CORPORATE ETHICS AND ISLAMIC FINANCE: RECONTEXTUALIZING THE CONVERSATION

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While there is much focus on ethical business practice, nobody seems to agree on what, exactly, that ethical practice should look like. Some, like economist Clive Crook, feel that so long as companies act within the law and the constraints of "ordinary decency" (Sternberg qtd. in Clive 12), they are free to do whatever they see fit in their pursuit of profits. In other words, Crook argues, "the proper business of business is business" and nothing else (Clive 14). On the other end of the corporate ethics debate is economist Geoffrey Heal, who notes that conflicts "between social and corporate interests in general hurt both parties," and who therefore encourages corporations to take public welfare into account in their business dealings (18). These two theorists provide starkly contrasting views of what business is and should be, but they do share one common feature: both men focus exclusively on American business practices, from Heal's examination of "Wal-Mart and Starbucks and Monsanto" (3-4) to Crook's discussion of "Ford, General Motors, Procter & Gamble, [and] Time Warner" (7). The focus on American business shapes the claims that both men make, which are derived from a shared set of assumptions about the business world. Crook and Heal appear to take for granted that the American business model is the only one worth examining, and that the features of corporate America are universal to the discussion of business ethics in general. But what happens if these assumptions are stripped away? If the issue of business ethics is reframed in a non-American—and even non-Western—context, how does the conversation change? Are Crook and Heal's theories still valuable, or do they completely fall apart in a non-American business paradigm?

One of the most powerfully non-American paradigms, and therefore one of the best suited to an examination of these questions, is the world of Islamic finance. Islamic financial institutions (IFIs) are the largest investment banks found across the Muslim world. They function not only as corporations, but as religious and social institutions. In an article titled "On Corporate Social Responsibility of Islamic Financial Institutions," Sayd Farook writes that an IFI serves "to operate a financial intermediary for individuals in the community wishing to comply with Islamic law" (34). IFIs are banks like any other: they manage investments, offer loans, and hold accounts for clients looking to maximize the profit from their private assets. However, they are bound by a religious moral code that obviously does not guide the businesses discussed by Heal and Crook. Contrary to Crook's claim that the "perceived tension between private profit and public interest" is inescapable (7), the constitution of an IFI shows no conflict between the bank's private affairs and its obligation to uphold a larger moral standard and act for the public good.

The moral foundation of Islamic finance doesn't mesh with Crook and Heal's theories about business ethics. Both Crook and Heal seem to view companies as fundamentally self-interested and amoral. Even Heal, who argues in favor of more stringent restrictions in business, writes that ethical business practice "works well only if corporations do maximize profits" (17). Although he is concerned with social welfare, to him, it is a simple truth that businesses' primary concern is profit. Heal frames his discussion of business ethics in terms of private profit, trying to explain moral behavior on the grounds that "companies can gain financially from concern about environmental and social impacts of their activities" (2). This profit-first philosophy, however, cannot be accurately applied to Islamic financial institutions. Some of the most common practices in Islamic finance go directly against the principle of profit maximization; most notable among them is the *qarḍ ḥasan*, a form of interest-free loan offered by IFIs (Farook 40). Interest-free lending is required by the ethical structures that frame Islamic finance but is in direct conflict with the profit-based business model that Crook and Heal take for granted.

The assumption that corporations are driven by self-interest can be framed as a product of the cultural context in which both Crook and Heal operate: a humanistic, secular, Western culture. In particular, corporate America has been directly influenced by the thought of Scottish Enlightenment thinker Adam Smith and his claim that self-interest is the basis of a functional economy (Crook 9, Heal 4-5). Both theorists use Smith to try to further their understanding of corporations and corporate ethics, and with American case studies, it is fair of them to do so. Adam Smith is a thinker of the West, part of the eighteenth-century European school of thought that created the classical Western understanding of economics (Broadie). His theories emerged in a specific, inescapable cultural context; using Smithian thought as a theoretical lens will not provide a clear view of businesses outside of this context, and it is on this point that Crook and Heal stumble. They speak of Smithian business practices as if such practices were universal, when actually they are contextually dependent. In its statement on corporate social responsibility, the Institute of Islamic Banking and Insurance—an IFI based in London—notes that those "who hold materialistic-secular views will tend to approach social and business problems and issues from different premises and perspectives as compared to those holding the Islamic worldview" (3). In other words, the constitution of an IFI is fundamentally different enough from that of a private American corporation to problematize the application of Crook and Heal's unstated assumption of profit as a company's primary—or only—goal.

Furthermore, if this assumption is born out of an unquestioned reliance on Adam Smith's theories, then the debate about non-Western business ethics can be reframed. The question of whether Crook and Heal can be applied to IFIs is really a question about the applicability of a Smithian paradigm. When Heal describes Smith's theories as "some of the eternal verities of economics" (4), his generalization is simply too broad to be of any use. Crook's claim that Smith "wrote the book on corporate social responsibility" (9) is accurate insofar as Smith's *The Wealth of Nations* captures the ethical questions at the heart of Western businesses, but it is still inadequate. Western corporations that fit into a Smithian paradigm do so not because the paradigm is universally applicable, but because they are *designed* to fit into it. These businesses are founded and managed by Western thinkers who subscribe to Smith's worldview, and so they are actively shaped to be Smithian. IFIs, however, evolved independently of Adam Smith's thought, and it is apparent that they do not fit into his conceptual framework of business. The Smithian view of business is fundamentally flawed: it serves only to prescribe a certain viewpoint in the practice of business, and it is inadequate as a broader descriptive tool for companies that aren't subject to its prescriptions.

Are Crook, Heal, and Smith then useless in any non-American discussion of business ethics? Are their unstated assumptions about the nature and function of business so strong as to make their theories irredeemable? Perhaps not entirely. What is certain is that their ideas need to be recontextualized and applied in new ways. For example, Crook's contention that ethical business practice can be reduced to the principle of "ordinary decency" (12) still applies in the Islamic context. No one in the world of Islamic finance has claimed that IFIs should *not* behave decently. The difference is that IFIs have a much broader definition of what "ordinary decency" looks like. For Crook, decency is a list of things not to do; a company is decent so long as it refrains from "lying, cheating, stealing, killing, coercion, physical violence and most illegality" (Sternberg qtd. in Crook 12). IFIs, on the other hand, are obligated not only to act within the constraints of temporal law, but to ensure "that all aspects of their operations should be conducted in a [religiously] permissible or recommended manner" (Farook 35). They are subject to additional constraints that go untouched by Crook's vision of business: they must contribute a portion of their profits to charity, make allowances for poor debtors unable to repay their loans, and invest only in sectors that align with Islamic moral principles (Farook 38-39). All of these restrictions, though seemingly unrealistic and certainly excessive by Crook's definition, are simply considered part of ordinary decency in the world of Islamic finance. The notion of "ordinary decency" is not nearly as straightforward as Crook seems to think, and is actually dependent on the cultural context in which a company operates.

This broadened definition of such a simple principle has staggering implications for the discussion of corporate ethics, not only in the context of Islamic finance, but in the world at large. The concept of decency can be extremely broad or extremely narrow depending on context, and the ambiguity of the term is a major problem for Crook's argument. Many of the practices that Crook considers perfectly acceptable—driving competitors out of business, creating barriers to entry in a market, and so on (14)—can be gross violations of ordinary decency in non-American moral systems. When the element of cultural relativism is introduced into the conversation, those practices can no longer be justified by Crook's principle, even in the original American cultural context. If ordinary decency does not *always*, and universally, allow for certain business practices, then it cannot *ever* be invoked as a sufficient justification for a company's indulging in those practices.

Here, it is important to specify the stakes of this argument. Whether antisocial, profit-oriented business practices are actually morally justified, in some external sense, is beside the point. The question is rather about the broader applicability of the criteria used to evaluate those practices. If Smithian theorists wish to continue to justify profit-driven behaviors on moral grounds, they must find a way to do so that does not rely on a contextually confined model of business. A discussion of corporate ethics—whether on the level of what companies are or of what they should be—must necessarily take into account the realities of business on a global scale, and not just one version of business filtered through a specific cultural lens. The steadfast belief that "managers, acting in their professional capacity, ought not to concern themselves with the public good" (Crook 14) is best abandoned, because this normative claim does not withstand cross-cultural scrutiny. Instead, theorists using Crook's ideas would do well to understand that the relationship between a company's managers and society need not be exclusively one of profit maximization. His claim that "where the law does not create accountability to non-owners, there is none" (13) may be false, but that does not have to invalidate the larger idea of his argument; a more inclusive, less context-dependent sense of "ordinary decency" can still be the foundation of business ethics.

What, exactly, does looking at IFIs reveal about corporate ethics? It uncovers the things that are being taken for granted in the conversation about this key issue. It calls into question assumptions, like the Smithian business model, that would otherwise go unremarked, and it necessitates a broadening of the conversation. Looking at corporate ethics through the lens of Islamic finance opens theories up to make them more comprehensive and better suited to a universal understanding of business ethics. In turn, these broadened theories can be reapplied in the Western context that started the debate. How do the practices of American corporations come into question when evaluated with non-Smithian principles designed for application to a global business community? How would the world of American finance in particular compare to IFIs when stripped of a Smithian context? These are some of the biggest questions raised by Islamic financial ethics, and they will help to push the Smithian ethics debate forward.

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