

Business Ethics and Investors` behavior in Islam

اخلاقيات العمل وسلوك المستثمرين في الاسلام

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Abstract:

Principals and fundamentals of Islamic finance are different from those of conventional finance. Islamic finance is based on moral and religious dimensions. Most researchers focus on Islamic finance principles, their importance and role to reduce poverty, to eliminate crisis etc. but they did no highlight the need to incorporate the Islamic business ethics and behavior into the economic and financial theory. The objective of our paper is to fill in this gap. The study aimed to assessing business ethics and behavior in Islam. Our research concludes that Islamic behavior for investors and traders includes: Ethics, Continuous learning, trust and reliance on God and avoiding laziness, optimism, self-confidence, and finally patience and self-control.

Keywords: Islamic finance; Islamic behavior; Ethicla trading.

JEL Classification Codes: G0, G40, G41

ملخص:

تختلف مبادئ وأساسيات التمويل الإسلامي عن مبادئ وأساسيات التمويل التقليدي. يقوم التمويل الإسلامي على أبعاد أخلاقية ودينية . يركز معظم الباحثين على مبادئ التمويل الإسلامي وأهميته ودوره في الحد من الفقر والقضاء على الأزمات وما إلى ذلك ، لكنهم لم يبرزوا الحاجة إلى دمج أخلاقيات وسلوك الأعمال الإسلامية في النظرية الاقتصادية والمالية. الهدف من ورقتنا هو سد هذه الفجوة. هدفت هذه الدراسة إلى تقييم أخلاقيات العمل والسلوك في الإسلام. وقد توصلنا في بحثنا إلى أن السلوك الإسلامي

للمستثمرين والمتداولين يشمل: الأخلاق، التعلم المستمر، الثقة والاعتماد على الله وتجنب الكسل والتفائل والثقة بالنفس وأخيراً الصبر وضبط النفس.

كلمات مفتاحية: المالية الإسلامية، السلوك الإسلامي، أخلاقيات العمل.

تصنيفات JEL : G0, G40, G41

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1. INTRODUCTION

Recent crises, especially, the subprime crisis which took place in the USA (2007) led to the bankruptcy of several banks, the dysfunction of the US banking system and spread rapidly across most international financial and monetary systems. This crisis has shown the failure risk management system of conventional finance which adheres essentially to capitalism and the market economy. Since then, through various mechanisms (such as limiting excessive risk-taking, an adequate regulatory framework, etc.), theorists and practitioners try to find out an adequate system that guarantees financial stability. The development of Islamic finance is present in this context of financial renovation.

Islamic finance is based on moral and religious dimensions. Its pillars are: Prohibition of Riba (usury), application of al bai` (trade and commerce), the prohibition of Gharar (Speculation and Excessive risk and uncertainty, ambiguity) and Maysir (Gambling), investing in business that provides goods and services that are lawful or permissible by Sharia. Theory and practice showed over the time that financial Islamic principles can play an important role in strengthening economies. Over the years, Islamic finance has known a rapid and global growth, in 2015, represented nearly 1.7 trillion Euros in assets across the world; it could reach around 2,900 billion by 2021 (Ministry of the economy, Finance and recovery, France). It appeared in south-east of Asia in the 1960`s and since then, it emerged in several Islamic countries as well as some European countries like UK, France, Switzerland etc. Kuwait

Finance House Group (KFH-Group) stated that Asia presents an important development for Islamic Finance. At the end of 2013 Islamic finance asset in Asia is about USD391.2bln (22% of Islamic finance assets worldwide). Islamic banking accounting presents 49% of aggregate Islamic Finance, *sukuk* 45%, Islamic funds 5% and Takaful 1%. Non Muslim countries have shown an increasing interest in Islamic finance. For example, in 2013 The UK prime minister announced a plan to issue *sukuk* and to turn London into a Global Center of Islamic Finance in 2014.

Islamic capital markets, called stock and/or *sukuk* markets, are still young, but they offer the potential for promoting sharing prosperity, raising fund for new business, encouraging entrepreneurship and supporting economic development (Global report on Islamic finance (2017)). Many researches proved that this type of investments guarantees a good investment security, especially after the subprime crisis. Jouini and Pastre (2009) proved that by integrating Islamic principles in institutions` practices global financial crisis could be avoided. Arouri et al. (2013) showed that the impact of subprime crisis on the Islamic finance industry is less marked than on the conventional finance. In addition they proved that investing in Islamic assets generate high returns and including Islamic products in portfolios reduces systemic risk and generate significant diversification benefits.

Most researchers focus on Islamic finance principles, their importance and role to reduce poverty, to eliminate crisis etc. but they did not highlight the need to incorporate business ethics and Islamic behavior into the economic and financial theory. The objective of our paper is to fill in this gap. The next section focuses on Business Ethics in Islam. Then we develop how an investor should behave according to Sharia. The last section concludes.

2. Business Ethics in Islam

Trade in Islam is governed by ethical values that traders should follow. These values are summarized as follow:

- Honesty in financial dealing: There are certainly many fraudsters and scoundrels who do not hesitate to lie in order to extract others money and make easy profits. These persons are just temporary winners. In business there are many examples of traders who won by cheating and become case studies in the lack of integrity such as Enron directors in the United States. Islam orders people to be honest to others and to themselves. A trader should be honest and strict in his monetary dealings with others. He has to be sincere by keeping his promises.

``O you who believe! Do not consume each other's wealth illicitly, but trade by mutual consent. And do not kill yourselves, for Allah is Merciful towards you.`` (Quran 4:29)

In addition, honesty means avoiding perfidy, deceit and violate others rights.

``do not commit aggression; Allah does not love the aggressors.`` (Quran 1:190)

Furthermore, a honest trader must not give a false testimony.

``So stay away from the abomination of idols, and stay away from perjury.`` (Quran 22:30)

- Not cheating in trade: Cheating is when a buyer knows something about goods, which, when the purchaser knew about it he would not pay the amount of money for it. Cheating has many forms, it may appear by: Concealing faults in goods by deceiving people about the quality of a product; Mixing good products with bad ones; cheating in weight and measures. Many sayings in Quran condemned cheatings and warned about its consequences:

``1 Woe to the defrauders. 2 Those who, when they take a measure from people, they take in full. 3 But when they measure or weigh to others, they cheat. Do these not know that they will be resurrected?5 For a Great Day?`` (Quran 83:1-5)

- Realizing earnings through lawful means: in addition to financial performance, an investor should take into account social, environmental and ethical criteria. In Islam, almost all types of investments are considered as *Halal* (what is permissible under Islamic Sharia law) except industries that

promote, smoking, alcohol, pornography etc. and companies that derive their profits from interest, gambling, pork and hedging in silver and gold.

- Justice: `` *“Fair Trade is a trading partnership, based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South.”*¹

Islam disapproves all transactions that involve injustice to the buyer or seller.

`` *O you who believe! Stand firmly for justice, as witnesses to Allah, even if against yourselves, or your parents, or your relatives. Whether one is rich or poor, Allah takes care of both. So do not follow your desires, lest you swerve. If you deviate, or turn away—then Allah is Aware of what you do.*`` (Quran 4:135)

- Trustworthiness: is a quality of a person who proves the ability to be relied on as truthful and honest. In Islam, it means sincerity in work by avoiding fraud and deception, keeping promises and the obligation to honor one`s engagements by paying the creditor on or before deadline.

`` *Those who are faithful to their trusts and pledges. Those who safeguard their prayers. These are the inheritors.11 Who will inherit Paradise, wherein they will dwell forever.*`` (Quran 23:8-11)

- Alms-giving (*Zakat*): *Zakat* is one of the five Pillars of Islam which is considered as an obligation for Muslim especially for traders. It is based on incomes and the value of one`s possessions. This act is largely documented by literature showing that *Zakat* promotes more equitable redistribution of wealth and contributes in reducing poverty.

- Patience with debtor: Islam calls traders to be patient and tolerant with those who are poor or -those who cannot pay their credits on time and avoid calculating interest on the loan and on late payments. `` 278 *O you who believe! Fear Allah, and forgo what remains of usury, if you are believers.*279 *If you do not, then take notice of a war by Allah and His*

¹ World Fair Trade Organization and Fairtrade Labelling Organizations International. January 2009
Page 6

Messenger. But if you repent, you may keep your capital, neither wronging, nor being wronged.280 But if he is in hardship, then deferment until a time of ease. But to remit it as charity is better for you, if you only knew.` (Quran 1:278-280)

- Avoiding monopoly (*Ihtikar*): Monopoly is absolutely prevented in Islam because it has important power to make prices raise and this practice make people torment.

- Divine control: In this context, traders and investors should be aware of God control and avoid Sin which means all acts that goes against Sharia. Knowing that all acts are controlled by God may limit some overruns in business.

3. Investors` behavior in Islam

Beside ethical values, Islam has shown a set of behaviors that an investor must follow in his investment decision making. In this section we develop how an investor should behave according to Sharia.

3.1 Knowledge and science in Islam

Science helps human to understand the world, to explain phenomenon and reduce human bias. Islam considers knowledge as divine and provided important impetus for the mankind pursuit of knowledge. God urges human to read, think, ponder and acquire knowledge continuously. The Quran contains many references to knowledge and its importance. The first verse came from the Quran orders Prophet Muhammad (PBUH) to read (Iqra).

`` Read: In the Name of your Lord who created. Created man from a clot. Read: And your Lord is the Most Generous. He who taught by the pen. Taught man what he never knew. In fact, man oversteps all bounds. When he considers himself exempt. But to your Lord is the return. Have you seen him who prevents? A servant when he prays? Do you think he is upon guidance?`` (Quran 96)

Quran praised scientists by saying: *``Are those who know and those who do not know equal?`` Only those possessed of reason will remember.` (Quran 39:9). Knowledge is commanded among all Muslims by prophet Muhammad (PBUH). He asked them to seek knowledge all the time and as far as they*

could reach. According to these commands, Muslims gave considerable support to science. The history shows many examples of scientific and Cultural Revolution in Muslim civilization. The Islamic civilization has known a scientific flourishing period dated from 8th century to 16th century. This period is called Islamic Golden Age and has known a great cultural, economic and scientific development. By the beginning of the 11th century, the ruling elites established institutions for religious learning but they offered other subjects such as law, technology, medicine and mathematics.

We can conclude that Islam ask human to seek knowledge; rely on reason and facts and data collecting before making any decision or before acting. However, Islam prohibited the use of science for self-interest and to harm people and the world such as inventing and developing arms. In Islam, people must respect religious and moral principles that do not consider profit as the only goal.

3.2 Trust and reliance in God`s plan: Tawakkul

Trust and reliance in Islam means that when facing trials and insurmountable challenges individual should rely on God as source of support and strength. It is also the acceptance of the divine will, which no one knows, understands or controls except God. Tawakkul is then, the belief about putting trust in Allah to take care of all mankind things. Allah says in Quran in words: “...*And put your trust in Allah if you are believers indeed*” (Quran, 5: 23). By fully trusting on Allah and relying on Him, Human will not be depressed by losses. So, Muslim should accept fate, turn mistakes into a valuable life lessons and put these lessons into practice. So, Trust and reliance on God does not mean `laziness` (Tawaakkul), that indicates refusal to strive, loosing opportunities, leaving work and duties and just waiting for a miracle to achieve objectives. Many people think that reliance on God means that Allah takes care of their affairs and concerns while they do nothing. The negative attitude of `Laziness` (Tawaakul) contradicts every aspect of the Caliphs. Let us take the example of the efforts expanded by the Caliph Umar Ibn Abdul Aziz in managing all Islamic community property and financial resources. He ruled only for two years and a half. During its period, society experienced a real socio-economic revolution and he has made all his people rich by six critical success factors

for treasury management. These factors are summarized as follow (Radieah Mohd Nor (2015)): healthy environment, strengthening of the Baitulmal, stimulating and boosting the business sector, creating new rules for the agricultural sector, giving more focus to the general fund stored in the treasury and finally vigilance with the use of the national treasury.

3.3 Optimism and pessimism is Islam

Optimism is an important factor for a success. When venturing in a world of business, investors will face difficult and unexpected situations. Automatic success is not guaranteed. However, positive attitudes are a mark of an achiever. With optimism, downfalls turn into lessons of life that should be studied in order to avoid mistakes and make better plans. Optimistic investor may be better prepared to find solutions and new ideas by shifting the focus away from negative attitudes and images to positive ones (Fredrickson (2003)). Optimistic people focus on solutions not problem, and maintain balancing act of hope and reality. Carver et al. (2010) confirms that, optimism is related to success. In life, we have many examples of optimistic famous characters; Winston Churchill said “A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.”

Islam has raised people on optimism and hope and to be away from the attitude in which an undesirable outcome is anticipated from a given situation. In Islam, optimism does not mean engaging in wishes or extraordinary thing. It means to make efforts towards workable solutions to overcome problems and anxieties, to develop creative thinking and innovative ways of doing things, maintain a balancing act of fear and hope. In Sunnah, there are many sayings about optimism:

“Give glad tidings, and do not scare people away. Make things easy, and do not make things difficult” (Abu Dawud).

“Hoping for good is also an act of worship of Allah” (Tirmidhi and Hakim).

In Sunnah, strong believer does not make excuses: “The strong believer is better and more beloved to Allah than the weak believer, although there is good in each. Desire that which will bring you benefit, and seek help from Allah and do not give way to incapacity. If something happens to you, do not

say, 'If only I had done such-and-such.' Rather say, 'The decree of Allah. He does what He will.' Otherwise you will open yourself up to the action of Shaitan" (Muslim).

In addition, many researches prove that people love staying around optimistic persons since Optimism enables him to face the difficulties of life, makes him use his capacities to what is good and improves his performance (Aidis et al. (2008) among others).

3.4 Over confidence and self-confidence

Human science calls human to be self-confident to believe in abilities, talents and potentials. The self-confidence after the trust in God is required in Islam. Therefore, people are asked to use their minds and energy, make their effort and the available ways to achieve their ambitions and reach their goals. Doctor Hamissa² summarizes qualities of self confidence in Islam:

- Practicing thinking: the self confident person should think right in order to understand his role in the society and master what he does. *Those who remember God while standing, and sitting, and on their sides; and they reflect upon the creation of the heavens and the earth: "Our Lord, You did not create this in vain, glory to You, so protect us from the punishment of the Fire."* (Quran 3:191)

- Knowing the right way and plans: self-confident person knows well his way and plans for all matters of his life, sets goals accurately, does not let others think to him, and does not leave himself to the circumstances. *Is he who walks bent on his own design better guided, or he who walks upright on a straight path?* (Quran 67:21)

- Avoiding worries and anxieties: Anxiety makes a person to lose serenity, security and satisfaction. Worries and anxieties create the feeling of regret and make the person hate his present and to be afraid from future. Therefore, Islam rejects pessimism and despair. *None despairs of God's comfort except the disbelieving people* (Quran 12:87).

- Self-control: The most important quality of a self-confident person is to control himself from anger, to be tolerant and not to be envious. *Those*

² Bader Abderhamid Hamissa <https://saaid.net/arabic/242.htm>

who give in prosperity and adversity, and those who restrain anger, and those who forgive people. God loves the doers of good.`` (3:134)

- Facing mistakes with courage: self-confident person learns from his mistakes and try to improve himself.

- To be patient, ambitious and have the energy to face difficulties.

- Modesty and tolerance: overconfidence may lead to pride and arrogance. This means that a person regards himself better end superior to others. In life, we need to treat each other as human beings and not to be judgmental for many things such as skin color, language, worth, social status... ``*O people! We created you from a male and a female, and made you races and tribes, that you may know one another. The best among you in the sight of God is the most righteous. God is All-Knowing, Well-Experienced.*`` (49:13)

Confidence is great thing in life and especially in business. However, being so much confident leads to what we call overconfidence. Overconfidence is the tendency to overestimate or exaggerate one's ability to achieve successfully a given task. In capital markets, it can be harmful. Odean (1998) found that when overconfidence increases, expected trading volume and market depth increase too but overconfident expected utility decreases. In addition, due to overconfident traders markets can underreact to the rational trader's information and even overreact to silent, anecdotal, and less relevant information.

3.5 Patience and self-control

Chris Meyers, the Co-Founder & CEO of BodeTree and the author of "Enlightened Entrepreneurship.", Shows that the basis of a successful business is patience. In life, we have many examples of people who faced extremely difficult environment with patience and self control and achieved great accomplishment.

Patience is the most prominent ethics mentioned in the Koran. In fact, the success is related to patience only "*Only those who are patient shall receive their rewards in full, without Hisaab (without limit, calculation, and estimation).*"(Quran, 39:10).

In Islam, Patience is a virtue that encompasses perseverance, endurance, forbearance, diligence, and restraint. Comer and Sekerka (2014)

discuss emotional self-regulation and explain how two self-regulatory techniques can affect the patience of individuals in organizations. The authors show that in order to fulfill goals in organizations, it is important to remain calm and patient while confronting inevitable obstacles. This skill is shown in Quran in sura Sharh , "*With hardship comes ease.*" (Quran 94:5).

4. CONCLUSION

Over the past three decades, Islamic finance approach has been established. It is different from other traditional systems through the application of Islamic principles, objectives and values. Classical economic theory is based on the assumption that individuals of interest and self-interest who seek to achieve their predetermined goals at the lowest cost available. This behavior is one of the factors that lead to many economic problems. Over the years, Islamic finance has been established and proved that it is an effective tool for finance development and it can even be a solution for many economic problems, in Muslim and non Muslim countries. In our paper, we tried to develop how traders and investor should behave according to Sharia. Our study concludes that Islam developed ideal behavior and values that serve as a benchmark for investors. This behavior includes Ethics, Continuous learning, trust and reliance on God and avoiding laziness, optimism, self-confidence and patience, and self-control. As to whether the knowledge of Islamic ethical principles and behavior can solve economic problems, could only ascertained through a further study.

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