

## ETHICAL BUSINESS PRACTICES IN IMPLEMENTING ISLAMIC PRINCIPLES

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**Abstract:** This study aims to explore the integration of Islamic principles into contemporary business practices that focus on Islamic values such as justice, equity, and social responsibility. This study measures how these principles can be applied to the aspects of business, including finance, human resource management, marketing, and corporate social responsibility, aligning with Al-Quran & Sunnah. With this study, the core Islamic values such as justice, honesty, trustworthiness, and social responsibility can be examined, and also the potential of benefits of adhering to Islamic business ethics, including enhanced corporate reputation, improved stakeholder relationships, and increased long-term sustainability, is investigated. This paper uses a descriptive qualitative method with literature review, library research, and book reference that are relevant to the topic. In this discussion, it can also analyze the challenges and complexities of implementing Islamic principles, such as globalization and technological advancements. The findings of this study contribute to a deeper understanding of business ethics for practical guidance of socially and ethically responsible manners with Islamic values. The results of this paper are enhanced trust and reputation, improved financial performance, and stronger employee morale and loyalty.

**Keywords:** Islamic Business Practices, Justice, Islamic principles, Social Responsibility

### Introduction

Business development is the most important to any industrial business in order to maintain continuous economic growth. Ethical business practices are a crucial role applied for every business activity. According to ethical business practices as Islamic principles can provide a comprehensive framework for ethical behaviour, emphasizing justice, fairness, honesty, and compassion. Ethics is the guiding factor for each person's behaviour included any decision in the context of business involving individuals and communities who are in institutional relationships. Ethics of business relations over the main runway being found. In other words, ethical aspects have become the needs of all types of relationships that are broader in scope in both the fields of business, healthcare, legal, and so on. Even beyond the aspect of business relations e.g. health, ethics is positioned as the basic considerations for patient-provider relationships in health care (Peppin; 1999)(Asiva Noor Rachmayani, 2015).

Ethical business practices refer to the moral principles and values that guide how a company operates. Business ethics is one of the most often deliberated subjects in the present corporate and business environment, as well as in educational and academic fields (Brown et al., 2005)(Valenzuela et al., 2022). On the other hand, businesses that lean towards performing in accordance with ethical standards, morals and values have recognized the relevance and significance that ethical procedures and policies are communicated and practiced throughout the organization, while in concurrence to becoming a priority of the

leaders of the organization. defines ethics as “moral rules or principles of behaviour that should guide members of a profession or organization and make them deal honestly and fairly with each other and with their customers”. Likewise, a company should apply ethics also when dealing with its stakeholders, in addition to its customers or employees (Cleveland, 2002. A code of ethics may help companies to improve their business activities, reducing ambiguities and communicating the ethical vision of the company to all interested parties.

The implementation of Islamic principles for business can be used widely in different industries and situations. Embracing Islamic concepts in the operations of the corporations is a challenge, and an opportunity. According to which ethics are brought from the Islamic teachings and Islam’s law (Shariah). Impartiality (fairness), justice (greater fairness), honesty (hasanat), and reliability (sureness) are some of the building principles of Islam (Hidayah et al., 2021). Across the board they insist on integrity, impartiality, and corporate/social responsibility. Islamic ethics focus on sets of rules regarding good and bad things, for instance, forbidding one to receive interest or trading with unclear share. Also, they describe how to help others, to distribute money fairly and to make moral investments(Talib et al., 2024).

Current issues related to ethical business practices related to Islamic principles are defining “Halal”, social justice, equity, transparency and accountability. According to the previous researcher Ahmad Talib, Iwan Ridwan Paturochman, Ahmad Ansyori, Al-Amin “Challenges and Opportunities in Implementing Sharia Principles in Business Management” stated that In the financial sector, the application of Sharia principles is most evident through Islamic banking and finance. This includes the prohibition of interest (riba), the avoidance of uncertainty (gharar), and engagement in socially responsible investments that do not harm society or the environment (Kamali, 2017). Islamic financial institutions have developed various financial products and services that comply with these principles, offering a halal alternative to conventional financial offerings as table below;

**Table 1. Table of Application of Sharia Principles in Islamic Financial Products and Services**

Sharia Principle	Financial Product/Service	Description
Prohibition of Riba (Interest)	Islamic Loans and Mortgages	These financial products do not involve interest payments. Instead, they are structured using contracts like Murabaha (cost-plus sale) or Ijara (leasing)
Avoidance of Gharar (Uncertainty)	Islamic Insurance (Takaful)	Takaful is based on cooperation, responsibility, protection, and assistance between groups. It avoids the uncertainty and gambling prohibited in conventional insurance.
Sharia Principle	Financial Product/Service	Description
Socially Responsible Investment	Islamic Bonds (Sukuk)	Sukuk are structured to comply with Islamic laws and are asset-backed, avoiding speculation, and ensuring investments

		contribute to beneficial and ethical projects
Prohibition of Harmful Investments	Sharia-Compliant Funds	These funds exclude investments in industries considered harmful or unethical under Sharia, such as alcohol, gambling, and tobacco.

The retail industry integrates Sharia principles by ensuring the products sold are halal, adhering to ethical business practices, and engaging in fair trading. Retail businesses operating under these principles avoid selling prohibited (haram) items and ensure transparency in their dealings and advertising, fostering trust and integrity in customer relationships (Sherwani et al., 2018).

The implementation of Islamic sharia principles according to the research by Ahmad Talib, Iwan Ridwan Paturochman, Ahmad Ansyori, Al-Amin, 2024 “Challenges and Opportunities in Implementing Sharia Principles in Business Management” stated that challenges to implement sharia principles regulatory barriers, market competitiveness, lack of awareness, and the challenges of interpretation of Sharia. A table categorizing these challenges could enhance clarity and provide a quick reference point as table below;

**Table 2. Common Challenges in Implementing Sharia Principles**

Challenge Category	Description	Implications
Regulatory Barriers	Navigating the differences between Islamic laws and local legal frameworks can be complex	May result in compliance issues or restrict the operational scope of businesses
Market Competitiveness	Competing with non-Sharia-compliant businesses that might have fewer ethical constraints	Could impact market share and profitability of Sharia-compliant businesses
Lack of Awareness	General misconceptions or lack of understanding about Sharia compliance among stakeholders	May lead to reduced consumer trust or hinder market penetration.
Challenges of Interpretation	Diverse interpretations of Sharia can lead to inconsistent applications in business practices.	Complicates compliance, creates legal uncertainties, and may affect brand consistency.

According to the research by Muhammad Maksum, Nur Hidayah, 2023 “The Mechanism of Avoiding Riba in Islamic Financial Institutions: Experiences of Indonesia and Malaysia” The practice of paying interest has not disappeared in Islamic financial transaction activities. This is because the provision of loans is still widely found in Islamic financial products. On the other hand, Islamic financial institutions aim to increase profits to benefit business development and provide profit sharing to savers/depositors. There are at least two methods to avoid usury in loans (qardh) in Islamic financial institutions. They are adding an ijarah contract or service in a qardh product to determine the advantages of a qardh. Islamic financial institutions provide loans and at the same time, provide services. Another mechanism is buying and selling ‘inah. The injection model for the ijarah contract in the loan is commonly found in Islamic financial products in Indonesia. Buying and selling ‘inah is used in Malaysia and is very limited in certain products in Indonesia (Maksum & Hidayah, 2023).

In research by Uddin, Md Akther also stated that Arabic word Gharar is a broad concept that literally means deceit, risk, fraud, uncertainty, or hazard that might lead to destruction or loss. Hanafi scholars have defined Gharar as “something which its consequence is undetermined.” While Shafi’i scholars have described it as “something which in its manner and its consequence is hidden. According to Al-Sarakshi, “anything that the end result is hidden or the risk is equally uncommon, whether it exists or not.” Therefore, Gharar in Islam refers to any transaction of probable objects whose existence or description are not certain, due to lack of information and knowledge of the ultimate outcome of the contract or the nature and quality of the subject matter of it (Uddin, 2015).

.Maysir, literally means gambling. Islam has also categorically prohibited all forms of gambling. Maysir refers to the easy acquisition of wealth by chance, whether it deprives the other’s right. Hameed (2009, p.44) defines Maysir as gambling, also, any form of business activity where monetary gains are derived from mere chance, speculation or conjecture. As noted earlier in the Quran, Allah (s.w.t) clearly prohibit gambling (AlBakarah, 2:219 and Al-Maidah, 5:93). For example, uncertainty of the timing of benefits of a pure life insurance contract creates an element of Maysir. Casinos are also common example of Maysir, where simply transfer of wealth take place from losers to winner without creating a new stock of wealth. In brief, contracts involving pure speculation, conventional insurance and derivatives are examples of Maysir.

As the stated introduction above, this research wants to know as follows;

1. Ethical business practices based on Islamic principles.
2. Socially Responsible Investment.

## Literature Review

In literature review, this paper will discuss about the Islamic principles on ethical business practices (Prohibition of Riba, Sharia Principle, Socially Responsible Investment)

### Riba

According to Al-Qur’an & Sunnah riba is prohibited, refers to Ellouz, 2004 stated riba or interest is prohibited in Islam because usury in loans is an addition to debt without effort and does not align with the loan's purpose (Bayindir & Ustaoglu, 2018; Cindy et al., 2022). The prohibition of riba is based on several reasons; namely, that the additional cost has no moral basis, food obtained using usury is prohibited, and there is no risk that justifies

that financing can be guaranteed to be successful. The funder and customer relationship involves sharing risks and benefits (Maksum & Hidayah, 2023).

About Riba Haqqi, 2009 also stated that the classification of riba can be divided into 2 a) Riba al-fadl, the excess over and above the loan paid in kind. It lies in the payment of an addition by the debtor to the creditor in exchange of commodities of the same kind and b) Riba al-nasi'ah, refers to the interest on loans; its prohibition essentially implies that the fixing in advance of a positive return on a loan as a reward for waiting is not permitted in Islam. Haqqi (2009) states that some scholars added a third category of Riba named Riba al-jahiliyah or pre-Islamic Riba, often manifested by the lender asking the borrower at maturity date if he will settle the debt or increase it. On Riba, the direct Quranic references are to be found in four surahs or chapters as follows;

هُمُ فَأُولَئِكَ اللَّهُ وَجْهَ تُرِيدُونَ زَكَاةٍ مِّنْ أَتَيْتُمْ وَمَا لِلَّهِ عِنْدَ يَرْبُؤُوا فَلَا النَّاسِ أَمْوَالٍ فِي لَيْرُؤُوا رَبًّا مِّنْ أَتَيْتُمْ وَمَا الْمُضْعِفُونَ

Whatever loans you give, 'only' seeking interest at the expense of people's wealth<sup>1</sup> will not increase with Allah. But whatever charity you give, 'only' seeking the pleasure of Allah—it is they whose reward will be multiplied (Al-Rum, 30:39)

### Gharar

According to Islamic banks in Malaysia, Chong, and Liu (2009) argue that theoretically Islamic banking is different from conventional banking as interest (Riba) is prohibited in Islam. They further state that Gharar is not permitted in Islamic contracting i.e., the terms of the contract should be well defined and without ambiguity. The prohibition of Gharar is designed to prevent the weak from being exploited and, thus, a zero-sum game in which one gains at the expense of another is not sanctioned. Gambling and derivatives such as futures and options, therefore, are considered un-Islamic because of the prohibition of Gharar. Most of the contemporary scholars are against forwards, futures, and options contracts because these are almost always settled in price differences only. Therefore, these are used more as tools of gambling than as tools of risk management. Although exist little settlement risk in both forwards and futures but it is significant only in forwards (Obaidullah, 2005, p.34).

### Sharia Principles

According to the researcher Fadia Fitriyanti, M. Fabian Akbar, Andi Pramudya Syamsu, Reksa Fikri Nurhaifa, 2023 "Application of Sharia Principles in Sharia Financial Institutions" stated Applying Sharia principles to Islamic Financial Institutions (LKS) and banking Sharia is urgent. To achieve the conditions for applying Sharia, a supervisory structure was created, implemented, and guided by the fatwa of the National Sharia Council. Laws and other regulations have supported some of these goals, but still regulations have not. There are still discrepancies in banking and LKS practices that do not comply with the fatwa DSN or do not according to Sharia and need to be fixed. There are LKS who do hilah or tricks to take usury (Fitriyanti et al., 2023).

*Reference to the Law No. 10 of 1998 on the Fulfillment of Law Number 7 of 1992 on Banking is a significant move forward in the growth of banking, particularly Islamic finance. Islamic finance receives the same legal*

*protection as regular banking.2 The enactment of Law Number 10 of 1998 has opened wider opportunities for Islamic banks to develop.*

### **Socially Responsible Investment**

According to (Statman 2006; Schueth 2003; Shank et al. 2005) stated SRI means Most definitions involve “Integrating personal values and societal concerns with investment decisions” (Statman 2006; Schueth 2003; Shank et al. 2005). In a theoretical sense, however, there is no underlying financial framework to relate the marginal social responsibility of an investment to an investment’s performance. In other words, there is no theoretical model to determine how much social responsibility is appropriate, or to define the optimal trade-off between social responsibility and other investment criteria, primarily risk and return. Thus, SRI lies outside the common efficient market’s framework used in finance theory to decide on the attractiveness of an investment(Dewi, 2012).

Also stated by Warhust (2001) defined that corporate social responsibility (CSR) is key to operationalising the strategic role of business in contributing towards this sustainable development process, so that business can engage in and contribute to society as a corporate citizen. A strategy of corporate social responsibility is defined as the internalisation by the company of the social and environmental effects of its operations through proactive pollution prevention and social impact assessment to so that harm is anticipated and avoided and benefits are optimized. The concept is about companies seeing opportunities and targeting capabilities that they have built up for competitive advantage to contribute to sustainable development goals in ways that go beyond traditional responsibilities to shareholders, employees and the law that internalise indirect socioeconomic and biophysical effects as well as direct impacts.

### **Method**

This study used qualitative approach using literature review, library research, & reference books that relevant with the topic. The data refers to how the ethical business practices in Islamic principles, ethical business related to social responsibility investment, and ethical business in Islamic principles. Data collected from literature review & summary from writer.

### **Results and Discussion**

#### **- Ethical Business Practices based on Islamic Principles**

Business is an activity carried out by a person or group of people to provide goods and services with the aim of obtaining profits. People who try to use their time by taking risks in carrying out business activities are usually called entrepreneurs (Sudaryono, 2015).

Ethics in business has been agreed upon by people in business groups and other related groups. That is what is then used as a reference for realizing goals in business, among others: giving awareness in every business person to the ethical dimension in business, introducing moral arguments in the economic and business fields as well as how to arrange them, and helping to determine moral attitudes is right in carrying out the profession(Barom, 2019).

In an Islamic perspective, business and ethics should not be seen as two opposites, because business which is a symbol of worldly affairs is also considered an integral part of things that are of an afterlife investment. That is, if the business orientation and investment

efforts are hereafter (intended as worship and constitute the totality of obedience to God), then the business itself must be in line with moral principles based on faith in the hereafter. Even in Islam, the notion of the business itself is not limited to world affairs, but also includes all our activities in the world that are "commercialized" (intended as worship) to gain profit or reward in the hereafter (Ahmad Yusuf Marzuqi, 2010).

According to Havis Aravik, Luis Marnisah, Achmad Irwan Hamzani in their research, 2021 "Islamic Business Ethics as A Practical Solutions In The Scope Of E-Commerce Business" stated as follows;

*"From the description above it can be understood that industrial revolution 4.0 is a historical necessity including e-commerce-based business activities. For this reason, business activities must be based on standard rules. Islam as rahmatan lilalamin religion, has given guidance to every human, especially to all Muslims that in business activities there is an Islamic ethic inherent in it. The ethics are intended so that business activities do not solely produce material benefits, but more than that create more benefits that are achieved in both the world and the hereafter. Therefore, Islam really regulates various business activities such as production, consumption, trading, competing in business to market a product to consumers"*

According to definition & the previous researcher that ethical business practices based on Islamic principles is a concept in business activities that should be followed for every investor to get Halal, social justice, equity, transparency, and accountability. Business actors are required to have an awareness of ethics and morals because both are needs that must be possessed. Business people or companies who are careless and do not maintain ethics, will not do business well so that it can threaten social relations and harm consumers, even himself. Ethical business practices can emphasize moral and have the keys like, honesty & transparency fair dealing, social responsibility, prohibition of haram. Islamic business ethics also has impact on the aspect of environmental effect by giving zero bad impact on the environment. The implementation of sharia principles as tabel below(Aravik et al., 2021);

**Table 3. Ethical Business in Islamic Principles**

No	Islamic Principles	Definition
1.	Sharia Governance	responsibility of the management to develop and adopt a holistic culture of Shariah compliance within the organisation. <sup>7</sup> A holistic culture of Shariah compliance refers to the way in which the Islamic Financial Institutions complies with Shariah principles in its overall Islamic financial business operations

	Islamic Principles	Definition
2.	Justice	the concepts of human rights and equality, and can be defined as "the way in which human rights are manifested in the everyday lives of people at every level of society
3.	Honesty	basis of an act because it set a target or goal in heart infusion. Good faith and is usually accompanied by the implementation chosen by Allah SWT. This is very different from the policy of 'the end justifies the mean "a proud and not feel guilty achieve goals in the misery of others (Ma'amor, 2001)

**- Socially Responsible Investment**

According to Scanlan, 2005 stated The SRI movement aspires to bring social, ethical and environmental dimensions in investment decisions alongside financial returns. Numerous terms have been used to describe this investment philosophy, for instance ‘social investment’, ‘mission-based investing’, ‘green investment’ and perhaps many more, but the two most used terms are ‘ethical investment’ and ‘socially responsible investment’ or SRI, where the latter has become more popular and accurate to represent the mature and developed approach of the field. It has now become widely perceived that ethical investment constitutes a reactive measure with a narrow focus that typically entails negative screening, while SRI includes a proactive measure that searches for companies who uphold good practices, and seeks to change corporate behaviour through positive engagement with management.

From another perspective, Kinder (2005: 11-12) provides a very insightful observation on the present players of the sector. Recognising the “uncomfortable co-existence” between the “old” and the “new”, he identifies three distinct categories of investors, beginning with “value-based”, and followed by “value-seeking” and “value-enhancing” investors, each with different perspective and approach to SRI. Value-based investors aspire to align their investment with their personal or institutional belief and priorities. As such, exclusionary strategy has been widely used to avoid various types of investments that are inconsistent with their values. For instance, religiously conscious investors may avoid sinful industries such as gambling and pornography, or humanity activists would ban investing in arms manufacture or nuclear related industry. Similarly, these values will also form the basis for the implementation of other SRI strategies such as positive screening, engagement or shareholder activism.

According to the previous researchers above, the writer makes conclusions that SRI is moral that should have by investors to improve compelling benefits for sustainable

business. Because by having environmental, social, and governance (ESG) to be better future challenges. This action also can lead to lower investment risks. SRI will also increase financial performance, enhanced reputation & brand value, driving innovation & adaptability. SRI can give a positive impact on society & environment. That applying will aware of global challenges event more important consideration for business and investors.

### Conclusion

Based on the result of the paper the writer makes some conclusions about ethical business practices in implementing Islamic principles, it is a moral principles and values that guide how a company operates. Business ethics is one of the most often deliberated subjects in the present corporate and business environment. ethical business practices as islamic principles can provide a comprehensive framework for ecthical behaviour,emphasizing justice, fairness, honesty, and compansion. Ethics is the guiding factor for each person's behaviour included any decision in the context of business involving individuals and communities. By having ethical business based on Islamic principles investors will have ethical investment' and 'socially responsible investment. It will lead to lower investment risks. SRI will also increase financial performance, enhanced reputation & brand value, driving innovation & adaptability.

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