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HANDOUT

BNK613

Islamic Ethics in Business

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BNK613

Islamic Ethics in Business

Akhlaq and Muamalat in Commerce — Study Handout

This handout covers BNK613 Islamic Ethics in Business: how the Qur'an, the Sunnah and the classical fiqh tradition govern trade, finance and management. Each unit states the scriptural basis, the classical ruling, and the modern business application, so you can answer both theoretical and case-study exam questions.

Key Arabic terms are transliterated and always paired with their English meaning. Exam answers score best when they cite the ethical principle, its source (Qur'an verse or hadith concept), and one business example.

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Unit 1: Foundations: Ethics in Islam

Lectures 1–4

Learning Objectives

- Define akhlaq and distinguish Islamic ethics from secular ethics
- Explain the sources of Islamic ethics: Qur'an, Sunnah, ijma and qiyas
- Describe the concepts of amanah, sidq and ihsan
- Relate taqwa to business decision-making

What Islamic Ethics Means

The Arabic word **akhlaq** (character, morals) covers the whole system of right conduct in Islam. Unlike secular business ethics, which are usually derived from consequences, social contracts or stakeholder interests, Islamic ethics are **revelation-based**: right and wrong are defined by Allah, and ethical conduct is simultaneously worship (ibadah). A business decision is therefore judged twice — by its worldly result and by its standing before Allah.

Sidq (truthfulness) — honesty in word and representation; the foundation of all commercial dealing.

Amanah (trustworthiness) — holding others' property and interests as a sacred trust.

Ihsan (excellence) — doing things in the best possible way, as if seen by Allah.

Taqwa (God-consciousness) — the inner guard that keeps a person ethical even when no one is watching.

Sources of Islamic Ethical Rulings

- **Qur'an**: the primary source — e.g., 'Give full measure and weigh with a true balance' (17:35) directly regulates trade.
- **Sunnah**: the Prophet's ■ words, actions and approvals — e.g., the prohibition of najsh (false bidding to raise prices).
- **Ijma (consensus)** and **Qiyas (analogy)**: extend rulings to new cases, such as applying the prohibition of gharar to modern derivatives.

The Prophet ■ said: 'The truthful, trustworthy merchant will be with the prophets, the truthful and the martyrs' (Tirmidhi). This single hadith places ethical commerce at the highest spiritual rank — use it in exam answers on the status of business in Islam.

Unit Summary

- Islamic ethics (akhlaq) are revelation-based; ethical business is worship.
- Core virtues: sidq, amanah, ihsan, taqwa.
- Sources: Qur'an, Sunnah, ijma, qiyas — applied to modern cases by analogy.

Exam Pointers

- ★ Distinguish Islamic ethics from secular business ethics (source, scope, accountability).

- ★ Explain amanah and taqwa with one business example each.
- ★ Quote and apply the hadith on the truthful merchant.

Unit 2: The Islamic View of Wealth and Trade

Lectures 5–8

Learning Objectives

- Explain the Islamic concept of ownership and wealth as trust
- Describe the legitimacy of trade and profit in Islam
- Identify Qur'anic encouragement of commerce
- Explain the balance between worldly and spiritual goals

Wealth as Amanah

In Islam, ultimate ownership of all wealth belongs to Allah; humans are **trustees** (mustakhlaf) and stewards (khalifah). Wealth is a test and a means — lawful to earn, obligatory to spend responsibly, and sinful to hoard or waste (israf). This trusteeship concept is the root of Islamic business ethics: a manager is accountable to shareholders, but first to Allah.

- **Trade is expressly lawful:** 'Allah has permitted trade and forbidden riba' (2:275) — commerce itself is dignified, not a necessary evil.
- **Profit is lawful** when earned through lawful means and mutual consent (taradi, 4:29); there is no fixed cap on profit margins in classical fiqh, though exploitation is condemned.
- **Work is worship:** earning a lawful livelihood (kasb halal) is described as a duty; the Prophet ﷺ himself traded, as did many companions.

Balance: Dunya and Akhirah

Islam rejects both extremes: monastic rejection of wealth and materialist worship of it. The Qur'anic prayer is 'give us good in this world and good in the Hereafter' (2:201). For business this means pursuing profit **within** ethical boundaries — CSR, zakat, fair wages and honest dealing are not add-ons but part of the business model.

Case: A company discovers a profitable product line that requires deceptive advertising. Islamic analysis: the profit is not the problem — the deception is. Alternatives: reformulate marketing truthfully, or exit the line. Short-term profit can never justify haram means, because the ethical violation destroys barakah (blessing) and long-term trust.

Unit Summary

- Wealth is a trust from Allah; ownership is stewardship, not absolute.
- Trade and profit are lawful and dignified; kasb halal is virtuous.
- Islamic business seeks dunya success within akhirah accountability — ethics are the model, not an add-on.

Exam Pointers

- ★ Explain the trusteeship (amanah/khalifah) concept of wealth.
- ★ Is profit maximization allowed in Islam? Discuss with 2:275 and 4:29.
- ★ Apply the dunya–akhirah balance to a case of profitable-but-deceptive marketing.

Unit 3: Prohibited Elements: Riba, Gharar, Maysir

Lectures 9–12

Learning Objectives

- Define riba and its two classical types
- Define gharar and identify it in modern contracts
- Define maysir and its business forms
- Explain why these three prohibitions exist

Riba (Interest/Usury)

Riba is any guaranteed, risk-free excess charged on a loan or debt. Classical fiqh identifies two types: **riba al-nasi'ah** — excess charged for delay in repayment (the pre-Islamic practice the Qur'an condemns: paying extra for more time), which covers modern bank interest; and **riba al-fadl** — unequal exchange of the same commodity (e.g., trading 1 kg of good dates for 2 kg of poor dates on the spot). The wisdom: riba transfers wealth without risk-sharing or productive effort, and concentrates wealth.

Gharar (Excessive Uncertainty)

Gharar is uncertainty or ambiguity in a contract that can cause dispute — selling what one does not own or cannot deliver, or leaving the price, subject matter or delivery undefined. The Prophet ﷺ forbade the sale of fish still in the sea and similar transactions. Minor, unavoidable uncertainty (e.g., exact harvest yield) is tolerated; **major gharar that invites conflict is void**. Modern applications: conventional insurance (uncertain payout), many derivatives, and vague service contracts.

Maysir (Gambling/Speculation)

Maysir is gain through pure chance where one party's win is another's loss without productive exchange — condemned alongside intoxicants in 5:90. It covers gambling and, by extension, **zero-sum speculation** disconnected from real assets. Day-trading purely on price noise resembles maysir; investing in a real business with risk-sharing does not.

Exam framework — test any product against all three: Does it charge guaranteed interest (riba)? Is the outcome or subject excessively uncertain (gharar)? Is it a zero-sum bet (maysir)? A conventional interest-bearing loan fails test 1; a lottery fails test 3; selling an unbuilt flat with undefined specifications fails test 2.

Unit Summary

- Riba: guaranteed excess on loans (nasi'ah) or unequal spot exchange (fadl) — unjust enrichment without risk.
- Gharar: major uncertainty in subject, price or delivery voids the contract.
- Maysir: zero-sum chance-based gain — gambling and pure speculation.

Exam Pointers

- ★ Define all three prohibitions with one classical and one modern example each.
- ★ Why is conventional insurance criticized on gharar grounds?
- ★ Distinguish investment (allowed) from speculation (maysir) with criteria.

Unit 4: Contracts (Uqud) in Islamic Commerce

Lectures 13–16

Learning Objectives

- State the pillars and conditions of a valid Islamic contract
- Distinguish valid, void and voidable contracts
- Explain key nominate contracts: bay', salam, istisna', ijara
- Apply contract rules to modern transactions

Pillars of a Valid Contract

Every Islamic contract (uqud) needs: **offer and acceptance** (ijab wa qabul) matching each other; **two competent parties** (sane, adult, acting freely); a **lawful, defined subject matter** that exists or is describable and deliverable; and **mutual consent** (taradi) — 'trade by mutual consent' (4:29). Coercion, fraud or covering defects invalidates consent.

- **Sahih (valid)**: all pillars and conditions met — fully enforceable.
- **Batil (void)**: a pillar is missing (e.g., selling something haram) — no legal effect at all.
- **Fasid (defective)**: pillars exist but a condition is violated (e.g., an interest clause) — effect exists but the defect must be removed.

Key Nominate Contracts

Bay' (sale) — immediate exchange of goods for price; the baseline contract.

Salam — advance payment for future delivery of fully specified goods (exception to 'don't sell what you don't own'; protects farmers needing working capital).

Istisna' — manufacturing contract: order goods to be made to specification, payment flexible.

Ijara — leasing: transfer of usufruct (use) for rent; the lessor owns and maintains the asset.

Wakalah — agency: one acts for another for a fee. Kafalah — guarantee/suretyship.

Case: An online store takes full advance payment for a phone to be imported in 30 days with exact model, specs and delivery date stated. Analysis: this is salam — valid because price is paid in full now and goods are precisely described. If the specs were vague ('a good phone'), gharar would void it.

Unit Summary

- Valid contract = offer/acceptance + competent parties + defined lawful subject + mutual consent.
- Batil (void) vs fasid (defective) vs sahih (valid).
- Salam (advance-paid future goods), istisna' (manufacture-to-order), ijara (lease), wakalah (agency).

Exam Pointers

- ★ List the four pillars of aqd with a one-line explanation each.
- ★ Distinguish batil and fasid with an example of each.
- ★ A customer pays in advance for custom furniture. Which contract is this and why is it valid?

Unit 5: Partnership and Profit-Sharing Models

Lectures 17–20

Learning Objectives

- Explain mudarabah and its rules
- Explain musharakah and its types
- Compare Islamic partnerships with conventional ones
- Apply both models to Islamic banking products

Mudarabah (Trustee Partnership)

One party provides **capital** (rabb al-mal), the other provides **work/management** (mudarib). Profit is shared by an agreed ratio (e.g., 60:40); **loss is borne by the capital provider alone** (the manager loses his effort), unless the manager was negligent or breached terms. The manager cannot guarantee the capital — a capital guarantee would turn it into an interest-bearing loan (riba).

Musharakah (Joint Partnership)

All partners contribute capital (and may contribute work). Profit shared by agreement; **loss shared strictly in proportion to capital contribution**. Types: **shirkat al-milk** (joint ownership, e.g., inherited property) and **shirkat al-aqd** (contractual business partnership). **Diminishing musharakah** — the bank's share is gradually bought out by the client — is the standard Islamic home-financing structure.

- **Mudarabah:** capital + labor; loss on capital provider; manager liable only for negligence.
- **Musharakah:** capital + capital; loss pro-rata to capital; profit by agreement.
- Both require actual risk-sharing — that is what distinguishes them from interest-based lending.

Case: An Islamic bank finances a taxi: bank contributes 80%, driver 20%, under diminishing musharakah; monthly payments buy out the bank's share while rent/profit is split 80:20. If the taxi is destroyed without negligence, loss is shared 80:20 — unlike a conventional auto loan where the borrower owes the full amount regardless.

Unit Summary

- Mudarabah: financier + manager; profit by ratio; loss on financier (negligence excepted); no capital guarantee.
- Musharakah: joint capital; loss pro-rata; diminishing musharakah = Islamic home/auto finance.
- The essence of both is genuine risk-sharing.

Exam Pointers

- ★ Compare mudarabah and musharakah on: contributions, profit sharing, loss bearing (table).

- ★ Why is guaranteeing the capital in mudarabah prohibited?
- ★ Explain diminishing musharakah with the taxi/home example.

Unit 6: Ethics of the Marketplace: Prices, Competition, Advertising

Lectures 21–24

Learning Objectives

- Explain the Islamic stance on price regulation and hoarding
- Identify prohibited market practices: najsh, ihtikar, tadlis
- State the ethics of truthful advertising
- Evaluate competition and monopoly in Islamic thought

Prices and Hoarding

The default rule is **free pricing by market forces** — the Prophet ﷺ declined to fix prices during a shortage, saying Allah is the price-setter. Price control (tas'ir) is permitted only as an exception against exploitation or collusion. **Ihtikar (hoarding)** — withholding essential goods to force prices up — is cursed in hadith; modern parallel: artificial scarcity, cartel stockpiling.

Prohibited Market Practices

Najsh — false bidding to inflate the price (shill bidding); also fake reviews and paid hype today.

Tadlis — deception: hiding defects, mislabeling, bait-and-switch; the hadith of the grain seller hiding damp grain condemns it.

Ghabn — exploiting someone's ignorance of the market price (e.g., cheating a villager unfamiliar with city prices).

Talaqqi al-rukban — intercepting supply caravans before they reach the market to buy cheap; modern parallel: insider front-running of suppliers.

Advertising and Competition

Advertising is lawful but must be **truthful**: no exaggeration that deceives (the Qur'an condemns those who 'mix truth with falsehood', 2:42), no mocking competitors, no exploiting emotions or insecurities. Competition itself is encouraged — it serves consumers — but **predatory pricing to destroy rivals** and monopolistic abuse violate the public interest (maslahah).

Case: A seller lists 'original' branded watches that are replicas, with edited photos hiding flaws. Violations: tadlis (hidden defects), ghabn if buyers don't know market prices, and breach of amanah. Islamic remedy: full disclosure, right of return (khiyar al-ayb — option on discovering a defect), and repentance/restitution.

Unit Summary

- Free market pricing is the default; tas'ir only against exploitation; ihtikar (hoarding essentials) is prohibited.
- Najsh, tadlis, ghabn, talaqqi al-rukban — classical frauds with direct modern equivalents.
- Truthful advertising; healthy competition yes, predatory monopoly no.

Exam Pointers

- ★ When is price-fixing allowed in Islam? Explain with the hadith on tas'ir.
- ★ Define najsh, tadelis, ghabn with a modern example of each.
- ★ A shop hides product defects. Identify the violation and the buyer's remedy (khiyar al-ayb).

Unit 7: Employer–Employee Ethics

Lectures 25–28

Learning Objectives

- State the rights of workers in Islam
- Explain the employer's duties: fair wages, timely payment, humane treatment
- Describe the employee's duties: diligence, honesty, loyalty
- Relate ijara to the employment contract

Employment as Ijara

The employment contract is a form of **ijara** (hire of services): the worker's time and skill are the 'usufruct' sold for wages. Like any contract it needs clear terms — job, wage, hours — because ambiguity is gharar. The Prophet ﷺ said: 'Pay the worker his wages before his sweat dries' — delayed salaries are a major violation.

Employers' Duties

- **Just wages:** pay what the work is worth (the Qur'an condemns diminishing people's dues, 83:1-3 — the Mutaaffin verses apply to employers who underpay).
- **Timely payment:** wages on the agreed date, every time — chronic delay is oppression (zulm).
- **Humane workload:** do not burden beyond capacity; the Prophet ﷺ instructed feeding and clothing workers as oneself.
- **Safe conditions and dignity:** no abuse, no discrimination; the farewell sermon declared all humans equal.

Employees' Duties

- **Itqan (diligence):** 'Allah loves that when one does a job, he perfects it' — shoddy work breaches amanah.
- **Honesty:** no theft of time (fake attendance), property, or data; no moonlighting against contract terms.
- **Loyalty and confidentiality:** protect the employer's secrets; give sincere counsel (nasiha).

Case: A company delays salaries by two months citing cash flow, while paying executive bonuses. Islamic ruling: the delay is zulm; workers' wages have priority — the hadith gives wages precedence even over the employer's other obligations. Executives taking bonuses while workers wait violates adl (justice).

Unit Summary

- Employment = ijara of services; terms must be clear; 'pay before the sweat dries'.
- Employer: just and timely wages, humane load, safety, dignity.
- Employee: itqan (excellence), honesty, loyalty, confidentiality.

Exam Pointers

- ★ Explain employment as ijara and its conditions.
- ★ List four employer duties with scriptural basis.
- ★ Analyze the salary-delay case using adl and the wage hadith.

Unit 8: Corporate Governance and Social Responsibility

Lectures 29–32

Learning Objectives

- Apply amanah and adl to corporate governance
- Explain the Islamic view of CSR: zakat, sadaqah, waqf
- Describe Shariah boards in Islamic financial institutions
- Evaluate stakeholder vs shareholder models Islamically

Governance as Amanah

Directors and managers are **trustees** of shareholders' and stakeholders' wealth. Islamic governance adds a vertical dimension to the usual agency problem: the manager answers to the board — and to Allah. Practical implications: transparent accounting, no insider dealing, no falsified statements (the Qur'an calls false testimony a major sin), independent audit, and protection of minority shareholders against majority oppression.

Islamic CSR: Beyond Charity

- **Zakat:** the obligatory 2.5% on qualifying business wealth — a right of the poor, not generosity.
- **Waqf (endowment):** the classical Islamic institution for perpetual social benefit — hospitals, schools, wells funded by dedicated assets; the original 'social enterprise'.
- **Environmental care:** the prohibition of fasad (corruption/destruction, 2:205) and israf (waste) grounds green responsibility; a factory polluting a river violates both.
- **Stakeholder model:** Islam recognizes employees, customers, neighbors and the community as rights-holders (huquq al-ibad) — closer to stakeholder theory than to pure shareholder primacy.

Shariah Governance in Islamic Banks

Islamic financial institutions maintain a **Shariah Supervisory Board** of qualified scholars that certifies products, audits operations for compliance, and issues fatwas. This is a distinctive governance layer with no conventional parallel — and a frequent exam topic.

Case: A profitable company pays no zakat on its inventory, claiming 'taxes already paid'. Islamic position: tax ≠ zakat. Zakat is a religious obligation on wealth (including trade goods) owed to specific recipients; taxes are civic. Both are due.

Unit Summary

- Governance = amanah: transparency, no insider abuse, minority-shareholder protection, accountability to Allah.
- CSR in Islam: zakat (obligatory), waqf (endowed social enterprise), anti-israf/anti-fasad environmental duty.
- Shariah boards give Islamic banks a unique compliance-governance layer.

Exam Pointers

- ★ How does amanah reshape the agency problem in corporate governance?
- ★ Distinguish zakat, sadaqah and waqf as CSR instruments.
- ★ What does a Shariah Supervisory Board do?

Unit 9: Contemporary Issues: Finance, Marketing, Globalization

Lectures 33–36

Learning Objectives

- Evaluate Islamic banking products against the prohibitions
- Judge modern marketing practices Islamically
- Discuss globalization and fair trade from an Islamic view
- Apply an Islamic ethical decision framework to cases

Islamic Banking Products — Quick Check

Murabahah — cost-plus sale: bank buys the asset and sells at a disclosed markup on deferred payment. Lawful if the bank truly owns/takes risk of the asset first (not just paperwork).

Salam / Istisna' — used for agricultural and construction financing.

Ijarah — Islamic leasing for equipment and vehicles.

Sukuk — asset-backed certificates (not conventional bonds); holders own a share of the asset/usufruct.

- Exam trap: 'Is murabahah just interest with another name?' Answer: it is a real sale with disclosed cost and markup, asset ownership and risk by the bank — structurally different from a loan, though scholars debate some practices.

Marketing Ethics Today

Apply the classical rules: influencer endorsements of products never used = **najsh/tadlis**; fake scarcity countdowns = deception; targeting children or the vulnerable with manipulative ads = exploitation (ghabn-like); data harvesting without consent = breach of amanah over users' privacy.

Globalization and Fair Trade

Islam supports international trade (the Quraysh caravan verses, 106) but condemns exploitation across borders: dumping that destroys poor-country industries, sweatshop wages below just levels, and bribery of officials (rishwah — 'the briber and the bribed are cursed'). Fair-trade premiums paid directly to producers echo the Islamic demand of full, just measure.

An Islamic Ethical Decision Framework

1. Is it halal in itself? (No riba, gharar, maysir, haram subject.)
2. Is the process honest? (No tadlis, najsh, coercion; full disclosure.)
3. Is it just? (Fair wages, fair price, stakeholder rights — adl.)
4. Does it serve maslahah? (Public benefit; no fasad or israf.)

5. Would it survive the akhirah audit? (Taqwa test: 'Would I do this if Allah's reckoning were tomorrow?')

Use this 5-step framework on any case study in the exam — markers reward structured Islamic analysis over generic 'it is unethical' statements.

Unit Summary

- Islamic finance: murabahah (real sale, bank owns first), ijarah, salam/istisna', sukuk (asset-backed).
- Modern marketing sins map to najsh, tadlis, ghabn, amanah breaches.
- Global trade is encouraged; cross-border exploitation and rishwah are condemned.
- 5-step framework: halal → honest → just → maslahah → akhirah audit.

Exam Pointers

- ★ Is murabahah 'interest by another name'? Argue both sides, then conclude.
- ★ Judge three modern ad practices using classical prohibitions.
- ★ Apply the 5-step framework to a bribery-to-win-contract case.

Key Terms Glossary

All key terms from this handout in one place — use for quick revision.

Sidq (truthfulness) — honesty in word and representation; the foundation of all commercial dealing.

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