

Internalisation of Islamic Value on Ethics in Corporate Culture in Malaysia

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Abstract. Islam sets a complete guidance and ground rule in order to regulate the living of one's life. It is within this rule that Islam introduces the detailed concept of social and ethical behaviour for us to live with. It applies not only to persons as individuals but also adopted in business practice by organizations and corporate entities. Ethics are deemed to be crucial element of managerial competence and governance in corporate code nowadays. The Malaysian Code of Corporate Governance has since been developed through years and gone through numbers of review in order to enhance business ethics and practice. The current edition which has been published in April 2017 takes on a new approach to promote greater internalisation of ethics into the corporate governance culture. This study aims primarily to explore the extent of Islamic value on ethics contributing to the current Code of Corporate Governance ('MCCG 2017') towards reinforcing the corporate culture in Malaysia. The study is based on qualitative approach which employs library research method for data collection. The study analyses various texts such as books, journals, reports and code. The study reveals that there are numbers of authentic Islamic approach to ethics which are in line with the current corporate code with regard to ethics and governance which are currently applicable in Malaysia.

Introduction

As defined by the High Level Finance Committee Report 1999, corporate governance refers to *“the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders”* (Securities Commission, 2017). It simply reflects system of rules, practices and processes by which a company is controlled and governed. Its purpose is to balance the interests that exist within a company, namely the stakeholders, other minority shareholders and management especially those who are sitting in the board. In addition, corporate governance stipulates the structure in order for the company to achieve its objects. It therefore comprises every sphere of framework for the purpose of management, internal controls as well as action plans towards corporate disclosure and performance measurement.

In corporate governance, the board of directors is key player for the company which may affect the equity valuation. Since directors are elected by shareholders or appointed by other board members, they are tasked with a duty to monitor the company's management on behalf of the shareholders. (Sumaira Jan & Mohi-ud-Din Sangmi, 2016). Their duty also covers other aspects beyond financial, social or environmental concerns which they needs to prioritize (Rodriguez-Fernandez, M., 2016). Subject to the requirements stated in the Codes of Corporate Governance and the listing requirements for public companies, boards of directors shall consist of both independent and non-independent directors. Independent directors are selected based on their experience in directorship as well as their well-known performance in managing company. These are the factors to be looked into for the purpose of selection and appointment of directors. They should not be chosen due to their relationship with the major shareholders, founders or officers of the company. Independent directors should remain independent in their duties and should concentrate their performance towards the betterment of the company as a whole and do not favour certain major stakeholders only.

Wieland, J. highlighted that in order to preserve the organisation and its business, the requirements in the management governance and control structures of an organisation as well as incorporation of moral conditions, are the essential to the ethics of governance (2001). This view is in parallel to the description of ethic which state to the effect that its aim is to develop reasonable standards of moral conduct that are universal (Cooke, 1990). Corporate governance reflects strict adherence to business ethics on a professional level. This is the reason for the experts to believe that ethics in business is important in the current business practice and transactions around the globe and highlighted that ethics should be made a priority in the corporate governance (Othman, Z., Abdul Rahman, R. Faridahwati Mohd. Shamsudin, F., 2012).

Ethic in the MCCG 2017

The effect of bad corporate governance is that, it can throw doubt into the eyes of the public and those inside the company on the company's integrity, reliability and its duty to shareholders. While good corporate governance on the other hand builds an apparent set of rules and controls in which shareholders, directors and officers are all affiliated together to ensure the growth of the company business. Most companies endeavour to achieve high level of corporate governance in their daily corporate practice and dealings. For many shareholders, it is inadequate for a company to merely be profitable; it also needs to show good corporate citizenship through ethical behaviour, wide-ranging corporate governance practices and also environmental awareness.

The MCCG 2017 encompass several provisions and guidance that highlight the requirement of ethics therein. It is to be noted that MCCG 2017 stipulates the Intended Outcome, the Practices and the Guidance for each of its highlighted Principles. The Intended Outcome provides companies with the line of sight on what they will achieve through the practices. The Practices are actions, procedures, or processes which companies are expected to adopt to achieve the Intended Outcome. And the Guidance serves to assist companies in applying the Practice in order to achieve the Intended Outcome. Under the Principle A: Board Leadership and Effectiveness, it is stated that the board is collectively responsible for the long-term success of a company and the delivery of sustainable value to its stakeholders. In discharging its fiduciary duties and leadership functions, it is imperative for the board to govern and set the strategic direction of the company while exercising oversight on management. There are two Intended Outcomes that highlight the element of ethic in the MCCG 2017 which serves to achieve the stated Principle A.

The first Intended Outcome is under paragraph 1.0 which states that: *“It is expected that every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.”*

In one of the paragraphs under the Guidance of the said Intended Outcome, it states that: *“to enable the board to discharge its responsibilities in meeting the goals and objectives of the company, the board should, among others together with senior management, promote good corporate governance culture within the company which reinforces ethical, prudent and professional behaviour.”*

The second Intended Outcome is under paragraph 3.0 which states that: *“The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness. The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.”*

In order to achieve the said Intended Outcomes, paragraph 3.1 of the Practice states that: *“The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering. The Code of Conduct and Ethics is published on the company's website.”*

For the purpose of assisting the company to apply paragraph 3.1 of the Practice, paragraph 3.1 of the Guidance stipulates as follows:

The board has the responsibility to set the tone and standards of the company through the Code of Conduct and Ethics. The Code of Conduct and Ethics should articulate acceptable practices and guide the behaviour of directors, management and employees. The policies of the Code of Conduct and Ethics should be integrated into company-wide management practices and be periodically reviewed. The Code of Conduct and Ethics should describe measures put in place to –

- *handle actual or potential conflict of interest;*
- *prevent corrupt practices which include the offering and acceptance of gifts and other form of benefits;*
- *encourage the reporting of unlawful or unethical behaviour;*
- *protect and ensure the proper use of the company's assets; and*
- *ensure compliance with laws, rules and regulations.*

A Code of Conduct and Ethics may provide a certain paragraph or statement of expectations which are separate from the relevant legal and regulatory framework and which is subject to change. So what does it mean by internalisation of ethic into the provisions of the MCCG 2017? It basically means that the board should understand appreciate that the business risk, corruption and mismanagement can be diminish by way of essential foundation of corporate governance such as effective controls, corporate culture grounded on ethical behaviour and transparency. (Louis, R.R., 2017)

Ethic in Islam in Relation to Business and Commercial Aspects

Indeed Islam stresses a very much emphasis on the importance of ethics which are also applicable in corporate world (Mohamed Nor, N.R., Mohaiyuddin, M.R.M, Rozlan, R., 2016). Further, the viability of Islamic ethical values in the business world were also examined in abundance of various literatures written by experts all over the world (Beekun, R. & Badawi, J. 2005). Truly, Islam, in its purest form, is much more than just a faith: it is an indivisible unit, a political system, a legal system, an economic system and a way of life and all are governed by moral rules and mechanisms designed to achieve progress through the ideal use of resources and the protection of human values (Rizk, R.R., 2008). The Qur'an also mentions, *“Let there arise out a group of people inviting to all that is good enjoining what is right and forbidding what is wrong. They are the one who attained success”* (Qur'an: 5: 44).

The Qur'an signifies a heavenly message revealed to the Prophet Muhammad (P.B.U.H), a messenger and also a successful businessman at the same time. Consequently, the Qur'an provides directions not only for men's conducts and demeanours, and marriage and divorce, but also for commerce and business, interest and debts, contracts, industry and finance. The Shariah covers entire obligations commanded by God on men namely as between men and God, and also as between men and other men. Islam views man as free from primitive guilt and holds that engagement in economic activities is an obligation. Attitudes toward work in Islamic societies stem from numerous sayings attributed to Prophet Muhammad such as *“No one eats better food than that which he eats out of his work”* (Al-Bukhari, 206 hijri).

In a general sense, ethics is concerned with the development of reasonable and universal standards of human conduct. From the time of Muhammad, Muslims have summed up the essence of Islam as obedience to God and love of humanity. Hence, the Quran has set forth several injunctions to protect the purity of economy and prevent violation of humanity by virtue of the following versus:

Ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties (Quran: 2: 282). This versus outlines the rule relating to creation of contract.

Allah doth command you to render back your trusts to those to whom they are due; And when ye judge between people that ye judge with justice (Quran: 4: 58).

Ye that believe! Betray not that trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you (Quran: 8: 27).

The above versus govern the parties' duty under trust.

Woe to those that deal in fraud. Those who, when they have to receive by measure from men, exact full measure, but when they have to give by measure or weight to men, give less than due (Quran: 83: 1-3).

This line basically prohibits the practice of fraud.

“The noblest of you in the sight of Allah is the best of you in conduct” (Quran: 49: 13).

Honesty and fair dealing are the essential rule in business in Islam, thus it is very significance for a businessman to be a person of great ethical principles (Kaliffa 2003). The corporate world, namely the practice of the business and the persons involved therein should be independent, free from injustice, malpractice and misconduct and acted fairly in the best interest of the company and its business. This is because doing business is also a form of worship to Allah, although the transactions are between men.

Significance of Internalisation of Islamic Ethics

Islam introduces human as the representative of God. The entire creation is created by God. As a representative of God, it is men's responsibility to obey all commandments of God. Therefore observing ethic which is in line with Islamic way of life is an added value of governance in managing business and corporate activities and decision making by companies. This is in view of ethical teachings in Islam which lead individuals to acquire the capacity for formulating a process that helps them arrive at their own decisions. With the revelation of the Quran as a guideline, men are assisted in taking their next course of actions toward higher moral reasoning. In terms of moral theory, ethics training should culminate in an individual internalised action-guided code.

Same goes to business dealings. Islamic-oriented management researchers have noted the beneficial effects of internalisation of ethics. For example, Ali (1995) has observed *“the internalisation of Islamic concepts strengthened certain qualities: honesty, trust, solidarity, loyalty and flexibility. When Arabs internalised principles of Islam*

that strengthened cooperation and world view, their achievements were great". It means the internalisation of Islamic qualities which include ethic would bring great impact in a society's life, economic, business and social level.

Being Muslims, it is part of men's obligations to appreciate and observe ethical standards, not only in business but also in all aspects of life. This is because business and ethics are interconnected. There is no demarcation between the secular and the religious as Islamic teaching emphasize that every men's activity can be a form of worship to God.

Conclusion

Islam is more than just a belief system or religion. It is revealed through Quran to guide every aspect of human life. Thus, when men ventures into business through incorporation of various business institutions, they are expected to consider and adhere all Islamic ethical values in their business, commercial and corporate decision makings and activities. Islamic-oriented management researchers have noted the beneficial effects of internalisation of ethics. The Shariah itself serves as a doctrine of ethics. Islam, in its untainted form, is much more than a faith: it is an indivisible unit, a political system, a legal system, an economic system and a way of life. The economy, like other activities, is governed by moral rules and mechanisms designed to achieve progress through the ideal use of resources and the protection of human values. Although it is not easy to discover communities where Islamic values, morals and ethical principles are truly implemented wholly in every sphere of life, as required by the Qur'an and Sunnah, this does not quash the validity of them. The above discussions highlights the relevance of Islamic concepts and approaches and notes its correlation and contribution to present day Code of Corporate Governance or MCCG 2017. This is in view of the fact that all recommendations stated in the MCCG 2017 are considered to be good practice for corporate organisations. And all good practice and demeanours are considered to be *ibadah* or a form of worship to god. Truly, the existence of ethical and professional motives is capable to predominate and thwart conflicts and mismanagement from developing in the board of directors' office.

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