THE PROMOTION OF GOODNESS (AL AMR BIL MA’RUF) AND PREVENTION OF EVIL (WA NAHYU ‘ANIL MUNKAR) FOR SUSTAINABLE GROWTH OF ISLAMIC FINANCE INDUSTRY

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ABSTRACT

Regulatory and bureaucratic rigidity contribute to slowness in the growth of Islamic Finance industry. While conventional finance industry experiencing significant growth, customers of Islamic Finance is becoming skeptical about Islamic finance. This study uses the concept of “promotion of goodness (al amr bil ma’ruf) and prevention of evil (wa nahyu ‘anil munkar)” as enabler for sustainable growth in Islamic Finance industry. The sceptism about Islamic Finance will be replaced with awareness (ta’aruf), mutual understanding (tafahum), mutual assistance (ta’awun) and mutual protection (takaful). In the modern managerial paradigm, managers are expected to get things done in organizations through their fellow colleagues efficiently and effectively. The study uses Ibn Taymiyyah model in operationalizing the promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar) in Islamic Finance industry. The study used personal interview method with 10 senior managers of Islamic Finance to solicit their views about the operationalization of “the promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar)” for sustainable growth of Islamic Finance industry. The respondents suggest the industry to establish collaboration with various key stakeholders to gain confidence, trust and patronage through the ukhuwwah and ummatic activities. The study also proposed 15 actions to use good corporate governance practices to achieve sustainable growth for the Islamic Finance industry.

Key words: Sustainable growth, corporate governance, Islamic Finance, Malaysia.

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Introduction

Good corporate governance in essential to gain confidence of stakeholders. This is especially significant for public companies to continue to generate profit and sustain competitiveness. However, the background of doing business is not easy as it is full with uncertainties. The uncertainties are not only due to the dynamic interactions among the forces of the business environment, but also the behaviour of business players.

The conventional approach of business ethics to reinforce ethics in business is inadequate. This study offers Tawhidic perspective, which is based on the Qur’an and the traditions of Prophet Muhammad (peace be upon him), to reinforce ethics that integrates physiological, physical, mental, intellectual with spirituality (Al Faruqi, 1992). The concept is called ‘promotion of goodness and prevention of evil,’ which is the core duty of Muslim (male and female) prescribed by Allah.

The contemporary business used conventional ethical approach to address the ethical problems in the business world. This approach has been insufficient to make business people ethical and able to produce good organizational performance. The presence of business law, regulations, and organizational code of ethics show less improvement. The reason for not effective is due to lack of emphasis of spirituality aspect. The study uses Ibn Taymiyyah model in operationalizing the promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar) in promoting sustainable growth in Islamic Finance industry. Thus, the research questions are:

a) What factors contribute to good corporate governance?

b) In what ways the concept of promotion of goodness and prevention of munkar (al ‘amr bi al ma’ruf wa nahyu anil munkar) contributes to good corporate governance and sustainable growth?
Literature Review

IBN TAYMIYYAH MODEL

Ibn Taymiyyah is one of the reputable Muslim scholars and jurists. According to Ibn Taymiyyah (1990: 25), the main attribute of good or al ma’ruf is any conduct that can be rationalized as beneficial to the individual, humanity and more importantly it gains the Pleasure of Allah. The basis to determine both qualities is derived from the Holy Qur’an and the Sunnah of the Prophet Sollahu ‘Alaihi wa Salam as the primary reference and the Shariah as the secondary reference. Figure 1 depicts Ibn Taymiyyah’s model of promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar).

Figure 1: Ibn Taymiyyah Model on promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar)

Source: Ibn Taymiyyah (1990, p.25.)

Ibn Taymiyyah approach to deal with corporate wrong doing is based on Islamic monotheism. The Islamic monotheism provides harmonious linkages between the worldly affairs (al Dunya) and the Hereafter (al Akhirah) in the context of business processes, actions and decisions (Rahman, 1995; Hamid, 1999). The implications for Islamic monotheism naturally direct the obligations to promote goodness and prevent evil (Hamid, 1999). Figure 2 explains fundamental principles of Islamic monotheism, which comprised of possession of knowledge (al ‘ilm), true conviction (al iman), and integrity (al ihsan) (Mawdudi, 1991; Laming, 2002; Ismail, 2004). Knowledge incorporates broad concept of goodness (al ma’ruf) that includes noble deed (al khayr), righteousness (al birr) and lawful (halal) which deserve positive rewards (ajr) (Mawdudi, 1991; Qardawi, 2007). Munkar includes bad (sharr), sins (ithm) and prohibited (haram), which are related to corresponding punishment (al ‘idam) (Mawdudi, 1991; Qardawi, 2007). The relevance of Figure 2 with this study is the on essence of the promotion of goodness and the prevention of evil as part of Tawhidic paradigm (Islamic monotheism). While Sarif and Ismail (2011) argued on the elements of duties under Tawhidi paradigm, this study emphasizes that it is core duty to execute the promotion of goodness and the prevention of evil.

Figure 2: Fundamental Principles of Islamic Monotheism
Ibn Taymiyyah has discussed extensively on how the concept of promotion of goodness and prevention of evil can be understood and operationalized by organizational owners and managers in the organizational action plan to address it proactively rather than reactively.

There are six principles attributed to Ibn Taymiyyah’s concept of promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar) into organizational routines and practices, namely (a) known and acceptance (know human nature for proper spiritual remedies), (b) beautification of manners (appraise for the undivided loyalty of the employees towards the ultimate objectives of organization), (c) physical and spiritual basis (the mechanism for physical and spiritual training), (d) noble task (may be extended into different social and economic sectors), (e) divine trust (provides the understanding of obedience and submission to Allah as a trust (amanah) from Him), and (f) communication competency (requires organizational owners, managers and staff to understand meaning of the task and simplify it for implementation of organizational units. Figure 3 depicts the hypothesized model of Ibn Taymiyyah’s model of promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar).

Figure 3. Hypothesized model of Ibn Taymiyyah model on promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar).
Al-‘Amr as a dependent variable depends on the independent variables of al-ma’ruf, known, logical and beautify. While al-Nahyu depends on variables of prevent, khalifah, obedient, and amanah. There are eight statements developed from the hypothesized model of Ibn Taymiyyah and will be rated by the respondents, namely (1) al-Ma’ruf: My company has well establish governance and capable of preventing unethical behavior, (2) Known: My company communicated the do’s and don’ts through code of ethics and informal interactions, (3) Logical: My company applies logical approach in code of ethics together with the reinforcement and enforcement, (4) Beautify: My company has dedicated teams to assess the organizational processes to encourage people to do good, (5) Prevent: My company has external and internal mechanisms to prevent unethical behavior, (6) Khalifah: My company uses role model and guided leadership to prevent unethical behavior, (7) Obedient: My company uses integrity pledge and obedient oath to acquire loyalty and commitment, and (8) Amanah: My company uses corporate integrity principles that empower people to be committed and demonstrated undivided loyalty.

Methodology

The study used quantitative analysis on the materials and reports prior to personal interview method with 10 senior managers of Islamic Finance to solicit their views about the operationalization of “the promotion of goodness (al ‘amr bil ma’aruf) and prevention of evil (wa nahyu anil munkar)” for sustainable growth of Islamic Finance industry.

Findings

Prior to Interview

The study analysed for comparative availability of the materials on good corporate governance and organizational performance of public companies in five top Internet Search Engines (ISE’s): Google, Yahoo, AOL Search, Bing and Teoma from Sullivan’s top choices only (Sullivan 2010). Sullivan’s complete list comprised: top choices (Google, Yahoo, and Bing), strongly considered (Alltheweb, AOL, HotBot, and Teoma), and other choices (Altavista, Gigablast, LookSmart, Lycos, MSN, Netscape, and Open Directory) (Sullivan, 2010).

The use of ratios to compute hits produced by the Internet search engines provides a means to assess impacts (Bharat and Broder, 1998). Moreover, it is more appropriate to make inference from the use of ratios (Lawrence and Giles, 1998), although such approach can be less reliable statistically (Chu and Rosenthal, 2010). Given time constraints, it is still economical to use ratio approach (Chu and Rosenthal, 2010).

Overall, Google stands out among the five ISE’s for both single and combined search terms. For single search terms, Google’s hits produced the highest among fifteen search terms used in this study. Google’s hits for single and combined search terms portray a close association with its ratios. This suggests that it is highly probable that Google’s materials for combined hits, which are more specific, are included in the generic and single search terms hits.

Prior to Asian financial crisis in 1997, there was not insufficient effort to use code of corporate governance to safeguard the shareholders and other stakeholders of public listed companies (Bursa Malaysia, 2000; Finance Committee on Corporate Governance, 2001). However, after 1998, Malaysian government decided to initiate corporate reforms that could enhance the quality of good corporate management practice (Nor Azizah & Nasibah Ahmad, 2007). This led the introduction of the new Malaysian code and rules for corporate governance (Thomas, 2002). Good Corporate Governance is important for any company
in enhancing stakeholders’ value, increasing investors’ confidence and establishing customers’ trust (Finance Committee on Corporate Governance, 2001).

The significance of the Code is that it allows for a more constructive and flexible response to raise standards in corporate governance as opposed to the more black and white response engendered by statute or regulation. It is in recognition of the fact that there are aspects of corporate governance where statutory regulation is necessary and others where self-regulation, complemented by market regulation is more appropriate.

This study examined vision and mission statements, code of ethics, corporate governance compliance, and financial performance outlook from the annual reports of 100 public companies. This study found 37% of the companies did not state vision and mission statements in the annual report. However, the companies that stated vision and mission statements are not appealing, too brief, and less inspiring. According to David (2011, p.75), vision and mission statements should be appealing, reasonable length and aspiring.

In terms of code of ethics, 94 companies did not state code of ethics in the annual reports, which is essential to communicate organization’s beliefs on matters, such as mission, quality, privacy or the environment (Flores, 1998).

In terms of financial performances, the study found 10 companies had reported losses, which were attributed to the currency exchange rate fluctuation. Nevertheless, all the companies are fully committed and compliant with the principles and best practices of the Malaysian Code on Corporate Governance (revised 2007).

Manager 1 argued that good corporate governance provides the atmosphere of integrity and goodness for the company to focus on performance on sustainable basis. The reinforcement of good values allows the company to spend more time on exploring more business opportunities for long term profitability objectives.

Manager 2 pointed out that the authorized personnel who are entrusted to manage the wealth and performance of the companies should have the good attributes. Without these good attributes they will not be able to manage the companies well.

Manager 3 mentioned that good corporate governance embodied in the professionalism and training of all managers. When they agreed to be part of their professional bodies, they have agreed to be faithful and loyal to the professionalism standards.

Manager 4 said that all managers must give their loyalty to the companies that they served. Needless to say, while discharging their duties, they might be distracted with the incentives offered to them. With good understanding of goodness and professionalism, they would be able to go through the situation.

Manager 5 contended unethical practices are not due to ignorance but wrong choices made under duress or pressure. This situation can be addressed when everyone has awareness on what is known to them and ready for acceptance.

Manager 6 asserted that there is no short cut to good results. It may be seem as good only on short term. For a long term, everyone needs to be aware of good values on every action.

Manager 7 maintained that incentives of beautification of manners are necessary. It may sound premature and not professional at the beginning. Once the manners have been fully subscribed and practiced, the issue of incentives will phase out gradually.

Manager 8 stressed out physical and spiritual development via education is necessary. The assumption that holds every professional can be trusted with their professionalism and integrity has to be reviewed. There is a need for professional development for every profession. Knowledge alone is insufficient.

Manager 9 uttered for doing of noble task instead of reminding professional in finance industry to be faithful and loyalty. Noble tasks are not activated in vacuum. They need awareness, encouragement, reinforcement before enforcement.

Manager 10 argued that merely enforcing would not work if the professional are not given sufficient training. Awareness, education, and positive reinforcement are necessary for the managers to keep up to the professional standards.

In short, the feedback from the 10 managers suggest companies in the financial industry to pay attention to the following items:

1. Every professional such as accountants, managers, auditors, needs internal filtering mechanisms;
2. Every professional needs to enhance the understanding of goodness (ma’raf) through education and training (tarbiyyah and tamrin);
3. Every professional needs reinforcement on awareness to avoid unethical deeds (munkar);
4. Every professional needs reinforcement on good values on every action (a’mal);
5. Every professional needs reinforcement on awareness on known and acceptance;
6. Every professional needs reinforcement on incentives of beautification of manners;
7. Every professional needs reinforcement on the input of physical and spiritual development via education and training (tarbiyyah and tamrin);
8. Every professional needs encouragement on the doing of noble task;
9. Every professional needs enforcement on the implementation of professional tasks; and,
10. Every professional needs to facilitate people with communication competency

Discussion

The discussion attempts to answer the first and second research questions. The first research question is “What factors contribute to good corporate governance?” The factors from the hit analysis are based on search terms of “good,” “corporate,” “governance,” “good corporate governance,” “corporate governance,” “good governance,” “public companies,” “corporate governance in Malaysia,” “corporate governance in public sectors,” “corporate governance sector enterprises,” “corporate governance public entities,” “corporate social responsibility,” and “business governance.” The literature on good corporate governance has identified six factors that contributed to good corporate governance, namely:

1. The motivation to enhance business prosperity
2. The need to ensure corporate accountability
3. The need to meet the stakeholders’ expectation for good corporate behavior and demonstrate responsible and accountable to the interests of shareholders and other business stakeholders
4. The need to sustain growth of two parties in a company, the governors (directors and managers) and the owners (shareholders), perform task with integrity and transparency, fairness and trustworthiness.
5. The need to regulate behavior through company’s regulations and norms by the business stakeholders
6. The desire to increase transparency, better investors’ relations and confidence.

Content analyses on conventional literature, suggests two additional factors contribute to good corporate governance namely the requirement to comply with the listing requirement of code of governance so that companies continue on Bursa Malaysia, and to the need to gain competitive advantage through transparent communication.

Content analysis on Ibn Taymiyyah model of promotion of goodness (al ‘amr bi al ma’ruf) and prevention of evil (wa nahyu anil munkar) suggests the need to comply with the Shariah requirements in order to gain the Pleasure of Allah and to share the benefits with the stakeholders. Table 1 summarizes the factors that contribute to good corporate governance.

<table>
<thead>
<tr>
<th>Sources</th>
<th>Factors</th>
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<tbody>
<tr>
<td>Literature</td>
<td>1. Enhancing business prosperity</td>
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<td></td>
<td>2. Ensuring corporate accountability</td>
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<td></td>
<td>3. Meeting the stakeholders’ expectation for good corporate behavior and demonstrating responsible and accountable to the interests of shareholders and other business stakeholders</td>
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<td></td>
<td>4. Sustaining growth of two parties in a company, the governors (directors and managers) and the owners (shareholders); performing task with integrity and transparency, fairness and trustworthiness.</td>
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<td></td>
<td>5. Regulating behavior through company’s regulations and norms by the business stakeholders</td>
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<td></td>
<td>6. Increasing transparency, better investors’ relations and confidence.</td>
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<tr>
<td>Internet hit analysis</td>
<td>1. Providing sufficient education materials on corporate governance and organizational performance of public</td>
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<tr>
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<td>2. Enhancing various sources of information to learn about corporate governance and organizational performance of public companies</td>
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<td>3. Strengthening the Internet Search Engine for better information on corporate governance</td>
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<td>Content analysis on Ibn Taymiyyah model</td>
<td>1. Complying with the Shariah requirements</td>
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<td></td>
<td>2. Committing in gaining the Pleasure of Allah and to share the benefits with the stakeholders</td>
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The second research question asks “In what ways the concept of promotion of goodness and prevention of munkar (al ‘amr bi al ma’ruf wa nahyu anil munkar) contributes to good corporate governance and high organizational performance?”

Content analysis on Ibn Taymiyyah model of al ‘amr bi al ma’ruf wa nahyu anil munkar suggests six ways to operationalize Ibn Taymiyyah’s concept of al ma’ruf wa nahyu anil munkar into organizational routines and practices, namely (a) known and acceptance, (b) beautification of manners, (c) physical and spiritual basis, (d) noble task, (e) Divine trust, and (f) communication competency.

Table 2 summarizes the actions for promoting goodness and preventing evil (al ‘amr bi al ma’ruf wa nahyu anil munkar) contributes to good corporate governance and high organizational performance.

<table>
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<th>Sources</th>
<th>Actions that contribute to good corporate governance</th>
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<tbody>
<tr>
<td>Literature</td>
<td>1. Reinforcing the Malaysia Code of Corporate Governance practices to ensure a balance</td>
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of authority so that no single individual has unfettered powers.
2 Preventing unethical behaviors mainly (a) fraud, (b) corruption, bribery or blackmail, (c) criminal offences, (d) failure to comply with a legal or regulatory obligation, (e) miscarriage of justice, (f) endangerment of an individual’s health and safety; and (g) concealment of any or a combination of unethical act.

Internet hit analysis
1. Publishing more reading materials on corporate governance and organizational performance of public companies available to the companies and the public.
2. Establishing a resource centre to learn about corporate governance and organizational performance of public companies.
3. Creating more friendly Internet Search Engines to enable the public to access to more materials on “corporate governance,” and “organizational performance of public companies;” “corporate governance,” or “organizational performance of public companies.”

Content analysis on Ibn Taymiyyah model
1. Equipping everyone with awareness on known and acceptance,
2. Reinforcing incentives of beautification of manners,
3. Enhancing on the input of physical and spiritual development via education and training (tarbiyyah and tamrin),
4. Encouraging the doing of noble task,
5. Enforcing on the implementation of Divine trust, and
6. Facilitating people with communication competency.

Consolidation Of Research Answers
This section consolidates the research answers presented in Table 1 and Table 2. The consolidated answers provide the direction and insights into contemporary managerial paradigm. Table 3 summarizes 15 actions to use good corporate governance for high performance of public companies in Malaysia.

Table 3: Summary of 15 actions that contribute to good corporate governance for high performance of public companies in Malaysia

<table>
<thead>
<tr>
<th>15 actions that contribute to good corporate governance</th>
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<tr>
<td>1. Reinforcing the Malaysia Code of Corporate Governance practices to ensure a balance of authority so that no single individual has unfettered powers.</td>
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<tr>
<td>2. Preventing unethical behaviors mainly (a) fraud, (b) corruption, bribery or blackmail, (c) criminal offences, (d) failure to comply with a legal or regulatory obligation, (e) miscarriage of justice, (f) endangerment of an individual’s health and safety; and (g) concealment of any or a combination of unethical act.</td>
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<td>5. Creating more friendly Internet Search Engines to enable the public to access to more materials on “corporate governance;” and “organizational performance of public companies;” “corporate governance;” or “organizational performance of public companies.”</td>
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<tr>
<td>6. Equipping companies’ gatekeepers such as accountants, managers, auditors, and other stakeholders with internal filters for actions (faith),</td>
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<td>7. Enhancing the understanding of goodness (ma’ruf) through education and training (tarbiyyah and tamrin),</td>
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<td>8. Reinforcing awareness to avoid unethical deeds (munkar)</td>
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<tr>
<td>9. Enforcing good values on every action (a’mal)</td>
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<td>10. Equipping everyone with awareness on known and acceptance</td>
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<td>13. Encouraging the doing of noble task</td>
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<tr>
<td>14. Enforcing on the implementation of Divine trust</td>
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<td>15. Facilitating people with communication competency</td>
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Recommendations To Business Decision Makers
This study recommends business decision makers to review the existing corporate governance to practice 15 ways (good practices) so that good corporate governance can contribute to sustainable organizational performance (financial, position, competitive advantage and Divine blessings).

Limitations And Future Studies
The study attempted to verify results of the content analysis with the practitioners through personal interviews. However, the interview efforts have not been meaningful due to poor responses from the practitioners. The future study should develop carefully pilot tested questionnaires and interview questions to obtain useful results.

Conclusion

This study offers a perspective on how to sustain good corporate governance and produce good organizational performance from multiple sources. There are 13 proposed factors that are potential to contribute to good corporate governance for public companies in Malaysia, and the factors can be attained through 15 proposed actions that include tangible, intangible and spiritual dimensions of corporate governance practices. The proposed actions are projected from Islamic monotheism framework of corporate governance that can be operationalized in terms of knowledge of promotion of goodness and prevention of evil.

References