid it). The scope of *fiqh muamalah* includes, among others, the law related to all aspects of human life as well as the law related to financial activities.

Islamic	Business Process	Non Islamic
Vision and mission of the organization are interconnected with the mission of men’s creation in the world	Strategic Management	Vision and mission of the organization are based on material interest only
Halal guarantee for every input, process and output. Prioritize productivity in Shariah corridor	Operation Management	There is no Halal guarantee for every input, process and output. Prioritize productivity in benefit corridor only
Halal guarantee for every financial input, process and output	Financial Management	There is no Halal guarantee for every financial input, process and output
Marketing in corridor of Halal guarantee	Marketing Management	There is no Halal guarantee in marketing
Professional Human Resource and have Islamic personality. Responsible to himself, employer and Allah.	Human Resource Management	Professional Human Resource. Responsible to himself and employer

Figure 4.3: Business Process

Source: adaptation of Yusanto, M.Ismail and Widjajakusuma, M. Karebet. (2002). *Menggagas Bisnis Islami*. Jakarta: Gema Insani Press.

Financial Management

Shariah permits all kinds of transactions except for several elements which include *riba* (interest and all margins that have no right), *maysir* (gambling), and *gharar* (uncertainty).

It is compulsory for a business entity to establish the entity by using funds that are halal. In conventional businesses, usually entities use start-up funds that include

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interest. This is prohibited by Islam, due to its destructive nature. As alternatives, Islam permits profit and loss sharing for financing activities. Thus it is preferable for entities to implement profit-loss sharing in financing their business. These profit-loss sharing schemes that are allowed are named Mudharabah, Musharakah, Muzara'ah, and Musaqat. The schemes that are commonly used for business in general are Mudharabah and Musharakah. Mudharabah involves two parties in which one party acts as provider of funds (shahibul mal) and the other party serves as the entrepreneur (mudharib). The funds provided by the shahibul mal will be managed by the mudharib, with an agreement at the beginning of the contract that states a certain profit sharing for the parties and if any loss occurs then the shahibul mal is the one who will bear all costs.

Human Resources Management

Human Resources in an Islamic business is a crucial aspect that must be considered wisely. Human capital that understands Sharia would be one of the key success factors of an Islamic-based business. The human capital to be involved in the business should have the following characteristics (Najma, 2007) :

1. Has adequate knowledge of Sharia
2. Skillful in his/her field
3. Honest and trustworthy
4. Diligence, persistency and dedicated in work

To achieve qualified human capital, there must be employee empowerment. In Islam, there are two types of empowerment : Islamic personality empowerment and skill and knowledge empowerment. (Najma, 2007)

In compensating for the employees, it is of importance that the compensation is made clear and under a contract to resolve future disputes. The compensation system must be clear and transparent; be paid on time; the amount covers basic needs; and in accordance with the employees' expertise. (Najma, 2007)

Marketing Management

Although there are many similarities or permissions in conventional marketing with Sharia, there are several aspects to be aware of. Islam emphasizes ethical marketing especially in selling activities. The products and services must be marketed effectively to interest potential buyers in purchasing them (Taufiq, 2004). The potential market should be converted into the buyer market (Najma, 2007).

So, there should not any substance of *dharar* (hazard), *jahalah* (obscurity), and *zhulm* (harm or unjust to any parties) in selling activities. The information about the product should not be concealed and there should not any excessive mark up for product price. In competing with other companies, the entity should be able to compete ethically.

Operations Management

A business entity must be aware that in operations activities it is an obligation to manage quality and be consistent in quality while doing innovations. Islam emphasizes that quality assurance is aimed at achieving customer satisfaction while reaching for Allah's ridha (Taufiq, 2004).

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The production process should be exempted from *bathil* substance, so there should not result in any hazard or harmful for human being or other creatures in the environment.

4.4. Corporate Culture

There is relationship between implementation of corporate governance and corporate culture. Corporate culture is a basic principle in developing organization to increase its comparative and competitive advantage.

Djoko Santoso Moeljono (2005), as quoted in '*GCG Melalui Corporate Culture*', stated that before an organization apply good corporate governance (GCG) principles, the organization should implement the values of its corporate culture first. GCG can be executed if the individuals in the organization internally have a value system that will encourage them to accept, support and fulfill GCG principles.

According to Golnaz Sadri and Brian Lees, as quoted from Goffe & Jones (1999), an organization that is able to maintain a positive culture is likely to enjoy many benefits. When organization members identify with the culture, the work environment tends to be more enjoyable, which boosts morale. This leads to increase levels of team work, sharing information, and openness to new ideas.

In more simple perspective, corporate culture can be derived from the founder values, tendencies, or directions. Usually, the founder also has a main role to lead the business entity once it is established. So, when the founder has positive values, he/she can develop the values into the corporate culture and direct every substance in the entity with it. As a good evidence are the founders of Bank Muamalat Indonesia and Hotel Sofyan in Indonesia, who can lead their entity to implementing the Islamic values and principles and achieving success all at once.

In Muslim setting, corporate culture should be based on the following (Khaliq Ahmad, 2007) :

- a. Tawheed and its implication on man, that is, in terms of viewing work as an act of *ibadat* and an approach to be rebuilding of Islam
- b. Islamic brotherhood
- c. Islamic social guidelines, such as no backbiting, no spreading rumours and evils
- d. Islamic enhancement of the skills of the employees in terms of, for example, training and upgrading of knowledge as well as other skills.

For the cultivation of an Islamic corporate culture, Syed Othman, as explained by Khaliq Ahmad in *Management from Islamic Perspective*, listed numbers of values to be applied in an organization :

1. Every action should be based on a stated intention
2. Conscientious and good knowledge to be applied in all endeavours (*itqan*)
3. Proficiency and efficiency (*ihsan*) to be practiced
4. Sincerity (*ikhlas*)
5. Passion for excellence
6. Continuous self-evaluation (similar to the Japanese *Kaizen*)
7. Being forever mindful of Allah (SWT)

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8. Justice
9. Truthfulness
10. Patience and perseverance (Sabr); it should be underline in this regard, that Sabr is always translated as “patience”, but its meaning goes beyond that; if something does not go according to expectations, one should not only accept it with patience, but should also make new attempts and work harder
11. Moderation to be applied in all matters, including food, health, work, *ibadat*
12. Keeping promises
13. Prohibition of loving thing world excessively
14. Prohibition of loving wealth excessively
15. Being Miserly
16. Prohibition of excessively love of power and influence
17. Avoidance of pride

Othman further pointed out at a fact that many “modern” management techniques are based on these values. To implement TQM, for example one needs to combine the Islamic term of *itqan*, *ihsan*, passion for excellence and continuous self-evaluation.

A businessman noted that many organizations are dysfunctional (i.e., not operating well) due to the fact that people inherently motivated by selfish greed. He argued that if all Muslims employed in an organization could really be motivated to give priority to their society and place themselves as second, a most effective corporate culture could be established.

To create such a corporate culture from the perspective of Islam, the most important aspect in regards to a healthy corporate culture would be the acquisition of knowledge. Many companies in Malaysia have made the arrangement for an *ustaz* to conduct a *ceramah* (spiritual talk) during lunch hour. Any company may simply invite an *ustaz* (or several *ustaz*) and allow one hour a week, during which like the *ustaz* could discuss key issues and this would serve the following purposes :

- a. For the benefit of individual Islamic development of the staff
- b. For the indirect benefit of the company by highlighting Islamic key values, which would assist in creating the right corporate culture to increase the efficiency of the company

For the success of such a program, it is essential to emphasize that it should not be a “one shoot” motivational talk. Rather, for a lasting effect on the staff, it should be a weekly event, and continuous over a perid time. A writer on the concept of motivation, Dennis Waitley, said, his experience in developing people in USA had told him that one would need two years of regular sessions to really bring about a change in a person (Khaliq Ahmad, 2007).

4.5. Corporate Governance

Corporate governance represents structures and processes that entail individuals carrying out business whilst exercising professional discretion in a way that exhibits integrity, judgment and transparency. These principles are essential to Shariah. (El-Fotouh, 2009).

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The Organization for Economic Cooperation and Development (OECD) defines Corporate Governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined”

OECD Principles of Corporate Governance focus on:

Accountability - ensuring that management is accountable to the board and the board is accountable to shareholders.

Fairness - protecting shareholders rights; treating all shareholders, including minorities, equitably and providing for effective redress for violations.

Transparency - ensuring timely and accurate disclosure on all material matters, i.e., financial situation, performance and ownership.

Responsibility - recognising the legal rights of stakeholders.

The teachings of Shariah bind fairness and honesty to the main principles of any conduct, including transactions. Good corporate governance is consistent with Shari'ah-compliant financial conduct which prohibits fraud, embezzlement, misstatement and other patterns of dealings that cause abuse, injustice and Gharar (risk, uncertainty, and hazard).

The Islamic model of corporate governance would first look at the transactional structure to see whether the transaction involves elements that invalidate the gains or profits. Conventional governance practices do not perform a similar function (except for transactions with related parties, self-dealing, etc.). On the other hand, it ensures that the transactions do not contravene the corporate code of business ethics and cross the line that the law has drawn. (El-Fotouh, 2009)

However, there is a major difference in philosophical objective between the conventional and Islamic point of view of corporate governance. In the conventional models, a company objectives can be varied i.e. either to maximize the shareholders' profit or to maximize the stakeholders' wealth. However, in Islamic perspective, the main goal is clearly stated: everyone has a unity purpose in his/her that is to serve Allah SWT. One of the consequences would be, at least normatively, that the Islamic society will avoid having conflicting interest among member of the society. (Kasri, 2009)

Ahmed (2003) further suggests, as mentioned by Kasri (2009), that this will inevitably lead to a society whereby every member will cooperate with each other rather than compete, as success in life is to obtain the ultimate happiness (falāh). Such philosophical considerations do not exist in the conventional literature.

Another important element in good corporate governance for shariah compliant business entities is the present of Shariah Supervisory Board (SSB), to ensure that the business activities complied with Islamic principles. SSB comprises of Shariah Scholars, that has a strong theoretical as well as practical background on Islamic teachings. They will decide on an issue placed before them after deliberations, using an exercise which is called in Islamic teaching as Ijtihad. The result of this consultation will lead to Fatwa, decision and opinion regarding an issue. Consultations in which the individual deliberations of many scholars play a vital role

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in reaching many firm conclusions. This sometimes leads to different answer and opinion from different Shariah Scholars, even for a same particular issue.

The function of SSB is of a very delicate in nature. On the one hand, they are meant to abide strictly by Islamic principles, and on the other hand they have to fulfill the requirement of the constantly needs of the contemporary market place. The task entrusted to the Shariah boards is indeed a difficult one, because when we claim that Islam provides solutions to the problems of every time and place, we do not mean that Islam has given a specific rule for each and every minute detail of every transaction. (Lahsasna, 2010).

Lahsasna (2010) further suggest that the more familiar Shariah Scholars become with the actual workings of real life business, and the more knowledgeable business and investment professionals are about Islamic religious principles, the more likely that their collaboration will produce acceptable and innovative solutions for business needs. Greater training for both Shariah board members and business professionals will advance this collaboration.

4.6. Corporate Social Responsibility (CSR)

According to Strautmanis (2008), CSR is an expression & integral part of the organizational culture environment. There is relationship between organizational values and sensitivity to CSR. Corporate social responsibility develops under the conditions of adequate personal and society benefiting values orientation. Results of the values orientation research emphasize focus on quality, professionalism, personal development, employees' involvement and participation. The distinctive values orientations that form organizational culture environment have to merge towards human mutual relations: tolerance, sympathy, empathy. Social responsibility is part of organizational culture and a value in the organizational culture environment. Condition for the development of social maturity is intelligence, unity of professionalism and social competence, and human relations.

Genest (2005) finds that corporate philanthropy is a reflector of corporate values. In implementing the corporate philanthropy, program delivery differs as a reflection of corporate history, values, mission, and business drivers. That is why the CSR activity must be at the core of its daily business.

In research paper titled *An Analysis of Islamic CSR Concept and the Opinions of Malaysian Managers*, Tareq Hossain (2009), found that there are similarity between the Islamic concept and top executives' opinion about CSR. As he quoted from Mohammed, J. (2008), there is link between the beauty of Islam with CSR. The values and principles that have been central to Islam since the time of the holy Prophet Mohammed may serve as foundation for the notion of CSR similar to those in the West.

According Dusuki (2008), as explain by Tareq Hossain (2009), the concept of CSR in Islam encompasses a broader meaning embracing the taqwa (God consciousness) dimension by which a corporation as a group of individuals, assuming the roles and responsibility as servants and vicegerents in all situations. For additional, Hasan (2002) explains that the relationship with God would be inspired by the values of

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truthfulness, fairness, kindness, uprightness rather than envy, backbiting and discrimination. This should naturally manifest in business activities as well as in the relationship with all stakeholders.

In implementing CSR, the holy Prophet Muhammad and his companion as businessman, had directly give us an example on how to set aside some portion of their profit for charity, through waqf and zakat. Through waqf, there is a suitable scheme of waqf model that can be part of CSR named corporate cash waqf.

Corporate cash waqf implemented by Johor Corporation (JCorp) since 2006, with the transfer RM 200 million worth (on net asset value basis) of public listed shares owned by JCorp to Waqaf An-Nur Corporation Bhd (“WANCorp”). WANCorp’s main income will be derived from the annual dividend payout by the PLCs whose portion of shares are now owned by WANCorp. These payouts will be allocated for re-investment, as well as to fund Islamic CSR programs that are not, however, exclusive to Muslims as beneficiaries.

In 2009, RM 4.9 million were received by WANCorp as dividends, and of this, 70% were allocated for re-investment. Another 25% of the dividends received were spent on Islamic CSR causes, mainly to fund JCorp’s and KPJ’s nationwide chain of charity Waqaf An-Nur Clinics and hospitals to serve the healthcare needs of the poor of all ethnic groups. Johor Islamic Religious Council is the beneficiary of the remainder 5%. In 2009, WANCorp distributed a total of RM 984,139 for Islamic CSR causes. (JCorp annual report, 2009). In previous years, JCorp carry cash waqf by providing some funds to the Collection of Waqf An-Nur Berhad (KWANB), its subsidiary in charge of specifically managing waqf fund since 1998 (INCEIF,2007).

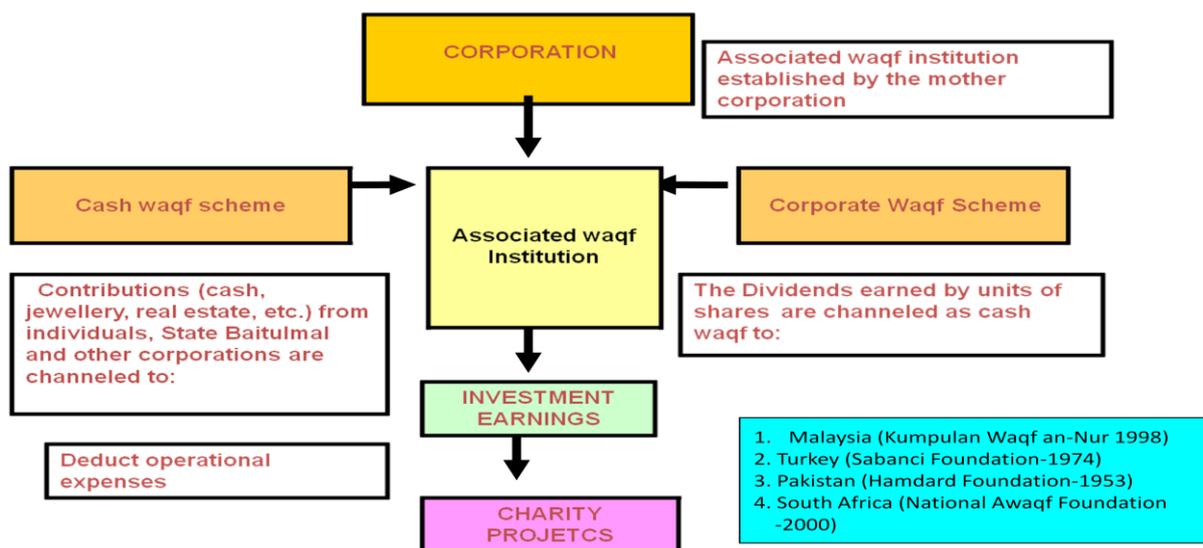


Figure 4.6: Corporate Cash Waqf Model
Source: INCEIF(2007).

Compared to zakat, corporate cash waqf is much more sophisticated because its innovation. With corporate cash waqf, charitable funds can be obtained by involving other parties and the allocation of funds could be more diverse not like that in the zakat distribution which is limited to eight *asnaf* (categories) of people. In technical

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meaning, zakat means an act of worship through expenditure of Muslim's property or wealth upon the full possession and above a certain limit. Nevertheless, zakat as the primary obligation remains to be prioritized in the implementation.

5. Conclusion

The above discussion shows that the principles of Islamic business ethics are not the result of a reaction to external problems; rather they are rooted in the teachings of the Qur'an and the practice of Prophet Muhammad and are a natural component of the Muslim way of thinking and intellect. Islamic business rationality, rooted in the Shariah, is committed to the preservation and promotion of public interest, and is a 'mature rationality' under the Shariah guided market paradigm.

The intellectuals of other great religions are realizing that there are unbridled capitalism is violating their religious ideals of business ethics as well, resulting in a dilution of those values that are the very core of the peace and stability of their societies. These concerns are common across the contemporary civilizations, and there is an urgent need for the concerned citizens of these civilizations to cooperate with each other for common causes. Otherwise, growing commercialism will cause the rapid deterioration of our environment, values and moral institutions and inflict irreparable damage that future generations will have to bear.

Today, in the modern economic and business daily life, the shariah compliant business model are mostly practice by the Islamic financial institution eventhough it still relatively limited to the transaction or finance part, not in the business model as a whole. We should move further to other part of business aspects such as human resource management, marketing management, operational management and other part of business manageent from the perspective of Islam teachings. Every business that has Islamic brand should follow the Islamic rules and values in all aspects of its activities, as well as form themselves in the form of current business practices and entities. The model of shariah compliant of business should focusing on at least five aspects of business entities: the functions of management, the process of business, corporate culture, corporate governance, and corporate social responsibility.

This paper are still at the early stage of conceptualizing a business entities that can meet shariah requirement. However, the study is important given the dearth of huge work on the issues. The findings from this study are more comprehensive than previous studies, by discussing on the five business characteristics entities: the functions of management; the process of business; corporate culture; corporate governance; and corporate social responsibility; from the Islamic perspectives. Furthermore, this study also proposing a new model for business entities with shariah or Islamic brand that should be considered and applied.

A further emprical studies needs to be done to develop more comprehensive model on this matter, especially in the modern world where there are many challenges and issues that need to be solved.

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