

THE ETHICAL PRINCIPLES IN ISLAMIC COMMERCIAL TRANSACTIONS

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Abstrak

Islam ialah satu cara hidup untuk semua manusia yang diasaskan kepada peraturan-peraturan Ilahi termasuk sistem akhlaknya. Sistem akhlak Islam merangkumi semua aspek kehidupan manusia. Ia tidak sahaja menjelaskan asas-asas dan prinsip-prinsip umum akhlak untuk semua manusia, tetapi juga menggariskan panduan-panduan akhlak untuk setiap aspek aktiviti manusia secara detail. Prinsip-prinsip akhlak Islam adalah operasional dan praktikal dalam semua urusan kehidupan manusia termasuk dalam kegiatan perniagaan dan perdagangan. Artikel ini melihat secara umum beberapa prinsip akhlak yang harus diikuti oleh setiap khalifah Allah SWT dalam aktiviti perdagangan dan perniagaan.

INTRODUCTION

There is almost a general consensus among human beings about certain fundamental ethical values. The main question is how to implement them and to decide what kind of force could be used for promulgating them. Islam offers its own solution to the matter. It prescribes certain specific guidelines and frameworks for governing business transactions ethics. It specifies ethically desirable forms of business, identifies the undesirable modes of transactions and mentions the general ethical rules of business conduct. As it is beyond the scope of this article to discuss all of them in detail, however, the writer has made an attempt in the following pages to highlight a few of them for the purpose of illustration.

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THE MEANING OF ETHICS: WESTERN RETROSPECTS

Generally ethic¹ can be defined as a systematic attempt, through the use of reason to make sense of our individual and social, moral experience, in such a way as to determine the role that ought to govern human conduct and the values worth pursuing in life.²

Sometimes ethics is used synonymously with morality. An action which is morally right is called an ethical one. Codes of morality are called ethical codes. Morality is a normative action and a model that is to be followed in our behaviour. Although the Western writers have attempted to develop a theory and a code of ethics, yet they have not been able to evolve a sound and effective moral code of conduct for human life. Their idea of morality and ethics is largely utilitarian and materialistic.³ This is quite understandable in view of the complete secularization of life and the lack of an authentic and viable source of guideline in the western countries. Western ethics is largely man-made. It is highly relative and situational in nature and deprived of a legitimate sanctioning authority behind it.⁴

A western writer, Harold Koontz admits that in the west: "There is no recognised source of ethical standards. In nations that have a state religion, there may exist a central source of authority to teach ethical practices. In United States, with its many ethical cultures and religions no one can look to a church, government, educational institution or private association as the centre of ethical traditions".⁵ Under

¹The term ethics and ethical are derived from a Greek word 'ethos' which originally means customs and usages. They are thus like the Latin word 'moral' from *mores*. For example, see Mohammad Muslehuddin, *Morality: Its Concept and Role in Islamic Order*, Lahore, 1984, p. 1.

²William K. Frankena, *Ethics*, New Jersey, 1973, p. 1 ff & 62 - 63; Leslie Stephen, *The Science of Ethics*, New York, 1882, pp. 155, 158; Richard T. DeGeorge, *Business Ethics*, New York, 1986;

³S. F. Ahmad, "The Ethical Responsibility of Business: Islamic Principles and Implications" in F. R. Faridi (ed.), *Islamic Principles of Business Organization and Management*, Kuala Lumpur, 1997, pp. 19 - 21.

⁴Aristotle, *Nicomachean Ethics*, Eng. Tr. H. Rackham, Harvard, 1956; Thilly Frank, *a History of Philosophy*, New York, 1955; R. A. P. Rogers, *A Short History of Ethics*, Macmillan & Co., 1911; H. Sidgwick, *Outline of the History of Ethics*, London, 1954; T. J. De Boer, "Ethics and Morality (Muslim)", *The Encyclopaedia of Religion and Ethics*, (ed.) James Hastings, Vol. V, New York, 1922, pp. 501 - 513.

⁵*Management*, Auckland, 1980, p. 103.

these circumstances, Westerners tend to develop their ethical standards by experiences and "feel".⁶ However, these ethical standards lack authenticity and legitimacy. Furthermore, they adopt a contingency-cum-utilitarian approach of ethics.⁷ Hence, they do not strongly believe that there are some permanent ethical standards to be followed in human life. As a result, they believe that moral concept like all others change with time.

ETHICS IN ISLAMIC PERSPECTIVES

Islam places the highest emphasis on ethical values in human life. In fact, Islam is basically an ethical and moral code of conduct for human life based on divine commands and guidelines. In other words, it is nothing but the body of injunctions laid down in the Qur'an for the practical of life and fully exemplified in the practice of the Prophet (SAW). The Holy Qur'an says: "*Thou has been created with an excellent character*".⁸ Prophet Muhammad (SAW) himself said: "*I have been sent only for the purpose of perfecting good morals*".⁹ He also said: "*Good Conduct will be heaviest of all attributes in the balance on the resurrection day*".¹⁰ Some one asked the Prophet, "*What is religion?*" "*Good character*" was the reply.¹¹ Once a man asked the Prophet: "*Give me some advice*". He said: "*Fear Allah wherever you are*". He said: "*Give me more advice*". The Prophet said: "*If you commit an evil, do a good action soon after it, as the result, the evil will vanish*". He said: "*Give more advice*". The Prophet said: "*Treat well with the people*". He was also asked: "*Which action is best?*", He said: "*Good conduct*".¹²

Ethics, like other Islamic sciences, takes its origin from the Qur'an. The Qur'an lays down the foundation of religious system on purely ethical principles, hence there

⁶W. K. Frankera, *op.cit.*, pp. 63 - 64; David Humes, *Treatise of Human Nature*, Book III, Part II, opening of sec. I.

⁷W. K. Frankera, *op.cit.*, p. 52; Cf. Abul A'la al-Maududi, *Ethical Viewpoint of Islam*, (tr.) Khurshid Ahmad, Lahore, 1978, pp. 8 - 23.

⁸Surah al-Qalam, 68 : 4

⁹Malik b. Anas al-Ashbahi, *al-Muwatta'*, Version of Yahya ibn Yahya al-Laythi, Beirut, 1989/1409, p. 605.

¹⁰Abu Hamid al-Ghazali, *Ihya' 'Ulum al-Din*, Vol. III, Beirut, 1982/1402, p. 50.

¹¹*Ibid.*

¹²*Ibid.*

is not much to distinguish between Islam as such and Islamic ethics. The moral, civil, canonical and criminal laws of Islam are not rigidly separated from one another and cannot be identified as isolated system or sciences.¹³ The ethical character of the Qur'an is shown by the following passages of the Qur'an, chosen at random, for example, "Shall the reward of good be aught but good",¹⁴ "And be good to the parents and to the near kin and the orphans and the needy and the neighbours, and the companion in a journey and the wayfarer and the slave-maids in your possession",¹⁵ "Verily, Allah enjoineeth justice and the doing of good and giving of gifts to kindred and He forbiddeth wickedness, wrong and oppression",¹⁶ "And they who, when they spend are neither extravagant nor parsimonious, and (keep) between the just mean".¹⁷ The whole of the Qur'an is full of such injunctions; kindness to parents, kindred,¹⁸ piety,¹⁹ etc. The Qur'an exhorts the Muslims to follow the rightly guided, particularly the Prophet.²⁰ It is the ambition of every pious Muslim to model his life in every possible particular upon that of the Prophet.²¹

¹³For example, see Ahmad ibn Muhammad Miskawaih, *Tahdhib al-Akhlaq*, Cairo, 1329H; al-Ghazali, *Ihya' 'Ulum al-Din*, 4 Vols., Beirut, 1982/1402; *Idem*, *Mizan al-'Amal*, Cairo, 1910/1328; M. Umaruddin, *The Ethical Philosophy of al-Ghazali*, Aligarh, 1962, 265pp; Ibn Taymiyyah, *Risalah al-'Ubudiyyah*, Cairo, 1323 H; Bashir Ahmad Dar, "Ethical Teachings of The Qur'an" in M. M. Sharif (ed.), *A History of Muslim Philosophy*, Vol. I, Wesbaden, 1963, pp. 155 - 178; Muhammad Abul Quasem, *Ethics of al-Ghazali: A Composite Ethics in Islam*, Selangor, 1975, 233pp; Muhammad al-Ghazali, *Muslim's Character*, (tr.), A. Karim Shaikh, 1983, 411pp; M. Yusuf Islahi, *Etiquettes of Life in Islam*, Lahore, 1991, 518pp; Cf D. M. Donaldson, *Studies in Muslim Ethics*, London, 1953; *Idem*, "The Study of Muslim Ethics", *The Muslim World*, Vol. 48, 1958, pp. 286 - 294; John Renard, "Muslim Ethics: Sources, Interpretations and Challenges", *The Muslim World*, Vol. 69, 1979, pp. 163 - 177.

¹⁴Surah al-Rahman, 55 : 60.

¹⁵Surah al-Nisa', 4 : 36.

¹⁶For example, see Surahs al-Nahl, 16 : 90; Ali-'Imran, 3 : 134; al-Ma'arij, 70 : 31; Luqman, 31 : 17; al-Isra', 17 : 26 - 29.

¹⁷Surah al-Furqan, 25 : 67.

¹⁸See Surahs al-Isra', 17 : 26 - 29; al-A'raf, 7 : 199; al-Baqarah, 2 : 278; al-Anbiya', 21 : 73; al-Nisa', 4 : 1, 131; al-An'am, 6 : 112.

¹⁹For example, see Surahs al-Isra', 17 : 12; al-An'am, 6 : 112; al-Anbiya', 21 : 112.

²⁰Surah al-Qalam, 68 : 4; al-Nisa, 4 : 59 & 80; al-Hashr, 59 : 7; al-Ahzab, 33 : 21; al-Najm, 53 : 3 - 4.

²¹Abu Hamid al-Ghazali considers the Prophet (SAW) as the ideally perfect man, par excellence, in all aspects of life. *Ihya' 'Ulum al-Din*, Vol. III, p. 49.

The dimensions of ethics in Islam are numerous, far reaching and comprehensive. Islamic ethics deals with all aspects of human life. It deals with relationships between man and Allah, man and his fellowmen and other elements and creatures of the universe, and man and his innermost self. Islam considers ethics as an off-shoot of a Muslim belief system (*iman*). It provides a strong internal sanctioning and enforcing authority for observing ethical standards. The concept of ethics in Islam is not utilitarian and relative, rather its principles are eternal and absolute²²

ISLAMIC ETHICS IN BUSINESS TRANSACTIONS

Ethical principles in Islamic Commercial transactions can be regarded as moral injunctions and are in keeping with the general tenor of Islamic Ethics. Without any of them, a contract is seen as lacking perfection in accordance with Islamic good manners. They can be divided into ethics which Muslims traders are encouraged to follow and ethics which are discouraged from following.

1) Ethics and Practices Encouraged.

1.1 Adherence to Contracts.

Islam emphasises the importance of fulfilment of contracts and promises. The basic principles of truth, honesty and trust are involved here. Therefore, a Muslim trader (manager) should keep up his trusts, promises and contracts. Business transactions is impossible without mutual trust and confidence. Accordingly, it is desirable to put in black and white all the business contracts and dealing such as the concerned parties should have clear and open view of the terms and conditions of the contract, its timings and obligations that are imposed on each other.²³

²²Al-Ghazali, *op.cit.*, Vol. III, pp.49 - 55; Zaki Mubarak, *al-Akhlaq 'Ind al-Ghazali*, Beirut, n.d., pp. 114 - 124; Abul A'la al-Maududi, *op.cit.*, pp. 33 - 37; Bashir Ahmad Dar, *Qur'anic Ethics*, Lahore, 1976, pp. 15 - 27.; See also S. F. Ahmad (1997), *op.cit.*, pp. 21 -25; A. A. Hanafi & Hamid Sallam, " *Business Ethics: An Islamic Perspectives*", in F. R. Faridi (ed.), *Islamic Principles of Business Organization and Management*, Kuala Lumpur, 1997, pp. 8 16. Referring to Islamic Ethics, Prof. Isma'il al-Faruqi observes; "In Islam, ethics is inseparable from religion and is built entirely upon it. The Islamic mind knows no pair of contraries such as 'religious-secular', 'sacred-profane', 'church-state', and Arabic, the religious language of Islam, has no words for them in its vocabulary". *Tawhid: Its Implications for Thought and Life*, Wyncote, PA, 1982, p. 73.

²³S. F. Ahmad, *op.cit.*, pp. 25 - 26.

In this connection, The Holy Qur'an says:

1. *"O ye believers! Fulfil your contracts"*²⁴
2. *"True believers are those who faithfully observe trust and covenants"*²⁵
3. *"....But if it be - a transaction on the spot among yourselves, there is no blame on you if you reduce it not to writing. But take witness wherever you make a commercial contract; and let neither scribe nor witness suffer harm....."*²⁶

It is clear from the above verses that a Muslim businessman has to fulfill his promise and commitments to his employees, customers, suppliers and general public in all aspects. He should not indulge in cheating, violation of promises or arbitrary actions.

1.2 Accurate Measurement and Weights.

One of the oldest ways of cheating in business transactions as well as in these days is selling commodities with less than the standard weight or measurement. This would include the practice of selling substandard, inferior or adulterated products. The main motive behind this malpractice is to maximize profits and accumulate material possessions without any regard for the ethical validity of the means to be adopted for the same. Islam declares that justice and balance is the essence of this universe and hence man (especially a Muslim) as a part of thereof, is expected to maintain justice and balance in all spheres of life.²⁷

The following are some of the Qur'anic verses and Hadiths of the Prophet (SAW) in this respect.

Allah (SWT) says in the Qur'an:

1. *"Give full measure when ye measure, and weight with a balance that is straight....."*²⁸

²⁴Surah al-Ma'idah, 5 : 1

²⁵Surah al-Mu'minin, 23 : 8

²⁶Surah al-Baqarah, 2 : 282.

²⁷S. F. Ahmad, *op.cit.*, p. 27; Abdullah Alwi Hj. Hassan, *Sales and Contracts in Early Islamic Commercial Law*, Islamabad, 1994, pp. 28 - 29.

²⁸Surah al-Isra', 17 : 35.

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2. *“Give just measure and weight, now withhold from the people the things that are their due and do not create mischief on the earth after it has been set in order”.*²⁹
3. *“And He (Allah) has set up the balance (of justice). In order that ye may not transgress (due) balance. So establish weight with justice and fall not short in the balance”.*³⁰
4. *“Woe to those who 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. Do they not think that they will be called to account on a Mighty Day. A Day when (all) mankind will stand before the Lord of Worlds?”*³¹

The Prophet (SAW) said:

*“Weight (and level the scale) and get it right”.*³²

He also says:

*“O Muhajirin! There are five things which may befall you and I pray to Allah that you may escape them: moral decay never openly shows itself among a people but they suffer from pestilence and disease such as their fathers have never known; they do not use light weights and measures but they are smitten by famine and the injustice of rulers.....”*³³

²⁹Surah al-A'raf, 7 : 85.

³⁰Surah al-Rahman, 55 : 7 - 9.

³¹Surah al-Mutaffifin, 83 : 1 - 6.

³²Abu Bakr 'Abd al-Razzaq ibn Hammam al-San'ani, *al-Musannaf*, Vol. VIII, Habib al-Rahman al-A'zami (ed.), Beirut, 1392/1972, p. 68.

³³Abu Muhammad 'Abd al-Malik, Ibn Hisham, *al-Sirah al-Nabawiyah*, Vol. IV, Taha 'Abd al-Ra'uf Sa'd (ed.), Beirut, 1975, p. 205.

It is reported that ‘Abd Allah ibn ‘Abbas said:

*“O you non-Arabs, assemble together! You are entrusted with two responsibilities, which have destroyed other people before you, they are measure and weight”*³⁴

1.3 Truthfulness or Trustworthiness in Business Transactions.

a) Truthfulness.

Truthfulness is a basic ethical code of Islam. It includes all aspects of life. Truthfulness is repeatedly mentioned in both the Qur’an and Hadith with the following example illustrate.

Allah (SWT) says:

1. *“Say : Allah speaketh the truth. So follow the religion on Ibrahim, the upright. He was not the idolators”*.³⁵
2. *“We have come to thee with the truth and assuredly We tell the truth”*.³⁶
3. *“Also mention in the Book (the Story of) Ismail. He was (strictly) true to what he promised and he was an apostle (and prophet)”*.³⁷
4. *“O ye who believe! Fear Allah, and with those who are truthful”*.³⁸

³⁴According to al-Qurtubi (d. 671/1272), ‘Abd Allah ibn ‘Abbas singles out the non-Arabs on this matter because they use both weight and measure. Therefore, one can distinguish between the people of Makkah who only use weight in the business transactions and the people of Madinah who use only measurement. See *al-Jami‘ li Ahkam al-Qur’an*, Vol. XIX, Cairo, 1353 - 1359/ 1935 - 1950, p. 251; Cf. Sulayman ibn al-Ash’ath al-Sijistani, Abu Da’ud, *Sunan Abi Da’ud*, “*Kitab al-Buyu*”, Vol. III, Cairo, n.d., p. 243; ‘Abdullah ‘Alwi Hj. Hassan, *op.cit.*, Islamabad, 1994, pp. 29 and 198.

³⁵Surah Ali ‘Imran, 3 : 95.

³⁶Surah al-Hijr, 15 : 64.

³⁷Surah Maryam, 19 : 54.

³⁸Surah al-Tawbah, 9 : 119.

5. *“That Allah may reward the true men for their truth, and punish the hypocrites if He will, or relent towards them (if He will). Lo! Allah is forgiving, merciful”*.³⁹

The Prophet (SAW) said:

“He who has reinforced the truth with his tongue, his reward will continue growing until the day of resurrection where Allah will pay him his full reward”.

b) Trust.

Trust is a moral responsibility for everyone in the performance of their duties and their social, political and economic lives. It is repeatedly emphasised in the Qur’an and Hadith. Some example are as follows:

The Holy Qur’an says:

1. *“Allah doth commend you to render back your trusts to those to whom they are due and when ye judge between man and man. That ye judge with justice”*.⁴⁰
2. *“Ye who believe. Betray not the trust of Allah and the Apostle, nor misappropriate knowingly things entrusted to you”*.⁴¹
3. *“If ye be on a journey and cannot find a scribe, then a pledge in hand (shall suffice). And if one of you entrusted to another let him who is entrusted deliver up that which is entrusted to him (according to the pact between them) and let him fear Allah. Hide not testimony. For whosoever hideth it his heart is sinful. Allah is aware of what you do”*.⁴²
4. *“Verily this is the word of a most honourable messenger endued with power, held in honour of the Lord of the Throne with authority there (and) faithful to his trust”*.⁴³

³⁹Surah al-Ahzab, 33 : 73.

⁴⁰Surah al-Nisa’, 4 : 58.

⁴¹Surah al-Infal, 8 : 27.

⁴²Surah al-Baqarah, 2 : 283.

⁴³Surah al-Takwir, 81 : 19 - 21.

Every leader and manager is responsible for the people and other resources with whom he is entrusted as mentioned in the Hadith, for example the Prophet (SAW) said:

*“Everyone of you is a (guardian) shepherd who is responsible for his flock. The ruler is the guardian of his people and is responsible for them, a man is the guardian of his family and responsible for them, a wife is the guardian of her husband’s home and is responsible for it and the servant is the guardian of the employer’s belongings and is responsible for them”.*⁴⁴

Truthfulness or trustworthiness which is a basic ethical value of Islam has profound implications for the conduct of business transactions. A businessman has to be honest, truthful and straight forward in all of his business dealing. There is no scope of cheating, speaking lies and swearing too much in Islamic Framework of transactions. However, it is pertinent to note that in Islam the principles of truthfulness and honesty are not to be followed as matters of policy or business strategy, which is the Western approach. In fact, truthfulness and honesty are the obligations of a true Muslims’ faith in Allah.

As the fundamental ethical principles of Islam, trust is regarded as the essence of accountability: the essence of having to appear before Allah (SWT) and to account for ones action. According to Islam, human life and all its resources are a trust reposed by Allah (SWT) in man. Islam directs its followers to be conscious of this trust in every walk of life. A business transaction is also a trust between the society and individual and trust from Allah (SWT). A businessman should treat all resources of business as a divine trust. Hence he should make the most efficient use of his business resources. There should be no case harm or damage the society or the environment in his business activities. The Prophet (SAW) is reported to have encouraged trustworthiness or truthfulness in business transactions. For example he said:

⁴⁴Muhammad ibn Isma‘il al-Bukhari, *Sahih al-Bukhari*, “*Kitab al-Juma‘ah*”, Vol. II, (tr.) Muhammad Muhsin Khan, Lahore, 1986, pp. 8 - 9.

*“The truthful merchant (is rewarded by being ranked) on the Day of Resurrection together with Prophet, the truthful ones, the martyrs and the pious people”*⁴⁵

Dishonest traders, on the other hand, are blameworthy. In this case the Prophet (SAW) said:

“Oh traders (three times)! Surely you will be resurrected on the Day of Judgement as transgressors, except him who is dutiful and sincere”.⁴⁶

1.4 Generosity in Business.

A Muslim businessman is encouraged to be easy and generous in doing a business including in his buying, selling and demanding back his money (or debts).⁴⁷ The Prophet (SAW) says:

“May Allah’s mercy be on him who is lenient in his buying, selling and in demanding back his money (or debts)”.⁴⁸

The Prophet (SAW) also said:

“Allah will let the man enter the paradise who is an easy purchaser (in bargaining), an easy vendor (in selling), an easy debtor (in repaying the debts) and an easy creditor (in lending and demanding back the loans)”.⁴⁹

⁴⁵Abu Hanifah al-Nu‘man, *Jami‘ al-Masanid al-Imam al-A‘zam*, Compiled by Muhammad ibn Mahmud al-Khawarizmi, Vol. II, Hyderabad, 1332H., pp. 2 - 3; Abu Da‘ud, *op.cit.*, Vol. III, p. 269; Abu ‘Abd Allah Muhammad ibn Yazid al-Qazwini, Ibn Majah, *Sunan Ibn Majah*, “*Kitab al-Tijarat*”, Vol. II, (ed.) Muhammad Fu‘ad ‘Abd al-Baqi, Cairo, n.d., p. 724; Abu Muhammad ‘Abd Allah ibn ‘Abd al-Rahman, al-Darimi, *Sunan al-Darimi*, “*Kitab al-Buyu*”, Cairo, n.d., p. 171.

⁴⁶Abu Hanifah al-Nu‘man, *op.cit.*, p. 3..

⁴⁷Abdullah Alwi Hj. Hassan, *op.cit.*, pp. 16 - 17.

⁴⁸Ibn Majah, *op.cit.*, “*Kitab al-Tijarat*”, Vol. II, p. 742; Abu Muhammad ‘Ali ibn Ahmad ibn Sa‘id, Ibn Hazm, *Kitab al-Muhalla*, Vol. VIII, Ahmad Muhammad Shakir (ed.), Cairo, 1345 - 1347/1926 - 1928, p. 351.

⁴⁹Ahmad ibn Hanbal, *Musnad*, Vol. I, Ahmad Muhammad Shakir (ed.), Cairo, 1368 - 1392/1949 - 1972, p. 335 (410).

2) Ethics and Practices Discouraged or Prohibited.

2.1 False Advertising and Misrepresentation.

One of the most common unethical practices in modern business transactions is to deceive customers by launching misleading advertisements and publicity campaigns. Business firms are spending a lot of money on commercial advertisements. The actual products rarely match the standard and specification mentioned in the advertising messages. Similarly, salesman and traders generally have a tendency to motivate their customers by false information, concealment of defects and misrepresentation.⁵⁰

Historically it can be said that concealing of defects and cheating was also a common and widespread practice among Arab traders in pre-Islamic times.⁵¹ It was reported that, one day, the Prophet (SAW) was passing by a man who was selling foodstuff. The Prophet (SAW) asked him, "*How is your business?*" The man told the Prophet about his business. Then, it was revealed to him, "*Put your hand in it (foodstuff).*" He put his hand in it and his hand got wet.⁵² After realizing the man was concealing defects and cheating, the Prophet said:

*"Surely, whoever deceives in business transactions, is not (or does not behave like) one of us".*⁵³

Islam vehemently condemns all these practices and manners, and asks Muslims to abstain from them. There are many Qur'anic verses and Hadiths of the Prophet (SAW) in this respect, among others are, as follows:

Allah (SWT) says:

*"And do not withhold from people the things that are their due and commit not evil in land with intent to spread disorder".*⁵⁴

⁵⁰S. F. Ahmad, *op.cit.*, p. 26.

⁵¹Jawad 'Ali, *al-Mufasssal fi Tarikh al-'Arab Qabl al-Islam*, Vol. VII, Beirut, 1976, pp. 396 - 399; Badr al-Din Abu Muhammad Mahmud ibn Ahmad, al-'Ayni, *'Umdat al-Qari Sharh Sahih al-Bukhari*, Vol. X, Beirut, n.d., p. 242; Abdullah Alwi Hj. Hassan, *op.cit.*, p. 28.

⁵²Ahmad ibn Hanbal, *Musnad*, Vol. XIII, p. 18 (7280).

⁵³*Ibid.*; Abu Hanifah, *Musnad*,. 163 (346).

⁵⁴Surah Hud, 11 : 85.

The Prophet (SAW) said:

1. "It is not lawful for a Muslim to sell such a commodity that has a defect, except that the defect is shown to the buyer".⁵⁵
2. "The buyers and sellers are free till they do not separate and if they acted with honesty, and have explained the defects of commodities, then Allah will bless them with prosperity. And if both of them tried to deal dishonestly and tried to hide the defects then, it is likely that they may get some profits but the prosperity will vanish from their trade".⁵⁶

2.2 Hoarding of Foodstuff and Profiteering.

Hoarding (*al-ihthikar*) can be defined as storing foodstuff up or withholding them in expectation of a rise in their prices.⁵⁷ It can be noted that some Arab merchants in pre-Islamic times bought a whole caravan loaded to capacity with goods and stored up these foodstuffs with the object of selling them in time of scarcity to make maximum profits and to dictate the price. It was also reported that some Arab merchants bought commodities from any travellers who were carrying their foodstuffs to the market, and stored them until they could sell them at a very high price.⁵⁸ In this regard Islam strongly condemns those who withhold foodstuffs or goods in the market from genuine consumer for the purpose of artificial scarcity and then will sell the same at lucrative prices. Allah (SWT), for example says:

*"And do not let those who covetously withhold the gifts which Allah has given them of His Grace think that it is good for them. Nay, it will be worse for them: Soon the things which they covetously withhold will be tied to their necks like a twisted collar on the Day of the Judgement".*⁵⁹

⁵⁵See Ibn Majah, *op.cit.*, "*Kitab al-Tijarat*", Vol. II, p. 75 (2246).

⁵⁶Muslim, *Sahih Muslim, op.cit.*, "*Kitab al-Buyu*", Vol. III, p. 942; Muhammad ibn Idris al-Shafi'i, *al-Umm*, Vol. III, Beirut, 1990, p. 4.

⁵⁷See for example Abu 'Abd Allah Muhammad ibn al-Baqi, al-Zurqani, *Sharh al-Zurqani 'ala Muwatta al-Imam Malik*, Vol. III, Beirut, 1981, p. 299; E. W. Lane, *Arabic-English Lexicon*, Vol. I, Cambridge, 1984, p. 615.

⁵⁸Abdullah Alwi Hj. Hassan, *op.cit.*, pp. 24 - 25.

⁵⁹Surah Ali 'Imran, 3 : 180.

The Prophet (SAW) condemns hoarders when He said: “No one hoards but the traitors (i.e. the sinners)”.⁶⁰

2.3 Interest and Unlawful Trade.

Any business transactions which involve interest (*riba*) in one form or other, according to Islam, is unlawful and contribute to injustice. Islam declares that interest is the root cause of all economic evils. It differentiates between genuine business profits and interest; the former is desirable while the latter is strongly undesirable. Islam offers two main types of contracts which are presented in the fiqh literatures for replacing *riba*-oriented transactions and are designed by Islamic financial institutions satisfy the criteria: “Allah permits trading and forbids *riba*...”⁶¹ These are *al-Shirkah* (*al-Musharakah*)⁶² and *al-Mudarabah*.⁶³ Another modes of financial transac-

⁶⁰Al-San’ani, *op.cit.*, Vol. VIII, p. 204; al-Darimi, *op.cit.*, “*Kitab al-Buyu*”, Vol. II, p. 181. Not all hoarders are sinners. It was reported that the Prophet (SAW) was safekeeping or storing some maintenance of foodstuffs for His family for one year, then he entrusted the remainder of His dates as the trust of property of Allah. (Al-San’ani, *op.cit.*, p. 202). This evidence shows that storing foodstuffs up for maintaining one’s own family is not considered as hoarding.

⁶¹Surah al-Baqarah, 2 : 275.

⁶²*Shirkah* or *Musharakah* is a partnership between two or more persons whereby all of them have a share in finance as well entrepreneurship and management, though not necessarily equally with the provision that they will share in the profit or loss in some pre-determined proportions. See for example Abu Walid Muhammad ibn Ahmad, Ibn Rush, *Bidayah al-Mujtahid wa Nihayah al-Muqtasid*, Vol. II, Cairo, n.d., p. 322; ‘Abd Allah ibn Ahmad ibn Muhammad, Ibn Qudamah, *al-Mughni*, Vol. IV, Maktabah al-Jumhuriyyah al-‘Arabiyyah, n.d., p. 3; Shams al-Din al-Sarakhsi, *al-Mabsut*, Vol. XI, Cairo, 1324H., p. 151; Muhammad al-Sharbini al-Khatib, *Mughni al-Muhtaj*, Vol. II, Cairo, 1958/1377, p. 212.

⁶³*Mudarabah* is a contract in which one party, the owner of the capital (*ral al-mal*), provides capital while the other party, agent-manager/entrepreneur (*darib*) brings labour and effort with the provision of profit-sharing in some pre-determined proportions. See Ibn Rushd, *op.cit.*, Vol. II, p. 303; al-Sarakhsi, *op.cit.*, Vol. XXII, p. 22; Muhammad al-Sharbini al-Khatib, *op.cit.*, Vol. II, p. 309; ‘Abd al-Rahman al-Jaziri, *Kitab al-Fiqh ‘Ala al-Madhahib al-Arba’ah*, Vol. III, Dar al-Fikr., n.d., p. 34; Mansur ibn Yunus ibn Idris al-Bahuti, *Kashf al-Qina’ An Matn al-Iqna’*, Vol. 5 III, Beirut, 1982/1402, p. 18.

tions for replacing riba in the financial transactions are *bay' al-murabahah*,⁶⁴ *bay' bithaman ajil*,⁶⁵ *bay' al-salam*,⁶⁶ *qard al-hasan*⁶⁷ and *al-ijarah*.⁶⁸

CONCLUSION

As a conclusion, it can be said that the fundamental Islamic principles of ethics like truthfulness, honesty, trust, sincerity and so on provide the general framework for business ethics. The focus of the Islamic ethic is on changing the attitude, mentality and behaviour of Muslims. The real implementation force behind the Islamic

⁶⁴*Murabahah* is a mark-up contract in which a client wishing to purchase equipment or goods, requests the Islamic Bank to purchase the items and sell them to him at cost plus an agreed profit. Muhammad Anwar, *Modelling Interest-Free Economy*, Herndon, 1987, p. 9.

⁶⁵*Bay' Bithaman Ajil* is a trade deal in which the bank agrees to receive the price of a commodity from its client at a future date in lump sum or installments. The agreed price in such a transaction can be the same as the spot price, or higher or lower than the spot price. *Encyclopaedia of Islamic Banking and Finance*, London, 1995, p. 389.

⁶⁶*Bay' al-Salam* is a trade deal in which the client pays the agreed price of a commodity in advance and the commodity is delivered to him by the bank at a specified future date. *Ibid.*

⁶⁷*Qard al-Hasan* is a loan transaction in which the client obtains X Ringgits from the bank to be returned at a stipulated future date, free of interest. Some banks may levy a modest service charge based on actual cost of administration such a loan. *Ibid.*, p. 214.

⁶⁸*Ijarah* is a sale of a definite usufruct in exchange for a definite reward. Commonly used for wages, it also refers to a contract of land lease at a fixed rent payable in cash. It is contrary to *muzara'ah* when rent is fixed as a certain percentage of the produce of land. It also refers to a mode of financing adopted by Islamic banks. It is an arrangement under which an Islamic bank leases equipment, a building or other facility to a client against an agreed rental. The rent is so fixed that the bank gets back its original investment plus a profit on it. *Ibid.*, p. 390.

ethics is the belief in Allah and the Day of Judgement. Some of the ethics mentioned in this article are only illustrative of transactional ethics in Islam. A thorough survey of the Qur'an, Hadith and early Islamic History can reveal a very comprehensive and rich guidance regarding ethical and social responsibility of business transactions. There is also the need to study an implications of Islamic principles in the context of the present day business situations so that these principles could be operationalised.