Islamic Ethical Practices and the Marketplace: Evidence from Islamic Financial Institutions

Mustaffa Mohamed Zaina\textsuperscript{a}, Faizah Darus\textsuperscript{b},\textsuperscript{*} Aliza Ramli\textsuperscript{c}

\textsuperscript{a,c} Faculty of Accountancy Universiti Teknologi MARA, Shah Alam, Malaysia
\textsuperscript{b} Accounting Research Institute (ARI) and Faculty of Accountancy, Universiti Teknologi MARA, Shah Alam, Malaysia

Abstract

The marketplace from an Islamic ethical practice (i-EP) would be concerned among other things with the process of getting the right supplies from the right suppliers, performing Shariah compliance processes efficiently and innovatively with the ultimate aim of providing halal, green, ethical and socially responsible products and services to customers. The main aim of this study is to examine the marketplace dimension of 37 Malaysian Islamic Financial institutions for the year 2012. A content analysis of the annual and sustainability reports was employed to examine their current marketplace practices. Semi-structured interviews were also conducted to confirm the results and to clarify arising issues. The results of the content analysis revealed that the focus of disclosure for the marketplace dimension was on the stakeholder engagement activities followed by the marketing activities. The disclosure of Islamic principles and values in market-related policies was given the least attention. This suggests that the Islamic financial institutions were not strategically incorporating the Islamic principles and values into the policies related to their marketplace dimension. To a certain extent, the results of the interviews provide support for the results of the content analysis. The interviews performed revealed that the motivation for stakeholder engagement for Islamic institutions was to resolve zakat distribution issues.

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* Corresponding author: Tel.: +603-55444996
E-mail address: faiza634@salam.uitm.edu.my
1. Introduction

The Islamic resurgence throughout the Muslim world has resulted in a mounting religious commitment among Muslims. The phenomenon, according to Esposito (1991) has resulted in an increasing emphasis on Islamic law or Shariah as the main source of guidance in all aspects of a Muslim life. Implementation of Islamic Ethical Practices (i-EP) or Islamic corporate social responsibility (i-CSR) based on the Qur’an and Sunnah could be a vein that drives the economy of the people, not just profits for shareholders, but it would affect the larger environment for economic empowerment of society through all CSR practices (see: Darus, Yusoff, Abang Naim, M Zain, Amran, Fauzi and Purwanto 2013). The marketplace is a dimension of i-CSR identified by Darus et al., (2013) which is concerned with the process of getting the right supplies from the right suppliers, performing Shariah compliance process efficiently, effectively and innovatively which will ultimately result in the provision of halal, green, ethical and socially responsible products and services to maximize customers’ satisfaction.

Islamic organizations which were established on the desire to operate an economic system based on the values and principles of Shariah should be managed on the epistemological aspects of Tawhid, Shariah and Islamic ethics. The ethical practices of these Islamic organizations must be in accordance with and prioritized within the principles of Islamic laws as contained in the Holy Qur’an and the Sunnah. While many previous studies have agreed that companies are participating in many activities related to their market place, however the question is: Does Islamic institutions in Malaysia practice and disclose activities which are in accordance with Islamic principles and values, particularly those relating to their marketplace?

This main objective of this paper is to examine the current Islamic ethical practices relating to the Marketplace dimension, of Malaysian Islamic Financial Institutions in the year 2012. The next section will provide the literature review. Section three provides the methodology of the study. Section four will focus on the results and analysis and the last section will provide the discussion and conclusion.

2. Literature Review

An ethical practice is a comprehensive approach that a corporation takes to meet or exceed stakeholder expectations beyond measures of revenue, profit, and legal obligations. It involves the voluntary actions promoted by a firm which is consistent with the social, economic, political and environmental concerns. It would involve interactions with stakeholders and would incorporate the transparency, sustainability and accountability of CSR principles (Crowther & Rayman-Bacchus, 2004). Root (2013) noted that, it is a conscious effort to treat people and companies with respect and establish a positive working environment thus the effects of ethical practices in business can benefit a company financially and they can also help a company gain the elements it needs to grow. A major company Perkin Elmer, for example, provide the following statement on its website to demonstrate its commitment to sustainable and ethical business practice;

As a global organization, we aim to protect the health and safety of our employees, the public and local environments, and are committed to conducting business with customers, shareholders and employees according to our high standard of ethics, and in compliance with the law. We also continuously monitor and strive to improve environmental protection and occupational health and safety while providing customers with accurate and up-to-date information on compliance and safe handling of products.

Darus et. al (2013) proposed a framework for Islamic CSR (i-CSR) underpinning a conceptual approach beyond the relationship between management and stakeholders but to include the relationship between human and human, human and the natural environment, and ultimately to be accountable to God. They incorporated the concept of Tawhid, and Ibadah and humans as khulafah to form the underpinning fundamentals toward the development of the i-CSR conceptual framework. The Maqasid al-Shariah which is directed towards the preservation of the five (5) protected elements (faith, life, intellect, posterity and wealth) to promote public good (maslakah) is used to define the parameters of Islamic social responsibility. Darus et. al (2013) argued that such practices should be aligned with an organization’s strategy and governance and prioritized in terms of obligatory and recommended practices. The disclosure of such practices forms part of Ibadah encompassing the Dakwah element. Similar to the conventional CSR, Darus et. al (2013) identified four dimensions to i-CSR namely Community, Workplace, Environment and Marketplace.

The Marketplace, one of the dimensions of CSR practices, is where important stakeholders can be found and companies can interact responsibly with this group in a number of ways, such as supporting green products or engaging in only ethical procurement practices. Ullah and Jamali (2010) identified the obligations and rights of every stakeholder in the marketplace from an Islamic perspective. The suppliers for example have the obligations to declare the quality of the products (exact quality and quantity), safe and hygienic production process, fair pricing and the provision of halal products and services.
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