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Islamic business ethics and finance: An exploratory study of Islamic banks in Malaysia

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Abstract - Ethics has become increasingly important in the financial services sector on the grounds that the aim of business activities in general and financial services in particular is the creation of value for the consumer. Furthermore, an ethical environment in the business and financial sectors provides vital support for maximising long-term owner value. If ethics played a larger role in the financial services sector, the recent global financial crisis might have been averted. Islamic finance which claims to offer global financial stability and high ethical standards should reflect Islamic values in all facets of behaviour to bring about collective morality and spirituality, which when integrated with the production of goods and services advance the Islamic way of life. However, there is an apparent lack, in the current literature around Islamic finance and Islamic business ethics, of an evaluation of the extent to which the ideal ethical norms of Islam are implemented by Islamic Financial Institutions (IFIs). International standard setting organisations such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organisation for IFIs (AAOIFI) have published the Guiding Principles and Conduct of Business for Institutions offering Islamic Financial Services and the Code of Ethics for the Employees of IFIs respectively. While the relevant authorities may issue appropriate frameworks or standards, which are necessary to ensure that public interest is adequately served, joint commitment from the IFIs concerned is essential. Against the above-mentioned background, this paper attempts to investigate the consistencies or, if any, inconsistencies and explore the relationship between the Islamic business ethical norms and the practices of Islamic banks in Malaysia. In doing so it tries to address the current imbalance of emphasis and the lack of a comprehensive discussion on business ethics from a wider cultural and religious perspective with reference to Islam, particularly focussing on selected Islamic banks in Malaysia. The main research question of this study is: How do the current practices in Malaysian IFIs mirror the Islamic ethical norms in business? The findings in this paper would potentially assist in the improvement of practices among IFIs to conform with the ethical norms established by Islam, which are in fact the core of their existence.

Keywords: religion, business ethics, Islamic finance, ethical perception

1. Introduction

Ethics has always been a part of business. However, the business ethics movement is relatively new and can be traced back to the 1960s, which witnessed the rise of social issues in business where business came under attack due to the lack of social consciousness and the harm it inflicted upon society in various ways (De George, 1995). The 1980s saw business ethics being institutionalized as an academic field, where a growing number of books, journals, institutes, professors, consultants and university courses in business ethics emerged (De George,1987; Jones, Parker and Ten Bos, 2005). Both public awareness of the scandals in the business world which appear to result from too little regard for morality, and the problems related to business which expose the fact that laws and regulations, have failed to a certain extent, have contributed to the rise of interest in business ethics (Chryssides and Kaler, 1993). Furthermore, the recent global financial crisis, which began in the USA, has once again redirected business ethics in the glare of publicity.

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For Muslims, Islam is considered as a way of life and not merely a religion. Hence, business ethics cannot be separated from ethics in other aspects of a Muslim's daily life (Beekun and Badawi, 2005; Hasanuzzaman, 2003). It is claimed that in the climate of Islamic philosophy, it is ethics that dominates economics and not vice versa (Naqvi, 1981), and that Islamic economics is characterized as being ethical (*akhlāqī*) besides being Godly (*rabbānī*), humane (*insānī*) and balanced (*wa'a'ī*) (Al-Qara'āwi, 1995). The concept of *Taw'īd* (monotheism, singularity, oneness or unity of God) has been identified as the core of Islamic ethics, along with trusteeship or stewardship (*khilāfah*), justice or equilibrium (*al-'adl*), free will or freedom (*ikhtiyār*), responsibility (*far'*) and benevolence (*I'sān*) (Faruqi, 1992; Naqvi, 1981; Rice, 1999; Beekun, 1997; Haneef, 2005). On a more practical level, the manner for proper Islamic ethical conduct in business is based on leniency, which encompasses good manners, forgiveness, removal of hardship and compensation; service motive, where businesses provide needed services to the community; and consciousness of Allāh, which requires Muslim businessmen to be mindful of Allāh in their conduct of business (Abeng, 1997).

In the financial services sector, ethics has become increasingly important on the basis that the purpose of business activities in general and financial services in particular is the creation of value for the consumer (Duska and Clarke, 2002). The financial services environment should not be an environment where there is a dichotomy between the personal ethical attitudes and the attitudes governing one's business life (Duska and Clarke, 2002). Moreover, it is suggested that an ethical environment will coincidentally pave the way to improved performance as in the case of the British Cooperative Bank's ethical policy (Kitson, 1996), and provides essential support for maximizing long-term owner value (Sternberg, 2000). The recent global financial crisis might have been averted if ethics played a larger role in the financial services sector.

Islamic finance has been recognized as a rapidly increasing integrated compartment of global finance (Warde, 2000) with assets worldwide estimated to be worth $700 billion as a result of growth at a rate of more than 10% annually during the past decade (Standard & Poor's, 2009). With respect to ethics, IFIs are considered to be ethical since the foundation of their business philosophy is grounded in the *Shariah*, often referred to as ethics in action, which is concerned with promoting justice and welfare (*al-'adl wa al-I'sān*) in society and seeking God's blessing (*al-barakah*) (Haniffa and Hudaib, 2007). The difference between Islamic and conventional financial systems is that the former has to preserve certain social objectives and is based on equity rather than debt (Venardos, 2005).

Malaysia's Financial Sector Master-Plan explicitly mentions that it would like to "epitomize Malaysia as a regional Islamic financial centre" (BNM, 2001). A distinguishing feature of the Malaysian economy is that Islamic finance has been fully integrated into its existing financial system, which demonstrates the sector's inventiveness and capacity for innovation (Venardos, 2005). It is also worth highlighting that the Malaysian Islamic finance market is considered to be well developed with a huge future potential (Al-Omar and Abdel-Haq, 1996). The first IFI established in Malaysia was the Malayan Muslims Pilgrims Savings Corporation, which began operations in 1963. Twenty years later, in 1983, the first Islamic bank—Bank Islam Malaysia Berhad—started operations after continuous pressure on the Malaysian government to assist in establishing an Islamic bank (Man, 1988). The seriousness of the Malaysian government in furthering the cause of Islamic finance can be seen in the Financial Sector Master-Plan's vision to see Islamic banking evolve in parallel with conventional banking to achieve 20% of the banking market share, represented by a number of strong and highly capitalized Islamic banking institutions, offering financial products and services which are underpinned by a comprehensive and conducive *Shariah* and regulatory framework (BNM, 2001).

2. Current predicament

It is claimed that the issue of ethics in business was primarily theological and religious prior to the 1960s (De George, 1987). However, theological contributions could have been ignored in the current discourse and literature of business ethics, when in fact an understanding of religious traditions would put ethics with regard to business in a broader perspective (Wilson, 1997). Furthermore, the current trend is to treat business ethics more narrowly as an applied philosophy and social science despite that on a practical level, religion matters to business ethics since religion's moral precepts and narratives inform and shape the morality of a substantial portion of the population making business ethical decisions (Calkins, 2000). It must be noted that voluntarily held ethical mores which stem from religious beliefs that are accepted by believers as binding cannot be substituted by non-binding general frameworks of ethical rules and norms (Naqvi, 2003). Despite the trend towards globalization, the current discussion on business ethics is strongly Western oriented and informed by Western social, religious and cultural values, overlooking other religious and cultural perspectives in the wider global context (Mohammed, 2007).

On the other hand, though business ethics is considered to be integrated within the large framework of established Islamic ethical values, a large part of Islamic literature on the subject is either theologically oriented or superficial and inadequate in its assessment of Islamic business principles and to date remains fragmented and spread over a variety of sources, which does not sufficiently provide a systematic model or framework of business ethics despite the existence of a rich vein of the concept in Islam (Mohammed, 2007). Furthermore, in most cases, the literature on Islamic economics, in which businesses operate, though full of reference to primary sources, deals with basic principles in a rhetoric and simplistic style and lacks a comprehensive discussion of the basic beliefs and values (Khan, 2007). IFIs also tend to emphasise the Islamic legality of the products and services offered at the expense of giving due attention to the ethical dimensions of their business practices. Muslim scholars (*'ulamā'*) have also mainly been restating the position of the *Shariah* on various issues, and although their discourse contains an implicit awareness of the social reality, their emphasis has been on the legal dimension (Khan, 2007).

It is observed that currently the financial services sector operates in a culture where the pursuit of money, an instrumental good, turns into the ultimate goal of human beings, leading towards ethical corruption (Duska and Clarke, 2002). It is claimed that this is in stark contrast to the climate of Islamic philosophy, which dictates that ethics should dominate economics, as previously highlighted. Moreover, IFIs should reflect Islamic values in all facets of behaviour to create a collective morality and spirituality,which, when combined with the production of good and services, advances the Islamic way of life (Lewis and Algaoud, 2001). At the operational level, it has been mentioned that the difference between Islamic and conventional finance is that the former is equity based while the latter is based on debt. As such, the conventional financial system has been shaken by frequent crises, due to its instability, in spite of the existence of various regulatory and supervisory frameworks (Mirakhor and Krichene, 2009b). In contrast, the Islamic financial system which is void of interest, un-backed credit, abundance of liquidity, high leveraged financial transactions and speculation, ensures inherent stability (Mirakhor, 2009a).

There is an apparent lack in the current literature of Islamic finance and Islamic business ethics of an evaluation of the extent to which the ideal ethical norms of Islam are implemented by IFIs. Though there are rare cases of financial scandals involving IFIs, Bank Islam Malaysia Berhad recorded a loss of over RM500 million and RM1.3 billion for its financial years of 2005 and 2006 respectively, after tax and *zakāt* (BIMB, 2008), in one of Malaysia's worst financial 'scandals'. Consequently, the then Malaysian Prime Minister, Abdullah Badawi, directed Bank Islam Malaysia Berhad to take stern action against its officers who were responsible for such a huge loss as a result of approving lending that should not have been approved (Basri, 2005). This demonstrates that in spite of the claimed resilience, stability and ethicality of IFIs, there are chances of failure due to inconsistencies between theory and practice.

3. Islamic business ethics and finance

3.1. Business ethics

In the first place, is there a need for ethics in business? Without ethics, neither businesses nor individuals could function. The absence of an ethical framework governing actions leads to the non-existence of behaviour standards of a civil society, which would result in chaos and disorder (Stewart, 1996). Hence, it is no wonder that ethics has always been a part of business and many have written about ethics in business for centuries. Although business ethics is sometimes considered an extension of an individual's personal ethics, it is argued that specialised knowledge and skills are required in dealing ethically with complex decisions in business (Dean, 1997).

In tracing the developments of the business ethics movement, De George (1995) identifies the 1960s as the period of the rise of social issues in business where business came under attack due to its lack of social consciousness and the harm it inflicted upon society in various ways. The 1970s then witnessed the entry of a significant number of philosophers into the field, which helped shape the structure of what developed into business ethics (De George, 1987). The 1980s saw business ethics being institutionalized as an academic field, where a growing number of books, journals, institutes, professors, consultants and university courses emerged (De George, 1987; Jones, Parker, ten Bos, 2005).

Chryssides and Kaler (1993) observe that both public awareness of the scandals in the business world, which appear to result from too little regard for morality, and the problems related to business, which expose the fact that laws and regulations have failed to a certain extent, have contributed to the rise of interest in business ethics. More generally, Jones and Pollitt (1998) observe that the "growing disillusionment" with materialism in most Western countries has contributed to a "renewed interest" in all aspects of morality. On the other hand, pressure on businesses to perform ethically and the realisation that good ethics is good business has also contributed to the increased emphasis on ethics within business (Dean, 1997).

There is no a single definition for business ethics. This is not surprising as business ethics is a relatively new distinctive academic field. No wonder there is great confusion when business ethics is mentioned in any discourse (Jones, Parker and ten Bos, 2005). Obviously and simply, business ethics refers to ethics as it is applied to business, i.e. it is concerned with moral issues in the field of business (Chryssides and Kaler, 1993). The term could also refer to "the rules of conduct according to which business decisions are made" (Jones and Pollitt, 1998) and deals with the expectations and requirements of society from businesses (Grace and Cohen, 1995). Jones, Parker and ten Bos (2005) in an attempt to clear the confusion about business ethics, describe the academic inquiry on business ethics as the "discipline of business ethics", while the applied practices of business ethicists who are involved in explaining legal and ethical issues, writing legal codes for businesses etc. is described as "applied business ethics". This is similar to Masden's (1995) call for looking at business ethics from two different angles; business ethics as a doing or a practice, and business ethics as a theorising about business and its ethical context.

Business ethics is not safe from criticisms. Friedman (1998) opposes the notion that businesses have social responsibilities though individuals might have certain social responsibilities. The sole responsibility of businesses is to make as much money as possible while abiding to the basic rules of the society embodied in both law and ethical customs. He views the call for businesses to have social responsibilities as "preaching pure and unadulterated socialism", which is against free market mechanisms. However Donaldson (1982) refutes the notion that the only responsibility of businesses is to increase profits as they owe society for the basis of their very existence. He views businesses as being morally obliged to produce goods and services efficiently for society. In a similar vein French (1979) argues that though corporations are not literally individuals, they qualify as individuals on the pretext that their decision-making structure permits the use of moral reasons. Hence, corporations, like individuals, have obligations to behave in an ethical manner.

Stark (1993)—in *What is the Matter with Business Ethics?*—describes the discipline as being too general, theoretical and impractical for those involved in business and that a new direction is needed for business ethics to be worthy of attention. Some see the term as an oxymoron and that it is impossible to apply business ethics as generally there is so much disagreement about ethics in the first place (Grace and Cohen, 1995). The most profound division in Western ethical theory is between cognitivism, which claims that there are objective moral truths, and non-cognitivism, which in contrast argues that objective assessment of moral belief is not possible as all are subjective. Thiroux (1990) elaborates that under cognitivism, two major perspectives emerge: consequentialism, which is based on or concerned with consequences, and non-consequentialism where acts are to be judged regardless of consequences. Most textbooks on business ethics would provide an introduction to ethical theory, which in a sense supports the notion that the field is being dominated by philosophy. The strong philosophical approach towards business ethics can be traced to the fact that the field has been primarily "populated" by academicians with an academic background in philosophy, who are concerned with teaching business ethics courses and publishing research in journals dedicated to ethical issues in business (Masden, 1995). Ironically, moral philosophy is not a pre-requisite to being ethical as ethics is often expressed in the lives of individuals who have never heard a "philosophical syllable" in their lives (Grace and Cohen, 1995). It is interesting to note that Vinten (1990) suggests that the slow demise of philosophy in universities may have led to the current philosophical interest in business.

Despite the apparent emphasis on the "discipline of business ethics" within academic circles, as opposed to "applied business ethics", there is a slight shift in trend, where research is being done on the practice of business ethics. Clegg, Kornberger and Rhodes (2007) for instance propose the "ethics as practice" approach, which is concerned with understanding and theorising ethics as a form of practice. There is also a realisation that the "discipline of business ethics" should produce workable and usable tools, which could assist businessmen in dealing with moral issues that typify business decision-making (Masden, 1995). In this sense Phillips (1992) is correct to say that business ethics should depart from highly abstract philosophical discussions and deal with the difficulties faced by "real" individuals in "real" situations with the aim to assist them in making ethical choices.

4. Religion and business ethics

Calkins (2000) observes that business ethics is currently treated more narrowly as an applied philosophy and social science though on a practical level, religion matters to business ethics since religion's moral precepts and narratives inform and shape the morality of a substantial portion of the population making business ethical decisions. Furthermore, Wilson (1997) opines that theological contributions could have been ignored in the current discourse and literature of business ethics, when in fact an understanding of religious traditions would put ethics with regard to business in a broader perspective.

Naqvi (2003) proposes that the integration of ethics and economics provides a richer view of human motivation and conduct than that offered by value-neutral positivism. He also points out that ethical mores which stem from religious beliefs that are accepted voluntarily by believers, as binding, cannot be substituted by non-binding general frameworks of ethical rules and norms. In a similar vein, Wilson (2001) states that belief in God provide the imperative for adhering to a set of standards grounded in moral certainty. Conroy and Emerson (2004) and Parboteeah, Hoegl and Cullen (2007) respectively discovered that religiosity affects ethical attitudes and that behavioural aspects of religion are negatively related to justifications of ethically suspect behaviours.

In analysing the development of business ethics in the United States, De George (1987) identifies that the first stage was the 'ethics in business' stage where theology and religion were the primary driving forces. He admits that religion and theology do play a role till today albeit the emergence of business ethics as a constituted distinctive academic field where philosophers tend to take the lead. Jones, Parker and ten Bos (2005) posit that currently business ethics is expected to fill the "moral vacuum" as a result of the apparent gap between business and religion, whereas in the past religion regulated public morality. According to them, despite the fact that there are many people who are religious, religion has increasingly lost its awe in regulating business and politics. Others such as Vinten (1990) argue that since religious texts do not primarily address the issue of a religious perspective on the world of business, interpretations of the texts are full of ambiguity and uncertainty. However, Wilson (1997) believes that the legal framework needed to regulate markets effectively could be derived from religious laws.

Prince Philip of Great Britain and Prince Hassan bin Talal of Jordan initiated consultations in 1984 with the objective to produce a common inter-religious (between Abrahamic/monotheist faiths; Judaism, Christianity and Islam) declaration on ethics in international business (Dion, 2002). As a result, in 1993, a Code of Ethics in International Business for Christians, Muslims and Jews was finalised in Amman, Jordan. The declaration identifies justice, mutual respect, stewardship and honesty as four key concepts that form the basis of human interaction. The declaration also includes guidelines on business and political economy, the policies of business and conduct of individuals at work, which should be adopted as a basis for the relationship between parties in international business (Webley, 1996). This code of ethics, which is spiritually driven, can provide a greater depth of understanding of many ethical problems that arise in international settings (Jackson, 1999). Jackson (1999) interestingly proposes that if "law controls/directs/guides business", and "morality control/directs/guides law", while "spirituality controls/directs/guides morality", then "spirituality controls/directs/guides business".

Schwartz (2006) argues that God is and should be considered a managerial stakeholder for business individuals and corporations that accept God exists and can affect the world. This would potentially entail greater meaning for those involved in business, lead towards more socially responsible decisions, enhance ethical decision making and improve profitability (Schwartz, 2006). This is highly contested in modern times, as modernism, which is increasingly dominant in the West, addresses ethical issues without referencing God (Kim, Fisher and McCalman, 2009). However, disregarding God results in moral relativism that is unable to determine absolute standards of good or ethical behaviour (Shaw and Barry, 1992). Ven de Ven (2008) suggests that business ethics is a “pioneering moral-theological inquiry” and in order to remain relevant, moral theologians have to join the business ethics debate as a lack of understanding and communication characterises the relationship between religion and business.

5. Islamic business ethics

Muslims regard Islam as a way of life and not merely a religion. Therefore, business ethics cannot be separated from ethics in the other aspects of a Muslim’s daily life (Beekun and Badawi, 2005; Hasanuzzaman, 2003). In the climate of Islamic philosophy, it is claimed that ethics dominate economics and not vice versa (Naqvi, 1981), and that Islamic economics is characterized as being ethical (*akhlāqī*) besides being Godly (*rabbānī*), humane (*insānī*) and balanced (*waha ī*) (Al-Qara’āwi, 1995). The concept of *Tawhīd* (monotheism, singularity, oneness or unity of God) has been identified as the core of Islamic ethics (Faruqi, 1992; Naqvi, 1981; Rice, 1999; Beekun, 1997; Haneef, 2005), along with trusteeship or stewardship (*khilāfah*), justice or equilibrium (*al-‘adl*), free will or freedom (*ikhtiyār*), responsibility (*farh*) and benevolence (*I’sān*). On a more practical level, the manner for proper Islamic ethical conduct in business is based on leniency, which encompasses good manners, forgiveness, removal of hardship and compensation; service motive, where businesses provide needed services to the community; and consciousness of Allāh that requires Muslim businessmen to be mindful of Allāh in their conduct of business (Abeng, 1997).

The Qur’an, which Muslims believe to be the word of God dating back more than fourteen centuries ago, speaks about ethics in business. Ahmad (1995) lays a set of norms contained in the Qur’an, which provides a comprehensive guidance for the conduct of Muslim businessmen. In his PhD thesis, Business Ethics in the Qur’an—a Synthetic Exposition of the Qur’anic Teachings Pertaining to Business, the vital question he attempts to answer is what characterises a Muslim’s behaviour in business life? Rather than limiting his work on exposition of Islāmic laws, which many have written on, he highlights the ethical dimension of business from the Qur’anic perspective. Al-Sharbātī (2005), on the other hand, analysed the methodology and approaches of the Qur’an in establishing ethics related to financial transactions.

In light of the fact that Prophet Muhammad was born in Makkah, which was a major trading centre during that period, and that he spent a considerable period of his life as a businessman before his Prophethood, many Prophetic Traditions related to business ethics can be found in books of *Hadīth* under the chapter of trade (*al-Tijārah*) or buying and selling (*al-Buyū*’). For example, al-Tirmidhī records a tradition on the authority of Abū Sa‘īd al-Khudrī where Prophet Muhammad is reported to have said, “The honest and trustworthy businessman [on the Day of Resurrection] will be amongst the Prophets, those who are truthful and the martyrs”, which Nik Yusoff (2002) sees as being the highest possible recognition for honest and trustworthy businessmen due to their considerable contribution to society’s prosperity. Musa (2007) presents ethics related to business as established by Prophet Muhammad and reported in the major books of *Hadīth*. The author also identifies the approaches adopted by Prophet Muhammad in establishing ethics related to business imitating the work of al-Sharbātī previously mentioned. Al-Nabahānī (1990) collected verses of the Qur’an, Prophetic Traditions and sayings of scholars, which he felt should be given attention by those involved in business, in his treatise which serves as a simple reference for those who would like to look up for narrations on ethical issues related to business.

The discussions of Muslim scholars of jurisprudence (*fuqahā’*) in matters related to business transactions would normally touch on the ethical dimension of business though it can be argued that the legal dimension tends to overshadow it as highlighted by Khan (2007). Moreover the distinction between the ethical and legal aspects of business seems vague in Islamic literature. In addition, for Muslims private morals are not seen as distinct from business ethics (Wilson, 2001). Beekun and Badawi (2005) observe that the great cultural diversity of Muslims worldwide and the different levels of religious commitment and practice are major challenges for understanding business ethics from an Islamic perspective, partly resulting in the scarcity of forthcoming articles on Islamic business ethics. Hence, the limited literature specifically on Islamic business ethics compared to that in the West. Despite that, there is a considerable amount of literature on Islamic ethics in business though Wilson (2001) is correct by saying that contemporary literature on Islamic economics, Islamic finance and Islamic banking is extensive compared to Islamic business ethics. The distinction between “ethics in business” and “business ethics” is as described by De George (1987) where the former refers to promotion of ethics in the conduct of business as in all other aspects of life and is primarily theological and religious in nature, whereas the latter refers to a constituted distinctive field.

There are a number of works in the Arabic language worth mentioning that address the issue of ethics in business from an Islamic perspective. Classical scholars of Islam such as Al-Ghazālī (2005) in his encyclopaedia *Ihyā’ ‘Ulūm al-Dīn* (Revival of Islamic Sciences) for instance, dedicates a chapter on the ethics of earning and living (*Kitāb al-Ādāb al-Kasb wa al-Ma‘āsh*), which precedes the chapter on lawful and unlawful matters (*Kitāb al-halāl wa al-haram*), indicating the importance of ethical behaviour in earning a livelihood. Scrutinising this chapter of *Ihyā*’, al-Ghazzālī identifies justice, truthfulness and benevolence as the main ethical values that must be internalised by parties involved in business transactions. Al-Mihrī (1986), in *al-Tijārah fī al-Islām* (Business in Islam), explores the foundations of business and its manners in Islam, identifying mercy, trustworthiness, honesty, tolerance and justice as constituting the essentials of Islamic ethics in business. According to Yūsuf (1990) economic pursuits are related to a Muslim’s creed, worship and morals, and the primary Islamic ethical maxims in business are honesty, trustworthiness, fulfilment of rights and good conduct. Muhammad (1990), in *Ādāb al-Tājir wa Shurūh al-Tijārah* (Ethics of the Businessman and the Conditions of Business Transactions), preceded the discussion on the jurisprudential dimension of business transactions with a chapter highlighting the effect of the Islamic creed on parties in a business transaction and the ethics which should govern those involved in business.

Al-Qarahāwi (1995) observes that only in recent years has Islamic economics been given due attention by Muslim scholars and researchers. He describes Islamic economics as being Godly, ethical, humane and balanced, and is of the opinion that it is the responsibility of the state to ensure that the theories of Islamic economics are implemented through the legislation of laws to uphold righteousness and ethics. Shahātah (1999) presents an Islamic model for a code of business ethics, realising the attention given by those in the West to ethics in the field of business, which is seen effective in deterring business failures and at the same time increasing long term profitability and growth. The author derived thirty-four Islamic codes of business ethics from the sources of the *Shariah* along with existing international codes and outcomes of various business conventions in line with the *Shariah*. He goes further by urging Muslim businessmen to take the lead in business and prove that adherence to Islamic principles does not compromise progress.

Wilson (2001) is of the opinion that the most notable study of Islamic business ethics to date is *Business and Accounting Ethics* in Islam by Gambling and Karim (1991) who are both accountants by training and profession. Karim was formerly the Secretary General of the Islamic Financial Services Board (IFSB), which "promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with *Shariah* principles" (IFSB, 2009). Gambling and Karim (1991) expose the fact that accounting, which must always involve some sort of faith, is somehow absurd in the current secular economising spirit found in business and administration. Throughout their book, the authors repeatedly mention the concept of *khilāfah* (vicegerency of man), which entails adherence to certain divinely ordained ethical axioms. The authors also look into the history of religious control in business and propose an Islamic alternative to regulate economic affairs in a modern economy. They highlight that Islam views human beings as "naturally committed to good" in contrast to Christianity, which sees human beings as "fallen creatures", and humanism, which supposes that human beings are by nature "rampant egoists".

Naqvi (1981), a noted economist originating from Pakistan, identifies unity, equilibrium, free will and responsibility as four ethical axioms, which form the thrust of the Islamic system, around which all of man's life must revolve. Employing these ethical axioms, the author derives the essentials of Islamic economics, which sets it apart from all other economic systems. Mohammed (2007) in his PhD thesis on Corporate Social Responsibility (CSR) in Islam uses Naqvi's axiomatic principles to elaborate on the conceptual framework of CSR in Islam and provides empirical evidence to determine the extent to which it may be practiced and implemented in Islamic organisations. In presenting the axioms of Islamic ethical philosophy, Beekun (1997) also adopts Naqvi's ethical axioms but adds benevolence as an additional axiomatic principle. He then applies these axioms to business ethics by describing normative business ethics in Islam and provides a sample code of ethics for Muslim businesses, outlining the behaviour towards the multiple stakeholders of a business organisation. Ayub (2007) identifies just and fair dealing, fulfilment of covenants and payment of liabilities, mutual cooperation and removal of hardship, free marketing and fair pricing, and freedom from detriment as important norms in the Islamic framework of business. He highlights that the accountability of human beings before God is a unique norm that departs from the norms of mainstream business ethics. The author also stresses that *Shariah* principles governing business transactions are in fact important pillars of business ethics.

According to Hasanuzzaman (2003) "there is nothing to discover with regard to business ethics in Islam" as he claims that the "edifice of the entire Islamic way of life rests on absolute ethical values". He also suggests that most Islamic ethical values are not unique to Islam and are universal in nature. Nik Yusoff (2002) suggests that the most significant concept of business in Islam is that business has economic, social as well as religious functions. He derives that absolute honesty in all business transactions and an open market as one of the important tenets of business in Islam. In Business Ethics in Islamic Context – Perspectives of a Muslim Business Leader, Abeng (1997) summarises the manner for proper ethical conduct in business to leniency, service motive and consciousness of God. He elaborates that leniency is the foundation of good manners that include politeness, forgiveness, removal of hardship and compensation, while service-motive provides the imperative for carrying out business activities to provide a needed service to the community, and consciousness of God demands one to be mindful of his business activities, ensuring that they are compatible with morality and higher values prescribed by God.

Beekun and Badawi (2005) propose that enforcement of Islamic business ethics begin at the level of the individual, which operates through the awareness and love of God, and the anticipation of His blessings in this world and the hereafter. Realising that most of the work done with regard to Islamic business ethics are normative in nature, they suggest that it would be interesting to investigate how far such ideal norms are currently implemented in the Muslim world. Jamal Uddin (2003) is also of the opinion that an empirical study to investigate the extent to which the affairs of businesses in the Muslim world mirror the prescribed model is worth pursuing. He stresses that in Islam the decision making process in a business situation should be substantially influenced by religious ethical principles. Blurring the distinction between the ethical and legal dimensions of business in Islam, he suggests that Islamic legal rulings pertaining to business transactions are applicable to everyone irrespective of their religious affiliations. In fact, Muhammad (2008) posits that one of the aims of the *Shariah* is to control human behaviour in order to establish Islamic ethics and that both the *Shariah* and ethics are two inseparable elements of Islamic legal theory.

Despite what has been mentioned above, Mohammed (2007) observes that a large part of Islamic literature on business ethics is either theologically oriented or superficial and inadequate in its assessment of Islamic business principles and to date remains fragmented and spread over a variety of sources, which does not sufficiently provide a systematic model or framework of business ethics despite the existence of a rich vein of the concept in Islam. Khan (2007) further elaborates that in most cases, the literature on Islamic economics, in which businesses operate, though full of reference to primary sources, deals with basic principles in a rhetorical and simplistic style and lacks a comprehensive discussion of the basic beliefs and values. He is also of the opinion that Muslim scholars (*'ulamā'*) have mainly been restating the position of the *Shariah* on various issues and their discourse contains an implicit awareness of the social reality, but their emphasis has been on the legal dimension.

6. Ethics and Islamic finance

Ethics has become increasingly important in the financial services sector on the grounds that the aim of business activities in general and financial services in particular is the creation of value for the consumer (Duska and Clarke, 2002). Duska and Clarke (2002) further opine that there shouldn't be a dichotomy between personal ethical attitudes and the attitudes governing one's business life in the financial services sector. Good ethics should also mean good business for financial institutions as in the case of the British Cooperative Bank, where its ethical policy paved the way to improved performance (Kitson, 1996). Sternberg (2000) suggests that an ethical environment in the business and financial sectors provides vital support for maximising long-term owner value. If ethics played a larger role in the financial services sector, the recent global financial crisis might have been averted.

The reality of the financial services sector paints a picture of a culture where the pursuit of money, an instrumental good, evolves to become the ultimate goal of human beings, leading towards ethical corruption (Duska and Clarke, 2002). This is in stark contrast to the climate of Islamic philosophy which dictates that economics should be subservient to ethics and not vice versa (Naqvi, 1981). Lewis and Algaoud (2001) reiterate that Islamic values in all facets of behaviour should be reflected in IFIs to bring about collective morality and spirituality, which when integrated with the production of goods and services advance the Islamic way of life. Islamic faith-based finance claims to offer global financial stability and ethics in business and banking, which in a sense are shared by all major faith-based traditions (Phoon, 2004). Elmelki and Ben Arab (2009) identify the establishment of justice and elimination of exploitation in business transactions as the most important objectives of Islamic finance, which are achieved through the prohibition of "illegal unjustified enrichment" and excessive risk and speculation.

Islamic finance has been recognised as a rapidly increasing integrated compartment of global finance (Warde, 2000). Standard & Poor's (2009) report that the past decade witnessed the Islamic financial services sector growing at a rate of more that 10% annually and has accumulating assets estimated to be worth $700 billion worldwide. It is identified that the major difference between Islamic and conventional finance, at their operational level, is that the former is equity based while the latter is based on debt. Due to this fact, Mirakhor and Krichene (2009b) claim that the conventional financial system has been rattled by frequent crises, as a result of its instability, despite the existence of various regulatory and supervisory frameworks. In contrast, the Islamic financial system, which is void of interest, un-backed credit, abundance of liquidity and high leveraged financial transactions and speculation, is inherently unwavering (Mirakhor 2009a). In his keynote speech at the World Market Capitals Symposium held in Kuala Lumpur, Raja Nazrin Shah proposes that Islamic finance can assist in breaking the vicious cycle of boom and bust that has characterised global finance (Parker, 2009). Therefore, Hasan (2009) claims that many have turned to *Shariah*-compliant finance as a remedy for the recent credit-crunch, which evolved into a full-blown economic crisis.

It is claimed that Islamic finance is based on a system of ethics derived from revealed and divine texts, which are then applied through *Shariah* law (Walsh, 2007). Hence, Haniffa and Hudaib (2007) opine that IFIs are considered to be ethical since the foundation of their business philosophy is grounded in the *Shariah*, often referred to as ethics in action, which is concerned with promoting justice and welfare (*al-'adl wa al-ihsān*) in society and seeking God's blessing (*al-barakah*). Obaidullah (2005) states:

> In an Islamic financial system, by definition, concerns about conformity to norms of Islamic ethics dominate all other concerns. All transactions in an Islamic system must be governed by norms of Islamic ethics as enunciated by the *Shariah*. Islamic systems are, in essence, ethical systems.

He further distinguishes the injunctions against *ribā* (usury), *qimār* (gambling) and *maysīr* (unearned income) as the significant differences between Islamic and mainstream financial systems. On a more fundamental level, the stark difference between Islamic and conventional financial systems is that the former has to preserve certain social objectives and is based on equity rather than debt (Venardos, 2005). Moreover, Islamic finance is said to lay emphasis on community values, socio-economic justice and a balance between material and spiritual needs of human beings (Elmelki and Ben Arab, 2009).

However, Wilson (2002) observes that despite the claim of IFIs to provide ethical financial services, no attempt is made to link what is ethical with the specific modes of carrying out financial transactions. He criticises IFIs for repeating emphasis on the standing of their *Shariah* regulators in their publicity material instead of projecting the moral teachings governing Islamic finance. This is supported by Haniffa and Hudaib (2007), who in their exploration of the discrepancies that exist between the communicated ethical identities via annual reports of seven Islamic banks in the Gulf and the ideal ethical identities based on the Islamic ethical business framework, discovered that six out of the seven Islamic banks they studied suffer from inconsistencies between the communicated and ideal ethical identities. However, Mohammed (2007) discovered in his study of Corporate Social Responsibility and Islam that many current practices of Islamic banks mirror the expected practices generated in the Islamic framework. Moreover, he observes that the Islamic banks he surveyed implement the Islamic code of conduct rather extensively.

At the operational level, bodies such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organisation for IFIs (AAOIFI) have published the Guiding Principles and Conduct of Business for Institutions offering Islamic Financial Services and the Code of Ethics for the

Employees of IFIs respectively. IFSB explicitly states the aim of its guiding principles is to "strengthen the relevant moral, social and religious dimensions in conducting business" in addition to providing a framework which "promotes a climate of confidence and a supportive environment that upholds transparency and fair dealing comparable to the conventional frameworks" (IFSB, 2009). However, the extent to which the items in the codes of ethics are being incorporated in and communicated to employees of IFIs is not well publicised.

More fundamentally, there have been criticisms on how Islamic finance is currently practiced. For instance, El-Gamal (2006) observes that modern Islamic finance aims to "replicate in Islamic forms the substantive functions of contemporary financial instruments, markets and institutions", which has arguably caused its failure in serving the objectives of the *Shariah* (*maqāhid al-sharī'ah*) and economic purpose. He proposes that attention should instead be given to the substance of Islamic finance rather than form. This would subsequently shift the current paradigm of Islamising every financial practice to emphasising on the social and economic ends of financial transactions. Foster (2009), who describes the Islamic financial system as being based on ethics and principles of fairness, similarly calls for the reconsideration of aims, institutional frameworks and contractual methodologies of the modern Islamic financial sector in order to provide a genuine alternative to the current operating financial systems. He quotes Tarek El-Diwany who views that the products currently offered by IFIs are often indistinguishable from interest-based institutions as both share the same material goals and employ the same institutional framework. Barom (2008) observes that recent debates on the practice of Islamic finance highlight the increasing divergence between theory and actual practice, as critics argue that faith-based ethical principles are being overridden by IFIs' pursuit of profit maximisation and shareholder value. This is not surprising as when the benchmark of corporate performance is money, it is often difficult to place ethics before self-interest, even when an Islamic system is in place (Rosly and Abu Bakar, 2003).

7. Islamic financial institutions in Malaysia

The Malaysian Islamic finance market is considered to be well developed with a huge future potential (Al-Omar and Abdel-Haq, 1996). Islamic finance has been fully integrated into Malaysia's existing financial system, which demonstrates the sector's inventiveness and capacity for innovation (Venardos, 2005). The seriousness of the Malaysian government in furthering the cause of Islamic finance can be seen in the Financial Sector Master-Plan's, which states that it would like to "epitomize Malaysia as a regional Islamic financial centre". It also visions to see Islamic banking evolve in parallel with conventional banking to achieve 20% of the banking market share, represented by a number of strong and highly capitalised Islamic banking institutions, offering financial products and services, which are underpinned by a comprehensive and conducive *Shariah* and regulatory framework. Interestingly, code of ethics is identified as one of the core determinants in regulating IFIs, which would eventually result in less intervention of the central bank. (BNM, 2001).

The Malaysian International Islamic Financial Centre (MIFC), which was selected as the Best International Islamic Finance Centre 2008 at the second annual London Sukuk Summit Awards of Excellence, claims:

> Malaysia's Islamic financial industry distinguishes itself as one of the proven platforms for conducting Islamic finance activities. The vibrancy and dynamism of Malaysia's Islamic financial system is reflected by its continual product innovation, a diversity of domestic and international financial institutions, a wide range of Islamic financial instruments, a comprehensive Islamic financial infrastructure and adoption of global regulatory, legal and Shariah best practices. Malaysia also holds the distinction of being the world's first country to have a full-fledged Islamic financial system operating in parallel to the conventional banking system; and has placed strong emphasis on human capital development in Islamic finance to ensure the availability of Islamic finance talent. (MIFC, 2009)

The first IFI established in Malaysia was the Malayan Muslims Pilgrims Savings Corporation which began operations in 1963 to assist Malaysian Muslims in saving for performing the *hajj* (pilgrimage to Makkah). It then evolved into the Pilgrims Management and Fund Board or *Tabung Haji*, as it is popularly known, in 1969 (Warde, 2000). *Tabung Haji* acts as a finance company, which invests the savings of its depositors in accordance with the *Shariah*. However, its role is quite limited to a non-banking financial institution (Lewis and Algaoud, 2001). In 1983, the first Islamic bank, Bank Islam Malaysia Berhad, started operations after continuous pressure on the Malaysian government to assist in establishing an Islamic bank (Man, 1988). This was made possible when the Malaysian parliament passed the Islamic Banking Act 1983, which provides strict but flexible regulations and supervision in Islamic banking (Al-Omar and Abdel-Haq, 1996). Malaysia witnessed the incorporation of its first *takaful* operator in 1984 after the enactment of the Takaful Act 1984, which was to a large extent triggered by the Malaysian National *Fatwā* Committee's ruling that life insurance in its form then as non-*Shariah* compliant due to the presence of uncertainty, *rībā* and gambling (BNM, 2004). It is worth noting that the Malaysian experience of Islamic finance has had a significant impact on neighbouring countries such as Indonesia and Brunei, which established their first Islamic banks in 1992 and 1993 respectively (Al-Omar and Abdel-Haq, 1996).

In 1997, Bank Negara Malaysia formed the National *Shariah* Advisory Council on Islamic Banking and Takaful as the highest *Shariah* authority to provide advice on Islamic finance operations, coordinate *Shariah* issues, and evaluate and analyse *Shariah* aspects of new products and schemes (Venardos, 2005). However, many "conservative", mostly non-Malaysian Muslim, scholars observe that Islamic finance in Malaysia was "cutting too many corners" and too lax in its definition of acceptable products, which call for scrutiny not only by *Shariah* scholars in Malaysia, but also scholars from other countries to enhance its legitimacy (Warde, 2000; Al-Omar and Abdel-Haq, 1996). As a result, Malaysia became a founding member and host country of the IFSB in 2002, which is an international standard-setting body consisting of regulatory and supervisory agencies, to ensure soundness and stability in the Islamic financial sector (MIFC, 2009). As of October 2009, there are 17 Islamic banks, 16 Islamic windows, 3 international Islamic banks, 8 takaful operators, 4 retakaful operators and 1 international takaful operator operating in Malaysia (Abd Kadir, 2009).

In spite of the claimed resilience, stability and ethicality of IFIs, there are chances of failure due to inconsistencies between theory and practice. In Malaysia for instance, Bank Islam Malaysia Berhad recorded losses of over RM500 million and RM1.3 billion for its financial years of 2005 and 2006 respectively, after tax and *zakāt* (BIMB, 2008), in one of Malaysia's worst financial 'scandals', attributed to officers who were responsible for approving lending which should have not been approved (Basri, 2005). In another case, two senior general managers of *Tabung Haji* were found guilty of criminal breach of trust and cheating involving RM200 million and were sent to jail for 10 years (Mageswari, 2009).

8. Methodology

This research involves an empirical study of executives working in four diverse Islamic banks in Malaysia; two full-fledged stand-alone Islamic banks, an Islamic full-fledged subsidiary of a Malaysian conventional bank and a foreign Islamic bank established under Malaysia's Islamic Banking Act 1983. Four banks were chosen as Teddlie and Tashakkori (2009) mention that as a general rule, "case studies of institutions vary from a minimum of approximately four to twelve organisations". Islamic banks were purposely chosen to study Islamic business ethics in practice (i.e. applied business ethics) as they constitute a highly prominent sector with claims of operations based on the *Shariah* (Mohammed, 2007), which is often described as ethics in action. Therefore, it is presumed that the norms and practices of Islamic banks would be consistent with Islamic business ethics.

Quantitative data were collected by means of a 45-item survey. Items included an assessment of the perception of the executives of the Islamic banks along the following dimensions: the general ethics of the banks, attitudes and behaviour of employees, treatment of employees, code of ethics, management and social responsibilities. The survey was loosely designed based on the questionnaire developed by Bourne and Snead (1999) in their study on the Environmental Determinants of Organisational Ethical Climate, which was also adopted by Miller (2008) in his Doctoral of Business Administration dissertation on the Impact of Certain Determinants on the Ethical Perceptions and Attitudes of Corporate Managers in Malaysia.

Survey items were designed in a way that respondents could indicate their level of agreement with the statement under consideration. The data measurement entails a five-point Likert scale where respondents have a choice of answering: (1) strongly disagree to (5) strongly agree. To ensure content or face-validity of dimensions measured, the questionnaire was subjected to pre-testing where selected respondents who are familiar with the Islamic banking industry in Malaysia provided feedback via email regarding the content, clarity and relevance to the study. Since the items in the questionnaire have been primarily adapted from a previous validated study, it is safe to assume that the constructs measured in the questionnaire have been previously researched and is constructively valid.

A simple analysis to determine the mean of the responses to each item was undertaken using the Statistical Package for Social Science (SPSS), which provided a descriptive analysis of the ethical perception of the banks' executives to each item in the questionnaire. A Cronbach's α reliability test was also conducted on the scale of each of the dimension in the questionnaire.

9. Limitations

This is an exploratory study and the findings and results cannot be generalized as it only involves the study of four Islamic banks in Malaysia. At present there are seventeen Islamic banks in Malaysia, five international Islamic banks and six development financial institutions offering Islamic banking schemes. The findings presented in this paper are a component of the author's PhD research on Islamic Business Ethics in Malaysian IFIs. His PhD research employs a mixed-method approach, where qualitative and quantitative approaches were adopted to answer the research question at hand. The quantitative component of the research only provides an overview of the Islamic banks' executives' ethical perception of what is being in their respective banks. A combination of both the qualitative and quantitative data would better answer the research question at hand.

10. Preliminary research findings and discussion

Table 1 below summarises the results in relation to the descriptive data regarding the individual statements measuring ethical perception of the Islamic banks' executives in the questionnaire. Generally, high mean values were obtained for most positive individual statements. Some statements could also be considered to be neither positive nor negative such as item B–2. Some items were purposely phrased in a negative sense and most of such statements recorded low mean scores such as items B-10, B-11, B-13, B-14 and C-9.

Based on the results presented in Table I, the executives of the Islamic banks concerned viewed the bank as generally ethical. More than 90% of the respondents agreed that the operations of the bank they are working at are consistent with *Shariah* requirements. The author did not specify what *Shariah* requirements meant and left it to the respondents to determine what constituted *Shariah* requirements. Most probably, the respondents would have understood it as the *Shariah* compliancy of the products and services provided by the bank. A mean of above 4 was scored for the statement on the banks' concern over their social impact and their truthfulness to customers despite it being potentially detrimental to their business. A mean of 3.981 was achieved for the statement on ethical values prevail of profit realisation. This is quite encouraging as one might argue that the prime purpose of Islamic banks as with conventional banks is to remain profitable while ethical considerations would become secondary.

Table 1. Results of descriptive analysis.

#	Statement	1 f(%)	2 f(%)	3 f(%)	4 f(%)	5 f(%)	Mean
General Ethics of the Bank							
A-1	Operations consistent with *Shariah*	0 (0.0%)	2 (1.9%)	6 (5.7%)	43 (41.0%)	54 (51.4%)	4.4190
A-2	Concerned with social impact	0 (0.0%)	2 (1.9%)	10 (9.5%)	51 (48.6%)	42 (40.0%)	4.2667
A-3	Truthfulness	0 (0.0%)	4 (3.8%)	18 (17.1%)	47 (44.8%)	36 (34.3%)	4.0952
A-4	Prevalence of ethics over profits	1 (1.0%)	1 (1.0%)	24 (22.9%)	52 (49.5%)	27 (25.7%)	3.9810
Attitude and Behaviour of Employees							
B-1	Consistency of personal and bank's view of ethics	0 (0.0%)	2 (1.9%)	20 (19.0%)	50 (47.6%)	33 (31.4%)	4.0857
B-2	Ethical norms is personal	18 (17.1%)	26 (24.8%)	22 (21.0%)	26 (24.8%)	13 (12.4%)	2.9048
B-3	Religious motivation to behave ethically	1 (1.0%)	3 (2.9%)	16 (15.2%)	37 (35.2%)	48 (45.7%)	4.2190
B-4	Exert best effort	0 (0.0%)	3 (2.9%)	15 (14.3%)	42 (40.0%)	45 (42.9%)	4.2286
B-5	Respect working hours	0 (0.0%)	7 (6.7%)	21 (20.0%)	46 (43.8%)	31 (29.5%)	3.9619
B-6	Adhere to outlined procedures	0 (0.0%)	4 (3.8%)	24 (22.9%)	52 (49.5%)	25 (23.8%)	3.9333
B-7	Honesty with each other	1 (1.0%)	7 (6.7%)	38 (36.2%)	48 (45.7%)	11 (10.5%)	3.5810
B-8	Avoid hurting each other	2 (1.9%)	14 (13.3%)	38 (36.2%)	41 (39.0%)	10 (9.5%)	3.4095
B-9	Gifts in return for favour is normal	40 (38.1%)	28 (26.7%)	26 (24.8%)	4 (3.8%)	7 (6.7%)	2.1429
B-10	False expenses claims are normal	62 (59.0%)	24 (22.9%)	12 (11.4%)	7 (6.7%)	0 (0.0%)	1.6571
B-11	Bank's assets often used for personal gain	44 (41.9%)	35 (33.3%)	14 (13.3%)	10 (9.5%)	2 (1.9%)	1.9619
B-12	Advise one another	0 (0.0%)	4 (3.8%)	28 (26.7%)	49 (46.7%)	24 (22.9%)	3.8857
B-13	Envy, malice, back-biting and picking on others are common	32 (30.5%)	16 (15.2%)	34 (32.4%)	14 (13.3%)	9 (8.6%)	2.5429
B-14	Acting ethically are the minority	23 (21.9%)	28 (26.7%)	22 (21.0%)	20 (19.0%)	12 (11.4%)	2.7143
B-15	Highly ethical	1 (1.0%)	10 (9.5%)	40 (38.1%)	43 (41.0%)	11 (10.5%)	3.5048
B-16	Involved in corporate social responsibility activities	1 (1.0%)	6 (5.7%)	31 (29.5%)	44 (41.9%)	23 (21.9%)	3.7810
Treatment of Employees							
C-1	Respect	1 (1.0%)	4 (3.8%)	38 (36.2%)	50 (47.6%)	12 (11.4%)	3.6476
C-2	Fairly compensated	4 (3.8%)	11 (10.5%)	43 (41.0%)	34 (32.4%)	13 (12.4%)	3.3905
C-3	Equality	2 (1.9%)	9 (8.6%)	53 (50.5%)	28 (26.7%)	13 (12.4%)	3.3905
C-4	Appropriately trained	1 (1.0%)	2 (1.9%)	24 (22.9%)	60 (57.1%)	18 (17.1%)	3.8762
C-5	Trained on *Shariah* principles for Islamic banking	0 (0.0%)	1 (1.0%)	9 (8.6%)	43 (41.0%)	52 (49.5%)	4.3905
C-6	Encouragement to observe personal *Shariah* obligations	1 (1.0%)	3 (2.9%)	14 (13.3%)	30 (28.6%)	57 (54.3%)	4.3238

Table 1. (Continued)

#	Statement	1 f(%)	2 f(%)	3 f(%)	4 f(%)	5 f(%)	Mean
C-7	Facilities for personal *Shariah* obligations	0 (0.0%)	3 (2.9%)	5 (4.8%)	26 (24.8%)	71 (67.6%)	4.5714
C-8	Not exploited and good working conditions	1 (1.0%)	2 (1.9%)	25 (23.8%)	53 (50.5%)	24 (22.9%)	3.9238
C-9	Pressure to conform	19 (18.1%)	39 (37.1%)	28 (26.7%)	15 (14.3%)	4 (3.8%)	2.4857
C-10	Welfare	1 (1.0%)	6 (5.7%)	31 (29.5%)	43 (41.0%)	24 (22.9%)	3.7905
Code of Ethics							
D-1	Bank's values clearly communicated	0 (0.0%)	2 (1.9%)	17 (16.2%)	62 (59.0%)	24 (22.9%)	4.0286
D-2	Code of ethical conduct clearly communicated	0 (0.0%)	3 (2.9%)	21 (20%)	53 (50.5%)	28 (26.7%)	4.0095
D-3	Reward for ethical behaviour	6 (5.7%)	23 (21.9%)	45 (42.9%)	23 (21.9%)	8 (7.6%)	3.0381
D-4	Regulations essential to avoid exploitation	1 (1.0%)	1 (1.0%)	26 (24.8%)	41 (39.0%)	36 (34.3%)	4.0476
D-5	Whistle-blowers not victimised	9 (8.6%)	4 (3.8%)	20 (19.0%)	31 (29.5%)	41 (39.0%)	3.8667
D-6	Encouragement to report breach	0 (0.0%)	1 (1.0%)	12 (11.4%)	42 (40.0%)	50 (47.6%)	4.3429
Management							
E-1	Trust	1 (1.0%)	5 (4.8%)	41 (39.0%)	43 (41.0%)	15 (14.3%)	3.6286
E-2	Respect	1 (1.0%)	2 (1.9%)	33 (31.4%)	46 (43.8%)	23 (21.9%)	3.8381
E-3	Caring	1 (1.0%)	7 (6.7%)	34 (32.4%)	48 (45.7%)	15 (14.3%)	3.6571
E-4	Highly ethical	1 (1.0%)	5 (4.8%)	38 (36.2%)	44 (41.9%)	17 (16.2%)	3.6762
Social Responsibility							
F-1	Supports organizations that benefit society	0 (0.0%)	0 (0.0%)	26 (24.8%)	50 (47.6%)	29 (27.6%)	4.0286
F-2	Participates in government social activities	0 (0.0%)	3 (2.9%)	24 (22.9%)	56 (53.3%)	22 (21.0%)	3.9238
F-3	Without ulterior motive	0 (0.0%)	4 (3.8%)	26 (24.8%)	51 (48.6%)	24 (22.9%)	3.9048
F-4	Sponsors Islamic educational and social events	0 (0.0%)	2 (1.9%)	17 (16.2%)	47 (44.8%)	39 (37.1%)	4.1714
F-5	Writes off debt as charity	19 (18.1%)	25 (23.8%)	35 (33.3%)	16 (15.2%)	10 (9.5%)	2.7429

As for the dimension on attitude and behaviour of employees, the respondents were divided on whether ethical norms is something personal and hence cannot be imposed on employees or otherwise. All the negative statements under this dimension (B-10, B-11, B-13 and B-14) recorded relatively low means, indicating disagreement that employees often used the banks' assets for personal use, submitted false claims, malice was common and that ethical employees are the minority. Having said that, when asked whether employees behaving ethically are the minority, the mean (2.7143) was close to neutral.

Mean scores of below 4 were recorded for 7 out of 10 items under the dimension of treatment of employees. 50.5% of the respondents were neutral when asked about equal treatment without discrimination, which would be worth exploring and investigating. It is encouraging to note that most respondents felt that their employers encourage the observation of *Shariah* personal obligations and provided good facilities for them do so. Moreover a mean of 4.3905 was achieved for training in the understanding of *Shariah* principles for Islamic banking.

As for the code of ethics of the Islamic banks, most items under this dimension scored a mean of above 4 except for items D-3 and D-5 which asked the respondents whether acting in ethical manner is rewarded and whether whistle-blowers were not victimised respectively. The mean for item D-3 was 3.0381, which was close to neutral. This might indicate that the banks have yet to have an ethical reward system in place to encourage ethical behaviour among employees of the bank. Nearly 75% of the respondents felt that regulations are necessary to ensure that the management of the banks does not exploit customers and employees. As for the items under management, all achieved a mean of below 4 but above 3.6, indicating that perception of the respondents towards management is not as high as desired. This might be caused by the complexity of the management-employee relationship and reasons behind this are worth exploring.

The banks scored fairly well on social responsibility except that it wasn't the banks norm to write off debt as charity in certain circumstances where debtors are not in a position to settle their debts. This might be attributed to the nature of Islamic banking products and services offered, which are not termed as loans, but known as financing. This might lead to perception of the absence of the creditor-debtor relationship between the banks and other parties. It would also be disadvantageous on the part of the banks, if clients did not service their financing, taking advantage of the fact that the banks would write off their debts. However, in genuine cases where clients of the banks are not able to fulfil their financing contracts, the banks should be lenient to its customers and try to restructure the financing agreement or in certain extreme cases relieve the clients of fulfilling their financing contracts. A system should be in place to deal with such circumstances to differentiate between Islamic and conventional banking systems. Having said that, Ayub (2007) reiterates that:

> "IFIs have to work as business institutions so as to properly perform the functions of mobilisation and efficient allocation of resources. The myth in some circles that Islamic banks need to work as social security centres, providing charity to the needy and for benevolence are two separate things… Subject to the policies of their boards and in consultation with stakeholders, they can also take part in social and welfare activities, but this will not be their normal course of business."

Table 2 below summarises the results of the Cronbach's α reliability test to ascertain the reliability of the items under each pre-determined dimension. Except for the

Table 2. Results of Cronbach's α reliability test (*shaded rows excluded from analysis*).

#	Statement	Scale mean if item deleted	Scale variance if item deleted	Corrected item – total correlation	Cronbach's α if item deleted
General Ethics of the Bank: Cronbach α 0.794 (4 items)					
A-1	Operations consistent with *sharīʿah*	12.3429	3.593	0.580	0.755
A-2	Concerned with social impact	12.4952	3.272	0.704	0.695
A-3	Truthfulness	12.6667	3.032	0.666	0.710
A-4	Prevalence of ethics over profits	12.7810	3.538	0.586	0.802
Attitude and Behaviour of Employees: Cronbach α 0.770 (15 items)					
B-1	Consistency of personal and bank's view of ethics	52.800	46.662	0.453	0.753
B-2	Ethical norms is personal	53.7905	51.533	-0.068	0.807
B-3	Religious motivation to behave ethically	52.6667	47.205	0.330	0.761
B-4	Exert best effort	52.6571	46.074	0.482	0.750
B-5	Respect working hours	52.9238	44.494	0.572	0.742
B-6	Adhere to outlined procedures	52.9524	45.180	0.581	0.743
B-7	Honesty with each other	53.3048	44.925	0.590	0.742
B-8	Avoid hurting each other	53.4762	46.752	0.353	0.759
B-9	Gifts in return for favour is normal	53.0268	48.432	0.131	0.783
B-10	False expenses claims are normal	52.5429	45.731	0.426	0.753
B-11	Bank's assets often used for personal gain	52.8476	43.996	0.488	0.746
B-12	Advise one another	53.0000	46.404	0.450	0.753
B-13	Envy, malice, back-biting and picking on others are common	53.4286	42.747	0.449	0.750
B-14	Acting ethically are the minority	53.6000	44.858	0.305	0.768
B-15	Highly ethical	53.3810	44.950	0.555	0.744
B-16	Involved in corporate social responsibility activities	48.7733	30.313	0.372	0.555

Table 2. (Continued)

#	Statement	Scale mean if item deleted	Scale variance if item deleted	Corrected item – total correlation	Cronbach's α if item deleted
Treatment of Employees: Cronbach α 0.784 (10 items)					
C-1	Respect	34.1429	19.797	0.589	0.750
C-2	Fairly compensated	34.4000	18.685	0.577	0.748
C-3	Equality	34.4000	18.646	0.658	0.738
C-4	Appropriately trained	33.9143	20.291	0.537	0.757
C-5	Trained on *Shariah*principles for Islamic banking	33.4000	20.800	0.506	0.761
C-6	Encouragement to observe personal *Shariah*obligations	33.4667	20.097	0.450	0.766
C-7	Facilities for personal *Shariah*obligations	33.2190	21.365	0.385	0.773
C-8	Not exploited and good working conditions	33.8667	19.790	0.570	0.752
C-9	Pressure to conform	35.3048	24.252	-0.91	0.844
C-10	Welfare	34.0000	18.962	0.599	0.746
Code of Ethics: Cronbach α 0.695 (6 – 2 = 4 items)					
D-1	Bank's values clearly communicated	12.4000	2.877	0.618	0.550
D-2	Code of ethical conduct clearly communicated	12.4190	2.746	0.573	0.569
D-3	Reward for ethical behaviour				
D-4	Regulations essential to avoid exploitation	12.3810	3.007	0.360	0.716
D-5	Whistle-blowers not victimised				
D-6	Encouragement to report breach	12.0857	3.233	0.401	0.676
Management: Cronbach α 0.892 (4 items)					
E-1	Trust	11.1714	4.701	0.833	0.835
E-2	Respect	10.9619	5.287	0.633	0.908
E-3	Caring	11.1429	4.720	0.800	0.847
E-4	Highly ethical	11.1238	4.763	0.790	0.851
Social Responsibility: Cronbach α 0.772 (5 items)					
F-1	Supports organizations that benefit society	14.7429	6.962	0.591	0.719
F-2	Participates in government social activities	14.8476	6.669	0.661	0.697
F-3	Without ulterior motive	14.8667	6.463	0.663	0.692
F-4	Sponsors Islamic educational and social events	14.6000	6.877	0.571	0.723
F-5	Writes off debt as charity	16.0286	6.028	0.387	0.827

dimension on Code of Ethics, all the other dimensions achieved a Cronbach α of above 0.7. The Cronbach α of the Code of Ethics was 0.695, which could be safely approximated to 0.7 if rounded to the nearest decimal point. Items D-3 and D-5 were excluded as its inclusion would result in the Cronbach α of the Code of Ethics to be significantly low. It is realized that these items were in fact not directly related to the Code of Ethics and its removal from the Cronbach's α reliability test is therefore deemed to be reasonable.

With respect to the Cronbach's α reliability results in Table 2, it is generally assumed that a score of above 0.7 would deem the data to be reliable. The α coefficient ranges from 0 to 1, where the reliability of the findings would be greater as the coefficient reaches 1. Generally, researchers are not in agreement as to the acceptable size of the coefficient and Cronbach's α of 0.60 to 0.70 are deemed to be at the lower end of acceptability (Miller, 2008).

Notably, the Cronbach α for the group of items under the management dimension is highest at 0.892 compared to the other dimensions. The lowest Cronbach α is 0.695 for the dimension on the code of ethics, and this was achieved after removing items D-3 and D-5. If item D-4 was deleted, the Cronbach α would increase to 0.716. This might be due to the fact the ethics is often described as being more than abiding to rules and regulations, and hence the exclusion of the requirement of regulation from this dimension would increase the Cronbach α of this dimension. The removal of item F-5, which is related to the writing of a debt as a social responsibility of the bank, would increase the Cronbach α of the social responsibility dimension to 0.827. The reason for this has been explained in the discussion of the low mean score of the mentioned item.

11. Conclusion

Generally, from the descriptive quantitative analysis of the data presented, it can be fairly assumed that the practices of the Islamic banks in Malaysia under study do conform with the Islamic ethical norm in business based on the perception of executives working in the banks concerned. Individual positive and negative statements, which scored a mean of less than 4 and more than 2, respectively, are areas where the Islamic banks concerned must strive to improve. Particularly, the perception of the management among employees of the banks must improve as it is the management who determines the issue of business conduct and principles in a business organisation. Issues surrounding the treatment of employees such as equality and fair wages must also be addressed in line with business ethical norms established by Islam.

A preliminary look into the qualitative data of the PhD research of the author, which is not presented in this paper, suggests that the senior management, *Shariah* heads and *Shariah* Supervisory Board members of the Islamic banks under study are aware of the importance of incorporating Islamic ethics in the operations of their respective banks. However, the climate in which the banks operate does not necessarily support such notions. Furthermore, Islamic banks might not feel compelled to abide by Islamic ethical norms in business if the consumers of their products and services do not strongly demand so.

The emphasis on *Shariah* compliancy of products and services has arguably resulted in the ethical dimension of Islamic finance to be somehow sidelined. *Shariah* compliancy is indeed the essence of Islamic finance but beyond that, Islamic banks should be at the forefront of ethical banking, whereby they take into consideration the impact of their activities on the society at large. Islamic banks must also strive to adopt the recommendations by the IFSB and AAOIFI in their published Guiding Principles and Conduct of Business for Institutions offering Islamic Financial Services and the Code of Ethics for the Employees of IFIs respectively as best practices in the industry.

12. Future research

It is desirable that this research be extended to a wider scale, where more respondents, from different Islamic banks are included in the study. This would allow for more generalisations to be made. Qualitative approaches could also be adopted to further explain the findings of what has been presented to gain a more in-depth account of any issues at hand. As the research only involved executives of the banks, other stakeholders' perceptions of the ethicality of Islamic banks are also worth pursuing and could be compared to each other.

Research needs to be conducted using various techniques to answer the questions at hand. Realising that, the author in his PhD study has interviewed the senior management, *Shariah* heads and *Shariah* Supervisory Board members of the banks concerned to obtain their views on Islamic business ethics in relation to Islamic banking practices in Malaysia. The author also included in his PhD research the ethical identities of the banks concerned based on their annual reports and other materials accessible to the public such as the banks' websites and other publications.

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