



Ethics: toward globalization

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Abstract *The paper conveys selected Islamic perspectives on business ethics to encourage debate on the subject in the USA. The objective is to better prepare American businessmen for the ongoing shifts to global management. The regulatory climate that is currently arising is linked to the ascendancy of international accounting standards relative to the USA's generally accepted accounting principles. Islamic ethicists are seeking to install a climate of high level ethics and to weed out forbidden transactions. The revival of Muslim interest in accounting marks a revival of a historic pattern which is thought to have anticipated the rise of bookkeeping in the West. Also, there is a current tendency in Islamic states toward a unified political and economic system likely to affect international trade, hopefully with beneficial results for the USA.*

Introduction

The ethical climate of the Enron Corporation was eloquently described by US Senator Levin in this comment: "What happened at Enron wasn't a failure of regulations and law. It was a failure of corporate culture, a failure of values, a failure of heart" (speech made at the Economic Club of Detroit) (Tompson, 2002).

Fraud may be compounded by other coexisting negatives such as a national mood of indifference to the fate of others. A Columbia University Medical School Dean brought this issue into focus by noting that advances in technology had not been carried forward into advances in compassion or understanding (Sovern *et al.*, 1990). A German survey confirmed a US downward spiral in overall ethical conduct; the USA had slipped from first place in ethics to 16th place in just a few years[1].

Ethicists have lamented an apparent dearth of ethical attitudes among college students; for an example of this genre of reporting see Crawford (2003). Similarly, the author recently chaired the doctoral dissertation committee of Mary Feeney Bonawitz. Bonawitz (2002) documented the rarity of ethics courses and demonstrated the effect of even one course on a subject's response to various ethics problems.

Astonishingly, an ethics course is generally not required for graduation from college, except at a small number of religiously-oriented institutions. In all schools, regard for the deity has deteriorated: the author was one of only two speakers who referred to "the vertical connection" (that is, to the relationship with God) in the course of a recent lecture at a denominational Christian university. (Ironically, almost all speakers were ordained members of the clergy.)

This paper is intended to convey selected Islamic perspectives on business ethics in order to encourage debate in the USA on the relationship between



ethics and business; the objective is to provide knowledge of Islamic business attitudes and economic practices in order to better prepare American businessmen, especially accountants, for the ongoing shift to global management. Muslim states in the Middle East are likely to be heavily influenced by this trend.

Pervasive changes may be expected in accounting and auditing regulation in individual nations, some of which may have been riven by diverse religious and ethical practices. But, the new regulatory climate will be linked to the ascendancy of international accounting standards relative to US generally accepted accounting principles.

Important adaptations will be required of US practitioners. For example, greater sensitivity will have to be displayed toward possible discovery of financial fraud indicated by various signs: public accountants have long classified certain clients as “high risk”, based on “private” indicators of “troubled” managements. The indicators include: managerial unwillingness to distinguish its own cash from that of the company; contempt for internal control; contempt for civil and criminal law; and an aversion to booking audit adjustments other than those that lead to profit enhancement.

Fraud seems to be relatively rare in Islam. However, two egregious examples come to mind: the 1982 collapse of the Kuwaiti “curb exchange” (the Souk al-Manakh, which traded in unlisted stocks) and the infamous Bank of Commerce and Credit International (BCCI) which made the “loan” that facilitated David Paul’s acquisition of Miami’s CenTrust Savings and Loan.

The Souk represented Kuwait’s unofficial and loosely regulated curb exchange. Pomeranz and Haqiqi (1985) documented the Souk’s collapse which involved an average loss of \$90,000 for every Kuwaiti man, woman, and child. The violations included laws of men, but extended to laws of God.

BCCI, a bank that at times liked to call itself “Islamic,” lent David Paul 30 million dollars to acquire control of CenTrust, a Miami Savings and Loan. At the time of the acquisition, Paul had not only presented a false resume, but had a record of litigious and controversial transactions in his home town (Mizrachi, 2003).

Independence will continue to represent a contentious issue

Most industrial nations long ago prohibited public accountants from consulting with audit clients. Contemporaneously, US consulting became increasingly profitable and accountants qualified for monetary incentives for selling significant consulting services. The plush conditions of consulting contrasted with slow growth and thin profit margins earned from auditing. Many audit partners came to be judged on ability to sell profitable consulting work.

Those audit partners who professed to see threats to audit independence resulting from the skyrocketing volume of consulting activity were faced increasingly with threats of becoming “expendable”.

Attention to culture will be focused

Differences in accounting and auditing practice, theory, and regulation have been attributed to differences in “culture”. Many accountants disagreed with this conclusion. Disagreements notwithstanding, a few short years ago US accounting rules had been widely adopted in the Middle East. The phenomenon was of relatively brief duration; virtually all Islamic states dropped US rules within a time span of only a few weeks; the events took place after “postponements” of peace negotiations. (Muslim practitioners denied that political considerations had played a role). Basoglu and Goma (2002) developed that the International Accounting Standards Committee had been successful in vending its standards in the Middle East; on the other hand, a majority of nations were listed as having “no information”; GAAP had no followers.

The task of recreating rules fell on Islamic ethicists who sought to install a climate of high level ethics and to weed out transactions proscribed as forbidden. “Islamic ethics” has surged in popularity.

History of Muslim accounting

Muslim interest in accounting and auditing issues can be dated back to the time of the Prophet Muhammad (PBUH) and his immediate successors, Abu Bakr and Umar, the Great; these two caliphs and al-Waleed, a later caliph, created governmental audit functions; Umar selected chief auditors for the divans. Zaid (2000), believes that echoes of the early Islamic rules may have influenced the Italian monk Pacioli, who is credited in the West with being the sole inventor of double entry bookkeeping. The letters PBUH stand for Peace Be Upon Him, a blessing to the memory of Islam’s Beloved Prophet. A virtual family continuity is being created here. The relationship of the worshipper to the Prophet brings a vision of the Prophet as an important relative, perhaps a favorite uncle. The focus is on continuity.

The caliphs’ recognition of the need for records and reports promoted the development of accounting practice. Accounting was quickly divided into service specialties, one of which was auditing, the review of books. While much auditing consisted of detailed verification of transactions, its role in the early Islamic state was significant: auditing helped to emphasize self-control as an important outgrowth of religious principle. Self control and self judgment reflect accountability, one of the principles of man’s stewardship over earthly wealth (Zaid, 2000).

After centuries of enlightened Muslim rule, called the “Golden Age” by many, there occurred a lengthy decline scarred by colonial occupation. As a result, accounting rule making entered a period of stagnation which did not end until the advent of the twentieth century. (The Golden Age lasted from 700 to 1500 CE (Christian Era); it was marked by faith in God on the part of Muslims, Jews, and Christians, and by liberal Muslim rulers).

The religious imperative

Significant trends are emerging in Islamic businesses:

- There is a tendency toward a unified political and economic system. This is likely to affect the flow of international trade.
- Islam covers all aspects of life. Everything in the universe belongs to Allah (SWT); wealth is considered the property of God. The identification is significant. Islamic governance is expected to be based on sovereignty of the real sovereign, God, and on the supremacy of God-given law, the Shari'a (Mufti, 2000). The letters swt, a blessing on Allah, are an abbreviation of *subhanahu wa ta'ala*: Praise be to Him and may he be glorified. Comprehensive definitions of ethics are to some degree lacking for both Islam and the West; there are only partial delineations of what is wrong and what is right. God entrusts man, his vice regent on earth, to take care of the earth, run his business, and employ others. The word "voluntarism" has been used to define a believer's will for compliance within an ethical system in which Allah alone defines the standards of right or wrong.
- The Holy Qur'an directs traders to keep proper records of indebtedness.
- There is a general prohibition against waste, avarice, and unfair trading.
- There is a need for records which demonstrate what a business person has done.

Religious fundamentals

All religions include some believers who may have failed to integrate pertinent religious rules into their conduct. The rules of Islam could not have a more sacred pedigree. The Holy Qur'an, as revealed to the Prophet, represents one source, the Sunnah (words and deeds of the Prophet) another, buttressed by conscientious thoughts and Islamic law. There are several sources of Islamic law, variable as to philosophy and application. The compilations of the laws were undertaken roughly 1,000 years ago; marked differences, often attributable to varying interpretations, exist among the schools of law. The complexity of the subject is exemplified by its 12 areas of study, which include ethics and personal conduct.

The Qur'an itself contains hundreds of ethical and moral pronouncements. In many instances, parallel or similar exhortations may be found in Judeo-Christian texts. For example, the Ten Commandments are almost identical for the three faiths[2].

When a Muslim accountant serves an Islamic financial institution, he may be presented with a code of ethics. A few words from such a code follow: "This code presents an ethical framework for accountants derived from Islamic Shari'a rules and principles. Thus, it is believed that Muslim accountants will be motivated to comply with such a code for reasons due to religious beliefs

and as a means of obeying Allah's orders" (Accounting and Auditing Organization for Islamic Financial Institutions, 1998).

Islamic financial organizations are required to install an Islamic version of an audit committee, known as a Shari'a Committee. There may be a tendency to create, in so far as possible, a relatively pure Islamic system and to adapt Shari'a law as the foundation of business transactions. Indeed, some scholars believe the term Shari'a to be equivalent to the Arabic word for ethics. Those scholars could also equate Islamic ethics with honesty, trustworthiness, and caring.

Shari'a committee membership requires specialized and worldwide knowledge of financial markets and extant accounting rules, merged with pervasive knowledge of the religion of Islam and of Islamic law. A Shari'a committee's work focuses on compliance with religious and ethical rules, leavened by growing responsibilities related to risk management and corporate governance.

Islamic accountants have been described as having knowledge and belief in Islam, good character, and just, efficient, and independent inclinations, together with a sense of responsibility toward their nation of residence and to Islam.

Islamic ethics programs tend to resemble a three-legged stool. The building blocks include:

- (1) Awareness.
- (2) Compliance.
- (3) Training.

Training would feature the exercise of judgment and would be case oriented.

A few years ago a suggestion was made for the creation of a global ethic. Khalid Duran (1997) argued persuasively that Islam itself was originally intended as a return to a global ethic; the Prophet Muhammad was inspired by the desire to bring people back to the original faith of Abraham, the religion of submission and peace. The resulting prototype of Islam was universal as to ethics.

Similarly, almost a decade ago "An Interfaith Declaration" was drawn, representing a code of ethics for international business. Religious and moral teachings were classified as follows:

- justice;
- mutual respect;
- stewardship; and
- honesty.

It was agreed that the application of ethical principles is a matter of personal judgment rather than the application of a set of rules. It follows that a code of ethics is not a substitute for corporate morality, but a collection of guidelines for preferred practices.

Since business activity involves human relationships, the policies and procedures of the business must operate within the spirit of the law, follow written objectives, stress integrity, and maintain continuing relationships with stakeholders (HRH Prince Philip *et al.*, 1999).

Direction of international accounting standards

The redesign and possible blending of various pronouncements will bring about greater recognition of Islamic ethics. Murtuza (1999) has noted the virtual absence of Islam from contemporary accounting research. He points out the need to increase awareness of Islamic ethics, not only for non-Muslims but for Muslims themselves.

A project related to accounting rule making is likely to have three major phases:

- (1) Develop the parameters and contents of the control system.
- (2) Involve government regulators in the design.
- (3) Decide which assignment and what constituent tasks are to be performed and by whom.

International accountants are urged to inform themselves as to the history, as well as current status of Islamic accounting and ethics. The best informed and most objective minds of the profession must be recruited to see to the cultural and ethical revival of accounting to assure its future in the capital-raising chain.

Notes

1. GRECO, Group of States Against Corruption, Directorate General I, Legal Affairs. 11/7/02 Based on Research by Transparency International, Transparency International Perception Index for 1998, University of Goettingen, Germany.
2. Shahid, Athar, MD, has compiled a three-faith comparison of the Ten Commandments. The tabulation is available through Dr Shahid at the following address: Indiana University, School of Medicine, 8424 Nab Road, Suite 2D, Indianapolis, IN 46260, USA.

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