International Journal of Business and Society, Vol. 18 S1, 2017, 113-128

THE ROLE OF ISLAMIC ETHICS TO PREVENT CORPORATE FRAUD

Ahmad Saiful Azlin Puteh Salin♣
Universiti Teknologi MARA

Siti Khadijah Ab Manan
Universiti Teknologi MARA

Norlela Kamaluddin
Universiti Teknologi MARA

Anuar Nawawi
Universiti Teknologi MARA

ABSTRACT

The purpose of this paper is threefold. First, it is to highlight corporate scandals in Malaysia. Second, it is to discuss major causes of these scandals. Third, it is to recommend possible actions and preventive measures to curb these scandals from the Islamic point of view. On the whole, the paper will motivate researchers to initiate and commence research into Islamic ethics and governance.

Keywords: Fraud; Corporate Scandal; Code of Ethics; Islamic Ethics; Malaysia.

1. INTRODUCTION

In recent years, public and business communities have been surprised by the exposure of many corporate scandals and accounting fraud committed by company managers. This has disappointed many stakeholders, as, after the financial crisis in 1997, many efforts have been initiated and implemented to strengthen the business control and company conduct (Salin et al., 2011). It was acknowledged that one of the most important lessons learned from the financial crisis of 1997 is that weak corporate governance practices, such as too much power given to a single person in managing the company, weak internal control, and poor ethical work of directors have contributed to a company's failure and poor performance (Rahim et al., 2017; Ahmad et al., 2016; Zakaria et al., 2016; Omar et al., 2016; Asmuni et al., 2015; Salin et al., 2015; Hamid et al., 2011).

Realising this, market players around the world, including watchdog agencies and regulatory bodies, have embarked on a total overhaul of the corporate governance ecosystem in their respective country. From the United States (US) with the establishment of the Sarbanes Oxley Act, in the United Kingdom (UK) with the Code of Corporate Governance (formerly known

♣ Corresponding author – Ahmad Saiful Azlin Puteh Salin. Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch Tapah Campus, 35400 Tapah Road, Perak, Malaysia. Email: ahmad577@perak.uitm.edu.my/ saifulazlin@yahoo.com

as the Combined Code), and in South Africa with the South African King Report I, II and III, these guidelines were extensively established and revised to stop all these corporate diseases from spreading and becoming a cancer for the global business community. In Malaysia, the country's very own corporate governance guidelines, the Malaysian Code of Corporate Governance (MCCG), was issued in 2000. It was revised seven years later, to become known as MCCG (Revised 2007). The Securities Commission in July 2011 issued the Corporate Governance Blueprint 2011 – Towards Excellence in Corporate Governance (the Blueprint) with the aim to strengthen self and market discipline, complement regulatory discipline, promote internalisation of corporate governance culture, and underpin the sustainable growth of the company. The MCCG 2012 then launched in March 2012 as a first deliverable from the Blueprint.

However, all this effort seemed fruitless, as, after intensive works done by regulator and market administrators, corporate scandals still returned but with more searing facts. In the United States, for example, the Sarbanes Oxley Act, which was enacted on July 2002, did not solve problems, it created bigger problems for companies. Apart from too much compliance cost, these rules-based regulations did not educate the corporations and their players on the importance of good governance and corporate responsibility but merely taught the company the skills of "ticking the box" to meet the terms of the Act. As a result, the accounting scandals still persisted. In 2005, the American International Group (AIG), one of the largest multinational insurance corporations, was investigated for fraud. Billions of US dollars were manipulated as errors in accounting transactions. A few years after that, Lehman Brothers Holdings Inc., which filed for bankruptcy, caused the subprime mortgage crisis that later played a part in the global financial crisis. This financial services firm also was involved in massive accounting fraud.

The scenarios, from hundreds of irregularities and cases, have just concluded that laws and regulations are no longer a safety net and the last shield of protection for the stakeholders. As posited by Schwartz et al. (2005), now is the right time for the business community to place emphasis on the ethical obligations more on the regulations' obligations. They also should stop from depending too much on laws and regulations. Revision, revamp, and introduction of new rules and guidelines seem like an unsuccessful effort to curb all the scandals and corporate criminals, as there has been a never-ending problem of mismanagement and manipulation by greedy top management.

Recognising the situation, the purpose of this paper is then to compile and highlight some of the selected Malaysian corporate frauds and scandals and address possible factors that may contribute to the situation. Thus, this paper recommends alternative ways to combat and solve the problems from Islamic perspectives. To the best of our knowledge, the religious perspectives in solving the moral problems have been neglected by prior empirical studies. Ironically, ethical teachings of most religions such as Judaism, Christianity, Islam, Hinduism, and Buddhism are largely compatible each other and with secular views (Rizk, 2008) that make religions a good mechanism to solve business problems. However, many prior studies only concentrate on the Protestant work ethic that originated from Max Weber and experience with Western countries. This philosophy, however, has its weaknesses, as it based on capitalism, in which profit maximisation is always a main driver and motives business transactions and establishment of the company. This paper intends to overcome this gap.

The remainder of the paper is organised as follows. The subsequent section addresses some of the famous accounting and corporate scandals that became headlines in Malaysia. This is followed by a discussion on the possible causes of the scandals. Section 4 will address how Islamic ethics can be used as practical tools to combat this malpractice. The final section is the conclusion.

2. CORPORATE SCANDALS IN MALAYSIA

Malaysia, as with other developed and developing countries, is unable to escape from the corporate scandals highlighted by the media. After all, the recommendations and efforts by various parties to eradicate these various scandals are still occurring, but there is no sign that these scandals will stop or even reduce in the future. The KPMG Malaysia Fraud Survey Report 2013, for example, revealed that a total of 89% of the respondents believed that fraud has risen in the last three years, and 71% of the respondents believed that bribery and corruption are an inevitable cost of doing business in Malaysia. A similar survey also revealed that two-thirds of the respondents believed that business cannot be done in Malaysia without paying bribes. The major factors that contributed to fraud include poor internal control, management override of internal controls, and poor ethical practices (KPMG Malaysia, 2013).

This survey is coherent with the report by KPMG (2011), which analyses the profile of the fraudster globally. The survey finds that the perpetrators mostly come from senior management level due to the advantage this group has in controlling sensitive information and the ability to override the control (Table 1). Other than that, the analysis also finds that fraudsters typically work more than 10 years in the organisation; work with others to commit the fraud; is positioned in finance or finance-related function; carries out in his own organisation; is male; is aged between 36 and 45 years old; and is driven to conceal losses and poor performance, possibly due to the burden of meeting the target, maintaining bonuses, or preserving employment.

Table 1: Rank of Fraudster in the Organisation

Rank	2011 Survey	2007 Survey
Senior Management	53%	60%
Management	29%	26%
Staff	18%	14%

Source: KPMG (2011)

Apparently, a series of accounting scandals in Malaysia has continued to turn out and blow up in the 2000s. Notably, one of the most famous is the *Malaysian version of Enron*, i.e., Transmile Group Bhd., for overstating the group's revenue figures by 30% and 35% of the consolidated revenues in financial statements ending in December 2006 and 2005, respectively. In the other case, a director of a company, namely Linear Corporation, paid RM36 million to Global Investment Group Inc., a Seychelles-based company, to start a RM1.67 billion King Dome project in Manjung, Perak, in 2009. This contract was awarded in an autocratic manner (without board approval), but the auditors found that the project could not be proven to exist, and there was no documented evidence to demonstrate the overall viability of the project (Say, 2010). In 2006, another public listed company involved in the manufacturing of optical disks, Megan Media Holdings Bhd., also was involved in fictitious trading of more than RM500 million. Other selected corporate frauds and misconduct compiled from the various sources are listed in Table 2.

Table 2: Reported Fraud in Malaysia

Alleged Offense	Company	Offense Year
Submission of misleading statement	MEMS Technology Bhd	2007
	Welli Multi Corp Bhd	2006
	GP Ocean Food Berhad	2006
Misleading appearance of company's activity trading	Fountain View Development Bhd	2003–2004
Misuse of company funds for personal benefit	FTEC Resources Bhd	2006
Submission of false statement	Polymate Holdings Bhd	2003
	Pasaraya Hiong Kong Sdn Bhd	2003
	Hospitech Resources Bhd	2002
	Tat Sang Holdings Bhd	2000

Source: Securities Commission's website

3. POSSIBLE CAUSES OF CORPORATE FRAUD

There are possible reasons for recurring fraud, corruption, and unethical practices in the corporate environment worldwide, generally, and in Malaysia, particularly.

3.1. Poor Ethical Directors

Schwartz et al. (2005) put forward an argument that the current problem faced by problematic companies all over the world is the "missing directors." Their definition of "missing" is not missing in action or absent from meetings but the inability of the directors to perform their jobs properly. Many corporate scandals show that directors nowadays are involved in many unethical practices such as asset misappropriations, misuse of company's assets for personal benefits, financial statement fraud, recording fictitious revenues, concealing liabilities, inflating reporting assets, corruption, and bribery. Not only that, it has cost the biggest audit firm in the world, Arthur Andersen, to close its businesses and go into liquidation due to loss of reputation and client trust.

Further examination of corporate scandals shows the validity of the argument presented by Schwartz et al. (2005). Enron, for example, comprised of highly competence board of directors such as accounting professors, Harvard University alumni, and was one of the best boards in the United States in 2000 (NACD, 2002). Similarly, with WorldCom, which was run by well-known and respected corporate leaders, such as the chairman of international rating corporation, dean of law of a university and several chief executives of other big corporations. Albeit, even though run by a technically competent board, these companies still failed to sustain performance.

In addition, the corporate governance and law for a long time has been criticised to be insufficient in regulating companies generally and directors particularly. Many evaluations and assessments of the current law reveal many weaknesses in preventing unethical behaviours of directors. One of the weaknesses is the business judgment rule. This loophole is always being used by the directors in making decisions without adequate investigation, taking aggressive risk-opportunity projects, and investing in poor potential return in overseas projects. Directors have manipulated this rule to discharge their responsibilities improperly and, in the worst case, commit fraud.

3.2. Deficient Board Model

Corporate organisations in Malaysia practise in a unitary board or single-tier board. As compared with another country, a multi-tier board seems more effective in misplacing opportunities for fraud and misconduct. It does not guarantee perfectly accurate decisions and action, but, because of the many representatives and various stakeholders, such as employees and government, the multi-tier board model ensures decisions will not just fulfill the needs of certain people on the board. One of the major weaknesses of the unitary board is the lack of time, energy, effort, and possibly enthusiasm for non-executives to monitor the performance of the company. This is true especially when the percentage of non-executive directors is small or just meets the code of corporate governance requirements, in the Malaysian case a minimum of one-third. Logically, it is difficult and impossible for one non-executive director to challenge and neutralize the decision by three executive directors.

In Germany, the country practises dual board models of corporate governance, which consist of the management board and supervisory boards. The management board comprises executive directors who are responsible for making operational decisions and reporting the performance of the company. The supervisory board, on the other hand, supervises the management board via approval for important decisions, safeguarding the various interests of the stakeholders, continuously reviewing the strategic direction of the company, and appointing members to the management board.

The multi-tier board model has proven effective, at least in one famous case of the sports carmaker, Porsche. The chief executive was sacked due to the poor performance of the company. The outgoing one-off payment for the chief executive was earlier determined at €140 million, suspected to be the highest in the history of Europe. However, it was brought down to less than half, i.e., only €50 million. The bigger compensation earlier proposed on the basis of this executive turned around the company to make it the world’s most profitable carmaker but finally brought the company into a risk of bankruptcy. The compensation package was brought down by the employee representatives at the supervisory board level.

3.3. Weak Enforcement

The corporate crime and these unethical behaviours become more prevalent when the rules and regulation are poorly enforced by the relevant authorities. In one Malaysian case, a director of Pancaran Ikrab Bhd. misused RM52.5 million for personal benefits, and it is disappointing to see that the judge only sentenced him with RM2 million without recovering the prior lost money. The public interprets this action as evidence of the country’s poor regulations and judiciary system. Arguably, it becomes poorer as the judge also needs to meet certain key performance indicators (KPIs) set by the government such as to solve a certain number of cases in the court. As a result, not only the judge but also the prosecutor is under pressure to meet their KPIs and not the interest of the public as a whole. The purpose of having these regulations was defeated when these white-collar criminals proved to get away with so much of money, as compared with so little a fine. There is less proper enforcement of the existing laws and rules that will act as a means to deter wrongful behaviour.

Table 3: Fraud and Its Sentence: Malaysian Case

Company	Value and Details of Fraud	Charges/Penalty
Kiara Emas Asia Industries Bhd.	Misappropriation of the right issues with the estimated proceeds amounting to RM17 million in December 1996 was used for personal purposes.	Fine RM600,000
Idris Hydraulic	Misused RM50 million of the proceeds from the disposal of Kewangan Bersatu Bhd. in 2003.	Fine RM400,000
Aokam Perdana Bhd.	Misappropriation of funds of RM55 million. In 1998, the company was declared insolvent and could not pay some RM33.3 million in debts.	None. The directors suspected of being involved in the short-selling but not convicted due to insufficient evidence.
Omega Securities	Two cases. First, defrauding of money RM424.9 million in 1999. Second, two actions of abetting the submission of false statements to Bursa Malaysia relating to 44.592 million Omega shares.	First case, fine RM3 million. Second case, the similar person again was fined RM3 million for each of two charges of manipulation.
Ekran Bhd.	Misuse of money amounting to RM712.9 million to inject into private assets in 1996/1997.	Fine RM500,000

Source: The Edge Corporate Team, 2010.

The compilation from the various sources summarised some of the examples of the many unethical practices by the corporate communities in Malaysia and, possibly, poor outcome from the prosecution, as presented in Table 3.

3.4. Political Governance

Malaysia's economic system is also highly dominated by political figures and action. We have yet to see that this country will move forward toward the pure market forces in determining and making a corrective system in economics. One good example is in the case of the former CEO of the national carmaker, Proton Holdings Bhd., who received RM5 million for his departure in 2005. The payment was made due to the influence of a prominent political figure who once sat in the top position of the company. This is considered by the public as a "payment for failure." This substantial amount of money should not be paid when Proton is known as a laggard performer in the automobile industry (example as compared with Kia), although it was already in business for almost 30 years. In addition, his poor decision to acquire MV Augusta, an Italian motorcycle manufacturer, cost Proton a loss of RM500 million. The management who replaced him suddenly realised that MV Augusta needed more investment, approximately 226 million Euros to turn around the loss-making company, which is beyond Proton's means. It ended up with Proton selling MV Augusta for only 1 Euro to GEVI SpA.

The biggest negative implication of the intervention by political decision is that it paralyses the rules and regulations and causes it to fail to achieve its primary objective – a mechanism to safeguard public interest. This will provide a perception that the rules and regulations are only a formality, while the political agenda to serve the needs of some bureaucrat is above and beyond the essential needs of the stakeholders.

3.5. Failure of Third-Party Assurance Provider

In the governance ecosystem, when management and directors are unable to reconcile their interests and expectations with shareholders and other stakeholders, then the third-party assurance providers are critical in bringing back both parties to sit together. However, this third-party assurance provider, or popularly known as a gatekeeper, also failed to play their role when the crucial situation insists on their contribution. Many parties fall under the definition of the gatekeeper. The traditional gatekeeper is typically an auditor, internal auditor, or company secretary. This group extends to parties such as lawyers, corporate advisors, and other professional experts who do not have direct interest in the company, but their opinions and competencies are important in safeguarding the business operation of the company. From this group, undeniably the auditor is the most influential gatekeeper as compared with the others because they are responsible for safeguarding the reliability of the financial report and protecting the interest of its readers (Husnin et al., 2016).

Unfortunately, in some cases, the role as a gatekeeper has turned 360 degrees to become the *gainkeepers.* The converted role of gatekeeper to gainkeeper also partly contributes to corporate scandals. In 2008, there was a clash of opinions between two auditing firms regarding assets valuation of their clients, Oilcorp Berhad, a public listed company in Bursa Malaysia. It started when the majority shareholders called for an EGM to remove the existing auditor, Baker Tilly Monteiro and Heng (BTMH), and appoint a new auditor, Howarth International (Howarth). BTMH expressed a disclaimer opinion on the contract value of the project of the company, which caused dissatisfaction. The company thus appointed another audit firm, Howarth, to seek a second opinion regarding the matters. Howarth validated the valuation and expressed favourable opinion given by Oilcorp Bhd. BTMH, however, disagreed with Howarth and refused to withdraw its original disclaimer opinions on the Oilcorp Bhd's financial statement (*The Star*, 2015). This case shows how the professional interest has been undermined by the profitable interest by the audit firm. It is unbelievable when two professional audit firms are unable to stand together, reconcile their professional opinions, and leave the matter on hand unsolved.

3.6. Helpless Secondary Lifeline

In developed countries, the rich available information from other sources can improve and serve as a check and balance to the users and shareholders. For example, the market analyst, rating agency, and business researcher can predict the performance of the company with high accuracy. If the company or manager is unable to meet the expectations of the analyst without any concrete reasons, it will trigger the incompetency and mismanagement of the company. This is true, especially if the top management does not give satisfactory, direct answers, explanations, and evidence to the analysts and shareholders during meetings with stakeholders. This situation, however, is not available in Malaysia. With the lack of resources, skills, and competencies, the analyst and market researcher in Malaysia are unable to precisely forecast the ups and downs of a company. None of the local-based investments and finance research houses in Malaysia is at the world-class level, while the well-known international firms do not show much interest in studying the performance of the companies in Malaysia.

4. ISLAMIC ETHICS: A POSSIBLE SOLUTION?

The continuous scandals and frauds across the world have proven that the external regulatory mechanism is less effective to prevent or, at minimum, to reduce corporate fraud and scandals. Thus, people need to emphasise the basics of the human "internal" regulatory mechanisms: morality and ethics. It becomes an increasingly important area of managerial competence and responsibility (Green, 1993) because moral reasoning skills can be powerful tools in long-term planning (Cooke, 1991). In this context, Islamic ethics can offer good solutions, particularly for a country such as Malaysia, where the majority of its citizens are Muslim, and Islam has been declared as a national religion in the constitution. Furthermore, the Malaysian government has launched its very own Sharia index to serve as a benchmark to indicate whether Malaysia is fulfilling and complying with the five important aspects of *maqasid syaria* (protection of the religion, protection of life, protection of the mind, protection of the race, and protection of property). In 2015, the inaugural compliance measurement achieved a good score of 75.42%. The Islamic law category achieved the highest compliance score of 87.19%, indicating Malaysia has successfully complied with and practices Islamic rules and regulations. Thus, applying Islamic ethics is the appropriate action as one of the mechanisms to prevent corporate fraud and malpractice. This shows that there is a growing concern and efforts from Muslim countries to enforce stricter religious norms and instill values of Islamic ethics to improve the efficiency and quality of the organization (Aldulaimi, 2016) particularly when ethical crises are escalating at an alarming rate globally (Almoharby, 2011). History shows that the application of Islamic ethic is critical, as it contributed to civilization and prosperity during the Muslim golden ages between the eighth and fourteenth centuries (Ali, 2005; Ali & Al-Owaihan, 2008).

4.1. Overviews of Islamic Ethics

Beekun (1997) defined Islamic ethics as a set of moral principles that distinguishes what is right and wrong from Islamic perspectives. In contrast with other types of ethics, the origins and premier source of Islamic ethics are from the Quran and Sunnah. The Quran is the book of God that becomes the ultimate source of Islamic teachings. As the guidance provided by the Quran is general in nature, the Messenger of God, Prophet Muhammad (peace be upon him [pbuh]) becomes the secondary source of teaching. The body of customs and practices based on his words and deeds is called *Sunnah,* which is important in guiding the followers on the correct way to practise Islam in their lives.

Debatably, many scandals and corporate problems can be possibly prevented by taking action and approach from the religious perspective, generally, particularly from the Islamic perspectives. The extensive research on fraud and unethical practices provide many theories to support the research and arguments; some of the most popular ones are agency theory, stakeholder theory, stewardship theory, theory of planned behaviour, and many others, as people continuously search and research for the best answer to explain the phenomena. One conclusion, however, can be derived from all these theories. It does not consider religion as a part of the solution for the many problems faced by humans. Many people do not believe in religion, even if they believe in one, they simply put religion in prayer houses only and not as part of a human's daily life.

Generally, ethics from Islamic perspectives are similar to those of other ethical systems that help one differentiate between right and wrong (Mohammad & Quoquab, 2016). However, they differ from other conventional codes of conduct in certain aspects. First, Islam does not allow the principle of the *end justifies the means*, which is widely applied by modern ethical systems that are founded based on teleological approaches. Teleology, based on ethics, believes that results and consequences are the most important elements for decision-making. This principle, however, typically ignores the rights of minorities. A good example is when the controlling shareholders delisted a company from a stock exchange to become a private company but does not pay sufficient compensation to minority shareholders.

Second, Islamic ethics also contradict with deontological approaches, which place emphasis on the principal and motivation of ethical decision-making. The decision outcome is considered less important as compared with previous factors. It is concerned with the application of universal principles to arrive at the rules of conduct. Deontological ethics have been widely criticized for their weaknesses in recognizing the end results of the decision. People cannot simply make a decision without considering the consequences of the action taken. Thus, it means that the decision-maker just has to decide upon whatever he or she believed is right but does not evaluate the success or failure of the outcomes. In the corporate sector, this approach can be equalled to the manager who likes to take aggressive high-risk investment. Although it is the right thing to do to maximise the company revenue, it also puts the company at stake, which may result in the company recording huge losses.

In this aspect, Islamic ethics overcome both weaknesses by ensuring the right action and decisions to produce a positive outcome and benefits to everybody. To achieve this, the decision maker needs to comply with the *Sharia* principles, in other words, the Islamic laws that refer to the moral and religious code of conducts based on teaching of Quran and Sunnah (Mohammad & Quoquab, 2016). The most important objective of these *Sharia* principles is to ensure religion, life, mind, race, and property of humans are properly safeguarded (Salin et al., 2012).

From the Islamic perspectives, every action, word, or intention will be rewarded hereafter. Unlike in other religions, Islam views economic activities as an obligation because they can be a platform for increasing economic and social welfare (Ali, 1995) of the *ummah* or society. These activities also are not only considered a divine calling but a necessary aspect of human life and a source of social gratification (Ali & Al-Owaihan, 2008). Thus, the world is just a platform to go to the final destination of humans, called *Akhirah* (life after dead). For Muslims, Islam is a complete way of life (Ahmad, 2003), valid for every time and place (Aldulaimi, 2016). Those who follow God's command will be promised a happy life in paradise. Moral or immoral and ethical or unethical life choices will be judged just and fair on Judgment Day, which leads to happiness or misery in the immortal life (Endress, 1998; Smith, 1986; Rice, 1999; Rizk, 2008).

Nonetheless, this perspective is merely accounted for by Muslims. This corresponds to what has been said by the Prophet Muhammad (pbuh): "*There will come a time when holding on to your Eemaan (belief) will be like holding on to hot coals*" (At-Tirmidhi). For example, the auditor general departments who audit the state and government organisations, including their business entities, found that, in reality, although an auditor discovers many mistakes, irregularities, and incompliance with governance, rules, and regulations without satisfactory explanation, the majority of these findings are dropped out without any concrete reason. The reason given by the responsible authority is that the findings are no longer relevant, as they already happened many years ago and nothing could be done. The money or asset is already lost, while the person responsible by now has retired, resigned, or moved to another organisation.

This gives an impression that the auditor is unable and ineffective to become the *check and balance* mechanism to become a comfort factor for stakeholders and shareholders. The auditor just performs a routine check, e.g., visit the premise, inspect the document and asset, interview the auditee, and finally prepare the report. No follow-up and further investigation are carried out if malpractices and intentional mistakes occur.

From the ethics point of view, it is not an issue whether the findings are relevant or not, but it is the issue of the taxpayers' money that has been used and spent improperly by the organisation. Taxpayers expect their money to be fully utilised and rewarded by an efficient and effective service delivery apart from prudent and responsible spending. Some actions and appropriate mechanisms should be taken so that similar irregularities are not repeated in the future. This is clearly stated in the Quran: *"O ye that believe! Betray not the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you"* (Al-Anfaal: 27).

4.2. Example of Islamic Ethics

Islam has expressed many morality terms in its teachings. This includes *khayr* (goodness), *birr* (righteousness), *qist* (equity), *'adl* (justice), *haqq* (truth and right), *ma'ruf* (approved), and *taqwa* (piety) (Rizk, 2008; Beekun, 1997). Khadijah et al. (2015), Aldulaimi (2016), and Ali and Al-Owaihan (2008) proposed other dimensions of work ethics from Islamic perspectives, which include that work is virtue, honesty, truthfulness, *halal* (permissible earnings), *ihsan* (precisely), efficient, fulfilment, self-control, obedience, cooperation, discipline and punctual, dignity, justice, safety, rights, responsibility, accountability, humanity, *syura'* (consultation), effort, competition, transparency, teamwork, and morally responsible conduct.

For example, a statement from the Quran clearly indicates that people, irrespective of who they are, shall uphold and fulfil the trust given, as this trust will be queried and raised by God in the hereafter, and severe punishment will be guaranteed for all the mismanagement done in this world. The Quran precisely states: "*That Allah may reward the true men for their truth, and punish the hypocrites if He will...*" (Al-Ahzab: 73). "*...And fulfill (every) commitment. Indeed, the commitment is ever (that about which one will be) questioned*" (Al-Isra: 34). Muslims believe that they are accountable and responsible directly to God (Rice, 1999) and, thus, need to honor any contract and obligations until the end (Aldulaimi, 2016).

Transparency also is crucial in the corporate world, as companies need to disclose suitable and appropriate amounts of information so that investors and other type of stakeholders can make informed decisions (Hashim et al., 2014; Jaafar et al., 2014; Husnin et al., 2013; Salin & Abidin, 2011). The application of transparency in the marketplace ensures market stability, prosperity of business people, and giving reasonable assurance that market scandals and abuses can be minimized and prevented (Ali & Al-Owaihan, 2008). This issue has been appropriately explained by the Prophet Muhammad (pbuh) in one event at the market when he found that the merchant placed non-quality dates hidden under quality dates. The Prophet Muhammad (pbuh) said, as narrated by Hakim bin Hizam, "*The Messenger of Allah said: 'The two parties to a transaction have the choice so long as they have not separated. If they are honest and open, their transaction will be blessed, but if they tell lies and conceal anything, the blessing of their transaction will be lost*"(An-Nasa'i).

Honesty is the other important element, as corporate players need to exercise their honesty in every dealing and transaction. The Quran states: *"O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent..."* (An-Nisa: 29). Honesty will inspire confidence in the market and motivate market actors to meet their responsibilities with superior ethical understanding and indirectly, safeguard every party right and social contract (Ali & Al-Owaihan, 2008). Thus, being honest means businessmen need to always inform the truth and exercise objectivity in making judgments and decisions to serve the interest of all stakeholders.

In contrast, Islam via the Quran also has already stated a clear statement related to immoral behaviour and action. These include monopoly, bribery, and greed (Ali & Al-Owaihan, 2008). For instance, the Prophet Muhammad (pbuh) clearly indicated how dangerous and terrible it is for those who breach their trust, by labelling these people as being hypocrites. Abu Hurairah reported that the messenger of Allah said: "*There are three signs of a hypocrite: When he speaks, he lies; when he makes a promise, he breaks it; and when he is trusted, he betrays his trust*" (Al-Bukhari & Muslim). A hypocrite is a person with two faces: the good face is shown in front of the people, while the evil and real face is shown at the back of the person. The other condemnation from the Quran is related to fraud. The Quran clearly states: *"Woe to those who give less [than due]. Who, when they take a measure from people, take in full. But if they give by measure or by weight to them, they cause loss"* (Al-Mutaffifin: 1-3).

In the corporate world, this is similar with the directors or management who talk and promise sweetly before the shareholders and stakeholders. However, in reality, these directors make decisions by putting their rewards above and beyond others while ignoring the interests of the shareholders and stakeholders of the company. They also abuse and manipulate the fund of the company for personal benefit. This is consistent with what has been articulated by the Prophet Muhammad (pbuh), as narrated by Abu Hurairah: *"Certainly a time will come when people will not bother to know from where they earned the money, by lawful means or unlawful means"* (Al-Bukhari).

4.3. Application of Islamic Ethics

Islam advocates that the best way to regulate and educate a person is by regulating and educating his or her heart from the inside first. As narrated by Abu 'Abdullah al-Nu'man bin Bashir, the Prophet Muhammad (pbuh) said: *"There is a piece of flesh in the human body. If* *this is good, all the organs will be good. If this is evil, all the organs will be evil. This piece of flesh is the heart"* (Bukhari & Muslim).

Due to this, Islam places education as a major part of developing strong ethics and raising good people who uphold moral values as the utmost important character in their lives. The spirit of education in Islam can be viewed from as simple as instructing children to perform the basic pillar in Islam, e.g., prayer or *salah*, because it can help prevent them from committing immoral activities. As stated in the Quran: "*Recite, [O Muhammad], what has been revealed to you of the Book and establish prayer. Indeed, prayer prohibits immorality and wrongdoing, and the remembrance of Allah is greater. And Allah knows that which you do*" (Al-Ankaboot: 45).

As narrated by T Sabrah bin Ma`bad Al-Juhani, the Prophet Muhammad (pbuh) said: *"Teach a boy the prayer when he attains the age of seven years, and punish him (if he does not offer it) at ten"* (Abu Dawud & Tirmidhi). Islam places emphasis on internalising the good deeds and behaviours in humans so that this good deed will be translated into their characters. The time period suggested is a minimum of three years (from seven years to nine years old) to educate, encourage, motivate, and train the children or students, and it is good enough to instill the importance of performing prayer in the life of a Muslim. After three years, punishment can be used, but even in Islam the punishment used cannot hurt the boy, but it should be adequate enough for him to realise his role as a Muslim.

The process of ethics internalisation should evolve and be continuous – in house lead by the parental guidance to the more formal education environment such as from the lowest level such as kindergarten to the highest level of higher learning institutions. In a more official education atmosphere, the educator should always advise the students on the importance of ethics, honesty, and integrity in their daily lives. The educator must encourage his students to always observe the right thing to do because it is right – not because the laws require him or to do so and suggest students to always look at every matter in spirit rather than the letter of law.

The educator as well must emphasise and educate students that many kinds of immoral behaviours normally start at a very young age. There should be no tolerance for unethical practices such as copying during an exam, plagiarism, and cheating to earn medical certificates. It is better for students to graduate with a lower-class degree, which is solely based on their efforts, rather than with a higher class but without honesty and integrity. The educator should prefer his student to fail in his studies rather than become a manager or director who will damage a country in the future. Let the university, or more specifically, the taxpayers lose a few thousand dollars in education subsidies now rather than a country or nation lose millions or billions of dollars due to unethical behaviours. This requires passion and determination to be executed by the educator, the administrator of the education institution, and the policymaker, as what has been stated in the holy Al-Quran: *"Oh believers! Fear Allah, and say the right thing"* (Al-Ahzab: 70). The reward is magnificent. As narrated by Abu Hurairah, the Prophet Muhammad (pbuh) declared that: *"If you guarantee me six things on your part, I shall guarantee you paradise: Speak the truth when you talk, keep a promise when you make, when you are trusted with something fulfil your trust, avoid sexual immorality, lower your eyes and restrain your hand from injustice"* (Baihaqi).

The internalisation of ethics should not stop at learning institutions but progress to the workplace. The responsible unit or officer in an organization, such as human resources, needs to design good Islamic ethical programs and training, so that good morals and virtues can be instilled and demonstrated by the employees. Prior research shows positive effects of internalisation of Islamic ethics concepts. Ali (1995) found that qualities such as honesty, trust, solidarity, cooperation, and flexibility were strengthened. Other researchers such as Yousef (2000), Yousef (2001), Rokhman (2010), Ahmad (2011), Rahman et al. (2006), Mohamed et al. (2010), Manan et al. (2013) found that work ethics based on Islamic principles increase employees' organizational commitment. Job satisfaction (Yousef, 2001; Rokhman, 2010; Ahmad, 2011; Mohamed et al., 2010; Haroon et al., 2012), rewards (Ahmad, 2011), loyalty (Ali, 1995; Ali & Al-Kazemi, 2007), innovation capability (Kumar & Che Rose, 2012), and computer use ethics (Mohamed et al., 2010) also give positive significant results.

The adoption of Islamic ethics also will lead to socio-economic transformation via its contribution to the well-being of the society (Naqvi, 2003). This is because Islam ensures humans have a sustainable life in which human needs are continuously meet and fulfilled. This is consistent with the highest level of Carroll's Corporate Social Responsibility Pyramid Theory of the philanthropic. For example, in Islam, the employer needs to be generous to his or her employees in giving wages. The employer should not only pay minimum wages as required by the labour law but ethically needs to pay sufficient remuneration and perks, which must be not only enough to meet basic needs but also go beyond basic life requirements. Likewise, employers also are prohibited to force their employees to conduct a job that goes beyond their capability for the sake of making substantial profits for the business. As narrated by Ma'rur, the Prophet Muhammad (pbuh) explained: "*He said, Yes, they (slaves or servants) are your brothers, and Allah has put them under your command. So the one under whose hand Allah has put his brother, should feed him of what he eats, and give him dresses of what he wears, and should not ask him to do a thing beyond his capacity. And if at all he asks him to do a hard task, he should help him therein"* (Bukhari).

In addition, Islam also requires wealthy people to pay *zakah* (obligatory religious tax) and encourage them to contribute *sadaqah* and *waqf* (voluntary religious donation), which, in turn, are used to help the poor and the needy. Indirectly, the income gap between the rich and the poor can be minimized, while poverty problems with their related social ills can be eliminated.

Islam, too, prohibits unethical or non-*halal* activities that violate *syaria* principles such as being involved in business related to alcohol, wine, gambling, usury, bribery, drugs, prostitution, speculative investment, and other activities that can bring harm to society. This is because these kinds of business activities can create a negative impact on social lives. Islamic ethics ensure all business and non-business transactions are permissible, lawful, and *halal* so that they will not ruin human civilization. When Islam came, it removed slavery and upheld the dignity of the women, which demonstrates a good example of preserving basic human rights.

5. CONCLUSIONS

This paper suggests that ethics based on Islamic teachings need to be seriously considered in an effort to prevent corporate fraud and malpractice. This is because Islamic virtues are based upon faith and devotion toward God (Aldulaimi, 2016). Thus, a profit maximisation goal can be achieved along with social welfare and well-being. In addition, Islam is a comprehensive approach to life, as it governs every aspect of life, including economic and business activities. Application of Islamic ethics ensures the marketplace properly functions and fulfils the interests of the related people fairly.

Instilling ethical values, however, is not an easy task. The way humans draw a picture in their lives and place values such as honesty, integrity, and transparency begins in their hearts and souls. The best education is education from a human's inner strength. Laws and regulations can only work as complementary because people become smarter, and the continuous changes in politics, economy, and social environment make these laws and regulations become outdated fast and do not work appropriately for a longer term. Thus, self-regulation generally or, more specifically, ethics particularly, is a more powerful tool than any other type of monitoring mechanism that brings humans to lead better lives, with higher kindness, morality, and integrity. Further research can be taken to explore and empirically examine the potential of Islamic ethics to resolve the current immoral and ethical issues experienced by societies.

ACKNOWLEDGMENTS

The authors wish to express their thanks to the Accounting Research Institute (ARI) for financial assistance in the administration and preparation of this paper.

REFERENCES

Ahmad, A. (2003). Mawdudi's concept of Shari'ah. *The Muslim World*, *93*(3/4), 533-544.

Ahmad, M. S. (2011). Work ethics: An Islamic prospective. *Journal of Human Sciences*, *8*(1), 850-859.

Ahmad, N. M. N. N., Nawawi, A., & Salin, A. S. A. P. (2016). The relationship between human capital and directors' remuneration of Malaysian public listed companies. *International Journal of Business and Society*, *17*(2), 347-364.

Aldulaimi, S. H. (2016). Fundamental Islamic perspective of work ethics. *Journal of Islamic Accounting and Business Research*, *7*(1), 59-76.

Ali, A. J. (1995). Cultural discontinuity and Arab management thought. *International Studies of Management & Organization*, *25*(3), 7-30.

Ali, A. J., & Al-Kazemi, A. A. (2007). Islamic work ethic in Kuwait. *Cross Cultural Management: An International Journal*, *14*(2), 93-104.

Ali, A. J., & Al-Owaihan, A. (2008). Islamic work ethic: A critical review. *Cross Cultural Management: An international Journal*, *15*(1), 5-19.

Ali, A. (2005). *Islamic Perspectives on Management and Organization*. Northampton, MA: Edward Elgar, Cheltenham.

Almoharby, D. (2011). The current world business meltdown: Islamic religion as a regulator. *Humanomics*, *27*(2), 97-108.

Asmuni, A. I. H, Nawawi, A., & Salin, A. S. A. P. (2015). Ownership structure and auditor's ethnicity of Malaysian public listed companies. *Pertanika Journal of Social Science and Humanities*, *23*(3), 603-622.

Beekun, R. (1997). *Islamic Business Ethics*. Virginia: International Institute of Islamic Thought.

Cooke, T. E. (1991). An assessment of voluntary disclosure in the annual reports of Japanese corporations. *The International Journal of Accounting*, *26*(3), 174-189.

Endress, G. (1998). *An Introduction to Islam*. Irvington, NY: Columbia University Press.

Green, R. M. (1993). Centesimus annus: A critical Jewish perspective. *Journal of Business Ethics*, *12*(12), 945-954.

Hamid, A. A., Haniff, M. N., Othman, M. R., & Salin, A. S. A. P. (2011). The comparison of the characteristics of the Anglo-Saxon governance model and the Islamic governance of IFIs. *Malaysian Accounting Review*, *10*(2), 1-12.

Haroon, M., Zaman, H. F., & Rehman, W. (2012). The relationship between Islamic work ethics and job satisfaction in healthcare sector of Pakistan. *International Journal of Contemporary Business Studies*, *3*(5), 6-12.

Hashim, M. H., Nawawi, A., & Salin, A. S. A. P. (2014). Determinants of strategic information disclosure: Malaysian evidence. *International Journal of Business and Society*, *15*(3), 547-572.

Husnin, A. I., Nawawi, A., & Salin, A. S. A. P. (2013). Corporate governance structure and its relationship with audit fee - Evidence from Malaysian public listed companies. *Asian Social Science*, *9*(15), 305-317

Husnin, A. I., Nawawi, A., & Salin, A. S. A. P. (2016). Corporate governance and auditor quality: Malaysian evidence. *Asian Review of Accounting*, *24*(2), 202-230.

Jaafar, M. Y., Nawawi, A., & Salin, A. S. A. P. (2014). Directors' remuneration disclosure and firm characteristics - Malaysian evidence. *International Journal of Economics and Management*, *8*(2), 269-293.

Khadijah, A. S., Kamaluddin, N., & Salin, A. S. A. P. (2015). Islamic work ethics (IWE) practice among employees of banking sectors. *Middle-East Journal of Scientific Research*, *23*(5), 924-931.

KPMG. (2011). *KPMG Analysis of Global Patterns of Fraud – Who is the typical fraudster?* Zurich: KPMG International Cooperative.

KPMG. (2013). *KPMG Malaysia Fraud Survey Report.* Petaling Jaya: KPMG Forensic.

Kumar, N., & Che Rose, R. (2012). The impact of knowledge sharing and Islamic work ethic on innovation capability. *Cross Cultural Management: An International Journal*, *19*(2), 142-165.

Manan, S. K. A, Kamaluddin, N., & Salin, A. S. A. P. (2013). Islamic work ethics and organizational commitment. *Pertanika Journal of Social Science and Humanities*, *21*(4), 1471-1489.

Mohamed, N., Karim, N. S. A., & Hussein, R. (2010). Linking Islamic work ethic to computer use ethics, job satisfaction and organisational commitment in Malaysia. *Journal of Business Systems, Governance and Ethics*, *5*(1), 13-23.

Mohammad, J., & Quoquab, F. (2016). Furthering the thought on Islamic work ethic: How does it differ? *Journal of Islamic Marketing*, *7*(3), 355 – 375.

Naqvi, S. N. H. (2003). *Perspectives on Morality and Human Well-being*. Leicester, UK: The Islamic Foundation.

National Association of Corporate Directors. (2002). *The Rise and Fall of Enron – Principles of Directors Focus.* DM Extra. Retrieved September 30, 2016, from http://www.boardoptions.com/nacd.pdf

Omar, M., Nawawi, A., & Salin A. S. A. P. (2016). The causes, impact and prevention of employee fraud: A case study of an automotive company. *Journal of Financial Crime, 23*(4), 1012-1027.
Rahim, S. A. A., Nawawi, A., & Salin, A. S. A. P. (2017). Internal control weaknesses in a cooperative body: Malaysian experience. *International Journal Management Practice, 10*(2), 131-151.
Rahman, N. M., Muhamad, N., & Othman, A. S. (2006). The relationship between Islamic work ethics and organizational commitment: A case analysis. *Malaysian Management Review, 41*(1), 79-89.
Rice, G. (1999). Islamic ethics and the implications for business. *Journal of Business Ethics*, *18*(4), 345-358.
Rizk, R. R. (2008). Back to basics: An Islamic perspective on business and work ethics. *Social Responsibility Journal*, *4*(1/2), 246-254.
Rokhman, W. (2010). The effect of Islamic work ethics on work outcomes. *Electronic Journal of Business Ethics and Organization Studies, 15*(1), 21-27
Salin, A. S. A. P., & Abidin, Z. Z. (2011). *Being transparent: An evidence of a local authority in Malaysia*: *Proceeding of International Conference on Sociality and Economics Development, 10*. Singapore: IACSIT Press.
Salin, A. S. A. P., & Ismail, Z. (2015). *Ethics practices of Malaysian public listed companies - Empirical evidence.* Paper presented at the 10th Annual London Business Research Conference, 10 - 11 August 2015, Imperial College, London.
Salin, A. S. A. P., Kamaluddin, N., & Manan, S. K. A. (2011). *Unstoppable fraud, scandals and manipulation – An urgent call for an Islamic based code of ethics: Proceeding of International Conference on Sociality and Economics Development, 10*. Singapore: IACSIT Press.
Salin, A. S. A. P., Kamaludin, N., Manan, S. K. A., & Ghafar, M. S. A. (2012). Directors' Islamic code of ethics. *World Academy of Science, Engineering and Technology*, *64*(1), 680-682.
Say, T. L. (2010). Famous past scandals. *The Star Online*. Retrieved on 11 November, 2016, from http://www.thestar.com.my/business/business-news/2010/07/03/famous-past-scandals/
Schwartz, M. S., Dunfee, T. W., & Kline, M. J. (2005). Tone at the top: An ethics code for directors? *Journal of Business Ethics*, *58*(1-3), 79-100.
Smith, H. (1986). *The Religions of Man*. New York, NY: Perennial Library.
The Edge Corporate Team. (2010). *Cover Story/Breaking News: Former Proton CEO settles for RM5 million.* Retrieved from http://www.theedgemalaysia.com/features/169161-cover-story-former-proton-ceo-settles-for-rm5-million.html
The Star (2015). *Investigative audits common among listed companies*. Retrieved November 11, 2016, from http://www.thestar.com.my/business/business-news/2015/03/21/investigative-audits-common-among-listed-companies/
Yousef, D. A. (2000). The Islamic work ethic as a mediator of the relationship between locus of control, role conflict and role ambiguity: A study in an Islamic country setting. *Journal of Managerial Psychology, 15*(4), 283-298.
Yousef, D. A. (2001). Islamic work ethic: A moderator between organizational commitment and job satisfaction in a cross-cultural context. *Personnel Review*, *30*(2), 152-169.
Zakaria, K. M., Nawawi, A., & Salin, A. S. A. P. (2016). Internal controls and fraud - Empirical evidence from oil and gas company. *Journal of Financial Crime*, *23*(4), 1154-1168.