

# Prophet Characters: Benchmark for Code of Ethics for Directors

**Nurfarizan Mazhani Mahmud, Naimah Zaini, Maizura Meor Zawawi  
and Ahmad Saiful Azlin Puteh Salin**

Faculty of Accountancy (FP), Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400  
Tapah Road, Perak, Malaysia

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## Abstract

The purpose of this paper is to explore the director's work ethics particularly on Islamic perspectives and prophetic character towards sustaining the performance of the Islamic business organisations. The paper highlights the corporate scandals that occurred in Malaysia. Then, it examines and reviews prior studies on directors' work ethics, ethics from religious viewpoint and Islamic work ethics. Next, it also discusses the directors' work ethics based on prophetic characters and present a theoretical framework for directors' work ethics that applicable in modern business activities. The proposed theoretical framework contains four fundamental characters of directors which are *siddiq* (truthfulness), *fatamah* (intelligent), *tabligh* (deliver) and *amanah* (trustworthiness). This framework is hoped to increase the integrity and moral behaviours of the directors and eventually preventing them from involve in various unethical conduct especially in business activities that will tarnish the economic development and growth of a country.

**Keywords:** Code Of Ethics, Directors' Work Ethics, Islamic Work Ethics, Prophet Muhammad

## 1.0 Introduction

The collapse of several giant companies around the world have surprise the public and business community. The scandals have put directors under the microscope as everyone from shareholder to small retail investors look to board of directors for the answer. The growing interest on the ethical of directors were not surprising as the board of director's work as the internal control mechanism to monitors all corporate activities. Schwartz et al. (2005) state that Corporate agents at the most senior levels, including several CEOs and chairs of boards of directors, have been accused of being key players in the corporate malfeasance. Schwartz et al. (2005) also argued that Enron and WorldCom failures were not merely the result of senior executives engaging in inappropriate activity, but the fact that boards and directors responsible for monitoring senior management appear to have failed in their responsibilities.

The Enron board included many highly competent and accomplished individuals. In fact, shortly before its collapse, Enron was ranked by Chief Executive magazine as having one of the nation's five best boards in 2000 The board included among others John Duncan, who held extensive

corporate and Board experience,,Herbert Winokur, Jr., who held two advanced degrees from Harvard University with extensive corporate, Board and investment experience, Dr. Robert Jaedicke, Dean emeritus of the Stanford Business School and a former accounting professor, and Dr. Charles LeMaistre, former President of the Anderson Cancer Center, a large and well respected and complex medical facility in Texas. Meanwhile, WorldCom's board also appeared highly competent. Before WorldCom Inc.'s fall, its board of directors included a seasoned group of leaders, members such as the former head of the National Association of Securities Dealers, several company chief executives, the chairman of Moody's Corp, even the dean of the Georgetown University Law Center. Despite the apparent quality and competence of the board, the directors of these two well-known and respected companies were unable to safeguard the interest of the company as a whole.

Malaysia also has its share of high profile corporate fraudulent reporting scandals as evidenced in the enforcement action taken by the Malaysian Securities Commission and its public media releases. Malaysia has its own version of Companies Act, Code of corporate governance, Stock Exchange Listing Requirement, rules and regulation By Securities Commission and Companies Commission. Ironically, the news on corporate scandals, fraud, and corruption, unethical behaviour nevertheless keep on continue. Among the recent high-profile Malaysian fraudulent financial reporting cases as reported on the Malaysian Securities Commission website were Megan Media Holdings Bhd., Mems Technology Berhad, Transmile Group Bhd., Axis Incorporation Berhad, and Silver Bird Berhad which resulted in total misstatement worth billions of ringgit.

In a survey conducted by one of the big four accounting firms - KPMG Malaysia in 2013, which involved 100 listed companies on Bursa Malaysia, 64% of respondents believed that business cannot be done in Malaysia without paying bribes. More alarming is the fact that out of those that took part in the survey, a majority being top management, a whopping 90% opined that fraud is an inevitable cost of doing business, while 71% of them said the same about bribery and corruption. According to E&Y's survey, 39% of the 681 executives, senior managers and working-level employees across eight countries said that bribery or corrupt practices happen widely in Malaysia, nearly double the Asia Pacific average of 21%.

The mindset that fraud, bribery and corruption are part and parcel of doing business is dangerous especially when it happen among the top management. These should be curb before it become one of acceptance culture in the business. Fraud has a negative impact on the company's brand(s), staff morale, external business relations, relations with regulators, and the value of the company's shares. It can be fairly said that corporate fraud impacts on the company, its shareholders, and society at large by way of employment and social stability. Thus, steps need to be taken in right direction to reduce these occurrence, to instil a strong anti-corruption culture, along with the highest standard of conduct and behaviour among Malaysian citizens starting with the top-most rung of leadership to the man in the street.

This paper will contribute to the theoretical understanding and body of literature on the leadership Islamic ethics since not much was written on Islamic values and the Islamic work ethics for directors. The discussion of this paper could become a guidelines to directors on how prophet Muhammad SAW character can be applied to the present corporate leadership practices as the prophet Muhammad believe to be the most ethics and successful leader during His reigns.

This paper is organised as follows. The next section will be discuss on previous study on directors' ethics. Followed by discussion of ethics in the views of various religions. Section four will discuss on Islamic ethics in general. This is followed by details discussion of prophetic characters and how it can adopted by the directors. The final sections conclude the paper and offer suggestions for future research.

## **2.0 Prior study on director ethics**

Directors play ultimate responsibility in a company including allocated resources and strived to promote and lead the company to achieve sustainable development. Thus, it is a must for directors to be ethical and promote corporate compliance and ethical environment within the company. They are few studies were conducted on the ethical elements for directors generally. Sadique et al (2010) stated that many of the losses suffered by the companies facing financial difficulties were largely causes by mismanagement, fraud and other unethical practices. Therefore, a control mechanism is needed to govern top management act. Schwartz et al. (2005) suggest that effective corporate board is not a board that able to maximise company performance but those board that fulfil their ethical obligation to ensure long term financial success. They also suggest board members to engage in appropriate ethics training at least annually.

Gracia et al. (2014) posits that independent and female directors are more sensitive to ethical demand, more concerned about compliance with regulations and objectivity especially interested in satisfying the requirements made by different stakeholders. In contrast, Dominguez et al (2009) found that the presence of more female directors do not necessarily lead to more ethical companies. However, they found that the presence of outside directors contributed to the creation of code of ethics but not if the board is dominated by the shareholders as these directors are shielded from retrenchment as a result of power controlled by them. Rose (2007) found that ethics have little value for directors in decision making because these directors believe many of their peers pursues legal course of actions in maximising shareholders value although they still recognize the implication of ethics too their decisions.

## **3.0 Religions and ethics**

Individuals shape their action in line with their beliefs and dispositions. Yet religion has played a crucial role to provide humanity with universal ethical norms and moral values without which humanity might have already exterminated itself. It is believing but seldom realised that ethical and values and major concern of almost all religion. Arli (2017) considered religion as an

important factor that influences one's ethical judgement. He found that individuals with high intrinsic religiosity are more likely to behave ethically compared to individuals with high extrinsic religiosity. The extrinsically motivated person uses his religion whereas the intrinsically motivated person lives his religion. Parboteeah (2007), stated that belief in religion is not related to individuals' justification of ethically behaviour. Although all religion shares belief regarding what constitutes moral behaviour, there will be differences in the intensity and nature of such belief. Their study found negative relationship between religiosity and ethics.

Basically, religion produces norms, guidance and has profound relationship with ethics and governance. Hinduism for example, applied the concept of dharma or righteousness, demand directing possession and passion towards a spiritual end. Dharma concept teaches Hindu followers not only to discharge faithfully the duties in life and spiritual development, but also to cultivate the essential virtues and become thoroughly pure and virtuous in characters, Rajendran (2009). In Buddhism, the Buddha taught the principles of good conduct and ethical living, recognition of the importance of freedom of expression is also one of the attributes of the religion. Buddhist also concern for life and non-violence cannot be divorced from its commitment to human dignity.

Devine command theory stated that both Jewish and Christian religions define ethically right as being something commanded by God and ethically wrong means something forbidden by God. This means, ethical and religion always come together. The Torah's ten commandment represent Judaism's most significant contribution to ethics. Meanwhile, Christianity viewed moral goodness and virtue as conduct conducive to the true end of man to see God, (Ragab Rizk, 2008). Benefiel et al. (2014) stated that during the Industrial Revolution, Protestants developed a work ethic that aims to spiritualize the workplace. This work ethic held people responsible for doing their best in their worldly stations rather than disengaging from the world in a quest for perfection. In Islam, the ethical issues is based on the main sources of Islam which is Quran and Sunnah (saying and practice of the prophet Muhammad). Al-aidaros et al. (2013) stated that religious deeds and action ordered by Allah to get His acceptance, are design to improve and protect ethics. Islam also provide a climate of work within which the ethical is not separated from the economic.

#### **4.0 Islamic work ethics (IWE)**

IWE may be defined as the set of moral principles that distinguish what is right from what is wrong (Beekun, 1997) in the Islamic context. According to Ali and Al-Owaihian (2008), the IWE is an orientation that shapes and influences the involvement and participation of believers in the workplace. IWE views work as a means to further self-interest economically, socially and psychologically, to sustain social prestige, to advance societal welfare and reaffirm faith. IWE is originally based on the Qur'an, the teachings of the Prophet who denoted that hard work caused sins to be absolved and the legacy of the four Caliphs of Islam (Rizk, 2008).

Qur'an is the book of God that becomes the ultimate source of Islamic teachings. As the guidance provided by Qur'an is general in nature, the Messenger of God, Prophet Muhammad (peace be upon him [pbuh]) becomes the secondary source of teaching. All the body of customs and practices based on his words and deeds called Sunnah, which is important to guide the followers on the right way in practicing Islam in their lives. Thus, Islamic ethical business has fundamental elements such as tawheed (unity), 'adalah (justice), khilafah (trusteeship) and wasatiyah (the need for balance).

A person with strong belief in God (tawheed) is a person who has no fear to others but Allah (God). His submission and obedience in life is only to Allah, not to other human beings. As individual person, he realized that he is responsible and accountable to Allah in all his conducts. He will always observe his behaviour so as to ensure that he will act according to rules and regulations of Allah at all times. His main concern is to get a pleasure of Allah by way of fulfilling the amanah (trust) in work and will only uphold morally right and decent behaviour.

'Adalah (justice) refers to the rendering of trusts where it is due, including upholding the commandment of Allah SWT in the form of commands as well as prohibition. On the other hand, khilafah (trusteeship) is a special duty of man on this earth that is to conduct ibadah (worship Allah) and continuously striving to get rahmat (blessing) from Allah. Finally, Islam encouraged its followers to exercise wasatiyah (the need of balance) in life, thereby putting one life in an extreme situation is discouraged.

Despite the lack of studies conducted on Islamic business ethics, there are studies that proposed other dimensions of Islamic work ethics such as Manan et al. (2015), Aldulaimi (2016) and Ali and Al-Owaihyan (2008). These include perform work with a virtue, honesty, truthfulness, halal (permissible earnings), ihsan (precisely), efficient, fulfilment, self-control, obedience, cooperation, discipline and punctual, dignity, justice, safety, rights, responsibility, humanity, syura' (consultation), effort, competition, transparency, teamwork and morally responsible conduct.

Many scandals and corporate problems can be prevented by taking action and approach from the religious perspective generally, particularly from the Islamic perspectives. Fraud and unethical practices continuously becomes the major problem because it does not consider religion as a part of the solution. Many people believe in religion, even if they believe it, they just put religion in prayer houses only and not as part of a human's daily life. The Muslim should therefore take Prophet Muhammad (peace be upon him [pbuh]) as qudwah (role model) in all aspects of life including in the business and economic aspects.

### **5.0 Prophet characters for director's work ethics.**

Directors play very important role to set by example and action in cultivate overall ethical environment of their firms. Beekun (2012) suggest the implementation of ethics is a function of a leader's character and character is a critical requirement for leadership effectiveness.

Accordingly, this paper will offer four main characters of Prophet Muhammad (pbuh) as model for directors' code of ethics.

Prophet Muhammad (pbuh) is a person with superior quality of a mankind. He is send to this world to inculcate a good *akhlaq* (moral values) among the people. Prophet Muhammad said in his hadith (saying):

*I have only been sent to perfect good moral character (Musnad Ahmad 8595)*

In this regard, Allah describe him as the best role model the Muslim and all mankind should follow:

*Most surely you have in the Messenger of Allah an excellent example- for one who hopes in (meeting) Allah and Last Day, and who remembers Allah much (Quran:33.21)*

When Aisha (ra), the wife of Prophet Muhammad was asked about the character of the Prophet (pbuh), she answered; *verily, the character of the Prophet of God was the Quran (Sahih Muslim, 746)*

As a model, Prophet Muhammad (pbuh) defined by his special characters as truthful (*Siddiq*), trustworthiness (*Amanah*), intelligent (*fatamah*) and communicate (*tabligh*)

### **5.1 Truthful (Siddiq)**

Prophet Muhammad is well known as a very truthful person. He even called as Al Amin (truth person) by the believers and non-believers. His enemies will would still not accuse him lying. Prophet Muhammad (pbuh) always encourage truthfulness. He once explain as narrated by Abdullah bin Mas'ud:

*Truth leads to piety and piety leads to Jannah. A man persists in speaking the truth till he is enrolled with Allah as a truthful. Falsehood leads to vice and vice leads to the Fire (Hell) and a person persists on telling lies until he is enrolled as a liar (Muslim, 6306)*

The above hadith provides incentive for truthfulness because it is a source of every good deed and contain a warning against lying as it gives rise to all kind of mischief.

Being truthful is one of the main ethical principles in Islam. This is because Allah speaks the truth and command all Muslim to speak the truth. As mention in the Quran :

*O you who believe! Fear Allah, and speak the right word (Quran; 33:70)*

To demonstrate truth, directors must be transparency and honest. All information reported in the annual report and the company's newsletter should be contain accurate information. Company product should be produced up to the standard as set by the company. Misstatement of financial information should be prohibited. The stakeholders should be given necessary access on the information of the company so that they will be kept up to date with the latest true position of the company. Higher level of transparency also can be used as an indicator of truthfulness for the directors because it is hard for the company to put into the picture so many falsehood explanations because eventually, the inconsistency of the information will reveal the truth.



## 5.2 Trustworthiness (Amanah)

Trustworthiness or *Amanah* is another core character of the prophet Muhammad (pbuh). To reflect how trustworthy the Prophet Muhammad was, Beekun (2012) stated that the very adversaries who were plotting to kill Muhammad (pbuh) in Makkah were the same people who had entrusted him with their property.

Being *Amanah*, the directors are responsible for their action and have responsibility towards their employees and stakeholders. Abdullah (2012) emphasized that a person with *amanah* will be sincere in fulfilling his commitment, duties and responsibilities. Thus, directors should use and manage company resources with full responsibilities and *amanah* and not for personal gain and profiting from the company's inside information. The Prophet Muhammad (pbuh) once said:

*Every one of you is a shepherd and is responsible for his flock. The leader of people is a guardian and is responsible for his subjects (Al-Bukhari, 6719)*

To be *amanah*, directors also need to practice the principle of justice. The concept of justice and *amanah* is closely related. Justice refers to putting the right thing at a right place at a right time. Khaliq (2007) viewed that the implementation of justice in a company should include three elements. First, the company must guarantee the fulfilment of basic needs of all. Second, equality in income is ensured and lastly, extreme inequalities in income and wealth should be deterred. This is in line with prophet Muhammad asserted that workers should be given proper and just wages:

*The wages of labor must be paid to him before the sweat dries upon his body (Sunan Ibn Majah, 2468)*

## 5.3 Intelligent (Fatanah)

Prophets Muhammad (pbuh) is very intelligent and intellectual. This character indicates that he has high mental capability. He is smart in his decision and action as the people always look as him as a role model. Fatanah is related to the concept of knowledge in Islam. Knowledge is important as it contributes to invention, innovation and creativity which lead to the success. The first revelation surah Al-Alaq asked the prophet Muhammad (pbuh) to read and seek knowledge:

*Read! In the name of your Lord Who created, Created man from a clot of blood. Read! And your Lord is the Most Honourable, Who has taught (the use of) the pen, has taught man what he knew not (Quran; 96:1-5).*

From the verse, it is clear that acquiring knowledge is very important in Muslim world. Only with knowledge someone can be a better person, and better servant of Allah. As Allah says in the Quran:

*...Allah will raise up to (suitable) ranks (and degrees) those of you who believe and who have been granted knowledge (AlQuran 58:11)*

*Are those who have knowledge and those who have no knowledge alike? Only the men of understanding are mindful. (AlQuran, 39:9)*

In Islam, the knowledgeable person is better than unknowledgeable person as Allah raised up his position before Allah and among people. And Allah clearly stated that only knowledgeable person will be mindful. Though, being intelligent and knowledgeable would enable leader to make wise judgement, substantial added value in decision making, avoid risky choice and achieve the best optimum growth and performance for the company.

#### **5.4 Communicate (Tabligh)**

The last character is communicate or tabligh. It means that the Prophet Muhammad delivers everything that has been entrusted and ordered by Allah. He will not hide, alter or amend any single word of the revelations. The concept of Tabligh is closely associated with the practice of dakwah (delivering and sharing of Islamic knowledge) via various means and tools. In Islam, every individual is responsible to deliver the message of Islam and to call others to the deen al-Islam (Islamic way of life). Dakwah activities could take many forms comprising of verbal communication and practicing of good deeds. In modern context, dakwah communication could be done via modern medium such as television, videos, internet and other forms of information and communication technologies.

As for directors it is important to communicate appropriately with the internal and external parties of the company. This will create a good rapport with the management and subordinates, indicating that they are approachable and negotiable. As far as external parties are concerned, good communication reflects good company's image thereby enhance the confidence of the stakeholders in trusting the capability of the directors to manage the company. In such, directors must ensure company meet all the disclosure requirements by the regulatory bodies. They also need to be responsive with any matters concerned by the stakeholders.

Directors too should avoid confusing others in delivering message such as use of inappropriate words, disclosing of too many details, not emphasizing on the important points, giving contradictory explanation and provide misleading facts, figures and pictures. All these may give bad reputation to the companies in the eye of the stakeholders. Thus, a good communication policy must be in place to guide the director's communication. Allah said in the Quran:

*"O you who believe! Guard your duty to Allah, and speak words straight to the point". (AL Quran 33: 70)*

*And speak to him with gentle speech that perhaps he may be reminded or fear [Allah]." (AlQuran 20: 44)*

The Quran teach us to speak straight to the point and with gentle as we will lose people heart when we speak harshly and we win people heart if we communicate gently.



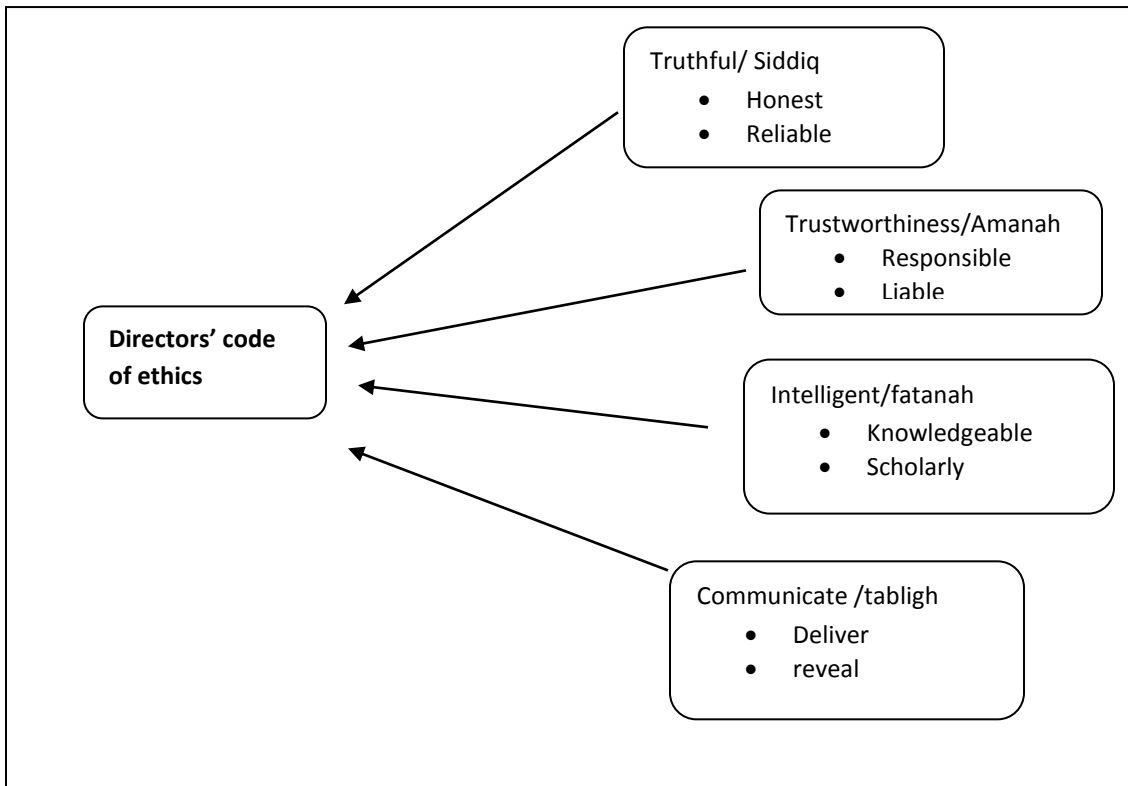


Figure 1: Theoretical framework for directors' code ethics

### 6.0 Conclusion and Recommendation

This paper discussed and proposed the application of the prophetic characters into the behaviour of business people generally and the directors particularly. In Islam, Quran is the main course of judgement. However, because the Quran generally speaks about general concept, the specific details of them are spelled out by sunnah. In the case of ethics, the detailed practicality of what ethics is embodied in the Prophet's action and behaviour. To know how ethics should be applied, people should look no further than to the prophet himself. Prophet Muhammad is a good example for a leader, a successful business man, an ethical and brave warlord, a good husband, father and even neighbour. Therefore, to be a good director, one should embrace these four main character of Prophet Muhammad namely, truthfulness (Siddiq), trustworthy (Amanah), intelligent (Fatanah) and deliver or communicate (tabligh).

Since this paper is conceptual in nature, it is recommended that future research could be conducted to test the importance of the Islamic ethical directors conducts and the extent of their applicability in the corporate world. Moreover, an assessment instrument can be developed to measure each character precisely and can be tested empirically.

Corresponding Author

Nurfarizan Mazhani Mahmud, Faculty of Accountancy (FP), Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400 Tapah Road, Perak, Malaysia  
Nurfa044@perak.uitm.edu.my

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