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## **Adoption of Islamic Business Ethics among Malay Entrepreneurs in Terengganu: An Insight from Qualitative Approach**

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### **Abstract**

This paper aims to understand the application of Islamic business ethics among Malay entrepreneurs. This research used in-depth interviews of Malay entrepreneurs located in Terengganu, the earliest state to receive Islam in Malaysia and is well-known in adopting the Islamic governance system. This qualitative study generally intends to analyze the implementation of the Islamic business ethics among the Malay entrepreneurs in Terengganu, based on four business functions which are production, consumption, transaction and distribution. The findings show that local entrepreneurs in Terengganu possess knowledge as well as awareness towards the practice and implementation of the ideal Islamic business practice by prioritizing the values in the four business functions discussed. Consequently, these practices contribute to their level of competitiveness compared to their other fellows.

**Keywords:** Islamic Entrepreneurship, Islamic Business Ethics, Malay Entrepreneurs.

### **Introduction**

The concept of entrepreneur and entrepreneurship are embedded in the Islamic teachings long time ago. Over the last two decades, the concepts of entrepreneurship have been expanded to understanding of a new way of thinking and behaving rather than a business per se (Zainol, Daud, Abdullah & Yaacob, 2014:153). However, whatever the concept of entrepreneurship is employed, every business and entrepreneurial activity have done in accordance with Islamic teachings is regarded as part of worship to Allah s.w.t. All practices in accordance with the guidelines, ethics, values and rulings of Islamic Shari'ah belong to good deeds and will receive rewards from Allah s.w.t (Rameli, Aziz, Wahab & Amin, 2014:442-443).

Ethic is one of the important elements in life, it provides guidance as well as acts as a controller of the entrepreneur's behavior (Deraman, Mohamad, Bakar, Hashim & Keat, 2010:26). It was introduced in 1970s and has been discussed from various perspective including employee perspective, company perspective as well as society perspective (Aishah, 2013:364-366). Ethic is

defined as a set of morale principles which differentiate between right and wrong (Beekun, 1998:2). On the other hand, Islamic business ethic is defined as code of morale principles as stated in the al-Quran and Sunnah. Thus, Islamic business ethic are part of the Islamic teachings itself (Tunggak & Salamon, 2011:70). According to Rameli, Aziz, Wahab & Amin (2014:442) the adherence to these values will make them different from others Muslim entrepreneurs and they should be called as the Muslimpreneurs.

The discussion on ethic from Islamic perspective are thoroughly done, Islam provides specific guidance on how to be an ethical Muslim as exemplified by Prophet Muhammad (PBUH) and his companions (Tunggak & Salamon, 2011:57). According to Rahman & Hanapi (2008:1), the goal of the Islamic business ethic is to ensure that all the people involves in the business are restraining themselves from prohibited acts (mazmumah) and practicing good acts (mahmudah). It also intends to protect the maslahat of the people by preserving them from elements that instigate fight, unhealthy argument, discrimination and unsatisfactory in the business transaction.

It is because the foundation of the Islamic ethic are based on Al-Quran and Hadith rationalize akhlak (Bardai, 2000:8), Thus, Islam emphasizes on the entrepreneurship ethic to encourage entrepreneurs becoming more competitive in the healthy business situation (Tunggak & Salamon, 2011:76).

The purpose of this study is to understand whether Malay entrepreneurs practice ideal Islamic business ethics in their business activities. The question arise due to the majority of the Malay entrepreneur still practice prohibited values such as cheating, exploitation, discrimination and riba (Mohammad & Mahmood, 2014:33). This is supported by (Kalthom & Ahmad, 2010). They found that the Malay entrepreneurs do not adhere to the Islamic principles especially in the marketing and promotion part; they fail to disclose the full information on the product and manipulate the woman model in their advertisement. Therefore, it would be interesting to discuss whether Malay entrepreneurs practice ideal Islamic business ethic in facing the business competition.

### **Past Literature**

The past literature related to the Islamic business ethics is divided into two parts. The first type of past study is normative and the second one is empirical in nature.

### **Normative Study on Islamic Business Ethics**

Normative approach is a conceptual research based on inductive and deductive methods that based on Al Quran (Faizal & Khir, 2017). A normative research on Islamic business ethics are based on two major main sources which are Al Quran and Hadis (primary source) and other sources including Islamic scholar consensus (ijma) and analogy (Qiyas) (Beekun & Badawi, 2005). These normative studies explain the Islamic methodologies that supposed to be a guideline to the entrepreneur to execute their entrepreneurial activities according to the ideal Islamic business ethics (Ismaeel & Blaim, 2012). Abeng (1997) and Rice (1999) are among the pioneers of normative studies on Islamic business ethics. Their studies outline the main elements and

important jobs ethic in the business as well as provide guidance to the firm managers on how to manage the business according to the culture and authentic Islamic philosophies.

Basic philosophies, principles as well as main values are among the issues that usually highlighted in the study of Islamic business (Abuznaid, 2009; Beekun & Badawi, 2005; Quddus, Bailey III, & White, 2009) propose and outline the Islamic model parameter based on the four major Islamic sources which are al-Quran, *Hadis*, *Ijma* and *Qiyas* as the main source of prominent philosophies in culminating an ethical entrepreneur.

### **Empirical Studies on Islamic Business Ethics**

The empirical study on the Islamic business ethics is not much as the normative study. It is still limited and rarely explored by the researchers (Tlaiss, 2014). Most of the Islamic business ethics is normative in nature where most of them explain on the Islamic values system and the guideline on the Islamic business ethics. However, there is a significant discrepancy between the normative ethics according to the Islamic teaching and the real practice of Muslim entrepreneur.

Among those empirical studies are (Rameli, Aziz, Wahab, & Amin, 2014). They study on the importance of religious factor in the community of Malay entrepreneur in Malacca. They present ethics dimension as a system that are based on the various elements including faith (iman) and ibadah, right intention, choosing halal and good, trustworthiness and care for others. The compliance to those elements differentiates them from others, and they are known as Muslimpreneurs. Besides that, (Mubarak, Rahman & Yaacob, 2015) discuss on the concept of Islamic entrepreneurship based on three important aspects which are terminology, spiritual and al-falah, making it different from Western contexts. Spiritual aspect has been emphasized as the success factor of the entrepreneurial activities.

### **Research Methodology**

This research used in-depth interviews of Malay entrepreneurs located in Terengganu. From the aspect of sampling process, 3 Malay entrepreneurs were determined to comprise the resultant sampling frame. Each interview was audio-recorded for future analysis. Interviews were conducted in Malay and at times in the Terengganu dialect according to the informants' preference. The transcription of the interview has been analyzed manually in order to collect the data according to the themes that has been developed before. The researcher adopts case study method to do exploratory study in identifying the Islamic business ethics of Malay entrepreneurs. This method is suitable to provide the deepness and richness of the information in order to derive the findings on the new theme as well as to validate the existing knowledge (Lebar, 2006:100-101). Besides it is able to provide detail explanation and analysis on phenomena or social unit such as individual, group, institution or community (Idris, 2010:288) that instigates data collection, provide meaning to the finding and understanding from a research (Jasmi, 2012:7).

Informants are chosen based on the outstanding performance in their enterprise determined by the indicators of competitiveness on the aspects of product or service, the total number of staffs, assets of company, total number of service chain as well as number of awards and recognitions. To achieve the objectives of this study, purposive sampling is utilized in

selecting the number of entrepreneurs in Terengganu. According to Lebar (2006:106), a qualitative study should employ purposive sampling rather than random sampling in order to fulfill the needs and objectives of the study.

The purposive sampling able to provide details understanding on the studied phenomena because the selection of the group has been done in detail and purposively (Aripin, Mustafa, & Hussein, 2014:199). Thus, it will provide specific information to match the purpose of the research (Teddlie & Yu, 2007:94).

## Results and Discussion

This part presents the analysis on the implementation of the Islamic business ethics among Malay entrepreneurs in Terengganu. Based on the information gained from a few series of interview, the discussions are based on the framework of Islamic business ethics implementation that derived from four key themes were identified: (1) production, (2) consumption, (3) transaction; and (4) distribution.

### Key Theme: Production

Analysis on the production function comprises of the themes and sub-themes of the ethic elements as followed:

First: Sources; the exploitation of the natural sources such as agriculture, animals, sea and land should be prioritized the elements of protection of nature and conservation of the sources itself.

Second: Skills; including the financial capability of the company, human resource management and types of product.

Economic scholars define production as the process of creating wealth through manipulation of natural sources. In fact, Al Quran states that man is encouraged to make use of the natural source including exploiting the sources from animals, plants, sea and mines (Al-Qaradhawi, 2009:183-187).

The analysis of the findings show that all informants are agree and understand that the Islamic business ethics generally involve the elements of *akhlaq* in the production process. The informants are very concerns on the cleanliness of the business premises and ensure that their production activities do not affect the quality of the environment.

“Sebagai pengusaha Muslim, saya akan aroh kan pekerja saya untuk buang sapoh bila kedai tutup, dalam pukul 1 pagi setiap hari.”(original interview transcript)

“As a Muslim entrepreneur, I will instruct my worker to clean the thrash right after the closing hour of my premise, around 1 am every day.” (R2)

“Saya akan pastikan sumber semula jadi kurniaan Allah akan dipelihara sebaiknya sokmo. Bukan pilihan tapi kewajipan.”(original interview transcript)

“I will make sure natural resources are carefully protected. It is not a choice but obligatory.” (R3)

The above statement shows that the informants understand the concept of ethics and it is manifested in their relationship with Allah s.w.t (habluminallah) and human (habluminannas) and other God creations.

Al-Qaradhawi (2009:191) refers the term (al-Alimin) mentioned in the verse as scholars in the area of natural resources as well as human sciences. In other word, Allah creates this earth as workplace for human and man acts as entrepreneur of His bestowed resources. For that reason, the researches categorize the elements of capital and management under the skill category. In terms of financial capability and company management, the analysis of the findings shows that the respondents get their financing only from Islamic banks and non-interest bearing agencies.

“Berurusan dengan bank Islam adalah wajib bagi semua orang Islam. Jadi syarikat saya hanya buat pinjaman dengan bank Islam sahaja.” (original interview transcript)

“Every Muslim should only deal with Islamic bank and my company only gets the financing from Islamic bank.” (R1)

“Saya buka syarikat ini hanya berbekalkan modal daripada keluarga saya je. Memang saya cakna sokmo hal halal-haram dalam pinjaman ni.” (original interview transcript)

“I started off this business with the contribution of capital from my family only. I am very concerned regarding the haram status of loan.” (R2)

“Sekarang nak dapat pinjaman susah. Kecuali kenal orang dalam atau pegawai penilai. Lagipun dana agensi kerajaan terhad contohnya hanya boleh pinjam RM5, 000 sahaja. Apa boleh buat dengan jumlah tu.” (original interview transcript)

“It is very difficult to get loan unless you know somebody or officer inside. Moreover, the fund from the government agency is limited to RM 5,000 only and it is not sufficient.” (R3)

The summary of the informants' information shows that they are concern about the status of the bank.

For the sub theme of human resource management, all three informants agree that trainings and workshops organized by entrepreneur development agencies improve the productivity of the employee. However they do not take it as necessity because the presence of the employee is more important.

“Saya ada hantar pekerja untuk menghadiri kursus. Tapi hasilnya sama je, sama ada sebelum atau selepas kursus. Tapi, saya dok nafi pentingnya kursus contohnya tentang pemasaran.” (original interview transcript)

"I send my worker for training and the result is just the same as before. However, I do not deny the importance of training especially on marketing." (R1)

"Saya rasa pekerja saya perlu kursus-kursus macam kursus hospitality. Macam mana dia nok deal dengan pelanggan-pelanggan. Guane pung masa sekarang belum ada keperluan lagi nok hantar mereka kursus, sebab premis kena beroperasi." (original interview transcript)

"I think my employee need training on hospitality and customer relation. But for now there is no necessity for them to go for training because premise needs them to operate." (R2)

"Terengganu ramai orang yang cerdik. Tetapi sayang peluang pekerjaan dok banyak di Terengganu ni. Sebab pihak industri dok mampu sedia peluang pekerjaan kepada orang tempatan, sehinggakan brain drain berlaku." (original interview transcript)

"There are many human capital here in Terengganu but job opportunities is limited. Industry player could not provide much job opportunities to the local and incur the brain drain." (R3)

From the aspect of salaries and wages, the informants prioritize the experiences as well as talents possessed by the employee. The interesting finding is there is an informant that does not agree with the requirement of the minimal wages as set up by the government.

"Saya kurang setuju dengan langkah kerajaan untuk upoh gaji minima, sebab ia mengurangkan bilangan pekerja yang saya dapat gunakan dengan belanjawan yang sama. Akhirnya, ia menyumbang kepada kenaikan kadar pengangguran." (original interview transcript)

"I don't really agree with the government requirement of minimal wages because it decreases the number of employees I could employ given the same budget. It contributes to the increment of unemployment rate." (R2)

### **Key Theme: Consumption**

Informants in this category understand the basic concepts of consumption in Islam and are extremely concerned about the elements of halal and haram in consumption. The analysis on the consumption function comprises of the themes and sub-themes of the ethic elements as followed:

First: Disposition; a responsibility towards the society by paying *zakat*, *infaq*, *sadakah* and *waqf*.

Apart from manipulating the sources and skill, Islam put emphasizes on the disposition of weath generating from profit of the production in a moderate and good manner. The accumulation of weath without any benefits to family and society is not an Islamic teaching (Al-Qaradhawi, 2009:287).

All the informant agree that *zakat* is an obligatory act of Muslim and donation act is one of the way to obtain Allah's blessings in the business.

“Sokmo setiap tahun terutamanya bila bulan puasa, saya akan berhubung dengan pusat-pusat pengajian agama seperti pusat tahfiz untuk edar makanan secara percuma.” (original interview transcript)

“Every year during Ramadhan month, I will distribute free foods in the religious institutions and centres.” (R2)

“Sekiranya business saya agok perlahan, saya akan derma sebanyak mungkin kepada orang ramai. Memang terbukti keberkesannya.” (original interview transcript)

“I will donate as much as I can to increase the sales of slow business and it is proven to be successful.” (R3)

### **Key Theme: Transaction**

The analysis on the transaction function comprises of the themes and sub-themes of the ethic elements as followed:

First: Competition; not getting involved in the prohibited elements such as monopoly, manipulation and riba in the transaction.

Justice is a noble element in the business transaction and in fact Al-Quran has been sent down to implement justice. Thus, Islamic teaching clearly prohibits the transaction xxx, for instance monopoly (ihtikar) as it is a xxx (Al-Qaradhawi, 2009:427). An entrepreneur should compete in a healthy way and put emphasize on the quality of the product and service as well as restraining themselves from prohibited acts.

All the informants clearly understand the prohibited elements in the business. They work on the quality of their product to ensure the sustainability of the business. The most important one for them is to obtain Allah’s blessings. The more important aspect to these informants is to ensure that they engage in any transactions that are permissible in Islam.

“Dalam persaingan, saya ada strategi yang unik iaitu menonjolkan kecantikan alam semula jadi kawasan perniagaan saya untuk menarik lebih ramai pelanggan. Lagi, saya sokmo pentingkan kualiti terhadap produk keluaran syarikat saya. Ia sebagai kelebihan daya saing perniagaan saya lah.” (original interview transcript)

“I adopt an unique strategy by use natural resource to attract more customers. Besides that, I put emphasize on the quality of my product to make it as my business competitive advantage.” (R2)

“Saya pernah menjalinkan kerjasama dengan syarikat lain dalam memantapkan perniagaan saya. Namun, hasilnya kurang memuaskan. Tapi saya dok serik untuk joint venture lagi andai ada peluang yang baik.” (original interview transcript)



"I had collaborated with other company in order to uplift my business. However the result is unsatisfactory. I will still consider for joint venture if there is a good chance." (R3)

**Key Theme: Distribution**

The analysis on the distribution function comprises of the themes and sub-themes of the ethic elements as followed:

First: Marketing and adverting; transparent marketing.

Second: Price strategy; justice and acceptable profit.

In term of distribution aspect, the discussion on the values and *akhlaq* should be included in the marketing methods and price fixing. An entrepreneur should emphasize on their marketing strategy. Most of the entrepreneurs have same capability in terms of capital compared to major entrepreneurs, but they must smart to grab the opportunity. They should have good business chains because good product will not be sold without the efforts of marketing, promoting and advertising. The analysis shows that the respondents practice the concept of good value and business ethics as outlined by Islamic teaching.

"Saya banyak guna media sosial sebagai medium promosi dan pengiklanan. Setakat ini hasilnya boleh tahan memuaskan dan berkesan." (original interview transcript)

"I am used social media as a promotion and advertisement medium and it is effective." (R2)

"Networking paling penting dalam pemasaran. Ia banyak membantu mengembangkan perniagaan." (original interview transcript)

"Networking is most important in marketing. It helps to expand the business." (R1)

"Strategi harga produk saya mesti mengambil kira kos-kos pengeluaran dan sewaan. Setakat ini semua produk keluaran syarikat berharga lebih dari RM10." (original interview transcript)

"My price strategy are based on production and rental costs. the price of all my products are more than RM10." (R2)

"Strategi harga saya lebih kepada pengalaman dan bergantung kepada data yang ada. Terutamanya bila saya masuk tender-tender." (original interview transcript)

"My pricing strategy is based on experience and depends on the availability of the data especially when I bid for tenders." (R3)

## Conclusion

To sum up, Islam emphasizes on the ethical environment of the organization and it should be started with the individual ethical as an employee and it will lead to the ethical firm (Rafik Issa Beekun, 1998:44). For that reason, the entrepreneurs should aware and keep updated on the issues and principles of ethical as the companies keep moving (Ab Aziz Yusof, 2003:262). From the interview session, it can be summarized that the commitment of the entrepreneur to develop themselves by practicing values and *akhlaq* in four business functions differ them from others. A Muslim entrepreneurs, should sincere, honest and trust Allah's promises in practicing Islamic business ethics in order to obtain *taqwa* and achieve the highest level of *akhlaq*. Based on the definitions stated previously, a mufti acts as a responsible person to explain the Islamic laws on the issue or issues raised by the questioner. Clarification of the law should conform to the framework and the rules of law prescribed by the Islamic scholars.

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