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## **Rethinking Islamic Economics and Finance: Paving the Way Forward for Inclusive and Sustainable Development**



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# *Intellectual Discourse*

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## The Notion of “Moral Firm” and Distributive Justice in an Islamic Framework

Toseef Azid\* and Osamah H. Rawashdeh\*\*

**Abstract:** This paper discusses conventional and Islamic concepts of distributive justice, and develops propositions for the establishment of firms deemed to be moral firms from Islamic perspective. Generally, distributive justice implies that goods should be distributed among members of the community according to their standing in society. In the Islamic scenario, however, the positive and the normative aspects work simultaneously. The management of a firm seeks not only to earn profit in this world but also to get reward in the life-hereafter. Thus, it is duty of a firm to serve the community and look after its shareholders, employees and consumers. This paper also postulates that in a cooperative-cum-competitive environment, firms have the same responsibilities as other members of the society. Hence, it is the duty of the firm to maintain distributive justice among its stakeholders. It is also suggested that in the framework of the Shari’ah, if there are any imperfections in the market, it is the responsibility of the state to remove them. This paper also discusses the social and moral responsibilities of the firms which claim that their products are Shari’ah-compliant.

**Keywords:** Distributive justice; moral firm; Islam, stakeholders, joint venture

**Abstrak:** Kertas kerja ini membincangkan konsep keadilan kepengagihan konvensional dan Islam, dan membina cadangan untuk penubuhan syarikat yang disifatkan sebagai syarikat moral menurut perspektif Islam. Umumnya, keadilan kepengagihan memaksudkan bahawa barangan seharusnya diagihkan sesama ahli masyarakat berdasarkan kedudukannya dalam masyarakat.

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Dalam suasana Islam, bagaimanapun, aspek positif dan normatif berlaku serentak. Pihak pengurusan syarikat tidak hanya mencari keuntungan duniawi tetapi juga untuk mendapatkan balasan di akhirat kelak. Oleh itu, adalah menjadi tanggungjawab syarikat untuk berkhidmat kepada masyarakat dan menjaga para pemegang saham, pekerja dan pelanggannya. Kertas kerja ini turut menyorot bahawa dalam suasana kerjasama-sambil-bersaingan ini, syarikat mempunyai tanggungjawab yang sama dengan ahli masyarakat yang lain. Maka, menjadi tanggungjawab syarikat untuk menyediakan keadilan kepengagihan terhadap para pemegangtaruhnya. Turut dicadangkan ialah dalam kerangka Shari'ah, sekiranya terdapat ketidaksempurnaan dalam pasaran, adalah menjadi tanggungjawab negara untuk mengatasinya. Kertas kerja ini juga membincangkan tanggungjawab sosial dan moral syarikat yang mengakui bahawa produk mereka adalah patuh-Shari'ah.

**Kata Kunci:** Keadilah kepengagihan; syarikat moral; Islam, pemegangtaruh, usahasama.

## 1. Introduction

A firm's behaviour largely depends on its objectives and the constraints under which it operates. It is generally assumed that the ultimate objective of a firm is maximization of its profits (Marshall and Marsall, 1879; Marshall, 1890; Cournot, 1838). This presumption also underlies the contributions of Chamberlain (1933), Robinson (1933) and Coase (1937), respectively, in the areas of monopolistic competition, imperfect competition and transactions costs (Crossan, 2015, p.1).<sup>1</sup> Basically, profit can be maximized by increasing revenues or decreasing costs, the former through increase in output, price or both, and the latter by lowering input prices or applying efficient technology.

A firm may, however, deviate from profit maximization objective as a strategic move (Simon, 1959; Cyert and March, 1963) or behave in a predatory manner and lower the product price below the market price or sell at less than the cost of the product (Hall and Hitch, 1939; Liester, 1946; Skinner, 1970; Shipley, 1983; Jobber and Hooley, 1987; Hornby, 1994). A firm may be able to impose such a strategy if it has monopoly power (Besanko et al., 2000; Moses, 2003). However, in the competitive market, firms are not able to sell except at the market price (Yasar, 2010): firms are price takers. According to Islahi (2005), Muslim scholars "[a]lways emphasize observation of fair practices and due consideration for weaker players" (p. 45). Hayek (1988), a strong advocate of free markets, argued in favour of free market as the best

institution for distributing benefits without any bias among the members of the society (known or unknown). Polanyi (2001), on the contrary, presented the theory of double movement, and argued that the voluntary sector fills those gaps which are left by the free market due to its imperfections. In his opinion, if we leave the community to the vagaries of the free market, then we will not be able to improve social justice and welfare. So there should be some interventions by the state to regulate the functions of market.

Azid et al. (2007) note that the firm in an Islamic setting does not concentrate on profits per se. On the contrary, the management of the firm in a cooperative-cum-competitive environment looks after the interests of its stakeholders and tries to integrate success in this life on earth and in the life hereafter. In this context, a firm has four major stakeholders:

- i. *Shareholders*. Their objective is to maximize the production revenues through increasing revenues or reducing per unit costs of the output; however, firms can also increase their production revenues through increasing their sales.<sup>2</sup>
- ii. *Employees*. They maximize their utility through increasing their income that consequently increases the per unit cost of the firm.
- iii. *Consumers*. They maximize their utility through seeking reduction in the price that, in turn, reduces the production revenues of the firm
- iv. *Community*. Social welfare increase if firms spend more on social projects that lead to increase in per unit costs of the firms.

In this cooperative cum competitive milieu, every step which is taken by any economic/social agent must be in favour of the society/community at large. In an Islamic setting, social and economic agents are interested in the objectives of the firm and also their end results.

The objective of this paper is to explore the role and function of the Islamic-cum-moral firm in the development of an economy and society in a cooperative-cum-competitive milieu. Taking a normative approach, this study also examines how a moral firm fulfils the objective of distributive justice. It is assumed that there is not a lot of difference between conventional and Islamic moral firms in the positive aspects, provided the functions of the former are also under the umbrella of the

Shari'ah, such as producing goods which are permitted, no interest or gambling are involved, etc. However, differences are found in the normative aspects where for example, the latter tries to integrate between success in this life and in the life hereafter.

In the existing Islamic economics literature, one can find several studies discussing different dimensions of a firm in an Islamic framework. For example, Bashar (1997) discusses the dimension of price control. Islahi (1992) explains the market mechanism of Ibn Tayimayyah. Iqbal and Mirakhor (2004) examine the theory of stakeholders and governance. Azid et al (2007) extend the model of Iqbal and Mirakhor and emphasize on the corporate social responsibility of the management besides the theory of stakeholders. Kahf (1992a; 1992b) assesses the market mechanism, free cooperation and theory of production. Mannan (1992a, 1992b, 1992c) presents a comprehensive survey on allocative efficiency, welfare and market prices, and market structure. Mannan (1992d) also discusses the behaviour and objectives of the Islamic firm by covering the positive and normative dimensions. Metwally (1992) develops a mathematical model for the achievement of the objectives of the Islamic firm. Siddiqui (1992a, 1992b) explores producer behaviour and market structure under the umbrella of an Islamic system. In addition, Yusof and Amin (2007) present a comprehensive survey on the objectives of the Islamic firm and different models of behaviour of Muslim producers. implication

Despite a number of studies carried out, none have covered the issue of distributive/social justice in a comprehensive way or provided any guidance as to how an Islamic firm will be able to maintain distributive justice by using Islamic financial and business instruments. This study seeks to fill this gap in the existing literature. For this purpose, this study draws upon the Qur'an, the traditions of Prophet Muhammad (pbuh) and also to the works of selected great Muslim Scholars like Abu Yusuf, Ibn Tayimiyyah, Ibn Khaldun, Al Ghazali, Ibn Qayyim and others.

This main text of paper consists of three sections: section 2 discusses the behaviour of the stakeholders of firms in an Islamic framework, section 3 examines the concept and nature of moral firms in the Islamic environment, and section 4 presents the conclusions.

## **2. Stakeholders of Islamic Firm**

In an Islamic setting, trust among the economic and social agents is the most important factor.<sup>3</sup> Trust among these agents is considered a virtuous action. Trust among the different stakeholders is appreciated in a trustworthy environment which enhances peace, tranquillity, happiness, satisfaction as well as efficiency in society and economy. Hence, it is the duty of a firm to keep in view its stakeholders when it formulates any policy. On a reciprocal basis, it is the duty of every stakeholder to look after each other and also to support the firm’s actions, which are for the benefit of the society and economy. In this section an effort is made to analyse the behaviour of the above mentioned stakeholders within an Islamic framework.<sup>4</sup>

### *2.1 Management and Employees*

In the current structure of business firms, the rank of managers is just above that of their employees. Most managers make decisions about job descriptions and other related issues of their employees. For example, they develop the wage structure. It is a primary concern to hold on to justice while they are in the process of developing this structure. However, in the current scenario it is not possible for them to increase the range of the wages because technically they are not able to offer a wide range of wages. Therefore, it is not possible for firms to compensate the workers with a just wage if it is not compatible to the prevailing market rate.<sup>5</sup> Thus if management pays more than the market rate, that will increase per unit cost of the output; the firm may lose its survival potential, and eventually the employment level might be reduced. However, in the Islamic framework it is not possible for the firms to pay less than the subsistence level. In fact, it is the responsibility of managers to increase the productivity of workers through technological state of the firm and providing training to the firm’s employees, with no distinction of gender. Islam does not assume workers as a cost; it considers them as an asset like capital and natural resources. Islahi (2005, p. 27) quotes Ibn Tayimayyah’s views: “Value is an increment obtained from both labour and capital. So it should be divided among them as an increment resulting from two factors”. For achieving this objective, there is need to redesign the whole structure and process of the firm. It is responsibility of both managers and employees to increase productivity of the firm and, at the same time, it is responsibility of the managers to offer a just wage.<sup>6</sup> Islam provides

solution to this challenge in terms of profit-sharing based arrangements of *Mudharabah* or *Musharakah*.

## 2.2 Investors (Shareholders)

Shareholders (investors) also have the responsibility to provide a just environment, for ensuring a just wage and also for creating the moral and cultural environment.<sup>7</sup> According to the teachings of Islam, earning of highest returns is not the main objective of the firm. Instead, the real objective is to create a morally oriented environment (Azid et al., 2007). Al-Ghazali (n.d.) mentioned that abnormal profit can be earned from the production of those goods which are not necessary for the society; otherwise, normal profit should range from 5 to 10%. Ibn Taymiyyah (1976) was also against abnormal profit and emphasized that neither firms nor consumers should exploit each other. Similarly, Ibn Khaldun (1967) favoured normal profit, and argued that very high profit discourages demand and very low profit discourages trade and employment.

It is a moral obligation of the firm's management to produce those goods that constitute the real demand of society. In this distinctive environment, it is an obligatory duty of each and every member of the society to take care of others without expecting any reward from anyone expect, of course, Allah (SWT), and to act as a trustee to protect the interests of others. For instance, if management pays the wages merely according to the marginal productivity of the employees and if this does not fulfil the subsistence level needed, then both investors and managers will be responsible. If there is an extraordinary situation that impacts on the productivity or on the wage structure beyond the control of the management, then investors have no obligation to compensate it. However, as human beings, if investors are able to compensate and do *Ihsan*, the gesture would be much appreciated.

Ibn Taymiyyah was not in favour of price discrimination, as Islahi (2005, p. 44) noted, "A trader should not charge from an unaware person a profit higher than he charges from others". He further added that the entrepreneur should not exploit consumers who are in dire need. Ibn Qudamah (1972), on the other hand, commented that it is the right of investors to earn profit because they bear the risk of financial losses; however, interest is not allowed. According to Ibn Rushed (1988), the prohibition of interest closes the door on cheating. However, it is the



responsibility of the firm’s management and shareholders to increase the level of welfare of society at the aggregate level.

### 2.3 *Customers*

Firms are producing products for their customers, and customers directly get the benefits from the production of the firms. On a reciprocal basis, customers have also some responsibility to maintain justice in the economy. If they have sufficient purchasing power, then they have to support those firms that support the needy segment of society, even if they have to pay a higher price than market price. In this way, they are indirectly helping the poor in society. If they come to know that a firm is exploiting its employees, using child labour or is not environment friendly, then it is the responsibility of the consumers not to purchase the products of these firms. If consumers have the right Islamic vision, then they can play a very significant role in the market. If they know that the management of the firm is following Islamic norms in its true sense, then they must help that firm through increasing the demand for that firm’s products. The Prophet (pbuh) said: “A righteous honest merchant is with the Prophets and truthful ones and martyrs” (al-Tirmidhi, 1976, Vol. 3, p. 506 – cited by Islahi, 2005, p. 37). Al-Ghazali (n.d.) recognized the power of the consumers and admitted that the demand of any commodity enhances the price of that product, and vice versa.

If consumers are well informed and morally motivated, then they should support, through their demand, those firms which are supporting the deprived segments of society or involved in philanthropy. Islahi (2005, p. 26) quotes the saying of the great Muslim scholar Imam Shafi’e: “A poor man assigns to one dinar much greater value for himself, while a rich man may not consider hundreds of any big value due to his riches”. This saying implies that rich consumers through purchasing the products of moral firms (firms with a high sense of moral values), even if the prices of products of these firms are higher than market price, can support the poor consumers for whom the value of money is less. Al-Ghazali (n.d.) supports trading activities and opined that trading activities added value to the traded goods. If there is a creation of demand from the rich consumers for the products of moral firms, the value of those goods will increase, a phenomenon which will boost the moral firms (Islahi, 2005).

#### 2.4 *Workers' Associations*

In the current state of business, the associations of workers play a very crucial and significant role. These associations support workers and help them in increasing their wages. However, sometimes these associations misuse their powers and their struggle goes against other stakeholders. Islam does not appreciate this type of struggle which harms different segments of the society and disturbs social harmony. The Islamic concept of association does not allow exploitation of any business/economic agent. Islam is against any loss to the property, goods and moral aspects of the society. On the other hand, it is obligatory duty of workers to obey the orders of their bosses as long as those orders do not conflict with basic Islamic norms. The Prophet (pbuh) said: "A Muslim has to listen to and obey (the order of his ruler) whether he likes it or not, as long as the orders do not involve one in disobedience (to Allah); but if an act of disobedience (to Allah) is imposed, one should not listen to it or obey it" (al-Bukhari, Hadith No. 203, Vol. 4). The following norms are well established and well appreciated in Islamic society: obeying the orders of the master/superior, working with honesty and full dedication, no shirking of work, protecting the property of the master, maintaining justice and fairness and following the concept of brotherhood. Due to the above mentioned norms and Islamic teachings, the role of workers' union is positively significant in this cooperative-competitive setting.

Hascall (2015, p. 297) commented on the role of unions in Islamic moral firms as follows: "... unionization is compatible with Islam and the Shari'ah. Encouraging the unionization of workers in companies that claim to offer Shari'ah-compliant products and services can help those companies to ensure that they are, in fact, operating within the confines of the Shari'ah because unions can help ensure that companies are paying a fair living wage to their workers. Attention to the treatment of workers in these companies would improve the industry and hopefully make investing in Shari'ah-compliant companies even more attractive to Muslims and non-Muslims who want to invest in or do business with ethically sound companies".

#### 2.5 *Role of Government*

In the Islamic sense, all authority rests with Allah (SWT). Role of the state is set in this perspective. Active role of the state is appreciated by all renowned Muslim scholars. According to Abu Yusuf (1392, p.

129), the ruler is responsible for welfare of the people, and must do everything that he considers good for them. He quotes Abu Musa al-Ash‘ari, a companion of the Prophet, to the effect that the best of men in authority are those under whom people prosper and worst are those under whom people encounter hardship (cited in Islahi (2005, p. 60). Islahi (2005, p. 58) notes that while addressing Caliph Harun al-Rashid Abu Yusuf said: “Take care of what Allah (SWT) has assigned to you and fulfil the obligation of authority entrusted to you”. There is always emphasis on maintenance of ‘justice’. “A just government may stay even it is non-believer, but an unjust government will never last even it is a Muslim government” (Ibn Taymiyyah, 1976, p. 94). Al Ghazali (n.d.) stated that religion and state complement each other, and justice is basis for prosperity. The institution of *Al-hisba* was established in the Islamic state, and its main function was to control the market and to protect the collective morals of the community. Islahi (2005) explains its general functions as:

“*Al-hisbah* was a very important institution of Islamic state. It was through this department that the state exercised a comprehensive socio-economic control on trade and economic practices. Economic functions of the *muhtasib* included: ensuring supply and provision of necessities..., supervision of industry ..., resolution of industrial disputes..., supervision of trading practices, standardization of weight and measures, ... prevention of injurious economic activities like adulteration, ... check on interception of supply through forestalling, hoarding or coalition of oligopolists ... and fixing of prices, wages and rentals if necessary ...” (p. 59).

If justice is not prevailing in the business sector, it is responsibility of the government to intervene. It is duty of the state to maintain balance in the economy, establish environment of equity and maintain justice. If needed, government can formulate laws, and impose them on the firms. Welfare of the society can be enhanced through legislation, and the state can also impose the law of minimum wage that is equal to the minimum subsistence level.

Hascall (2015) narrated the above point in the following way: “Under Islamic law, even though the government has a duty to provide basic services for the poor, the employer shares this societal duty through the rule that the employer must pay workers a fair rate for their work. Only

when the economic situation is such that people cannot be employed or the employers simply cannot pay a wage high enough to sustain the workers in a decent manner does the government need to take up this duty. In other words, businesses cannot rely upon the government to fill the gap between a poverty wage and a fair living wage simply because it is the joint responsibility of all in the community—including the government—to make sure that the poor are cared for” (p. 339).

Generally Islam does not appreciate price fixing. It recommends just prices. According to renowned Muslim scholars like Abu Yousaf, Ibn Tayimayyah, Ibn Qayyam, al-Maqdisi, al-Kinani, and al-Baji, ‘just’ price should generally be determined by market forces. However, it is the authorities who will fix the price and create the ‘just environment’ in a situation of market imperfections. Al-Baji (1322 A.H.) said that prices should be fixed by the consent of sellers as well as consumers otherwise there will be chaos in the market (Islahi 2005). Ibn Tayimayyah is of the opinion that if imperfections in the market persist, a just wage should be fixed by the state, i.e. neither entrepreneurs should offer a lower wage nor workers demand higher wages than the normal wage. According to Abu Yousaf (1392 A.H.), however, the state is responsible for the welfare of the people and it is up to the rulers on how to achieve this target.

### 3. Moral Firms from the Islamic Perspective

Azid (2011), while discussing informal and formal institutions under the umbrella of the Shari‘ah, states: “Islamic institutions are based on the Shari‘ah principles which require them to operate in a morally, ethically and socially responsible manner, i.e., conforming to the Islamic norms of business and economic activities. All the formal and informal institutions have the same base which is described below:

- i. Principles of *Taqwa* (God-fearing)
- ii. Principles of *Maslahah* (public interest)
- iii. *Daf‘al-darar* (prevention of harm)
- iv. *Raf‘al-haraj* (removal of hardship)
- v. *Lā Darara wa lā Dirar* (neither harming others nor being harmed)
- vi. *Rehmah* (mercy)
- vii. *Ihsān* (kindness)

viii. *ʿAdl* (justice)

The culture of Islam is not based on the individualism” (p. 16). Islam is a complete way of life, and can include ‘informal rules’ known as *ʿurf* (local customs) as long as they do not conflict with the basic tenets of the Shariʿah.” The next sub-section examines the concept and nature of moral firms in an Islamic framework and analyses their status under the umbrella of the Shariʿah.

3.1 *Moral Firms*

Nature and structure of moral firms in an Islamic framework is examined here to see how they differ from traditional firms and what role they play in economic and human development. The following discussion is applicable to both traditional as well as financial firms. The Shariʿah scholars have unanimously agreed that Islam upholds the ownership of private property, condemns class conflict, assures workers’ rights and does not *permit* exploitation of poor and needy segments of society. According to the teachings of Islam, the goal of economic development cannot be achieved without human development, which has two dimensions: physical and spiritual. The ultimate goal is to please Allah (SWT), and to put in efforts to be rewarded by Allah (SWT). Man is accountable to Allah (SWT) for all his deeds. The Shariʿah desires that in all aspects of life, whether economic, political, social, psychological or cultural, the main objective is to observe the laws of the Shariʿah rather than to strive for mere worldly benefits. Similarly, pure profit is not the ultimate goal of entrepreneur; however, he has to maintain the economic value of production. Hence, following the above norms, the conventional firm can become the “moral firm” (Azid et al., 2007).

The Shariʿah scholars are unanimous that not only business affairs are the nucleus of a “Moral Firm” in Islamic framework, a moral framework, but welfare of the society also carries equal weight. In this cooperative-competitive environment, firms have the same responsibilities as any member of the society (Azid et al., 2007). As compared to neoclassical economics, the concept of efficiency and equity has a different meaning in the context of a moral economy. It is based on altruism, selflessness, fairness, justice, honesty, brotherhood, moral and ethical concerns, etc., rather than mere maximization of profit and material needs. It leads to the fulfilment of human as well as spiritual (non-material) needs and requirements. It is also worth mentioning that achieving perfect equality

is not the objective of a moral economy; the real target is achieving a decent standard of living. In this framework, firms earn profits while simultaneously serving humanity. This is the most important feature of moral firms.

To reiterate, it is assumed that it is the responsibility of moral firms to produce those goods which fulfil the needs of consumers while, at the same time, taking part in production of public goods, creating more job opportunities and increasing an Islamic society's wealth. However, the constraint is to produce within the periphery of the Shari'ah. If these firms are performing their jobs along the abovementioned lines, they are considered as efficient. This implies that more efficient firms are producing more public and club goods, and will be able to improve welfare of the society. The result would be that all socioeconomic agents will benefit from the working of the firms.

The role of the entrepreneur can be likened to that of '*Ebad-ur-Rahmān* – the individuals obedient to Allah, the Most Gracious (The Qur'an 25: 63-67). The characteristics of this type of a person are:

His utility is dependent on his prosperity and offspring, they have the ability of the self for virtuous, refining of the self, success due to purification, virtuous, thankfulness for Allah's bounties, worship of Allah and the pleasure of Allah (Azid and Asutay, 2007).

According to Hascall (2015), "Islam requires a certain amount of effort by Muslims to understand its requirements. As to trade, the merchant is required to have some rudimentary knowledge of the law. More specifically, the trader must know the *fiqh* of trade, and each one needs to know precisely enough about monetary transactions to avoid the fatal mistake of usury and the other haram transactions, just as the person who enters Islam needs to understand the unitary teaching (*tawhid*) and then must know enough of the prayer to be able to perform it correctly in its tim." (p. 342). Concentrating on Shari'ah-compliant functions of firm and merely considering the form of products and functions are, however, not the only responsibilities that moral firms have. They also have to consider the substance of products and functions. We earlier discussed the different stakeholders of Islamic firms. However, currently Islamic financial institutions are only claiming that they are launching Shari'ah-compliant products that have been approved by their Shari'ah

supervisory boards. These firms claiming Shari’ah-compliance should also look beyond the forms and contents of their products. If these firms do not treat their stakeholders according to Islamic law, claim that they are Shari’ah-compliant does not mean much. Unfair treatment of stakeholders risks damaging the “reputation and integrity” of an Islamic firm and distorting Islam’s image of providing distributive justice. This is where the Shari’ah advisors can provide true service to the community. Treating stakeholders well would enhance the image of Islamic moral firms, and attract more of those who are willing to deal with morally sound firms. At the same time, the application of distributive justice to ‘Islamic commercial transactions’ will ensure a fair and just society (Hascall 2015). Two ingredients, i.e. justice and Islamic business morals must be present whenever Shari’ah-compliant transactions are carried out. Hascall (2015) asserts, while discussing functions of the Shari’ah boards, “Companies and Shari’ah supervisory boards that focus simply on the forms of financial transactions - screening for *riba* and *gharar* - are missing an important ingredient in their analysis—social justice” (p. 342).

### 3.2 *Justice and Distributive Justice*

In the existing literature, one comes across different dimensions of justices, such as social justice, distributive justice,<sup>8</sup> commutative justice<sup>9</sup> and economic justice. These terms are related to income distribution, redistribution and correspondence policies. Different aspects of firms and distributive justice have been discussed by a number of scholars. For example, among others, Maitland (2001), Fionoa and Hagan (2003), Parker et al. (2011), Cru and Zinkhan (2008), O’Boyle (1998), Burke (2010) and Troilo (2011). Islahi (2005) observes that “distribution is of two kinds: Functional that takes place as a result of production process; it may be called initial distribution, and personal distribution which means redistribution. In Islamic system, the latter is much emphasized and a detailed scheme is found in its basic sources” (p. 39).

In a moral economy the concept of distribution is not the same as that in conventional economics. Burke (2010) agrees that “there can be no distributive justice where no one distributes”, a point that he attributes to Hayek (1978) who, according to Burke, denies the very existence of social justice or distributive justice; but he observes that “justice, including distributive justice, is a virtue, and as such can only be

practiced by men” (p. 297). He also remarks, “Justice pertains to what is owed to a person, and justice is satisfied when each gives what he owns and receives what he is owed. . . . In distributive justice, there are two sets of obligations: (1) what a person owes to a community of which he is a member, and (2) what a community owes to its members” (p. 298). He then goes on to define different types of justice. His definitions are reproduced here in Table 1 along with definitions of the various types of justice in the Islamic sense.

*Table 1: Definitions of Justice*

<b>Scholastic Term</b>	<b>Modern Term</b>	<b>Definition in the Conventional Scenario</b>	<b>Definition in the Islamic Sense</b>
<b>Justice</b>	<b>Justice</b>	To give what is owed	Placing things in their rightful place in the periphery of the Shari’ah
<b>Commutative Justice</b>	<b>Commutative Justice</b>	What is owed between two persons in exchange	Giving others equal treatment and placing things in their rightful place in the periphery of the Shari’ah
<b>Distributive Justice</b>	None	Obligations between a community and its members, divided into general and particular justice	What individuals are seeking and expecting from each other irrespective of their associations, devotions, likings, and biases, in the periphery of the Shari’ah
<b>General Justice or Legal Justice</b>	<b>Social Justice</b>	What the members of a community owe to that community	State of equilibrium in the distribution of rights and duties that may/may not be equal
<b>Particular Justice</b>	<b>Distributive Justice</b>	What a community owes to its members	Ensuring human dignity and human rights

*Note: First three columns are from Burke (2010, p. 299). The last column is addition by the authors.*

According to Burke (2010), “Commutative justice is satisfied when a customer pays the market price for a good, or when two goods of roughly equal value are traded. Theft and robbery, where one party



obtains a good in exchange for nothing, are violations of commutative justice." (p.299). In the Islamic system, however, commutative justice means that things should be placed in the rightful place. The moral firms should not give less for what they receive (The Qur'an, 17: 35; 83: 1-5). The management should also be doing justice by, for example, paying just wages, supplying the quality of goods according to the price they are charging, taking care of the environment, helping the needy members of the society and supporting welfare projects, etc.

In competitive markets, however, the exchange value is determined by the market forces. All renowned Muslim scholars, such as Abu Yousaf, Ibn Tayimayyah, Ibn Qayyam, Al-Ghazali and many others, support the market mechanism but they are in favor of a just price. Monopolists, on the other hand, charge higher than the just price, which is clearly not appreciated in the Islamic system.

In the current literature, social justice is considered as similar to legal/general justice. In the Islamic system, legal/general justice is defined as a state of equilibrium in the distribution of rights and duties, although they may not be equal. This is in line with the rules and laws of the Shari'ah. The concept of happiness is based on not only these worldly affairs but also the reward in the life hereafter that, in turn, depends on the good deeds of the entrepreneurs. This is the demand of social justice: to look after every member of society. Viewed from this angle, it is the responsibility of a moral firm to see the needs of its workers and fix the wages accordingly, to fix the price of its products accordingly, to pay taxes and zakah (obligatory religious due) for which it is liable, to help the poor members of society and, last but not least, to spend for the welfare of the community.

Distributive justice, as defined in the conventional sense, is seen as community and its members, divided into general and particular justice whereas Islam defines distributive justice as what individuals are asking and expecting from each other. They are not concerned with their associations, devotions, likings, and biases in the periphery of the Shari'ah and give more emphasis to redistribution as discussed by Islahi (2005). This is because every creature of Allah (SWT) has its due right, and it is applicable to animals, trees, environment and etc.<sup>10</sup> And, this distributive justice is not similar to the one found in the conventional system.<sup>11</sup>

In the Islamic system, the benefits are distributed on the basis of position and standing of the individuals in the society;<sup>12</sup> similarly the costs are also not paid on equal basis. Generally, it is based on the ‘ability to pay’ approach instead of the principal of benefit, for example, the payment of zakah. The distributive justice in the Islamic environment is based on the degree of *taqawa* (piousness), either on the individual or community basis. However the rules and laws are formulated under the guidance of the Qur’an and the Sunnah (actions, deeds, saying and tacit approvals of the Prophet (pbum)). If there is a need for further explanation, Muslim Scholars would use *Ijtihad* (fresh thinking in the light of the Shari’ah principles). The decisions are made by following these stages:

- 1) first consult the Qur’an;
- 2) then consult the Sunnah of the Prophet (pbuh) and
- 3) through *Ijtihad*.

Another option is to go by certain customs known as *‘urf* (customs in the society). However there is a constraint - this should not have any conflict with the basic norms of the Shari’ah. Islam allows adherence to *‘urf* provided it does not have any conflict with the laws of the Shari’ah. The reputation of the business firms is not only dependent on how efficient and well performing these firms are but also on their relationships with the society and their stakeholders, the level of their honesty and truthfulness, and to what extent these firms are following the basic norms of the society and their degree of transparency.

Hascall (2015), after explaining the prohibition of interest and *gharar* in business transactions rationalized, “Moreover, the protection of the weaker party in a transaction is at the root of these prohibitions. As such, Islamic ideals of social justice apply to Islamic commercial transactions, which are designed to ensure a fair and just society” (p. 309).

### 3.3 *Distribution of Shares under Joint-Venture*

According to Islamic Jurisprudence actions which are religiously, morally and ethically driven are the pre-requisite for the survival and prosperity of society. Teachings of Islam abhor dishonesty in all affairs and underhand competition while supporting a friendly society and a

tradition of mutual cooperation.<sup>13</sup> Musharaka and Modarabah, two joint business ventures with either both partners or one of the partner provides the capital, are the best examples of mutual cooperation in the Islamic economic system. It is also interesting to note that earning profit is not the only objective and aim of traders and manufacturers but also to reduce the level of poverty, to motivate human resources to produce more efficiently, to increase the degree of creativity, to increase the knowledge which is useful for the whole community, to create innovative ideas, and etc. Ibn Khaldun (1967) stated that the foremost drive of traders and manufacturer should be to (i) create an environment of cooperation and also an environment of understanding among the different members of the society, (ii) provide, fulfill and satisfy the needs of the society, (iii) increase prosperity through developing the assets and income (wealth) of the society, and (iv) develop new cities.

Islamic system have some specific norms, i.e., the establishment of justice through commercial and business laws, protecting property rights especially the rights of women without any discrimination, developing the legal structure which will reduce fraud, cheating and dishonesty, developing those institution which control internal situations, protect and defend the community, reducing the poverty level of the society, improving the conditions of physical as well as social infrastructure, etc.

There is often a question about justice in the distribution of shares. The Islamic economic system has developed a very systematic way for a just system. Although it has different modes of business-sharing, the most common are Modarabah and Musharakah. In both these modes, the percentage of the shares is pre-determined and the prerequisite is that there should be no force on any party to accept it. Under such circumstances, there is a little opportunity for injustice. However if someone wants to sacrifice for the good of other members of the society, then he will get the reward from Allah (SWT). If he willingly accepts a smaller share than what is due to him and the other receives the larger share than he deserves by mutual consent, both will get rewards from Allah (SWT) as it will be a gift from that member. Thus this is not an act of unjustness but that of generosity and it is the duty of the receiver to pray for the giver.<sup>14</sup> Islam promotes justice in all spheres of life.<sup>15</sup> However, if due to certain misunderstanding, someone is getting more shares that were stated in the contract, then he has to pay back to the other party.<sup>16</sup> If the other party is not available or has passed away, he

should give it to the other person's heirs or if that is not possible, then he should give it away to charity with the intention that the reward will go to the rightful person.

In the current and present scenario "the shareholders exert pressure on executives to keep salaries and wages down, and workers, looking to get the highest compensation possible, unionize or threaten to unionize in order to get better bargaining power with the firm. Where there should be a unity of purpose there is instead conflict" (Burke 2010, p. 306). However, moral firms in the Islamic perspective are not encountering these conflicts because the motive of every economic agent is not only to earn worldly benefits/profits but also to earn rewards in the life hereafter. However the distribution of shares should be according to the risk which is borne by every agent.

From the perspective of *Modarabah* and *Musharakah* the distribution of the profit is based on the level of the risk which is borne by the shareholders based on complete justice, whereas the loss will be according to the share of the capital.

It is an acknowledged economic phenomenon that generally high degree of unemployment persists during recession. However in relative terms, it has less impact in the setting of *Modarabah* and *Musharakah* because only the share of the labor will be reduced. This is not very complicated - labor and capital are both not included in the cost of the firm. Furthermore, labor is also considered as an asset of the firm and profit is divided between labor and capital according to predetermined conditions - if there is loss, then labor will not receive any amount and will not be rewarded. The structure of *musharakah* is very simple and straightforward. Both labor and capital are considered as assets, so they are not included in the cost of the firm. If profit is positive, then it is distributed among the workers and capital on predetermined conditions. If there is loss, then both labor and capital will suffer, i.e. funds provider will observe the loss in his capital and labor will not be compensated. However it is also recommended that a fraction of the retained earnings which were not paid as dividend should be paid to the workers on par with their subsistence level. In that way they will not leave the firm and the firm will not lose its skilled labor force. Economists concur that the degree of recession can be mitigated if firms maintain distributive justice/social justice (Burke, 2010). They argue that unemployment has

more adverse impact on the aggregate demand than the low wage but with continuous employment. However some appropriate policies can be formulated by the government where it is necessary regarding the distribution of the wages to the workers, especially during recession.

*Table 2: Organizations Furthering Common Goods*

Type	Welfare Motive	Profit Motive	Revenue Source in Conventional Scenario	Revenue Source in Islamic Scenario
Government Agency	Yes	No	Taxes	Taxes and Zakah Fund
NGO	Yes	No	Donations	<i>Sadaqah</i> and Zakah Fund
NPO	Yes	No	Donations	<i>Sadaqah</i> and Zakah Fund
Hybrid Enterprise Religious Enterprise Like Waqf in Islam	Yes	Yes	Sales of Goods and Services	Sales of Goods and Services, Zakah Fund and <i>Sadaqah</i>
Socially responsible firms (Moral Firms)	Yes, but secondary to earning profits	Yes	Sales of goods and services	Sales of Goods and Services

*Note: First four columns of this table are taken from Table 1: Organizations Furthering the Common Good by Troilo (2011, p. 24), with the addition of explications of Hybrid Enterprise and Socially responsible firms. The fifth column is also addition by the authors.*

Ultimately, it is the responsibility of the government or state to produce and distribute those goods which private enterprises are not able to produce due to economic or social reasons. Nevertheless some other types of firms may emerge to produce common, public, social and club goods. Table 2, taken from Troilo (2011) and modified, lists various organizations that may play a useful role in the delivery of the public/common goods, and also describes their source of revenues.

#### 4. Conclusion

An environment of justice and cooperation and an environment without conflict increase the efficiency of firms. As a result, capacity and efficiency will increase and generate benefits for all economic and social agents. The basic norms of Islam, such as justice, fairness,

brotherhood, cooperation, truthfulness and honesty promote harmony in the society as well as in the economy. In this cooperative-competitive environment, trust is a necessary and essential condition for successful business relations and transactions. Trust increases the goodwill of the firms. It is the duty of the firm to protect the interests of its employees, shareholders, society, and state while simultaneously stakeholders have responsibilities towards each other, towards the firm and society in general. In an environment of justice, all economic and social agents avoid conflict and promote cooperation among themselves. The market mechanism is much appreciated because it generates just wages and just prices but if there are some market imperfections, then this system allows the intervention of the state.

Islam also prescribes values to the moral firms. Distributive/social justice is the main requirement of the Islamic system. A number of verses from the Holy Qur'an have discussed and emphasized this. Islam through its teachings tries to bring about cooperation among the different economic and social agents to avoid conflict. The instruments of Modarabah and Musharakah are very helpful in enhancing the social justice/distributive justice. Even in the period of recession, the effects of recession can be mitigated through these instruments. In a nutshell, the firms in the Islamic system do not work in a cocoon. In fact they are a sub-set of the universal set of Islamic teachings and norms. And, it is interlinked with the economic, social, psychological and religious sectors of the community/economy.

Moreover, the main objective of Islamic jurisprudence is to protect the weaker members of the community and that requires distributive justice which includes economic justice. In fact, the prohibition of interest and *gharar*, is to protect the disadvantageous segment of the society. Towards this end, it is also the duty of the Shari'ah supervisory board to evaluate deeply the forms and substance of the products which are launched by the Islamic moral firms.

### Endnotes:

1 As also noted by Crossman (2015, pp. 2-3), the revenue maximization hypothesis (Baumol, 1959), the managerial discretion model (Williamson, 1964) and the growth maximization model (Marris, 1964) rest on the idea

of separation of ownership from control, first suggested by Berle and Means (1934).

2 In the current structure of business, “the owners (shareholders) are not the decision makers. Instead, professional managers (agents) are employed to make business decisions on behalf of the shareholders, who as a collective body have the right to replace the management but are not otherwise involved in the management of the firm» (Crossan, 2015, p. 2).

3 According to the Qur’an, “We [i.e. Allah (SWT)] did indeed offer the trust to the Heavens and the Earth and the mountains; but they refused to undertake it, being afraid thereof; but man undertook it; he was indeed unjust and foolish” (33: 72).

4 Azid et al. (2007) have discussed the behavior of an Islamic firm towards its stakeholders. The present study looks into how stakeholders behave in the same context.

5 Pope Leo XIII defined just wage as an amount needed to support a thrifty and upright worker plus his family, and be sufficient enough to allow the worker to save and acquire property of his own. See more at: [https://capp-usa.org/social\\_thought/147#sthash.Gwrj123w.dpuf](https://capp-usa.org/social_thought/147#sthash.Gwrj123w.dpuf).

6 The point is enunciated in the Qur’an as follows: “Woe to those that deal in fraud, who, when they have to receive by measure from others, take by full measure, but when they have to give by measure or weight to others, give less than due” (83: 1-3).

7 «Wrong not, and ye shall not be wronged» (The Qur’an, 2: 279) and «Lo! Allah enjoineeth justice and kindness» (The Qur’an, 16: 90).

8 “[D]istributive justice pertains to the obligations between a community and the members of that community” (Burke, 2010, p. 298).

9 Commutative “justice pertains to what is owed between persons in exchange” (Burke, 2010, p. 298).

10 «Certainly human being has been created on the best nature (with the perfect stature)»(The Qur’an 96:4).

11 From the Islamic point of view, all the goods which are created by Allah (SWT) are for all the members of community and everyone has the right to take the benefit from them. And no one has the right to use them for the harm of the society. Islam also provides the training to the individuals and society about the morals and how these morals are useful for the upliftment of economic activities and how economic coordination can be developed among the different segments of the economy and society through moral values.

12 In the conventional system, «distributive justice demands that the benefits and costs of the community be distributed in proportion to the position or standing of individuals within that community» (Burke 2010).

13 According to the Prophet (pbuh), one who brings supplies to markets is like a warrior in the war for God, and a truthful, honest merchant will be with the prophets, the truthful ones and martyrs on the day of judgment’.

14 “Whoever does you a favour, respond in kind, and if you cannot find the means of doing so, then keep praying for him until you think that you have responded in kind” [A Hadith of *Sunnan Abu Daawood*].

15 «Truly God commands you to give back trusts to those to whom they are due, and when you judge between people, to judge with justice» (The Qur’an, 4:5 8). «And act justly. Truly, God loves those who are just» (The Qur’an, 49: 9). «And let not the hatred of others make you avoid justice. Be just: that is nearer to piety» (The Qur’an, 5: 8).

16 The Prophet Muhammad (pbuh) said, «Truly your blood, your property, and your honour are inviolable» (A Hadith of *Sahih Bukhari*).

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# In This Issue

## *Articles*

**Mohamed Aslam Haneef and Sayyid Tahir**

Guest Editors' Note - Rethinking Islamic Economics and Finance:  
Taking Stock and Moving Forward

**Abbas Mirakhor**

Risk Sharing and the Fragilities of the Debt-Economy

**Muhammed Wasim Naser**

Theology and Ethics in Adam Smith: A Case for Islamic Economics

**AbdelRahman Yousri**

Islam and the Challenge of Economic Development in  
the Muslim World: Review and Evaluation of Secular Arguments

**Toseef Azid and Osamah H. Rawashdeh**

The Notion of Moral Firm and Distributive Justice in  
an Islamic Framework

**Zeyneb Hafsa Orhan**

Content analysis on the origins of Islamic Economics: Contextualized  
interpretation of two bibliographies in the 20<sup>th</sup> Century

**Abdul Azim Islahi**

History of Islamic Banking and Finance

**Ma'bid Ali Jarhi**

Islamic Finance at the Crossroads

**Muhammad Ayub**

Islamic Finance at 40: Way Forward for Maqasid Realization

**Imene Tabet and Monzer Kahf**

Design of Islamic Financial Certificates for Housing  
Development in Algeria

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