

Ethics and Morality in Economic Life

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Abstract

With the collapse of centrally planned economic system of communism and also fall in the credibility of western capitalism since last two decades, there has been a debate among the scholars concerning what are the major flaws which are there in the prevailing economic and financial system and how it can be resolved? In this context, there has emerged a forceful thinking especially in the Muslim world to find out an alternative in the form of Islamic economics and finance. One can find a good deal of literature explaining the economic and financial system based on faith which is centred on justice, equity, benevolence invoking ethical behaviour of stakeholders versus motive of profit maximisation. A number of scholars in Muslim world have explored and still exploring the essence of this new economic paradigm, which is being further explored and also in practice. It is found to be an alternative to both the communism and capitalism. This paper aims to raise the issue of unethical business practice of corporate houses by way of mishandling even the law of the land. It focuses on its negative effects on the society at large therefore the need to observing ethics and morality even in economic and financial matters emerges. It further disuses how invoking the ethical values in one's economic life could make an impact and therefore Islamic principles of economics and finance finds its relevance. This paper will look into the unethical business practices rampant across the globe and their impact on the global economy. One of such impact the world is still dealing with is that of financial meltdown of 2008. In this context, the views of two prominent scholars namely Said Nursi and Amartya Sen have been discussed. The paper analyses what Islamic economic and financial system has to offer to address the above mentioned issues, in the light of Said Nursi's teachings on Frugality, Zakat and Riba (Usury). And the view of secular economist Amartya Sen on how local custom, culture need not be sacrificed in order to maximise the profit which is said to be the sole mission of a business entity.

Introduction

The world has seen the domination of two major schools of economic thoughts viz a viz Communism and Capitalism. One argues that all the wealth should belong to the

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community with State as an instrument, and with no private ownership. While the latter views that the private ownership should be there as it is the basic right of an individual. When we look into the depths of both these approaches and the precedent they have set so far. We find they have both failed. We have seen how the communist countries have drowned themselves into various forms of corruption since State has become too centralised. On the other hand capitalism with all its claims seems to have benefitted only the haves, ignoring the haves not. Capitalism has worked as a catalyst to widen the income gap in the society; it almost trapped the world into the vicious circle of poverty. The recent financial crisis of 2008 clearly brought down the creditability of the economic and financial system. Economist, politicians, academics, and entrepreneurs they all have recognised the need, to look for an alternative economic system. The one which does not profess the principle of "money begets money". There is one, a centuries old but under practiced economic system stacked back in the shelf, finally drew attention as some of the Muslim countries having Islamic banking and financial system were less affected. Hence the query began and it has become the hot cake of discussion and debate all over the globe, the centuries old but less practiced economic system as we call it Islamic economic system come to the fore.

Ethics and Morality in Economic Life

Unethical or immoral practices in trade and business is something we often read about in newspaper or hear on televisions these days, ever so more with the increase in the number of financial scams and unethical business practices. And the worst part is that the scammers easily get away with it, as the scams are being done very smartly (legally). The justification is simple; profit maximisation. There is absolutely nothing wrong in hoarding as much money as possible, in what so ever way, so far it is done somehow by staying within the given legal parlance - it will all be legal; no matter weather ethical or not.

Needs vs. Wants/Desires under the Two different Paradigms

Before we move to the main premise of this paper, let us discuss in brief the root cause of the above stated problem. We must differentiate between needs, wants, desires under the two paradigms. The economist such as Cooter and Rapaport (1984) says that the economics is the study of how material resources can be used to further prosperity and development. Hence, advocating the increase in production to fulfil the desires of individuals, without actually making any distinction between the needs and desires. On the contrary, Islam teaches that the wants are unlimited and it keeps on expanding as they are being fulfilled. It clearly indicates that the problem of scarcity

cannot be solved by increasing production, as wants can never be fulfilled completely. Thus, the stand of Islam on this issue is altogether different; Islam encourages the fulfilment of needs, and discourages the fulfilment of idle desires. Islam does not strive to fulfil all "insatiable" desires as economic theory tries to find out the optimal solution to fulfil all desires rather Islamic economics makes distinction between productive and important needs versus the unending wants of the individual and it teaches us to be balanced.¹

"Those who, when they spend, are not extravagant and not niggardly, but hold a just (balance) between those (extremes)." - Holy Quran 25:67

Therefore, this is many of the first injunctions of Islam invoking ethics among consumers to control their consumption, so that everyone has their fill. This way Islam discourages hoarding money as well.

Business Ethics in Conventional Economics

What is the standard concept of business ethics in the conventional economics? This question is important to ask because there are criticisms of the theory and business practices in this age of globalization. It is also pointed out that businesses based on the modern theories of economics and finance though does not include ethics in its framework, however, it cannot be denied that the behaviours are generally associated to a particular frame of reference, such as, customs, culture, region, religion, language, cast, creed and etc. This is also related to the different society and culture. For example, the emergence of Islamic model of business and finance has its own ethical standard where the conventional values are not found to be much acceptable. One writer in this regard defined as the set of moral principles that distinguish what is right from what is wrong. Ethics has a twofold objective: it evaluates human practices by calling upon moral standards; also it may give prescriptive advice on how to act morally in a given situation. Ethics, therefore, aims to study both moral and immoral behaviour in order to make well-founded judgments and to arrive at adequate recommendations. Sometimes ethics is used synonymously with morality. An action, which is morally right, is also called an ethical one. Codes of morality are called ethical codes. Business ethics can also be defined as business morality.² Business ethics is certain 'code of conduct' which businesses are expected to follow while dealing with others in the conduct of business. Whether a business is being conducted ethically can be tested against the following three parameters:

¹Zaman, Asad (2013), "Logical Positivism and Islamic Economics" Lecture delivered on 29 January, 2013 at The 2nd International Conference on Islamic Economics & Economies of the OIC Countries, Kuala Lumpur, Malaysia

² An Islamic Approach to Business Ethics," Dr. Sabahuddin Azmi, accessed 11 Sept 2014, URL: <http://www.renaissance.com.pk/Mayviewpoint2y5.htm>

- It must balance their desire to maximise profits against the needs of all its stakeholders and without harming them.
- What is the purpose of business?
- Whether a business activity would be of some use to the common man or improve quality of his life?

The first parameter which lays down the rule “to balance the desire of profit maximisation and needs of stakeholders” is seldom been followed. In order to maximise profits, the first step for companies is to cut the costs of business operation and usually it is the environment which becomes the first prey to this cost cutting. The factories such as chemical, oil, fertilizers, plastics etc. dump their waste products directly into river, ponds. However there are prescribed rules to dump and recycle the waste. There are even some companies which dispose off even hazardous bi-product carelessly. Hence, balancing the desire to maximise profits, does not seem to fit in contemporary business practice. Even after most of the developed and developing economies have passed strong laws for environmental protection but nothing seems to have changed as it should have. For instance : The Deep water Horizon oil spill, an accident that took place on 20th April 2010 in the Gulf of Mexico on the BP-operated Macondo Prospect which claimed 11 lives is considered as the largest accidental marine oil spill in the history of the petroleum industry, quite larger in volume than the previously largest, the Ixtoc I oil spill.³ Numerous investigations have been done and explored various causes of the explosion and record-setting spill. In 2011, notably, a White House commission blamed BP and its partners for a series of cost-cutting decisions as one of the many reasons behind that accident.⁴ In November 2012, BP and the United States Department of Justice in settling the federal criminal charges with BP, puts four years of government monitoring of its safety practices and ethics along with penalties.⁵ In an article on this oil spill accident, the author wrote “I believe that the problem BP is facing in the aftermath of this disaster is a result of a lack of strong ethical guidance.⁶

³ (2010), "BP leak the world's worst accidental oil spill", The Daily Telegraph, Accessed 31 March 2014, URL: <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/7924009/BP-leak-the-worlds-worst-accidental-oil-spill.html>

⁴ (2011), "Obama oil spill commission's final report blames disaster on cost-cutting by BP and partners", The Daily Telegraph, Accessed on 31 March 2014, URL: <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/8242557/Obama-oil-spill-commissions-final-report-blames-disaster-on-cost-cutting-by-BP-and-partners.html>

⁵ Muskal, Michael (2013), "BP pleads guilty to manslaughter in 2010 gulf oil spill", Los Angeles Times, Accessed on 31 March 2014 URL: <http://articles.latimes.com/2013/jan/29/nation/la-na-nn-bp-pleads-guilty-to-manslaughter-in-2010-gulf-oil-spill-20130129>

⁶ Yanke, Greg (2010), "BP's Gulf Oil Spill: Where Ethics and Legal Advice Collide" Articlebase, Accessed 28 March 2014 URL:<http://www.articlesbase.com/ethics-articles/bps-gulf-oil-spill-where-ethics-and-legal-advice-collide-2528375.html>

Second stated parameter is “purpose of business”, “whether a business activity would be of some use to the common man or improve quality of his life” – it seeks high level of morality involving the nature of the business. The trade and business should be one which is productive and have some intrinsic value in real terms. It should not be harmful for the society in anyway. On analysing this feature of the business ethics, one finds that it seeks to encourage only those business activities which is not only profitable but moral. The businesses dealing in tobacco, liquor, casinos however legal is not considered moral. Hence it should not be encouraged as they do not help in human welfare. It means setting up a milk factory must be given privilege over liquor factory – we often find government using taxation as a tool to discourage liquor and tobacco industry by levying heavy taxes on them but unfortunately, the reverse happens. Since they generate such high amount of revenue for the government treasury that they get preferential treatment sometimes, and no government ever dare to ban them.

The unethical business practice does not limit itself to avoidance of environmental laws or immoral business; it includes circumventing the laws to gain undue financial gain as well. This is another dimension of unethical business practice which can cause great losses to various stakeholders. Citing an example of the largest fraud case of India involving Satyam Computer Services (M/s SCSL) also labelled as “India’s Enron” would help suffice the point. The Central Bureau of Investigation of India which was the investigating agency in this case issued following statement “This was perhaps India’s biggest corporate fraud case where M/s Satyam Computer Services Limited (M/s SCSL) caused loss to the investors to the tune of Rs.14,162 crore. The company head, Mr. Ramalinga Raju and members of his family secured illegal gains to the tune of about INR 2,743 crore by various tricks. The fraud was perpetrated by inflating the revenue of the company through false sales invoices and showing corresponding gains by forging the bank statements with the connivance of the Statutory and Internal Auditors of the company. The annual financial statements of the company with inflated revenue were published for several years and this lead to higher price of the scrip in the market. In the process, innocent investors were lured to invest in the company. Attempts were made to conceal the fraud by acquiring the companies of kith and kin.⁷ Hence, there are many well-documented cases where it is alleged that there has been considerable slippage in corporate governance on the part of some public companies as well. The dot-com bubble of the late 1990s and the subprime mortgage crisis in 2007–08 are one of the most infamous case of corporate mismanagement.

⁷ CBI (2009), Central Bureau of Investigation, Govt of India , “*The Satyam Scam Case, 2009*”, Accessed on 28 March 2014, URL: <http://cbi.nic.in/fromarchives/satyam/satyam.php>

Thus, it has drawn me to the conclusion that however stricter laws and regulations governments make to prevent the unethical and fraudulent business practices, it is difficult to curtail such malpractices. The law is there to punish, once the crime has been done. But if we want our society to get rid of these scams before hand, we will need to revise the thesis of Profit maximisation of the market economy. We need to bring reform in the attitude of every individual, who wants to maximise profits without realising its repercussion. However, the importance of profit maximisation is not questionable as it is prerequisite to sustain the business but the question can be raised of "how much" and "at what cost"?

Ethics in Islamic Economic and Financial System

Economic System in Islam, which has seen some practical implications in recent years especially in the areas of banking and financings, has the following two most important and distinct features - prohibition of Riba (Usury) and the institution of Zakat and Khumus. Let us see what Quran prescribes:

"You are the best nation that has been raised up for mankind; You enjoin right conduct, forbid evil and believe in Allah" - (3:110)

"Allah hath blighted usury and made almsgiving fruitful" – Holy Quran 2:276

"And in their wealth the beggar and the deprived have an equal share" – Holy Quran 2:19

Historical records show that Islamic prohibition of *Riba* has always been applied throughout the Islamic history. Muslims in medieval trade also extensively used the Islamic modes of finance in their business and commercial transactions. In modern times, again, after the liberation of Muslim States from the colonial power, the same revival of Islamic economics and finance has started.⁸

Islamic economic system is to preserve individual freedom and to circumscribe it to such extent only as is consistent with the common good of the society. In short, Islamic economic system is one where individual enjoys all the freedom to maximise his wealth as Islam encourages trade and commerce with certain prohibitions only. These prohibitions are all precautionary in order to make sure that the right of the fellow man is not curtailed, or that the others are not economically exploited. Unlike the socialist system, Islamic economic system affords the maximum economic freedom to individual binding him only where it is necessary to safeguard the rights of the others.

⁸ Goitein, S. D. (1999), *A Mediterranean Society: An Abridgment in One Volume*, California: University of California Press

The rationale behind the prohibition of *Riba* and institutions of *Zakat* and *Khumus* is to remove any exploitation of needy people at the hand of wealthy, and to bring the equal distribution of wealth between the rich and poor. I argue that this mechanism of *Zakat* and *Khumus* (obligatory charity) is the best mechanism, humanity could ever have to mobilise the income from “haves” to “have nots” in a just way.

Apart from the institution of *Zakat* and *Khumus*, Islam always teaches benevolence, thus the moral and ethical upliftment of the human being is the basic concern of Islamic economic system, for which it seeks every individual to practice charity and justice.⁹

Quoting from Holy Quran would suffice here - “And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease, and that ye remit debt, as almsgiving would be better for you if ye but knew.” – 2:280

The financial system based on *Shariah* which has very recently emerged, sets out the following basic rules to be followed, for lawful (*halal*) business:

- Prohibition of *Riba*: It means excess, surplus, increase more than was due, or practice usury.
- Prohibition on *Qimar*: It means hoarding and speculation.
- Prohibition on *Maysir*: It means gambling.
- Prohibition on Immoral and Unethical business activities such as which gains no one and is harmful.

This prohibition is based on arguments of social justice, equality hence clearly adhering towards high level of ethics. Any transaction leading to the injustice and exploitation is explicitly prohibited under Islamic economic system. Thus, in short Islamic economic system has a *built-in ethical framework* which no other economic system has.¹⁰ In the following section we will discuss the ideas of one Islamic scholar, Said Nursi relating to the issues of ethics and Islamic economics’ approach in contemporary times.

Said Nursi’s Approach towards Ethics Economics

After the revolt of south-eastern Turkey in 1925, Said Nursi along with many others was sent into internal exile. Until his death in 1960, he lived under strict surveillance, in various prisons, or was persecuted. He was made to suffer and lived a miserable

⁹ Ahmed, M. Mukarram (2008), *Islamic Economy*, New Delhi : Anmol Publications, pp 2-16

¹⁰ Masood, Omar (2011), *Islamic banking and Finance: Definitive Texts and Cases*, New York: Palgrave MacMillan, pp 8-10

life. But it made him stronger and brought him even closer to his ideologies; he found true consolation in the Omnipresence of God and in complete submission to Him.¹¹ Nursi not only advocated the attainment of spirituality among individual just by his words of wisdom but actually exercised them rigorously.

Said Nursi viewed Needs and Desire as, “The Sphere of Need is as extensive as sight, and extends as far as the imagination. I need whatever I do not have, and so my need is limitless. Yet my power extends only as far as I can reach. Thus my wants and needs are infinite, while my capital is minute and insignificant. So, what does that insignificant willpower signify when confronted with such need? I have to search for another solution. The solution is not to rely on your willpower, but to submit to the Divine Will and seek refuge in His Power by trusting in Him.” Throughout his writings, one can find emphasise on frugality as he opined that the human needs and desires are limitless and the means of fulfilment is certainly scarce. Hence there would be conflict of interest among fellow human beings, as each one tries to maximise his desire, he reasoned it is only through self denial that could help to avoid such conflicts. Abstinence and self control on material desire inculcates spirituality and will also save the clashes due to scarcity. By referring to the words of Holy Quran and lifestyle of Prophet, Nursi further motivated *ummah* to follow the path of frugality as it will ease their agony and harmonise their social as well as economic life as it used to be at the time of Prophet. It is notable, that the trade and commerce flourished in Mecca during early Islam, it is considered the golden age of Islam, since Islam itself encourages trade but discourages extravaganza.¹² On the contrary the profit maximisation thesis of the market economy encourages the selfish, extravagant behaviour of the people. “This type of extravagant behaviour manifests greed, impact upon changing the conducive cultures, lifestyles and the customs of the people and also diverts the attention from the actualization of higher spiritual objectives of life and leads towards marketing slavery.”¹³

On one of the most important aspects of Islamic business and finance, the issues of commercial and interest and usury there has been much debate among the Islamic scholars and in this regard, Nursi says that “some people have clung to the world more greedily and have loved its life with more passion than any others, but the usurious wealth they have gained with great efforts is merely illicit property over which they exercise temporary stewardship, and it benefits them little. It earns them, on the contrary, the blows of abjection and humiliation, of death and insult that are

¹¹ Nursi, Said (2005), “*The Words: The Reconstruction of Islamic Belief and Thought*”, Translated by H. Akarsu, New Jersey: The Light, Inc. & İbpýk Yayýnlarý, pp xvii

¹² Ibid pp 228

¹³ PP, Sajid (2014), “*Faith Based Strategy of Poverty Eradication: The Perspective of Said Nursi*”, lecture delivered on 11 February 2014 at the department of Islamic studies, Aligarh Muslim University, Aligarh

rained down on them by all peoples". He views usury as an illegitimate child of human greed, it is an illusion and nothing more and in the end when that illusion fades breaks, it leaves us more devastated. Well it is no unknown fact how usurious business practices exploited the poor and the needy at the hands of rich and wealthy. Hence, it must be discouraged for the welfare of the society.¹⁴

Another important aspects of Islamic economic and finance is the utilization of *Zakat* income which Muslims are obliged to pay annually for the welfare of the downtrodden section of the society. In this regard, Badee'uzzaman Said Nursi considers *Zakat* as an effective mechanism to channelize the wealth that can bring balance in the society. It inculcates generosity and benevolence among the rich and harbours respect and gratitude among the poor. However, there are some with the opposing view that why I should pay *Zakat* out of my hard earned money and give it to the one who is sitting idle. Let me argue that the mechanism of *Zakat* is such that, we have never found a single case where a rich has become destitute by paying *Zakat*, but there has been numerous cases where a needy family has been saved from destitution. Thus, *Zakat* will only bring peace and harmony in the society, it also helps reduce, to certain extent, the thefts and other petty crimes which are sometimes been carried out due to poverty and helplessness. *Zakat* keeps money in motion, and it's healthy for the economy, because stagnation of money in few hands does not help any economy to prosper.¹⁵ The rationale behind was with more earning; one can take out more *Zakat*. Nursi emphasised that the *Zakat* can help bring the equality in the society and eliminating the agony from the life of less fortunate (worldly) in the society. He tried to inspire people towards the abstinence, as it will increase the sharing capacity of individual and bring down the exploitative nature of human being.

Nursi's famous work called *Risal-e-Nur* analyses how the so called secular society of the west which is self-destructive, has tried to blind and stupefy others. It has failed to cover up the fact that their self-religion could not live up to its own thesis of the secular trinity of unlimited progress, absolute freedom, and unrestricted happiness. To cover up the fact that economic and scientific progress, which is based upon the philosophy of so called secular humanism, has turned the West into a spiritual wasteland and has ravaged generation after generation. Yet there are those who are beginning to awake, to realize the illusion under which they have been living. Thus, there is need for the self enlightenment in order to save the humanity from the pits of evil.¹⁶

¹⁴ Nursi, Said (2006), "The Damascus Sermon", Istanbul: Sozler Nesriyat, pp 35

¹⁵ Ibid, pp 59

¹⁶ Nursi, Said (2005), "The Words: The Reconstruction of Islamic Belief and Thought", Translated by H. Akarsu, New Jersey: The Light, Inc. & İþýk Yayýnlarý, pp 24

Amartya Sen's View

Now we will take up the view of a secular economist who is known for his human consideration in understanding the problems of poor people. Amartya Sen, the Nobel Laureate has written theoretically and with sound arguments that Ethics and Morality in economic and financial matters are not specific to any particular religion, community, or nation as it is the concern of general human being. Even the message of Islamic economics and finance which revolve around equity and justice, is not aimed at only Muslim communities but it also attracts thinkers , philosophers and even economist from other than the Muslim world. In India for instance, we have the best example of Amartya Sen, who has opinionated his view that the moral sentiments can play role in economic success such as business principles of profit maximisation does. He has stressed on the role of cultures in influencing the behaviour of business and has argued against the two presumptions held in standard economic analysis viz a viz the rudimentary nature of business principles (essentially restricted, directly or indirectly to profit maximization), and the allegedly narrow reach of moral sentiments (often treated to be irrelevant to business and economics). He rather said the need to recognize the complex structure of business principles and the extensive reach of moral sentiments by using a thorough analysis of Adam Smith's work, and a careful interpretation of Japan's remarkable economic success. Referring to the economic corruption in Italy and the "grabbing culture" in Russia, he further shows how deeply the presence or absence of particular features of business ethics can influence the operation of the economy, and even the nature of the society and its politics and this makes the study of business principles and moral sentiments in business activities a rich source of understanding and explanation.¹⁷

Conclusion

At a time when global economic forces are causing great hardship for people around the world, and the harsh demands of the market seem to supersede concern for the well being of fellow humans, Islamic economic and banking system may serve as a means of re-imbuing modern banking with ethical norms. Within the broader financial system, Islamic finance can play a role in re-establishing a sense of ethics that has been lost and try to make its concept acceptable to the world.¹⁸

The events transpired in last few years leave little doubt that Islamic economic and financial system needs to be explored, so that it can provide an alternative to the ailing conventional financial system, which is evident from these statistics: Market

¹⁷ Sen, Amartya (1997), "Economics, Business Principles and Moral Sentiments", *Business Ethics Quarterly*, Vol 7, No. 3 , pp 5-15

¹⁸ Francois, S Jean (2010), "Ethics , Islamic Banking and the Global Financial market in Islamic banking and finance" in Amer Al-Roubaie and Shafiq Alvi (ed.), *Islamic Banking and Finance, Critical Concepts in Economics, Volume III*, New York: Routledge

capitalisation of top 10 conventional banks declined by 42.8%, in contrast to the 8.5% decline in Islamic banks during 2006-09. While 5 out of 10 conventional banks received financial assistance from the Government to bail out none Islamic bank needed such assistance.¹⁹

After going through Badee'uzzaman Said Nursi's writing, one also finds that he aimed to bring harmony in a society both at social as well as economic level by infusing the ethical values amongst individual, invoking their spiritual-self using frugality as a tool. While the contemporary economist Amitya Sen has also opined that business principles should not be narrowed to profit maximisation and that there is a positive place for moral sentiments in the economy and its success, although not by invoking metaphysical element.

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¹⁹ Rasul, Bilal (2010), *Islamic Finance and The Global Financial Crisis in Islamic Finance ; Instruments and Market* , Bloomsbury: Winchester

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