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Application of Islamic Principles in Managing Business Organizations
(A Study of Management Practices in Selected Malaysian
Organizations)

By

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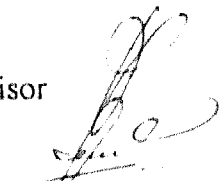
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The undersigned certifies that the above candidate has fulfilled the conditions of the project paper prepared in partial fulfillment of the requirements for the award of the Degree of Master of Business Administration.

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Abstract

The demand from customers and employees for an Islamically oriented business has prompted many organizations to adopt the teachings and principles of Islam in managing their organizations. Tabung Haji, Ingress Engineering, Bank Muamalat and Koperasi Muslimin, are some of the examples of Malaysian business organizations that have embarked on this approach. Through this study it has been endeavored to evaluate how these organizations have fared in implementing Islamic principles to their business approach and strategy. The adoption that brings forth a style of management that takes management as a trust or *amanah* on behalf of the stakeholders and on top of all to the Almighty Allah (*s.w.t.*). Managerial and technical skills are indispensable but they will only be effective if supported by strong values and principles. With the application and adoption of Islamic principles and values, these organizations have attempted to build organizational strength, and to promote the spirit of teamwork, mutual trust and cooperation.

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Chapter 1

Introduction

This study pertains to the area of General Management, with a focus upon application of Islamic Principles in managing business organisations.

Objective of the Study

The objective of the study is to survey the Islamic sources, to conceptualize the Islamic perspective in managing human resources and other types of resources. It also aims to conduct case studies of selected Malaysian business organizations namely Lembaga Tabung Haji, Ingress Group, Bank Muamalat Malaysia Berhad and Koperasi Muslimin Malaysia Berhad and examine their management practices from an integrative perspective.

Methodology

The case studies on the application of Islamic Principles in managing business organizations will be central to this project paper. The methodology of the research basically involves four case studies. Each case study is a deduction of all available facts and data pertaining to the management of organizations under discussion from Islamic perspectives. The research design is mainly non-quantitative, and primarily involves numerous comparisons and contrasts of the data. We have opted for the case study method, as by virtue of its insight-generating potential, it is a useful form of exploratory research. (Parasuraman, 1991:134)

To provide a fair representation of organizations in this study, the organizations selected represent both corporate organizations and private owned companies. Data collection is based on questionnaire, interviews with key personnel, annual reports, websites and other literature. A Likert scale of 1 to 5 was used in the survey to evaluate the implementation and the extent of their behavior and style, conforming to Islamic values and principles.

Literature Review

Islamic Worldview

In order to understand the peculiarity of Islamic approach in managing an organization, it is imperative to understand the Islamic worldview.

Islam, in addition to faith and worship, treats complex issues of modern economic and technological development as it treats the most minor and detailed issues in the private and public life of an individual (Al Bouraey,1990:15). The principles in Islam not only upholds an ideal by which to live and for which to die but it also establishes a social order based on the principles of freedom, justice, equality, *shura* or consultation, and the dignity of man.(Al Bouraey,1990:47)

Worship in Islam

Worship in Islam is not only restricted to the spiritual acts, but is inclusive of other righteous deeds. Fulfilling the needs of the society through supplying products or services needed by the society, seeking knowledge, helping people in need, providing physiological needs to the family and

educating the people and alike are some of the examples of worship in Islam.

Islam was revealed to benefit all mankind, regardless of race, creed and color. As a religion meant for the good of all, Islam is not only concerned about the well being of individuals but what is important for a follower is also the welfare and the interest of the community. The concept of *ummah* (community) and *jemaah* (organization) signify the importance of working together to accomplish common goals and objectives.

Belief in the Hereafter

The belief in oneness of Allah and the compensation of deeds during this temporal life as well as in the hereafter signify the difference in the approach of management in Islam. The distinction of management from an Islamic perspective is the dimension of belief in Allah and the hereafter, the effect of actions of individual, organization and society, believing in revelation, its purity and perfection and the inclusion of revelation as the primary source of knowledge. The belief in the hereafter instills in an individual, accountability for one's deeds which induces the variable of self-control (Jabnoun, 1994:2).

The Characteristics of Man

Although all organizational resources are equally important, the human resource is seen as the main and a distinctive factor that will determine the performance of an organization. The importance of developing the right quality of human resource is greatly emphasized in Islam. The complex nature of man entails for special attention and handling in order to make them useful to the organizations. The nature of man as having composed of forgetfulness (*nisywan*). A prophetic tradition says man is 'called *insan* basically because having testified to himself the truth of the covenant he sealed with Allah, which entails obedience of His commands and prohibitions, he forgets (*nasiya*) to fulfill his duty and his purpose'. In other words, the nature of man is forgetfulness. And this forgetfulness is the cause of man's disobedience. Consequently, a man gets inclined towards injustice and ignorance. But Allah has equipped him with the powers and faculties of vision and apprehension as well as speech and communication. The choice for the better is left to him (Al-Attas, p 144-145) Man is also unobservant, as reminded in the Qur'an 'Verily, man is in loss, except such as have faith, and do righteous deeds and (join together) in the mutual teaching of truth and of patience and constancy (Al-Qur'an:103:1-3)

Man is born neither good nor bad, but with the power and freedom to become either. If he develops such power and employs them for the moral and material enhancement of mankind, his conduct is said to be good. On

the other hand, if he fails to realize his tremendous resources or misuse them in ways harmful to mankind, his conduct is said to be bad (Al Bouraey, 1990:99)

From an Islamic perspective, the purpose of life is to seek the pleasure of Allah. As a servant of Allah, man has to worship Allah in a true sense of worship, and as a vicegerent of Allah, man has to enjoin virtues and to forbid evils. All endeavors should be treated as a form of worship in line with the mission of life to perform a duty as a servant and a vicegerent of Allah. This has been testified in the Qur'an "I have only created Jinns and men, that they may serve Me.(Al-Qur'an:51:56)." Behold, thy Lord said to the angels: "I will create a vicegerent on earth." They said: "Wilt Thou place therein one who will make mischief therein and shed blood?- whilst we do celebrate Thy praises and glorify Thy holy (name)?" He said: "I know what ye know not." (Al-Qur'an:1:30)

Application of Islamic Principles in Managing Business Organization

An organization is made of group of people who work together to achieve a goal or set of goals. An organization pools together resources and skills that would otherwise be incapable of producing the desired results. (Jabnoun,1994:).

Management is necessary in Islam. It strongly encourages its followers to work in organized groups to gain the synergy of teamwork.

Goals, Missions and Objectives

The function of an organization is to deliver products or services as determined in the goals and objectives of the organization. The management is to help the organization to achieve these goals and objectives. Rightfully the process of management can be a form of worship, managing God-given resources for the benefit of the people. The teaching of Islam is to protect people from harm and mischief. Management is viewed as an effective use of God-given resources within the framework of justice, dignity and benevolence. (Jabnoun, 1994:)

For any endeavor to be meaningful, a person needs to embrace its purpose and mission, to enable him to appreciate the difference between the means and ends and to put them at their right priority. Defining the mission helps to provide purpose and direction to the organization. Every organization should have a clear mission statement that will serve as its frame of reference. In the case of a Muslim organization, the mission has to be consistent with the general mission of Islam that is to worship Allah. The ultimate objective is to seek happiness in this world and the hereafter.

The application of Islamic principles in managing business organization can be viewed from its relevance to the management process. Jabnoun Naceur (1994) reviewed the application of Islamic principles in management from this perspective. The application of the principles takes place in planning, organizing, controlling, motivating and conflict management, where functional conflict is seen as a process of check and balance. The management style of Khalifah Umar Ibnu Al Khattab has been taken as a reference in the study.

Intention

All endeavors will be judged by their intentions (*niyyah*). For an effort to be considered as worship, the intention has to be for the sake of Allah only. As reminded in the prophet's hadith 'Umar bin Al-Khattab, may Allah be pleased with him, reported: The Messenger of Allah (may peace be upon him) said: (The value of) an action depends on the intention behind it. A man will be rewarded only for what he intended.'

The intention is crucial in the planning since the fate of an organization will depend on it. Good intention will be blessed and rewarded accordingly. It is the intention that sets the missions and goals. In Islam the intention must be guided by divine guidance and knowledge, not by greed or personal glory.

Once the intention is checked and the necessary preparation completed, a Muslim will then resign the outcome to Allah (Tawakkal). ‘Then when thou hast taken a decision, put thy trust in Allah . For Allah loves those who put their trust (in Him)’ (Al-Qur’an 3:159)

Trustworthiness

The concern of most organization is trustworthiness – *amanah*. In Islam man is entrusted with *amanah* to carry out the duties of a servant and vicegerent of Allah. As a servant of Allah, man has to follow what have been commanded and to abstain from what have been forbidden. As a vicegerent, man has to encourage good and forbid evil. This will be the main guideline as to the purpose of man’s life. A person who is trustworthy will behave differently from another who is not. A trustworthy person speaks the truth, is punctual in his time, committed in his work and delivers what he has promised.

Islam places great emphasis on trustworthiness and honesty as revealed in the Qur’an. ‘Allah does order you to render back your Trusts to those to whom they are due; And when you judge between man and man, that you judge with justice: Verily how excellent is the teaching which He gives you! For Allah is He who hears and sees all things. (Al Qur’an, 4:58). The prophet rarely delivered a sermon wherein he did not say ‘One who is

dishonest has but little faith(iman), and one who does not take care of his promise has no religion' (Mishkat). In another verse Allah reminded 'O you who believe ! Betray not the trust of Allah and the Messenger nor misappropriate knowingly things entrusted to you(Al Qur'an 8:27)

This principle is especially crucial in managing an organization. In trying to maximize profits, the management is forbidden from taking advantage of its employees. Similarly for an employee, he will honestly carry out his work since that is his *amanah* towards the employer. If he understands his *amanah* towards his employer, he will discharge his duty accordingly. He is paid to do the work and therefore, will perform his duty to earn that salary. A Trustworthy person will accomplish the task given to him to the best of his ability. If one is entrusted to carry out a task for the organization, he will not betray the organization for his own selfish goals.

In any situation, the person who is trustworthy will not take advantage of other people suffering. Thus, the problem of hoarding, exploitation and deceit can be avoided. The employer in his effort to maximize profit will not resort to exploiting his staff. In profiteering through hoarding, Allah reminded '...and there are those who bury gold and silver and spend it not in the way of Allah , announce to them a most grievous penalty . On the day when heat will be produced out of that (wealth) in the fire of hell, and with it will be branded their forehead , their flanks and their back. – this is the

(treasure) which you buried for yourself; taste you then, the (treasure) you buried (hoarded) (Attaubah/Baraah 9:34-35)

Just and Fair

Related to trustworthiness there is the principle of just and fairness. Individually a person must be just and fair to himself and other people by doing what is right and not getting involved in activities that would harm him or other people. In the course their duties, the managers have to be fair and just to all employees, for example, in work allocation and reward system. Fairness and just must exist in managing human resources, between sellers and buyers, producers and consumers, and between all stakeholders. For example, a producer who is fair will maintain product quality, will not exploit the environment, avoid wasting of resources and deceive consumers through misleading product advertisement.

Allah reminded in the Qur'an 'O you who believe ! Stand out firmly for justice, as witness to Allah, even as against yourself, or your parents, or your kin, and whether it be (against) rich or poor: For Allah can best protect both. Follow not the lust(of your heart), lest your swerve, and if you distort(justice) or decline to do justice, verily Allah is well acquainted with all that you do (AL Qur'an:4:135)

Accountability

Accountability establishes managerial leaders who are answerable to the outcome of their undertakings. Every deed will be compensated accordingly, regardless of its magnitude. This principle encourages people to work hard and to be efficient and thrift: 'On that Day will men proceed in companies sorted out, to be shown the deeds that they (had done). Then shall anyone who has done an atom's weight of good, see it! And anyone who has done an atom's weight of evil, shall see it. (Al Qur'an 99:06 to 99:08)

Clarity

To avoid future complication and to protect the interest of all the parties involved in the transactions, Islam emphasizes clarity in all transactions.

“Oh ye who believe ! When you deal with each other in transactions involving future obligation in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties, let not the scribe refuse to write: as Allah has taught him, so let him write. Let him who incur the liability dictate but let him fear his Lord Allah , not diminish aught of what he owes. If the party liable is mentally deficient or weak or unable

himself to dictate, let his guardian dictate faithfully. And get two witnesses out of your own men. If there are not two men, then a man and two women, such as ye choose, for witness, so that if one of them errs, the other can remind her. The witness should not refuse when they are called on (for evidence) Disdain not to reduce to writing for a future period, whether it be small or big, it is juster in the sight of Allah, more suitable as evidence and more convenient to prevent doubt among yourselves but if it be a transaction which ye carry out on the spot among yourselves there is no blame on you if you reduce it not to writing. But take witness whenever you make commercial contract; and let neither witness nor scribe suffer harm, it would be wickedness in you. So fear Allah, for it is Allah who teaches you. And Allah is well acquainted with all things. (Al- Qur'an: 1:282)

Enthusiasm

The performance of an organization is based on the effort in carrying out the task, which includes planning and application of the right method of implementation. In manufacturing for example, where efficiency and product quality are critical in determining the acceptance of the product in the market, the precision in timing and material used is important for the product to be in the market at the right time and with right quality.

With strong determination, good planning and strategies, and piety (*tawakkal*) and supplication to Allah, the possibility for the work to be successful is greater. The prophet was reported to have said: “Allah loves that when any of you does anything, he should do it the best way”

Self Examination

Self-examination or *Muhasabah* is to evaluate one’s performance to conform to the desired standard. This is especially applicable for self-appraisal to see if work performance has met or deviated from the required standard. Similar principles can be applied to individuals and organizations. This principle is especially useful in performance appraisal, quality control and product consistency. Self-examination is crucial. Mistakes that can be identified at earlier stage could prevent bigger mistakes at later stage.

Understanding the Priorities

It is imperative for managers to differentiate among priorities from the perspective of procedural adherence. This is to ensure effectiveness and to attain the desired result. For instant, in production and marketing it is very important to ensure that production and marketing of product are on time. In Just in Time (JIT) manufacturing, where certain parts or materials are

needed at different times, understanding the priority is necessary to ensure smooth production.

Compulsion of Knowledge

The importance of knowledge is reflected in the first verse of Al-Qur'an: 'Read in the name of thy lord' (Al Qur'an: 96:1). A hadith also emphasizes the importance of knowledge. It is compulsory to seek, apply and to impart knowledge. In another Quranic verse Allah reminded 'Say: Are those equal those who know and those who do not know? It is those who are endued with understanding that receive admonition. (Al Qur'an:39:9)

To seek knowledge is mandatory on all individuals. Man's faith is incomplete without knowledge. The Prophet said, "When the power or authority comes in the hands of unfit persons, then wait for the Hour (Doomsday.)" Narrated by Bukhari,

Gradualism and Consistency

Gradualism and consistency (*istiqamah*) are the strategies in gaining acceptance and cooperation from members of an organization. For acceptance to take place, the process of education and familiarization are needed.

Prophet (s.a.w) is reported to have said: “The best act in Allah’s sight is that which is constantly attended to, although is a small degree; and do whatever you able to do because Allah will not be tired on rewarding you as long as you are not tired of doing so” (Bukhari)

One key lesson from Islamic history is gradualism and consistency. It took 23 years to complete the revelation of the Qur’an to Prophet Muhammad (s.a.w.) through a gradual and consistent process.

Perseverance and Patience

Perseverance and patience are crucial in achieving positive result. The Qur’an said: “Therefore stand firm (in the straight path) as you have been commanded – you and those who with you turn (to Allah); and transgress not; for he sees well all that you do” (Al Qur’an:11:112)

Participative Management

Consensus decision or *Shura* is a forum for participative management where decisions are made by a group of people. Islam encourages participative management to generate ideas, innovation and creativity. Lesson can be learned from the practice of Prophet s.a.w and his Khalifahs in resolving