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Assessing Islamic Business Ethical Practices Through Clients' Perception

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ABSTRACT

This study evaluates the Islamic business ethics practices in Khyber Pakhtunkhwa (KP) province of Pakistan from the clients' perspective and how they perceive it. The study focuses on three Shariah values i.e. obligatory values (Faraid), the prophet's traditions (Sunnah) and the voluntary rectitude (Nawafil) and checks their impact of merchants' business ethical practices. The Shariah values are further divided into nineteen Islamic business ethical values adopted from well-established prior studies. In addition to this, the study is also focused to assess the most ethical business sector among ten selected business sectors. The study was conducted in Khyber Pakhtunkhwa, which is a relatively conservative/religious province of the country. To achieve the objectives of the study, a quantitative method was adopted. The data was gathered through a well-designed structured questionnaire in various universities of Khyber Pakhtunkhwa, The data were analyzed through descriptive statistics and regression analysis. This research concluded that Islam has a significantly positive impact on individuals' business ethical practices as perceived by the clients. Among other independent variables, the voluntary rectitude effect was found to be more significant in individuals' business ethical practices. It is further concluded that most ethical practices are found in the communication and transport sectors while the least ethical sectors are hospitals, doctors, and solicitors. The study contributes to the established Islamic business ethics literature.

Keywords: Business Ethics, Islamic Business Ethics, Religion, Shariah, Khyber Pakhtunkhwa

1. INTRODUCTION

Ethics plays a key role in the social and economic development of a nation. It refers to the individuals' consciousness to command the good and avoid the wrong. According to Beekun (1996) ethics is a set of rules and principles that make individuals to differentiate between right and wrong. The scope of the present research is to explore the most frequent unethical business practices in the business community of Khyber

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Pakhtunkhwa province. According to de Bakker, Rasche, and Ponte (2019) business ethics attract the concentrations of present researchers and so far there are multi-contextual studies established in this particular emerged discipline. Furthermore, it is human nature that they want to maximize their wealth and become wealthy and rich without considering the benefits and loss of others. Block (2019) studied this unjust enrichment behavior of human and concluded that human is greedy and very liberal in their profit maximization. Both Zoghbi-Manrique-de-Lara and Viera-Armas, (2019) and Johnson, Kidwell, Lowe, and Reckers (2019) studied the unethical behavior of employees who are working in different business firms. They concluded that the personal unethical behavior of the organization chief executive or firms' owner directly leads to unethical practices in that particular business firm.

To understand business ethics, Philosophy and the law of land play a vital role (Young, 2019). Therefore, we are frequently observing that the validity of some business conducts varies from country to country or philosophy to philosophy. Escadas, Jalali, and Farhangmehr (2019) argued that religion is a great influence on the business ethical practices of a country. Around the globe, business organizations and institutions govern ethical theories that are mostly developed by Western scholars (Al-Aidaros, Mohd. Shamsudin, & Md. Idris, 2013). Samara and Paul (2019) opined that the foundation of conventional or contemporary business ethics theories is based on Utilitarianism. After studying 436 banking employees in Spain, Ruiz-Palomino, Bañón-Gomis, and Linuesa-Langreo (2019) observed that the fundamental philosophy working behind the ethical behavior of sample employees is Machiavellianism. Nunziato and Hill (2019) expressed that the principles of modern Western business ethics are inspired by Perfectionism, a novel philosophical thinking school founded by Stanley Cavell. Block (2019) views that the foundation of contemporary business ethics is based on Libertarianism. Tormo-Carbó, Oltra, Klimkiewicz, and Seguí-Mas (2019) believe that Altruism guides employees in ethical thinking. Mea and Sims (2019) opined that the ideal approach toward developing a well-established business ethics framework is Deontology. Both Cui and Jo, (2019) and Bernacchio (2019) believed that Christian religion is a great influence on corporate ethical behavior in contemporary conventional business institutions.

However, the foundation of Islamic business ethics is based on Shariah (San-Jose & Cuesta, 2019). The concept of Shariah is very broad that consists of ethical and moral values and covers all aspects of humans' life including social, personal, economic and financial, political, and intellectual (Harun, 2016). In the business context "Shariah largely impacts the limitation of unethical behaviors" of a merchant as well (Ammer & Alsahlawi, 2019, p.58). Islamic ethics compiled after the revival of Prophet Muhammad [P.B.U.H]. As a complete code of life, Islam has provided a comprehensive list of ethics that teach how business should be conducted (Lewis, 2001) while El Hussein (2018) argued that ethics is the heart of Islamic trade. Islam is the religion of ethics as the holly Prophet [P.B.U.H] also said, "I have been sent to perfect good morals" (Ibn-Hambal, No: 8595, as cited in Qayyum, Kousar, Jamil, & Sarmad, 2018). "the main purpose of an Islamic business is to satisfy the will of God, through following the Quran and Sunah" (San-Jose & Cuesta, 2019, p. 3). There are two fundamental objectives of this study. The first is to check the relationship between the Shariah and individuals' ethical business practices and second is to screen different KP's business sectors for Islamic business ethical practices. For this purpose, the study adopted a quantitative approach the detail of which is given in section 4.

The paper is organized in such a way that it's second section deals with prior literature and established theories in religion and ethics, and Islamic business ethics. This section, it is given that how prior studies explain the relationship between religion and business ethics. In addition to it, the fundamental Islamic business ethics values also explained in the section. Section three is deal with the theoretical framework and fundamental hypothesis, based on previous studies, of the study. The methodology of the study explained in section four. In the fifth section, analysis is given along with relevant interpretation. The study concluded in the sixth section while important additional explanations are given in the form appendix after the reference list.

2. LITERATURE REVIEW

Ethics refers to well-established moral codes that are used to know what is right and wrong. Business ethics is a branch of ethics that refers to the formulation and

application of ethical principles to make decisions about right and wrong in business (Sparkes, 2001). There are differences among researchers concerning ties and interaction between business ethics and religion, however, majority of the researchers argued that religion makes valuable contribution and provide foundational root to the business ethics (Horak & Yang, 2018; Zakiah & Al-Aidaros, 2017; Flanagan, 2016; Bloodgood, Aydemir & Eğılmez, 2010; Turnley, & Mudrack, 2008; Green, 1999; Vogel, 1991). Islamic business ethics are different than the secular ethical system because of the differences in religion (Hassan, 2016; Ismaeel & Blaim, 2016). Islamic business ethics refers to the Shariah ethical principles which lead Muslim businessmen and businesswomen to fulfil their internal and external stakeholders' responsibilities (Beekun, 1996).

There are numerous Islamic business ethical studies conducted by prominent researchers and explored various ethical principles that need to ensure by Islamic businesses. Abeng (1997), argued that Muslims businesses need to ensure six ethical codes, which are: fulfillment of promises, exactness in weight and measure, truthfulness and honesty, efficiency, selection of merit, investigation, and verification. Badawi (2001) mentioned that sense of responsibility before Allah is the foundation of Islamic business ethics. On the other side, interest-free activities make Islamic business ideal businesses (Sachedina, 2014) which means that the absence of interest in the business activities of Islamic businesses is enough to prove its ethicality. Widana, Wiryono, Purwanegara, & Toha (2014) developed a tool for assessing the implementation of Islamic business ethics in Islamic Banking Institutions (IBIs). The authors considered seven fundamental dimensions of Islamic business ethics, namely unity of God, benevolence, justice, and equity, sincere, equilibrium, and trusteeship and responsibility, which then further expand for 21 items. Ibrahim & Kamri, (2017) conducted a study to check the effect of Islamic work ethics (IWE), practicing in Islamic banks, on customer satisfaction. They opted a quantitative approach and distributed 600 questionnaires among the customer three Indonesian Islamic financial institutions (IFIs).

Ethics in business is one of the focused areas in the contemporary research discussion. Furthermore, unethical practices are very common in almost every business

around the globe. Reuber and Morgan-Thomas (2019) study the unethical practices in the world's top three companies that trade in human tissue. They concluded that these company these companies violating ethical codes to maximize profit. In a similar nature of the study, Jago and Pfeffer (2019) concluded that compared to individuals, big companies and organizations are more engage in unethical trading. However, there are three fundamental factors behind unethical practices in big firms, these are; aggressive tax policies, frequent changing of the external auditor, and an increase in financial difficulties (Ghafoor, Zainudin, & Mahdzan, 2019). Furthermore, Hess, Treviño, Chen, and Cross (2019) identified that hiding and non-reporting of a friend unethical activity in a firm cultivating more unethical conduct. Zafar & Lodhi (2015) researched exploring the unethical practices in Karachi restaurant. They identified that the majority of Karachi's restaurants are involving in a deceptive advertisement, unhygienic food, and poor food. Ahmed & Saeed (2014) established a study focused on the unethical pharmaceutical drug promotion practices in Pakistan and identified six unethical practices concerning marketing representatives, doctors, wholesale pharmacists, hospital employees, government officials, and patients. Fassin (2005) identified five unethical issues practices in business. These are fraud, unfair competition, unfair communication, non-respect of agreements, and unfair attitude toward stakeholders. Similarly, Botha (2012) observed the common business ethical concerns which include cover-ups, coercion, dishonesty, gender, discrimination, bribery, fraud, theft, harassment, and pornography. In addition to it, the most often unethical business conducts experienced by many business includes violation of company's internet policy, misuse of company's resources, abusive behavior toward employees, lying to internal and external stakeholders, false disclosure of expenses, and misuse of employees' benefits (Collins, 2011).

After studying e-commerce business in a few selected countries, Levine (2019) concluded that there is a huge gap of trust as the majority of digital businesses created to deceive individuals. Studying business organizations' practices in developing, Al-khatib, Rawwas, & Vitell (2004) explored too many unethical practices which includes: leave policy abuse, falsifying organization's time, taking longer than necessary to do a job, doing personal business in company's time, taking extra time for break, accepting gifts

for early treatment, exposing confidential information, manipulating of situation to look bad, and concealing one's error.

Muslims investors and customers are very keen on knowing the Islamicity of Islamic banking and business (Awan & Azhar, 2014), however, they equally interested in the ethical practices of Islamic banks as well (Anas & Miunira, 2009). Regarding the ethical aspect of Islamic finance, Al-Jarhi, (2010) argued that there are five main fundamental ethical dimensions of Islamic finance system which are: ethics of system involvement, ethical responsibilities of system participants, ethical responsibilities of system fund users, ethical responsibilities of the regulator, ethical justification through Islamic financial products and services, and ethics of Shariah scholars. The study is an idealistic study in which the author proposed a model of an ideal Islamic ethical centric financial system. On the other side, Zaki, Sholihin, & Barokah, (2014) conducted a study to assess the corporate ethical identity disclosure of the Islamic banks located in Asian regions. They based their study on the very first study of Haniffa & Hudaib, (2007), on the Islamic banks' corporate ethical identity, in which they developed an ethical identity index (EII) based on eight corporate ethical disclosure items. Abdullah & Syariati (2016) argued that an ethically sound business is more profitable.

Table 1: Summarized table of the Islamic business ethical items

References	IBE Items
Abdullah & Syariati (2016)	• Profitable • legal, • honest, • right, and • considering sustainable development
Abeng (1997)	• Fulfillment of promises • Exactness in weights and measures including work, wages and payment, and the labor movement. • Truthfulness, sincerity, and honesty. • Efficiency, i.e., jobs should be carried out without any lapse or omission, with the best planning and to be the best of their efficiency and competency. • Selection of merit. • Investigation and verification.
Al-Jarhi (2010)	• Ethical responsibilities of the regulator

Arslan (2009)	• Halal earnings, • Fulfillment of obligations, • Profit and loss sharing, • Fair treatment with workers
Badawi (2001)	• Sense of responsibility before Allah
Beekun (1996)	• Relationship of employees to the firm, • Relationship of the firm to other stakeholders, • Treatment with animals, • Environmental pollution and ownership rights (air, water, etc.)
Ibrahim & Kamri (2017)	• Religiousness, • Effort, • Competition • work obligation, • Quality, • Collectivity, • Equality, and • Benefit
Issoufou (2015)	• Avoiding artificial scarcity • Avoiding bribery and corruption • Fair competition in the market • Good merchants' behavior
Sachedina (2014)	• Interest-free business activities
Widana et al., (2014)	• Unity of God, • Benevolence, • Justice and equity, • Sincere, • Equilibrium, • Trusteeship and • Responsibility
Zaki, Sholihin, & Barokah, (2014); Haniffa & Hudaib, (2007)	• Products and services, • Zakah, charity, and benevolence loan • Commitment toward debtors • Commitment toward society

2.1. Theoretical Framework and Hypothesis

The study makes the following theoretical framework and hypothesis, based on the established literature review.

Figure 1: Theoretical framework of the study

3. RESEARCH METHODOLOGY

The fundamental objective of the prevailing study is to evaluate the Islamic ethical practices of the selected business sectors located in Khyber Pakhtunkhwa, a North West province of Pakistan. The nature of the study is quantitative in which the primary source of data is utilized. The target population was 1000 graduate students of the eight KP universities. Using cluster sampling, students were randomly chosen and given the designed questionnaires to fill. The questionnaire consists of three major sections; a) demographic characteristics of the students such as age, family background, education level, residence, etc.; b) questions about student's perceptions regarding IBE, and c) open-ended questions about IBE. A total of 632 questionnaires was filled, out of which 400 were used for data analysis due to incomplete and irrelevant responses. After data censoring, the data has been analyzed through descriptive statistics such as mean and standard deviation. Further, the regression model is estimated for hypothesis testing.

Objective 1: To check the relationship between the fundamental obligations of Islam and ethical business practices. In this regard the hypothesis is:

H₁: *There is a significant relationship between Islamic fundamental obligations and ethical business practices.*

Objective 2: To check the relationship between the Prophet's traditions and ethical business practices. In this regard the hypothesis is:

H₂: *There is a significant relationship between PT and ethical business practices.*

Objective 3: To check the relationship between voluntary rectitude and ethical business practices. In this regard the hypothesis is:

H₃: *There is a significant relationship between voluntary rectitude and ethical business practices.*

The statistical representation of the above hypothesis is given below:

$$IBE = \beta_0 + \beta_1 FO_1 + \beta_2 PT_2 + \beta_3 VR_3 + \mu$$

Whereas:

IBE: Islamic business ethical practices

FO: Fundamental obligation/ Faraid

PT: Prophet's traditions/ Sunnah

VR: Voluntary rectitude/ Nawafil

4. RESULTS

The data were analyzed under the above mentioned quantitative method. The following are important outcomes along with interpretation.

4.1. Descriptive Analysis and Correlation

The descriptive statistics are shown in table 2, shown given below. A total of 400 observations gathered against each variable. Each variable ranged from 1 (minimum) to 5 (maximum). The average answer against each variable is shown in the form of the mean. According to standard rule, if the standard deviation value is equal or greater than the three-time value of its means so it means that the issue exists in the data. Since all our standard deviation values are less than our mean values so it means that so issue exists in our data.

Table 2: Descriptive analysis of the data

Variable	Observations	Mean	Standard Deviation	Minimum	Maximum
IBE	400.00	2.53	0.38	1.05	5.00
FO	400.00	3.84	0.60	2.33	5.00
PT	400.00	3.00	0.70	1.00	5.00
VR	400.00	3.47	0.74	1.00	5.00

Table 3 presents a standard rule table for correlations, developed by Cohen (2013). Since the correlation coefficient values are very small (less than 0.60) for all the independent variables, we can say that there is no multicollinearity problem. The correlation matrix of the data is given below in Table 3.

Table 3: Correlation Matrix of the data

Variable	IBE	FO	PT	VR
IBE	1			
FO	0.13	1		
PT	0.15	0.05	1	
VR	0.19	0.16	0.10	1

4.2. Regression Analysis

The results show that there is a positive relationship between business ethical behavior and religiosity. Both go in the same direction. Furthermore, voluntary rectitude has a strong signature on Islamic business practices followed by the prophet's traditions, and fundamental obligations respectively. In addition to it, the results revealed that, if fundamental obligations improve by adopting one of the fundamental obligations, as a result, business ethics will improve by 8%. Also, if an individual adopts one of the prophet's traditions it will lead to improving his business ethical practices by 9 percent. Same as an individual business ethical practices will improve by 10 percent if his voluntary rectitude improves by voluntarily adopting one of the voluntary rectitude of Shariah. The figures mentioned here are rounded off from table 4. To sum up, the Islamic religion has positive significance over individuals' business ethical practices while among other independent variables, voluntary rectitude has a more significant effect on the improvement of individuals' business ethical practices.

Table 4: Regression analysis of the data				
	Coefficients	Standard Error	T Stat	P-value
Intercept	1.887	0.165	11.479	0.000
FO	0.075	0.031	2.061	0.049
PT	0.089	0.027	2.602	0.009
VR	0.095	0.026	3.273316	0.001
R Square	0.413			
Observations	400			
F(3, 399)	0.000			

4.3. Sector-wise Ethical Practices

The study also analyzed Islamic business ethical practices in different business sectors. By considering ten business sectors, the analysis shows that the most ethical practices sector follows in the communication and transport sector. It scored above 3, which means that the customers are comparatively highly satisfied with the KP's communication sector. There are two fundamental reasons for this situation. One is in Pakistan, especially in KP, with many advanced and state of art transport services initiated very frequently in the past few years. Second, compared to the different public sectors' local government institutions, the transport sector is relatively more regulated and compliant. Followed by communication, sanitary business ranked second in the list. The corresponding score is 2.89 and if we round it so it would be 3 which means that the customers are also satisfied with the ethical practices of these sectors as well. Both e-Commerce and general store business sector scored 2.56 and ranked as the third most ethical sector. During the data collection process, no single respondent respond concerning the ethical practices in financial institutions and hotels. Therefore, their respective course is zero. It is an alarming situation that the most important sectors, which are hospitals, doctors, and solicitors, have the worst ethical sectors and the individuals are not satisfied with their ethical performance. These sectors are supposed to be the ideal ones because good and cheap health facilities and quick justice are both the fundamental rights of each citizen and individual and must be provided most ethically.

It is concluded that communication and sanitary sectors both fall under 'Moderate (3)' class. This means that they are comparatively ideal and ethical sectors and follow mostly Islamic business ethical codes in their business. The rest of the six sectors

include; properties dealers, hospitals, e-commerce, doctors, and solicitors, fall under ‘Often (2)’ class. This means that unethical practices happening very frequently in these businesses. It is worth important to mention that these six sectors are the most important compare to communication and sanitary. Therefore, strong regulation and monitoring are required in these sectors. The summary of the discussion is given in the following table 5.

Table 5: Islamic business ethical practices in each sector			
Sector	Total Observations	Responses	Average
General Stores	400	139	2.56
Properties dealers	400	52	2.48
Hospitals	400	40	2.47
Electronic Commerce	400	48	2.56
Communication	400	21	3.06
Doctors	400	34	2.46
Sanitary	400	16	2.89
Solicitors	400	50	2.45

5. CONCLUSION

The results show that there is a positive relationship between Islamic business ethics and religiosity and both go in the same direction. The Islamic religion has positive significance over individuals’ business ethical practices while among other independent variables, voluntary rectitude has a more significant effect on the improvement of individuals’ business ethical practices. Concerning ethical practices in different business sectors, the study screened ten KP’s local businesses; general stores, property dealers, financial institutions, hotels, hospitals, electronic commerce, communication, doctors, sanitary, and solicitors. It is concluded from the results that most ethical practices follow in the communication and transport sector. It scored above 3, which means that the customers are comparatively highly satisfied with the KP’s communication sector. Followed by communication, sanitary business ranked second in the list. Both e-Commerce and general store businesses ranked as the third most ethical sector. It is an alarming situation that the most important sectors; hospitals, doctors, and solicitors, have the worst ethical sectors and the individuals are not satisfied with their ethical performance. These sectors are supposed to be the ideal ones because good and cheap

health facilities and quick justice are both the fundamental rights of each citizen and individual that must be provided most ethically.

The present study is unique of its kind as it includes such huge themes/ variables under consideration. Therefore, it is significantly contributed to the established Islamic business ethics literature a lot. The study is also a unique one as it gathered a huge number of data from around 400 individuals in the form of extensive structured questionnaires. Therefore, based on the sample size, the present study is much worthy. In addition to it, the current study is the first effort in KP province to screen local businesses for ethical business practices. A total of ten business sectors studied in this research that makes the inquiry more complex. In this regard, it is recommended to the novel researchers in business ethics/ Islamic business ethics to make a comprehensive and most reliable structured questionnaire by considering a single business sector so that this study will improve. To compare ethical business practices, the same study can be replicated in other cities or urban and rural areas of Pakistan. In the end, it is recommended to government monitoring entities to ensure ethical practices at different businesses, especially in hospitals, doctors, and solicitor and also encourage ethical businesses through award or reward.

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Appendix 1: List of dependent and independent variables

Dependent Variables/ Items	Independent Variables/ Items
Islamic Business Ethics Codes	1. Fundamentals Obligations/ <i>Faraidh</i>
1. Reasonable Profit	1a. Praying five times a day
2. Taking care of the products sold-out	1b. Paying Zakat
3. Disseminate true information concerning the products	1c. Fasting in Ramadhan
4. No false swearing in business transactions	2. Prophet's Traditions/ <i>Sunnah</i>
5. Fair and respectful attitude with employees	2a. Shaping physical appearance compatible with the Islamic teaching/ <i>Sunnah</i>
6. No illegal competition	2b. Reciting Holy Quran
7. Ensuring promises concern to the return of products sold-out	2c. Praying <i>Sunnah</i> prayers
8. Ensuring real measurement	3. Voluntary Rectitude/ <i>Nafil</i>
9. Environment-friendly business	3a. Spending time with religious people
10. Selling original and good quality products	3b. Spending time in seeking Islam
11. No dealing in interest	3c. Participating in Islamic gatherings
12. No dealing in prohibited/ <i>Haram</i> goods	
13. No unethical and <i>haram</i> marketing	
14. No gender discrimination	
15. No bribery in business dealings	
16. No deception in business dealings	
17. Good and respectful attitude with all stakeholders	
18. No artificial scarcity	
19. Ensuring payment of taxes	