



Zamir Iqbal and Abbas Mirakhor. *Ethical Dimensions of Islamic Finance: Theory and Practice*

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Abdu Seid Ali

Individuals interact with different members of the society in their day to day life. These interactions are mostly governed by a set of behavioral standards that in turn determine what is good and bad. Honesty, integrity, truthfulness, transparency, reliability, faithfulness and the like are some of the virtues of ethics. In the same manner, companies also practice a set of values that guide business transactions and their relations with employees, customers, suppliers and government bodies. All in all, ethical values enable us to be vigilant in our relationship with others and create auspicious environment for us and others.

The two renowned personalities in their contribution to Islamic economics and finance, Zamir Iqbal & Abbas Mirakhor, authored a book titled “Ethical Dimensions of Islamic Finance: Theory and Practice” as part of Palgrave Studies in Islamic Banking, Finance, and Economics. The authors address the significance of ethics in economic activities, business dealings and financial transactions in achieving an overall development without causing damage to any particular group of the society. The authors elaborate ethics from the perspective of conventional as well as Islamic economics and finance, business practices and development. They lay emphasis on risk sharing as a favored method of financial and economic transactions.

The first part of the book discusses the prominence of ethics in finance and cites recurrent financial predicaments, broadening income and wealth disproportions.

@ Dr., Istanbul University. abduseid81@gmail.com



tions, financial wrongdoings, lack of emphasis on coping with unethical and immoral financial transactions, augmented intricacy of financial transactions and financial markets, deleterious impact of overlooking ethical practices on investment and the growing importance of ethics in academic curriculum as the essential dynamics to study ethics. The authors denounce the mainstream financial economics which tries to pay no attention to the role of ethics in finance and economics. Repeated financial crises and crimes, expropriation of values, failure in corporate governance, unethical business leadership, lack of due care, honesty, and transparency in financial sectors' ethics are part and parcel of finance and it is impossible to isolate the two from each other.

In addition, the book blames the capitalist economic system for splaying inequality, sluggish income growth, huge unemployment, frequent crises, market crashes, enormous growth of personal and sovereign debts and other ills related to the overall performance of the system. The widespread forms of immoral and unethical behaviors such as self-centeredness, greediness, and detrimental business activities obliged the authors to ask whether the moral failure is in the system or of the people. They contended that it is the system that gives a free rein to the stated unscrupulous conducts in the market by eradicating some restrictions that guide the finance and business environment. The other point was financial repression that harms the borrowing class through innumerable forms of manipulations and biased monetary policies. They have concluded that given the seriousness of lack of morality and ethics in the global financial and economics arena, there ought to be a collaborated effort to avert, treat, reinstate, shape and practice universally applied morality.

The second part deals with the pursuit of worldwide moral code and its application to economics and finance. "*Do to others as you would have others do to you*" is acceptable to primordial or modern, spiritual or secular system of thought and it is universally agreeable to avoid harm from someone. Moreover, though there are a number of principles of morality and ethics from philosophical point of view, their application to business is a recent phenomenon. Among the three widely used business ethics theories namely teleological, deontological and virtue ethics, the third one is more relevant and rotates "around individual character, attitudes, and other dispositions and preferences, including values and guiding norms."

The core moral characters which are indispensable in business ethics are covered in the third section of the book. The authors discuss the most crucial ethical manners as embracing the unity of creation, being unbiased and endeavoring for justice, safeguarding the rights of others, inviolability of contracts, reliability and

integrity, trustworthiness, goodness and excellence, consideration and kindness, far-sightedness and modesty, honesty in business dealings and collaboration and solidarity. These moral conducts constitute both philosophical ones and those that can be applied specifically to economics and business.

The fourth section suggests the implementation of business ethical manners and establishes a scheme to overcome the challenges in various financial and economic markets. Market conducts are vital since their very existence doesn't guarantee to have just and fair exchanging, selling and buying activities. The moral characteristics of market participants along with enforcement of proper rules are essential to have a favorable market conduct. Work is one of the religious duties in Islam and the ethics on it embrace justice, responsibility, fairness, solidarity, perfection and trustworthiness which are supposed to be practiced both by employers and employee. Moreover, proper ethical manners on production, consumption and distribution phases can produce a stable community with an inclusive prosperity.

The fifth and sixth parts focus on risk sharing and the ethical manners and purifying finance through risk sharing model. The authors are of the opinion that sharing risk contributes a lot to vigorous flow of wealth in the economy and discourages to accumulate the risk to one party. However, risk transfer or risk shifting, financialization, information problems and mispricing of resources are condemned. Hence, economic, social and redistributive justice should be placed to create equal opportunities in the economic and financial atmosphere. The risk sharing system promotes productivity since all contracting parties have "skin-in-the-game" which is supposed to diminish agency problems in addition to reducing transaction costs. Furthermore, this system empowers enterprises and households to widen their business for the former and branch out their resources by investing in productive sectors. Finally, risk sharing also has *barakah*, which is a bounty that Allah (swt) bestows upon people or contracts who/which follow righteous dealings.

The last part highlights the significance of ethical practices in development. Development from Islamic point of view constitutes three interconnected facets that are individual, physical and humanity at large. In order to achieve inclusive development, ethical manners are essential in enhancing social and economic justice, justifiable and reasonable wealth distribution and reallocation to boost financial involvement.

The strength of the book is that it has argued that most of the business, finance and economic complications such as poverty, income and wealth and imbalances,

all forms of crises, corruptions, stakeholders' conflicts, and environmental degradations are the result of the absence of virtues and appropriate moral values. In addition, the authors refer and utilize a great deal of evidences to corroborate their main thesis and challenge the interest-based economic and financial system that is the bedrock of the capitalist system of economy.

Among the weaknesses of the book, it has duplicated some ethical virtues in distinct chapters. In my humble opinion, chapter three and four could have been merged since both point out business ethics in Islam. Moreover, chapter five and six which expound risk sharing and its ethical aspects could have been treated in the same manner. The book has extensively discussed the importance of ethical values in Islam and has recommended risk sharing as an ideal way of economic structure; however, it overlooks the institutional mechanisms that are requisite for practicing and following up ethical defilements that arise in our business dealing and financial and economic transactions. Besides, the book fails to indicate the challenges in authorizing those ethical virtues both locally and on global level since there are numerous ethical standards issued by governments and international organizations. As Ahmed (2011) asserted that Islamic banks have challenges in applying ethical values in a highly rival market environment. Some studies revealed that there is a gap in ethics from Islamic point of view and the reality in today's Islamic banks' practices (Pesendorfer and Lehner, 2016; Mansour et.al., 2015; Al-Jarhi, 2010) whereas other studies suggested that some Islamic banks function based on ethical guidelines (Gilani, 2015; Slimene et.al., 2014). Though not conclusive, most of the studies illustrate that Islamic banks are deviating from some ethical practices and this situation needs due consideration from *Shariah* advisory committees and regulatory bodies.

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