

# **Business and Islam: Introduction to the Proceedings of the Seminar**

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These Introductory Comments to the Proceedings were prepared by

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The seminar on Business and Islam, also referred to as "a seminar on doing business in countries where Islam plays a significant role in the business culture." Other phrases used to refer to the topic include "Entrepreneurial Islam," "Business from an Islamic Perspective," "Islamic Economics" and "Islamic Finance." The seminar followed by 18 months another workshop on Islamic economics that had been held in Egypt. Professor Mohamed El-Hodiri of the Department of Economics at the University of Kansas, and Professor Sultan Abou Ali were the scholars who conceived of this international project on Business and Islam. Melissa Birch, director of the KU Center for International Business Education and Research, was particularly helpful in putting together the program. The African Studies Center organized the details of the seminar. This introduction to the proceedings summarizes the presentations and the discussions. Full transcripts of the lectures, and resumes of the speakers, are presented separately..

The seminar featured: as keynote speaker and visiting consultant, Dr. Sultan Abou Ali, Professor of Economics of Zazazig University, Egypt; Dr. Mahmoud El-Gamal, Professor of Economics and Distinguished Chair of Islamic Economics at Rice University, Houston; Dr. Mohamed El-Hodiri, Professor of Economics, University of Kansas; Dr. Yahia El-Shaikh, visiting scholar at the University of Kansas School of Law; Bruce Bradshaw, former executive of World Vision in Asia and Africa and Economics & Development Professor, Bethel & Hesston Colleges, in Central Kansas; and Dr. Patrick Fitzgerald, Professor of Business and former dean of the Business School of Oklahoma City University.

The seminar began with a dinner at the Kansas Union. Provost David Shulenburg welcomed about twenty-five speakers, registered participants, business practitioners, and guests that included John Watson, Trade Development director of the Kansas Department of Commerce. Later the

group joined the public keynote lecture by Dr. Abou Ali, former Minister of Economy and Trade of Egypt. The gathered scholars, students, and business representatives learned about the relationship of business to Islam in a range of settings in North Africa, the Middle East, and in the West.

Professor Abou Ali opened his keynote address by defining his topic as business, which is making a profit, and how businesses have been affected by monotheism in general, and by Islam in particular, which means "submission to God, "peace with self and other," in the context of family, country, and organization. Islamic economics thus embraces such notions as ethics in business, social economics, social justice, and caring for the poor and marginal. The relationship between Islam and business is ancient, as old as Islam itself, since the prophet was himself a merchant. The ways that Islam is present or influences business includes: the Qur'an, directly; the hadith, or oral traditions; reasoning by analogy; and consensus among the majority. Islam's precepts and worship forms and practices influence business. However, there are also other Islamic practices and bodies of knowledge variable to time and place that affect business practices.

Dr. Abu-Ali raised the importance of concepts in understanding Islam, and doing business in Muslim countries. The precepts of Islam (literally Submission to God) can be grouped into beliefs, worship, and transactions. Beliefs and worship are constant, while transactions are variables, guided by moral values. In transactions, *riba* (widely translated as interest) and causes of imperfect markets such as asymmetry of information, adverse selection, and moral hazard are prohibited. Banks try to figure out how to stay in business without charging interest. Yet, as Abou Ali suggested, and Professor Al Gamal concurred, the issue of interest is over-emphasized. At stake are the undue charges on the poor, the unjust practices of the wealthy elite over the poor, and what this does to society. Thus the "Islamic" in economics features moral values such as "the ends do not justify the means," "justice," "truth," "trust," "equity," "*sharia* or the democratic rule of law," "perfection and work," and "moderation." Islamic economics is the infusion of social and ethical values into business that results in a way of doing business to achieve the best outcome for the most people. Or, otherwise put, it results in the customer of a transaction receiving true economic value.

The speakers in the seminar demonstrated the various ways that knowledge and practice in Islamic economics may be established and studied. Yahia El-Sheikh described *sharia* law as it applies to banking, credit for purchases, and labor laws. He stressed the three prohibitions of Islam in the area of

business: no *riba*, which he translated as interest, no trading in risk, and no trading of unlawful commodities. So transactions should be based on profit and loss sharing. The banks play the role of safe-keeper, and can reward depositors with gifts that are not guaranteed.

In his opening presentation to the first panel on Saturday morning, entitled "Concepts Underlying Business and Islam," Mohamed El-Hodiri stated that Islamic economics was really a case study of social economics. He stressed the role of spiritual capital as the core of constructing and accumulation of social capital, which is the infrastructure of human capital, including trust, networking, and caring for the commons. He pointed out that Adam Smith's invisible hand requires the existence of civil society in order to work, and conjectured that if you pull the individual from the society, you don't get the benefits of market mechanism. Therefore it is necessary that we think in terms of social capital instead of physical capital. Social capital, rather than physical capital, would be the goal of an enlightened economy.

Mahmoud El-Gamal's presentation "Islamic Finance: Between Classical law and Contemporary Practice," exposed how bankers are circumventing the most popular prohibition (*riba*), and overpricing their services. He offered illustrations of Islamic economic practices and tested them against modern economic theory on the one hand, and traced their origins to Medieval jurisprudence, in particular the work of 12<sup>th</sup> century scholar Averroes, who developed a coherent jurisprudence with regard to economic activity. The main ingredients of the laws of Islamic finance would seek to curtail predatory profit, lessen religious insecurity, and highlight just contracts. An Islamic solution would lessen arbitrage costs, indulgences, and the excessive profits taken by banks. El-Gamal suggested that Islamic laws, applied in this way, would favor a kind of credit union in which the profits of investment would go to the investor rather than the banker.

Panelists raised the question of whether these principles that tended to minimize usury, and the "supernormal" accumulation of profits, might have contributed to the economic decline of the Islamic societies, in favor of the West. The issue of colonialism was raised. Abou Ali in his closing discussion of the first session noted that the very discussion of Islamic economics only emerged out of British and French colonial regimes in the Middle East. Yet, in answer to a question after his keynote, he rejected colonialism as a current reason for business weakness. "We have been liberated for sixty years," he suggested. We have to look at ourselves and our situations, we cannot blame colonialism. Yet what might account for the

relative weakness of the economies in Islamic countries? The question lingered and was addressed by various speakers.

A second session, chaired by Melissa Birch, Director of CIBER, was entitled "Doing Business in Islamic Settings." Patrick Fitzgerald, former dean of the Business School of Oklahoma City University, opened his remarks on teaching Islamic economics by describing the module on Islamic culture and Islamic financing that he had developed for MBA students. He suggested that business students in today's world should at least be aware of some of the principles that were being promoted in Islamic communities and societies with whom they might come in contact, or whom they might have as clients.

Bruce Bradshaw spoke from his experience with World Vision as a development project planner and evaluator in the Islamic regions of Africa and Asia, and his experience as a teacher of economics and business. Although there is much diversity in societies of the Islamic world, he concentrated on business and development in the Islamic societies from Senegal to Somalia. These are some of the poorest countries on earth. They are also Islamic. Is there a connection? He said he thought not, because religion can energize just as it can suppress human activity. He noted that in these countries one could generalize that there had been a "market failure", meaning that the market had not been accessible to the majority, the poor. Rather, the market is dominated by a minority, an entrepreneurial class that has undue influence on the economy. How or why did they emerge? Often they are not Muslim, and their treatment of the Muslim majority is not just. He identified a continuum of transactional practices—tips, gifts, catering to special interests, bribes, extortion—that defined business. One needed to identify the function of social positions and how these practices defined relationships between them. Narrow economic interests are often counter-productive. In order to build social capital and strengthen civil society it is necessary to emphasize mutuality rather than taking advantage of the weakest. Multinational corporations in a globalized economy often extract labor for a very minimal wage—e.g., Nike hiring Indonesian workers for \$1.50/day, and selling its products for exorbitant sums. Does the business engage social capacity or strengthen the value of labor in a country? Does it foster the quality of relationships? Most businesses in the region he focused on have been parasitic. There is thus a need to invest in infrastructure and society: roads, schools, health, in short, to empower people. Thus, market failure has led to impoverishment on the backs of the poor. Islamic economics would reverse that.

Yahia El-Sheikh's comments from this session have already been presented above in connection with basic legal principles of Islamic business and finance.

During the course of the presentations and discussions the most noteworthy scholarly sources were identified for analyzing Islamic economics. Certainly one must begin with Averroes, the medieval scholar who articulated the legal precepts that should guide economic activity. Max Weber's writing on religion and economics, his study of the relationship between Protestantism and entrepreneurs in post-Reformation Europe, and his comparative writing would be another important source. El-Hodiri mentioned Karl Marx and Thorsten Veblen as authors who had formulated issues of social capital, the former in early industrial Europe, the latter in early 20th century United States. Ibn Khaldun was also mentioned as an Islamic scholar (15<sup>th</sup> century) who engaged with the West at a time of transition and flux in the Islamic world. Sheikh Quasadan was also mentioned. Several papers by Abbas Mirakhor, Executive Director, International Monetary Fund (IMF), were made available to conference participants. "A Note on Islamic Economics" (April 2005), "Muslim Contribution to Economics" (2003), and "Islamic Finance and Instrumentalisation of Islamic Redistributive Institutions", *New Horizon*, (May, 2004).

In the after-lunch open discussions, further ideas were raised. The moderator Abou Ali insisted on the relevance of this type of opportunity in bridging the information gap between Muslim societies and the West by bringing up fruitful discussions. He insisted that the economic situation of Muslim countries is a source of concern. However, he reiterated his conviction that nothing in Islam, itself, is slowing these economies down. He advocated putting knowledge to the service of moral values and cultural elements. The word justice was frequently mentioned in his closing comments, urging people to do business with the Muslim world and to address the causes of extremism.

Professor Janzen called for a broader scope in the analysis of issues related to Islam by integrating the study of Muslim communities in national societies--e.g., Mourid and Tijaniyya in Senegal—that are larger than households but smaller than all of Islam. He summarized seminar interventions as falling into one of two visions. A Calvinist vision (the Western ideal) that focused on how to produce capital without being bogged

down in social arrangement by isolating the individual. A second approach seemed to entail cashing in all capital to redistribute to the poor to let them rise from the ground. Do these cultural models have an effect on the way business is done?