

STRATEGY AND ETHICS

We need authentic leaders, people of the highest integrity, committed to building enduring organizations. We need leaders who have a deep sense of purpose and are true to their core values. We need leaders with the courage to build their companies to meet the needs of all their stakeholders, and who recognize the importance of their service to society.

(Bill George, Former CEO, Medtronics¹)

Whoever works righteousness benefits his own soul; whoever works evil it is against his own soul: nor is thy Lord ever unjust (in the least) to His servants. (Qur'an, 41:46)

Certainly, the best of you are those who have excellent morals. (Muhammad [as agreed upon])

The best among the believers in faith are the best among them in character.

(Muhammad, as reported by Abu Hurayrah²)

Linking Strategy to Ethics

'Not a soul will be dealt with unjustly in the least. And if there be (no more than) the weight of a mustard seed, We will bring it (to account) and enough are We to take account'.
Qur'an, 21:47.

"O people! Behold, the action(s) are but (judged) by intention(s) and every man shall have but that which he intended."
– Prophet Muhammad

As a leader, you do not chart the organization's strategic course without being influenced by your selective perception of competitive forces, personal leadership traits, character, and personality, as well as by your ethical principles. Look at the examples of Enron, Tyco, WorldCom, and Arthur Andersen. In each case, top executives and board of director members allowed dishonest strategies to be implemented, pretended not to notice unethical behavior, or simply stole from the company. As this book goes to press, the courts are sentencing many of these crooks to well-deserved jail time and hefty fines. Ironically, some of these organizations (e.g., Arthur Andersen) were training other companies in ethics and yet paying lip-service when it came to practicing what they preached.

In contrast to these self-serving leaders, you, as a Muslim leader, should not adhere to ethical standards merely to comply with laws and regulations or to preempt a public backlash from potential misbehavior. Your Islamic organization's strategy is not truly ethical unless it can pass the deeper and more demanding moral scrutiny required of you by the Islamic ethical system.³ One may escape the law of the land, but not Allah's omniscience and justice.

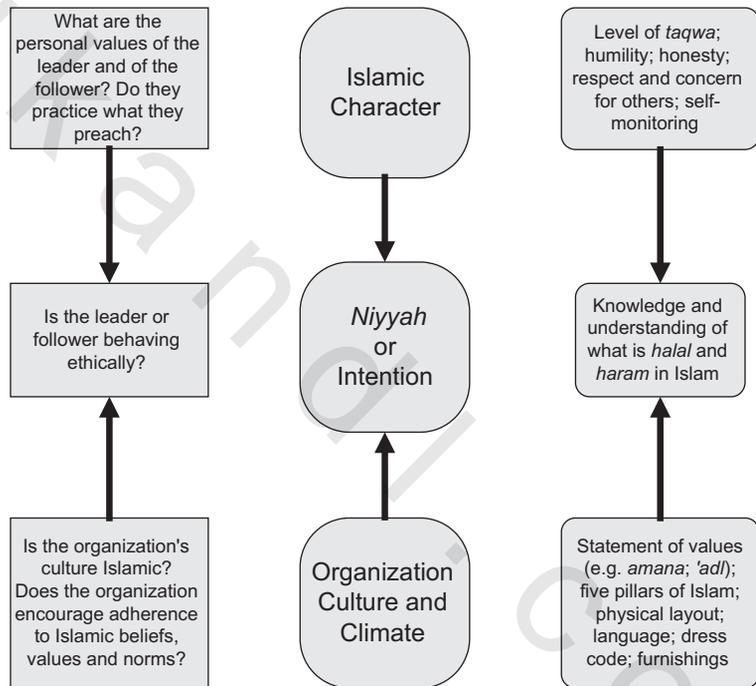
A quintessential element of the Islamic ethical system centers around the intention (*niyyah*) of the person committing an act. In the following hadith, reported in *Sahih al-Bukhari* (hadith no. 1.1) and narrated by Umar ibn al-Khattab, the importance of intention is emphasized:

*Alqamah ibn Waqqas al Laythi said: "I heard Umar, while he was on the mimbar (pulpit) delivering a sermon, saying: 'I heard the Messenger of Allah say: "O people! Behold, the action(s) are but (judged) by intention(s) and every man shall have but that which he intended.'" Thus he whose migration was for Allah and His Messenger, his migration was for Allah and His Messenger, and he whose migration was to achieve some worldly benefit or to take some woman in marriage, his migration was for that for which he migrated."*⁴

In an Islamic organization, key decision makers such as yourself are ultimately responsible for the organization's actions and cannot hide

behind the legal fiction of incorporation. However, your good intentions are not enough, since they cannot, by themselves, make an unethical act ethical. Good intentions do not render the *haram* acceptable.⁵ To motivate us to follow through our good intentions, Allah reveals that our actions deserve extra blessings whenever we complement our good intentions with *halal* deeds.

Figure 14
Islamic Ethics Process



This extra reward is clearly stressed in the following *Hadith Qudsi*:

Allah has written down the good deeds and the bad ones. Then He explained it [by saying that] he who has intended a good deed and has not done it, Allah writes it down with Himself as a full good deed, but if he has intended it and has done it, Allah writes it down with Himself as from ten good deeds to seven

Islam does not allow the use of any *haram* act to achieve a good end.

*hundred times, or many times over. But if he has intended a bad deed and has not done it, Allah writes it down with Himself as a full good deed, but if he has intended it and has done it, Allah writes it down as one bad deed.*⁶

Islam rewards you for your *halal* actions, but wants you to distance yourself from *haram* actions. It preempts all self-justifications that leaders engage in to condone implementing a *haram* strategy. A leader may rationalize such an undertaking on the grounds that so many people will benefit from it. However, Islam does not allow the use of any *haram* act to achieve a good end. In other words, the end does not justify the means. As the Prophet explained, if someone acquires wealth through *haram* means and then gives some of it away as charity, the giver will not benefit from it and the burden of sin will remain.⁷

Given this fact, good intentions aimed at performing *halal* actions are one layer in the ethics pyramid underlying an Islamic organization's strategy. The other two factors are leaders who have an ethical character and an organizational culture that has Islamic values. In previous chapters, as well in Beekun⁸ and Beekun and Badawi,⁹ we discussed both of these factors at length. I encourage you to take a look at the two books mentioned here for more detailed coverage. We will discuss only a few salient points here. Figure 14 illustrates the Islamic ethics process.

The Islamic Ethical System

Although a for-profit Islamic organization has a multi-fiduciary responsibility, Islam does not say that all stakeholders have an equal claim.

The Islamic ethical system uses a modified stakeholders' perspective.¹⁰ In the traditional ethics literature, a stakeholder's perspective considers the claims of all stakeholders, namely, employees, management, owners/financiers, customers, suppliers, and the community, as equally valid.¹¹ Islam, however, recognizes the fact that the owners/financiers of your business have the right to make a profit, but not at the expense of the other stakeholders' claims. Your firm has a multi-fiduciary responsibility, but, in contrast to what Freeman proposes,¹² Islam does not say that all stakeholders have an equal claim.¹³

Owners/financiers and employees (including management) form part of a first-priority group of stakeholders, the next group includes suppliers and customers, and the final group includes all external parties. In fact, Islam suggests that emphasizing the business' moral core

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`Adl and Qist

may protect, rather than threaten, the free-market system, for it is an act of worship (*ibadah*). An Islamically moral business can pursue its economic goals, but not at the expense of its moral obligations to society and to others affected by its actions. One example of this is manufacturing a useful product, although it pollutes the environment with waste products. Gold mining and refining makes a very useful product available, but often leads to the use of poisonous chemicals (e.g., arsenic).

Leaders of Islamic organizations must deal with several relevant criteria while engaging in strategic planning and implementation: justice and balance, trust and benevolence.

First, the criterion of justice is described by two words: *`adl* (equity and balance) and *qist* (share, portion, measure, allotment, [or] amount). In Islam, Muslims are encouraged to behave justly toward all, for such behavior is tied to an individual's very faith as a Muslim:

يَتَأَيُّهَا الَّذِينَ ءَامَنُوا كُونُوا قَوَّامِينَ لِلَّهِ شُهَدَاءَ بِالْقِسْطِ وَلَا
يَجْرِمَنَّكُمْ شَنَاٰنُ قَوْمٍ عَلٰٓى اَلَّا تَعْدِلُوْا ؕ اَعْدِلُوْا هُوَ اَقْرَبُ
لِلتَّقْوٰى وَاَتَّقُوا اللّٰهَ ؕ اِنَّ اللّٰهَ خَبِيْرٌۢ بِمَا تَعْمَلُوْنَ ﴿٥﴾

O you who believe! Stand out firmly for Allah, as witnesses to fair dealing, and let not the hatred of others to you make you swerve to wrong and depart from justice. Be just: that is next to piety: and fear Allah. For Allah is well-acquainted with all that you do. (Qur'an, 5:8)

Acting justly in this life means that one can expect similar justice from Allah in the Hereafter: "Deal not unjustly and you shall not be dealt with unjustly." (Qur'an, 2:279)

At the same time, *`adl* applies to the concept of balance and equilibrium, doing things in a proportionate manner and avoiding extremes. It is a dynamic characteristic for which each Muslim must strive. This idea of balance is consistent with the concepts of equity and justice.

The Qur'an also uses *qist* for justice. As Siddiqui indicates,¹⁴ *qist* means to give every person and every thing their proper due. Allah says "... and be fair, for Allah loves those who are fair (and just)." (Qur'an, 49:9) Thus,

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Islam teaches that a person should be just in every aspect of his/her life to all people and things, and at all times.

As a leader, make sure that your organization's strategy is balanced and gives everyone their proper due. Profit maximization in the manner discussed by Nobel Prize winner Milton Friedman focuses on only one set of stakeholders: the owners or stockholders. Although it is against price controls,¹⁵ Islam encourages you to earn a fair return, but not at the expense of consumers. Your employees cannot lie, swear oaths, or hide any product or service flaws, nor can they cheat when measuring out the product.

وَأَوْفُوا الْكَيْلَ إِذَا كَلْتُمْ وَزِنُوا بِالْقِسْطَاسِ الْمُسْتَقِيمِ ۚ ذَٰلِكَ خَيْرٌ وَأَحْسَنُ تَأْوِيلًا ﴿١٥﴾

Give full measure when you measure, and weigh with a balance that is straight. That is the most fitting and the most advantageous in the final determination. (Qur'an, 17:35)

Amanah

Amanah (trust) suggests that we are all Allah's trustees on earth and, hence, all organizational participants bear responsibility for what they do.

The second criterion of Islamic ethics is the concept of *amanah* (trust), for we are Allah's trustees on Earth and, as such, are responsible for our actions.

كُلُّ نَفْسٍ بِمَا كَسَبَتْ رَهِينَةٌ ﴿٧٤﴾

Every soul will be (held) in pledge for its deeds. (Qur'an, 74:38)

As Ahmad indicates,¹⁶ realizing Allah's will by behaving morally is part of our trusteeship and a responsibility that we have agreed to fulfill. More importantly, the wealth and other resources to which we have access are not ours; rather, Allah has loaned them to us so that we can act as real trustees. As we will discuss later, a company's executives are responsible for the strategies in which their company engages.

Ihsan

The third criterion of Islamic ethics is *ihsan* (benevolence, excellence, kindness to others). This term is defined as "an act which benefits persons other than those from whom the act proceeds

without any obligation."¹⁷ Islam encourages kindness. In a hadith narrated by Iyad ibn Himar in *Sahih Muslim* (hadith no. 6853), the Prophet said that among the inhabitants of Paradise will be:

*[...] one who wields authority and is just and fair; one who is truthful and has been endowed with power to do good deeds; and the person who is merciful and kind-hearted towards his relatives and to every pious Muslim, and who does not stretch out his hand in spite of having a large family to support.*¹⁸

Ihsan is a multi-dimensional concept. It means excellence as well as benevolence and kindness to others. Islamic corporations and non-profit organizations need to pursue excellence but not at the expense of benevolence and kindness. Excellence in *dunya* does not imply excellence in *deen*.

At its core, *ihsan* is derived from the Arabic root *h-s-n*, which means "suitable, beautiful, proper, or fitting."¹⁹ This concept is the core of Islamic ethics, because it focuses on behaving in a way that pleases Allah. Your Islamic organization should be a benevolent organization, and its strategy should be to demonstrate *ihsan* without shortchanging your fiduciary responsibility to the company's owners or stockholders. Benevolence does not mean mediocrity or giving away the company's earnings gratuitously.

In addition, *ihsan* includes excellence. This ethical dimension applies to any constructive endeavor or work. Furthermore, it implies that each committed Muslim executive, board member, or employee should perform his/her work for the love of Allah in full knowledge that Allah is always watching his/her behavior, whether public or private. Within the context of strategy, should you be a manager in an organization with absentee owners (i.e., a company that is publicly traded on the stock exchange), you must do your level best to minimize agency effects. In other words, you should not act to serve your own interests when the business' owners or stockholders are not watching you. In such a case, benevolence or excellence means acting as a good steward of the organization. Islam tries to preempt agency effects by having you, your employee, or your board members monitor themselves out of their own personal desire to implement *ihsan* in their lives. This agency issue is at the heart of the ethical scandals in major multinational corporations as professional managers take advantage of the ignorance of absentee stockholders to fill their own pockets.²⁰

Responsibility and Accountability

To meet the dictates of balance and unity that we see in Allah's creation, each person is considered accountable for his/her actions. Allah stresses this concept of moral responsibility:

لَيْسَ بِأَمَانِيكُمْ وَلَا أَمَانِي أَهْلِ الْكِتَابِ مَنْ يَعْمَلْ سُوءًا يُجْزَ بِهِ
وَلَا يَجِدْ لَهُ مِنْ دُونِ اللَّهِ وَلِيًّا وَلَا نَصِيرًا

Not your desires, nor those of the People of the Book (can prevail): whoever works evil, will be requited accordingly. Nor will he find, besides Allah, any protector or helper. (Qur'an, 4:123)

In Islam, responsibility is multi-layered and focuses on both the micro- (individual) level and the macro- (organizational and societal) level. In fact, Islam brings these two levels together. As Syed Qutb points out,

Islam lays down the principle of mutual responsibility in all its various shapes and forms. In it, we find the responsibilities which exist between a man and his soul, between a man and his immediate family, between the individual and society, between community and other communities [...].²¹

Assigning responsibility for unethical strategic action is difficult in any organization for two primary reasons.²² First, the state of current accounting and financial equivocation is such that facts are difficult to determine and dubious practices are easily concealed, as the Enron and Tyco scandals revealed so clearly. Government prosecutors and even expert analysts had difficulty seeing through the fog of the executives' deceptive practices.

Second, and in conceptual terms, an event can have multiple causes. Is the lack of ethical behavior of the executives now being prosecuted the result of the climate of greed preceding the dot-com debacle? Or, is it the fact that a repeat felon who robs a grocery store for \$300 may get more jail time than a white-collar criminal who steals over \$600 million from his/her company? Or, is it the American political system that survives on campaign donations from the same indicted executives? Enron, along

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Islam rejects the idea that corporations have a collective consciousness, and that one should establish corporate responsibility; rather it focuses on individual responsibility.

with its CEO, was one of the largest donors to the Bush reelection campaign. Or, could it be the members of the board of directors, most of whom were appointed by the very CEO whom they were supposed to monitor? Or, could it be that stockholders could not care less about what top executives do as long as their dividend check is high and regular?

Corporate character theory has toyed with the idea of assigning responsibility.²³ It states that a corporation is culpable if it adopts an illegal policy that one of its agents then endorses or executes. Such devices as standard operating procedures, decision procedures, and so on are also relevant, for their existence gives rise to a corporate character that may promote either ethical or unethical behavior. A corporation is also deemed culpable if it has a prior history of such activity, thus indicating its endorsement of earlier offenses, or if executives willfully obstruct or fail to prevent the obstruction of justice once they are caught. To make it easier to assess corporate responsibility, U.S. Federal Sentencing Guidelines actually calculate a "culpability score" for each offending organization.

Instead of trying to establish corporate responsibility, Islam rejects the idea that corporations have a collective consciousness (viz., that they are considered persons before the law) that eschews individual responsibility. Rather, Islam tends to focus on the Muslim decision maker/leader and to stress that he/she cannot blame his/her actions on the pressures of business or on the fact that everybody else is behaving unethically. Each individual bears ultimate responsibility for his/her actions (Qur'an, 74:38). No leader can dodge his/her responsibility. In a hadith narrated by Ibn Umar in *Sahih al-Bukhari* (hadith no. 7.128), the Prophet said:

*All of you are guardians and are responsible for your wards. The ruler is a guardian and the man is a guardian of his family; the lady is a guardian and is responsible for her husband's house and his offspring; and so all of you are guardians and are responsible for your wards.*²⁴

Hence, diffusion of responsibility and concealment under the corporate umbrella are against the spirit of Islam. Your position as leader makes you accountable in front of Allah for your actions on the Day of Judgment. Judge for yourself from the following well-known hadith narrated by Abu Dharr and reported in *Sahih Muslim* (hadith no. 4491):

I said to the Prophet (peace be upon him): "Messenger of Allah, will you not appoint me to a public office?" He stroked my shoulder with his hand and said: "Abu Dharr, you are weak and authority is a trust, and on the Day of Judgment it is a cause of humiliation and repentance except for one who fulfils its obligations and (properly) discharges the duties attendant thereon."²⁵

In other words, the Islamic ethical system demands that you and your organization's followers or employees be just, trustworthy, and benevolent; seek to achieve excellence; and accept responsibility for your actions. Doing the above with the right intention, with the realization that work is indeed an act of worship, and that you are designing and implementing a strategy that will earn you success not just in this life but also in the Hereafter fulfills your responsibility as His trustee on Earth. Harken to Allah's injunction and promise:

يَتَأْتِيهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَقُولُوا قَوْلًا سَدِيدًا ﴿٧٠﴾ يُصْلِحْ لَكُمْ
 أَعْمَالَكُمْ وَيَغْفِرْ لَكُمْ ذُنُوبَكُمْ ۗ وَمَنْ يُطِيعِ اللَّهَ وَرَسُولَهُ فَقَدْ فَازَ فَوْزًا
 عَظِيمًا ﴿٧١﴾

O you who believe! Fear Allah and (always) say a word directed to the Right: that He may make your conduct whole and sound and forgive you your sins: he that obeys Allah and His Apostle has already attained the highest achievement. (Qur'an, 33:70-71)