APPLICATION OF ISLAMIC BUSINESS PRINCIPLES WITHIN THE CONTEMPORARY BUSINESS SYSTEM.

BY

ISHAQ ISAH

MBA/ADMIN/28343/01/02
GOI/MF/7008

A thesis submitted to the postgraduate School of Ahmadu Bello University, in partial fulfillment of the requirement for the award of degree of masters in Business Administration.

DECEMBER 2002.

DECLARATION

I declare that this project is the result of my personal research effort from various materials consulted and that no such work has been submitted to the school before.

……..……. …….

IS'HAQ ISAH DATE

CERTIFICATION

This project titled “application of Islamic business principles within the contemporary business system” meets the requirements and regulations governing the award of the degree of masters of Business Administration of Ahmad Bello University, Zaria and it is approved for its contribution to knowledge and literary presentation.

…..……. ……..……
Dr. M.N. Maiturare Date
(Internal Supervisor)

…… ……
External Supervisor Date

……. …….
Dr. Sani Abdullahi Date
Head of Department

…….. …….
Dean of Postgraduate Date

DEDICATION

To Allah’s cause.

ACKNOWLEDGEMENT

O Lord unto you be praise, as due to the exaltedness of your face and supremacy of your throne. I acknowledge with deep gratitude the direction set me by my late father Mallam Isah Garba that I must try to stand on two feets know your religion and western education. And to my mother Halima who ensure that I am pursuing the set direction. O Lord, forgive them and have mercy on them as they nurture me when I was little.

I appreciate the perseverance and support given to me by my brother, my sister, my wife and my children in the cause of this struggle. O Lord, grant for us from our wives, our offspring who will be the comfort of our eyes and give us (the grace) to lead the righteous.

I must acknowledge with great respect the contribution given to me by my model Lecturer during my undergraduate days, and now my supevisor, Dr. Nasir Maiturare, the (trio-Dogarawas) most especially Dr. Lawal Dogarawa, Mallam Awwal Ahmed, Abdullahi Yakasai, Mustapha Zailani, Aminu Gusau, Suleiman Husseini and other lecturers of the department. O Lord forgive us our sins and our brothers that presided us with faith, Do not allow hatred in our minds unto those who believe.

I appreciate so much the support and encouragement given to me by my brother-in-law, Engr. Bala Umar, my Muslim brothers and friends, Abdurrahaman Moosa, Shehu Hudu, Abdulrazaq Suleiman, Abdullahi Ibrahim

Aliyu and all other that I knew of their effort and those I don't know, but surely Allah knows and shall reward them accordingly. O Lord, bestow me with wisdom And join me with the righteous.

Finally, appreciate the contribution of my classmates, people like brother D.A. Muhammad who has taken the pain of going through the work and make some suggestion and others like Muhammed Hassan Adamu, Gambo Sambo, Umar Usman and many other. May Allah reward you with his blessing in the world and hereafter.

Abu Isah, Ishaq bin Isah

TABLE OF CONTENTS PAGES

Declaration …… ii

Certification …. …….iii

Dedication ……iv

Acknowledgement ……v-vi

CHAPTER ONE

1.0 Introduction …… 1

1.1 Background of the study …… 2

1.2 Statement of the problem …… 2

1.3 Objective of the Research …… 3

1.4 Significance of the study …… 4

1.5 Scope of the study …….4

1.6 Research of the study ……..5

1.7 Plan of the study …….6

1.8 Limitation of the study ……...7

CHAPTER TWO

Literature Review

2.0 Dealings according to Islamic Principles …….8

2.1.1. Honesty and truthfulness ……9

2.1.2 Dubious and Vague transaction ……...10

2.1.3 Usurious Transactions ……. .13

2.1.4 Coercive Policies ……...13

2.2.1 Partnership and profit-sharing in Islam ……..14

2.2.2 Profits sharing in Islam …… 15

2.2.3 Liability for loss ……16

2.3.1 Some conceptual and practical aspects of interest-free banking……17

2.3.2 Basis for interest-free banking in an Islamic framework ……17

2.4 Problems of research in Islamic Business ……19

2.4.1 Historical Background ……20

2.4.2 Conceptual dimensions ……..21

2.4.3 Teaching Problems ……22

2.4.4 Translation …….. ……24

CHAPTER THREE

Principles of Business under Contemporary Setting.

3.0 Ownership structure in contemporary business setting ……25

3.1 Definition of Business Ownership ……. 25

3.1.1 Proprietorship ……. 26

3.1.2 Partnership …….. 27

3.1.3 Corporation ……..29

3.2 Principles of Management in contemporary setting …….32

3.2.1 Planning …….33

3.2.2 Organising …… 34

3.2.3 Staffing …….. 35

3.2.4 Controlling ……..36

3.3.1 Marketing Mix under the contemporary business setting ……38

3.3.2 Product ……38

3.3.3 Packaging ……39

3.3.4 Pricing ……..40

3.3.5 Promotion ……43

3.3.6 Placing (distribution)……..45

CHAPTER FOUR

Principles of business under Islamic Setting

4.1 Ownership in Islam vis-à-vis modern Business……48

4.1.1 Musharaka …….50

4.1.2 Injunction regarding Musharaka ……51

4.1.3 Mudarabah ……..53

4.1.4 Injunctions regarding Mudarabah ……..55

4.1.5 Musharakatul –Ain …….. 56

4.1.6 Injunctions regarding Musharaka –Ain …….56

4.2.1 Principles of management in Islam …….57

4.2.2 Characteristics of a manager in Islam …….57

4.2.3 Management by objectives Islamic perspectives ……58

4.2.4 Planning ……..……59

4.2.5 Planning process …….. …….60

4.2.6 Organising ……..…….. 61

4.2.7 Staffing; An Islamic perspective …….63

4.2.8 Recruitment …….63

4.2.9 Compensation ……..65

4.2.10 Motivation …… ……65

4.2.11 Promotion …….. ……..66

4.2.12 Controlling …….67

4.3 Marketing mix an Islamic perspective …….67

4.3.1 Product ……68

4.3.2 Promotion ……..69

4.3.3 Packaging ……..……..…70

4.3.4 Pricing …….. ……72

4.3.5 Placing ……. ……..73

CHAPTER FIVE

Summary, Conclusion and Recommendation

5.1 Summary …….76

5.2 Conclusion …….. ……77

5.3 Recommendation ……..78

Bibliography……..…… 79

CHAPTER ONE

1.0 Introduction:

Thanks and praise be to Allah, peace and blessing be upon his noblest prophet Muhammad (P.B.U.H) and all other prophets sent down by Allah to guide human being.

The concept and practice of business transaction between people is synonymous with human being, hence it is as old as man himself. The intellectualization of business studies has also undergone different civilization and systems. In the present world we live, there are two main civilization or systems upon which business concepts and practice is being carried out, i.e., capitalism and socialism.

All the two mentioned systems have proved inadequate in providing human beings at this intellectual age with sound knowledge and guidance towards achieving full satisfaction in his economic life. Therefore, there is the need to saddle our horse towards searching for viable system that provides such objective.

In order to make headway in our search, we should try to flash back at human civilization we had in the past, and see a civilization so complete in its thrust that provided humanity with both literature and practical knowledge of sound economic life. A system that is just and progressive.

Islam is an ideology that seeks to provide man with complete way of life, economic, political and social. We therefore wish to undertake this research into Islamic principles as they relate some aspects of business activities. We shall first

of all look at these business under the contemporary business setting, there after take a look at what Islam says about them. We shall take a look at various business ownership in Islam, ways of conducting marketing activities, some type of business that a Muslim is allowed to engaged in that can provide or gives benefits to the society, the relationship between a business and society would also be explored.

The activities are so much, so numerous that we cannot at this level be able to investigate all. I hope that this project will stimulate further thought and research in this fascinating area. And enable us to practically use the findings in our business interaction with the view of achieving a sound and honest comfortable life.

1.1 Background of the study:

Allah has stated in Qur'an; Chapter 2verse 275 But God hath permitted trade and forbidden usury".

In a particular tradition, the prophet Muhammad (P.B.U.H) was quoted to have said, Nine out of ten blessing (prosperity) is in business.

Business is essential for one to obtain what he will feed himself with, take care of his family and support his society (environment).

It is also seen an Islamic injunction that one must not undertake any activity without knowing Allah's law governing such act. It is against this background that we deem it necessary to undergo this search work, so as to

be able to apply these injunctions and find solutions to the shortcomings of other civilization.

1.2 Statement of the Problem:

Islamic ideology and Muslim's thought has been subjugated by the western civilization, as a result of latter's strength in psychological warfare. Such Islamic ideology and thoughts were under full character assassination that even the Muslim don't attach any value to them. But they are beautiful and beneficiary to both Muslim and non-Muslim.

If you turn back (from the religion), He will substitute in your stead another people; then they would not be like you (47:38)

1.3 Objective of the Research:

My objective of undergoing into this research is to encourage a dynamic Islamic thoughts into our Muslim intellectuals and Business students that will pioneer social change by acquiring the right knowledge and wisdom. By doing so, I hope to be among the strivers in the path of Islam by chance enjoy the reward therein.

Not equal are those of the believers who sit except those who are disabled, and those who strive hard and fight for the cause of Allah with their wealth and their lives. Allah has preferred in grades those who strive hard and fight with their wealth and live those who sit. Onto each Allah has

preferred those who strive hard and fight above those who sit by high reward (Qur'an 4:95).

1.4 Significance of the study:

The study is expected to have a significance contribution to the literature on the framework of how business formation, activities and dealings are carried out in Islam. It is hoped that a lot of findings from Islamic sources in the Qur'an, Sunnah and lyric's thoughts will be found and also assist us to know the various principles of Islamic business. It will also give us the chance of comparing the contemporary business with the Islamic aspects of it.

1.5 Scope of the study:

As the topic implies, the project aims at determining the ways of applying Islamic business principles within the dominant contemporary business system. It therefore started by examining some aspect of contemporary business setting such as structures of business ownership, methods or ways selling the products produced by these business ownership, it also touches some areas or types of business found within the contemporary setting and the effect of these business to the society.

The project thereafter examine those various aspects mentioned above under the Islamic perspective as found in the Islamic literature of Qur'an, Hadith and lyrics interpretations. Having studied these two

perspective, it became imperative to look as how these Islamic principles are applied or can be applied, the benefits that individual business men can derive from the application of Islamic principles in his transaction, it would also explain the benefits the society stands to benefit from such business transaction.

1.6 **Research Methodology:**

The data necessary for the completion of this project has been sought through various means that will ensure an adequate treatment of the topic.

Secondary Data:- used were obtained from the glorious Qur'an, authentic Hadith of the Prophet and other literature written on the same or similar principles or topics, by both the present and past scholars, and from review of seminar papers presented in different places.

Primary data :- In Order to have a clear direction in the work and to obtain data, a number of learned people were personally interviewed both from the Departments of Business Administration and Islamic Law. A large number of Islamic lyrics (scholars) were also consulted, learned or educated businessmen were also included.

Personal observations were carried out by myself to ascertain the level of how the principles were applied into day to day transaction of our businessmen.

Questionnaire:- Survey of both public opinion and that of scholars would also be obtain through questionnaires to be drafted. One of such questionnaire would be addressed to the public and businessmen, while the other one to be addressed to Muslim Scholars both within the university and outside.

1.7 Plan of the Study:

The method of random sampling would be used to select some group of people as respondents. The first sample of respondents will represent the public opinion; therefore certified sampling method will be used here. The criteria will be type of occupation and exposure that is expected to have a bearing on the topic. 65% of the sample size is expected to be Muslim while 35% will be Christians.

The second questionnaire will be addressed to learned people that are verse in both or either of the two perspectives, i.e., Islamic and Contemporary business principles. Therefore, scholars will be randomly selected from within and outside the university. The responses received will be studied and be analyzed upon which analysis or suggestion can be built on the application of Islamic business principles within the contemporary business system.

1.8 Limitations of the study:

The major limitation faced in this study is the area of literature. The literature dealing with the two perspectives are distinct to one another, and to find write-up combining both the two is very difficult, most especially on the topics chosen. Despite the fact that a lot of write-up and paper presentation were done on Islamic business principles. Most of them are only limited to the aspect of banking.

The second limitation on the primary data is the fact that you can hardly come across a scholar that is well verse on both perspective and the general public opinion of most businessmen in crippled in a similar way.

Finance and time constraint is another major factor that hinders the depth of this research work. As a result of all these, the number of business principles discussed are very little and not properly discussed.

Above all, the credibility of the researcher's intellectual background to handle the topic is very low. Based on this, it becomes compulsory to anybody that find mistakes in this work to seek for Allah's forgiveness on the poor researcher and immediately set a foot in correcting it.

We need to confidently free Islamic thoughts from the slavery of western subjugation.

CHAPTER TWO

Literature Review:

2.1 Dealings according to Islamic Principle:-

In normal capitalist system of business, it is said that the end justify the means. But as the same time, an individual will be faced with the economic problem of choice between alternative means. Each economic choice is accompanied by an ethical choice as well, whether the question of which pricing policy, which promotional tool, which policy of resource allocation to take, these and many others are areas of choice. And in doing, so, ethical question has to come in as to which means is just and which is unjust.

Although this may sound strange to those that are prone to discuss all business questions as problems of choice between alternative uses in the search of means without consideration to the ethical issues involved. But it is quite evident that we cannot live real business or any normal life in isolation from ethics.

Justice (Adl) is the first and foremost principles in which the Qur'an ordains us to observe throughout our lives. It comes into play in our private individual lives and its main concern is with the social and economic relationship with others.

> Lo Allah enjoineth justice and benevolence and giving to kinsfolk and forbiddeth lewdness and abomination and offence (xv 90).
>
> Allah commandeth you that you restore the trusted deposits to their deserving owners and if you judge between mankind that you judge justly (iv: 58)

There are some principles among a number of principles which Islam has propounded, the violation of these principles will immediately or later, visible or not will involve some injury to one or both the parties concerned in a business transaction. Among these, we shall select five that can briefly reviewed here. As they were outlined by Dr. Muhammad Nejatulah Siddiqi in his book "*Economic Enterprise in Islam"*.

2.1 **Honesty and Truthfulness:**

Honesty and truthfulness are the most outstanding values enjoined by Islam in every transaction. Fraud, deception, exploring the innocence and ignorance of the other party or false statements is strictly prohibited. For example, false advertisement or deceptive salesmanship is very common in modern business.

> The Prophet (p.b.u.h.) was supported to have said:-
>
> is not in accord with our ways (Principles) is condemned. [1]
> Fraud leads to hell, and whosoever starts some practice which
>
> To exploit the person who confides (in you) is akin to usury [2]
>
> One Muslim is the brother of another Muslim. It is not permissible for a Muslim to sell a commodity to another, in which there is some defect and not to state that defect [3]

These principles elaborate laws were framed by prophet (p.b.u.h) to ensure moral uprightness and justice in business and industry. And if

properly adhered to, it will have great influence upon business policies on quality standardized goods, advertisements and sales-devices, discriminatory price policy e.t.c.,

2.1.2 **Dubious and vague transaction:**

Islam prohibits all transaction that involves uncertainty, ambiguous and dubious element. These are transactions in which either or both the parties suffer some unforeseen and unpredictable loss. Islam as a principle require fair dealing, with the object of the trade clearly determined so as both the parties to the transaction may be able to weigh their advantages.

> The prophet (p.b.u.h) prohibited purchase by means of (random selection done by) throwing a stone (to the seller the object it hit as the commodity purchased) and he prohibited all dubious transactions" [3]

> The prophet (p.b.u.h) prohibited the sale and purchase of animals not yet born, or even conceived by the female[32]

Hazrat Umar is reported to have said; Do not sell or purchase fish which is still in water for it is a dubious dea [33]

Lack of full knowledge about the particulars of the transaction is a source of doubt and uncertainty and destroys the fair nature of the dealings. Eminent jurist, Ibn Hazan has stated the principle in his book *Muhalla;* Sale of a thing whose particulars are not known to the seller is not allowed even if they be known to the buyer. Similarly, the commodity about which the

buyer is in the dark though the seller is informed. Such is disallowed of which both of them know not the particulars.

2.1.3 **Gamblesome Dealings:**

Gambious transaction are based on pure speculation and involving great risks and uncertainties. The type of transaction originates in the great selfishness of the businessman, mostly of modern stock exchange. By the virtue of his superior knowledge and ability to speculate about the future trends of the market, he uses that opportunity to reap what he could not achieve in fair dealing in the market.

Like pure gambling, which relies upon more chance and where insight into the vagaries of chance is the decisive factor, modern speculation also exhibits anti-social trends. Those less conversant with the nature and dynamics of chance or poorly informed about the trends of the market fall an easy prey to the superior.

The effect of this transaction is that, it makes the fluctuations of the markets wider and more extreme. They also tend to lighten the boom and to deepen the depression, as well as to sharpen the turn out and to increase it abruptness. The essence or indication of gambling is that the corresponding loss or gain is not coincident with any real economic service or disservice and in efficiency, it is a game of chance and a play of tricks.

All transaction bearing this nature is to be regarded as gamblesome and forbidden by Islam.

> Strong drink and game of chance and idols and divining arrows are only in infamy of Satan's handwork. Leave it aside in order that you may succeed (v :90)

It should however be noted that in so far as only correctness of prediction based on expert knowledge and foresight brings in the attendant gain or loss, they need not be regarded as gambles because this characteristic is normal to business.

2.1.4 **Usurious transaction:**

A business transaction to be just must be free from all element of usury. When a seller demands one price, if paid as the instant and a higher price, if the payment is deferred to some future date, or when he accepts a lower price, if paid some time before the actual delivery of the commodity, he is effecting a usurious deal. The same spirit that has condemn interest goes to disallows such transactions as well.

A similar situation arises when two unequal quantities of the same commodity or of two commodities of the same kind are bartered. For example, the trade of same maize for maize, Naira for naira.

2.1.5 **Coercive Policies:**

Complete willingness of both the parties is one of the primary requirements of these transactions. Free choice and complete willingness, unmixed by elements of force and coercion, must normally be guaranteed to all parties in all transaction.

Squander not your wealth among yourselves in vanity except it be a trade by mutual consent [39] (iv :29).

The prophet has forbidden contract with a person under coercion [40]

Labour union, monopolies and monopsonies seek to effect contracts to their own advantage under implicit or explicit coercion.

2.2 Partnership and profit-sharing in Islam:

***Definition*:** Shirkah (partnership) means participation of two or more persons in a certain business with defined amounts of capital according to a contract for jointly carrying out a business and for sharing profit and loss in specified proportion.

Another form of partnership not clearly recognize as form of business ownership under the contemporary business setting but accepted in Islamic principle is Mudarabah. Mudarabah means that one party provide capital and the other utilizes it for business purpose under the agreement that profit from the business will be shared according to a specified proportion.

Under Mudarabah, the party that provides the merchandise and the party that engages in business may call comprise of many persons. The capital may be provided by several other persons provide capital while one person uses it.

Under Shirkah, it is not necessary for every party to enter into practical transactions, although none can be formally excluded from active participation. Business is carried out by many persons jointly including the person providing the capital.

2.2.2 **Profit sharing in Islam:**

Profit will be distributed among the partner in business on the basis of proportion settled in advance. The share of every party in profit must be determined by percentage, no fixed amount can be settled for any party.

The principle is accepted by all four school of Islamic Jurisprudence for Mudarabah, that is (profit by proportion). There is also unanimity on the second point, i.e., (no fixed sums can be settled upon for any party under all the partnerships arrangements.

There is unanimity on the proportion be on mutual agreement under Mudarabah, but in the case of Shirkah, it has to reflect the proportion of invested capital. Only Hanbali and Hanafi school of thought supported the mutual agreement even on Shirkah.

2.2.3 **Liability for Loss:**

Loss refers to that part of the capital which is destroyed and will therefore be distributed in proportion to the capital invested in business and borne by the owners of the capital. The principle that loss in partnership based either on a Shirkah or Mudabarah deed, the loss will have to be shared in proportion to the capital invested in universally agreed by a schools of Islamic Jurisprudence both the known schools of Sunni and Shia.

Under the Mudarabah setting, a working party who is not investing his capital in business is not liable to any loss of any part of the capital proper, provided the loss is not due to any misdeed on his part. Both Malik, Shafi'a, Hunafi and Hanbali agreed with this, as written by a scholar, Ibn Qudama al-maqdisi. "In Shirkan, every party would share the loss in proportion to his capital investment; … and under mudarabah, loss would occur in the capital specifically and will not be borne by the party engaged in business because loss means a reduction in capital which is owned by the capitalist and is not at all shared by the party doing business. Loss will therefore accrue only to the party investing and not to the other party.

2.3 Some conceptual and practical aspects of interest free banking:

Banking is an important financial intermediary and vital institution in the economic structure of any country. It mobilizes savings and idle funds in an economy and makes them available to those who can make

better and fuller use of them. In this way, banking effects a re-allocation of the capital funds. And many other banking service cross-the-counter.

An important question that agitate the minds of those who think on Islamic principles in business, whether proponents or critics is the feasibility of interest-free banking. Here we intend to discuss some conceptual and practical aspects of the issue.

2.3.1 **Basis of interest-free banking in an Islamic framework:**

Capital is an instrument of enterprise both from a conceptual point of view and from a practical point of view. We will look at the concept of interest free banking within the frame work of Islamic tenent. It is clear to all that "interest" as a form of payment for use of capital funds is prohibited. The holy Quran ordains the prohibition of interest (Reba) in at least five times in the second (Surah) chapter. This prohibition has been put as:-

1. Madness
2. A thing God wants to destroy
3. A things which if not abandoned deserved a war from God.
4. A thing which is anti-thesis of faith (Iman) or infidelity (Kafir)
5. A thing if persisted calls for permanent abode in hell.

Having observed the limitation imposed by God on interest, we now look for a better way of relationship between those who provide capital

funds and those who use it, on the basis of sharing profit or loss as the case may be. In this connection, we find a mentioned in the past institution of mudarabah.

We can now apply the already discussed principle of partnership between capital and enterprise in the field of banking. In the case of interest-free banking, there will be three parties.

1. The actual user of capital or enterprenuer
2. The bank, which serves as a partial user of the capital funds and as an intermediary link.
3. The supplier of savings or capital fund, i.e., depositor.

One tier of mudarabah partnership will be between the depositors and the bank; and the other tier will be between the bank and the ultimate or actual user of the fund. There would be arrangement between the bank and the user of fund on percentage or ration of profit made from the business undertaken by the user, say 50-50 or 65% to user, 35% to bank. And on the other hand, the same arrangement would be made between the bank and the supplier of the fund. This could be personal arrangement between the parties involve or a regulation from government or central bank if recognized.

The subsidiary services, which are not the main profit-earning activities of bank, will remain unaffected. Example, remittance facilities, safe vault arrangement and many other relatively smaller services. Only the main

profit-earning activities of the bank, i.e., loan to industrial and business sector will turn to operational aspects of interest free banking.

2.4 Problems of research in Islamic business:

Research into Islamic business has its distinct dimension from other value-neutral social sciences. Islam has its own set of values. Islam encompasses the entire life-style of the individual; it comprises principles, commandments and prohibitions, which guide the believer in their daily life, and also regulates relations between them. In business life as well, Islam lays down principles.

These principles are lucid and easy to identify but an economic theory, in the frame work of Islam and in the modern sense of the term has yet to evolve. Islamic business research is still in its infancy. We shall look at research problems from the following perspective.

2.4.1 Historical Background:

The heritage if Islamic literature in the field is full of ideas and perceptions about Islamic business and the economic system of Islam. Most of the work came from the circle of Shariah scholars and mostly in other languages other than English. The first contribution on Islamic economic by a trained economist in the second half of the 1950s by Dr. A.I. Qureshi.

Then the late fifties or sixties, many scholars were attracted to research in Islamic economic scholars, both from the Shariah and

economics begin to contribute to the newly born discipline, thus enriching our knowledge and laying down the main chapters of Islamic economics.

The end of sixties, and more important the beginning of the seventies witnessed the rise of breed of trained economist who devote much of interest in exploring the economies of Islam. The first International conference on Islamic economies held in Makkah in 1979 brought under one roof more than 400 renowned Muslim scholars. As a result of which several publications came out and succeeded in putting the infant discipline in a new stage of younghood and pushing us frontiers into the academic circles of universities and research institutes. The proper establishment of Islamic brinks from the first experiment in Mit Ghamr Egypt in 1963 to several others provide encouragement and moral uplifting in addition to being as indispensable laboratories.

2.4.2 **Conceptual Dimensions:**

Islamic economies, being a new discipline, is subject to conceptual differences among economist who are working on the field. The research in this area has strong relations with other branches of Islamic studies. Hence, the borderlines are not properly defined. For example, the nature of Islamic business principle in particular, or economies in general are derived from the same sources as other Islamic discipline. But it has a closer ties with some Islamic discipline especially ethics, ‘usul’ which explain the real

frame work of attracting from sources and regulations for doing so. It also relates closely to 'fiqh' (axiom) which means trying to give meaning to sources. Theology (Aqidah) which means beliefs and history also. Moreover, it seems heavily on 'illm al usul' since it uses 'usul'. General rules and principles in establishing consistent drawings of Islamic theories and systems.

Fiqh as mentioned above is intensively connected with Islamic business to the extent that, for some Jurist, the Islamic business is a modern version of fiqh al mu'amalat. In fact, fiqh mu'amalat is best defined as business law. Therefore, for practical solutions to issues and problems have to fall in the hands of fuqaha in order to put them in the juristic scope in accordance with shariah.

Hence, care should be taken to interpret the result obtained from Islamic economic theory not to be confused with the religion of Islam. For example, some Islamic writers have argued that imposition of 100% reserve requirement would stabilize the money market in an Islamic economy. This is just the opinion of an Islamic economist not the position of Islam.

2.4.2 **Teaching Problems:**

It would not be unjustified to say that teaching in this field has never been discontinued in the history of the Muslim educational programmes. Continuity has been maintained by the shariah oriented teaching institution

and some present age universities have long ago established department for this studies, and several progresses in theoretical research in Islamic economies has been made. But teaching programmes still face a number of serious difficulties. These problems include:

(a) *Trained Manpower:-* An Infant academic discipline aims at integrating Islamic business (economics) values and shariah with economics or busiess as an analytical science is difficult to provide needed manpower.

(b) *Teaching material:*- As a discipline, there are hardly any systematic studies to be used as textbooks for teaching programmes. Although considerable progress has taken place in theoretical research in the field.

(c) *Course Structure:*- Apart from the special courses in Islamic economics, the Islamic perspective should be embodied in different other courses. Example, planning, motivating controlling in management, marketing aspects, financial both public and private.

(d) *Limited teaching programmes:* There is a hesitation to establish chairs of Islamic business or economy in most Muslim academic institution and in the academic institutions of the west.

(e) *Lack of co-ordination between the existing programme:*- No systematic plan of cooperation for exchange of staff, organizing

workshops and symposia on teaching is being adopted yet between institutions engaged in teaching the subject or field of study.

(f) *Absorption of the trained Islamic Economist (Managers):-* The teaching programmes are in the initial stages of generating professional Islamic economist (managers). However, it is quite natural that future demand for these programmes will depend on how the professionals are employed in practical fields. If reasonable employment opportunities are not provided to such professionals, it will be detrimental to the progress of teaching Islamic business or economist.

2.4.4 **Translation:**

Finally and most importantly is inter-lingual translation of important works, reprints of old publications, publication of manuscripts and dissertations have important bearing on the progress of research in this subject. Concerted individual and institutional effort are not affordable.

There are a lot of literatures still unexplored and not published in Arabic language concerning the Islamic business literatures, for example, the works of Ibn Taimiyya and many others. If these were to be translated in English, great value would have been added to the field of Islamic business discipline.

CHAPTER THREE

3.1 Ownership Structure In Contemporary Business Setting

In a capitalist setting, the ownership of a business is regarded as private property which guarantees that whatever property a person owns(no matter its significant to society) is his to use as he sees fit and without the interference of others, it encourages therefore the accumulation of surplus property. The production and distribution of goods and services are not organized and planned by some central authority but left to the private individuals who engage in these activities for profit.

Profit motive is the drive for personal material gain, is a distinctive and dominating attributes of contemporary business setting. It is the profit motive that provides the real impetus to economic activity in a contemporary business system.

3.1 Definition Of Business Ownership:

tOwnership is a legal relationship between a person and some object or a corporation as a legal person. It means the right which an owner have and exercise over his possession. In other words, ownership implies the exclusive right to posses and use property. And it makes the owner responsible for the activities of the owned property.

The type of business ownership decides the sharing of profits, the responsibility for debts.

3.1.1 **Proprietorship:**

The word *Sole Proprietor* denotes exclusive ownership of something. Thus proprietorship describes that business which is owned by one individual. This is the very oldest form of business ownership. It is also the simplest . there is little difficulty about organization and operation of a proprietorship since it can be established quite informally.

Advantage And Disadvantage Of A Proprietor

The profits earned from the business belongs to him, and he is personally responsible for business losses. It is individualistic and personalized form of business ownership. It can be liquidated as easily as it is began. The proprietor can merely stop doing business, for his assets and liabilities are his personal responsibilities. Even though he goes out of business, he is still legally entitled to any money owned to him and liable for any debts he incurred.

Some of the major disadvantage of sole proprietor is in the area of unlimited liability; it means, the personal property of the owner can be taken to satisfy claims. This could lead to financial disaster. Secondly, the death of the owner means the end of the business.

Another major disadvantage is the area of capital problem. It is usually difficult to attract outside fund into the business. Since there is greater risk in it than other forms of business, financial institutions are

reluctant to lend their funds and this makes it difficult for the business to expand or take advantage of opportunities that requires additional capital

3.2.2 **Partnership:**

A partnership is an association of two or more individuals who enter business as co-owners to share in profits and losses. The word partner is a contraction of the two words part and owner. The partnership resembles the sole proprietorship more closely than it does the corporation because of the unlimited liability feature, but it has certain advantages over the proprietorship which makes it more desirable for some business situation.

Major advantage of partnership is bringing into a business more capital or more skill which can be used for expansion. It is also within limits, a means of spreading the risk of loss among several persons. It is also a personalized form of business ownership, it means business is personal and its profit and losses, its assets and liabilities are also personal.

Types Of Partnership And Their Liabilities

There are broadly three types of partnership commonly found in today's contemporary business system.

1. *General Partner:* He has unlimited liability and may be personally responsible for the debts of the partnership. Unless otherwise stated, all partners are considered general partners.

2. *Special partner:* The obligations of the special partner may be limited by agreement. In such cases, the authority of the special partner in relation to the management at firm affairs is also limited.

3. *Dormant or secret partner:* He is a silent partner whose association with the firm is not known to outsiders. He has no voice in the management of firm affairs. But once the association is discovered, he may be treated as a general partner by a court of law under this system.

In terms of liabilities, partners are jointly liable for the debts of the partnership, and a creditor who sues to collect debts will sue the partners as a group. However, if the asset on the partnership business are not adequate to meet the obligation, creditors may sue anyone or all of the partners as individual persons to gain satisfaction.

For a partner with large personal assets, the financial liability can be a serious handicap. He may find himself obligated to pay the entire debts of the partnership. The injured partner may try to collect part of the obligation from others, but if the remaining partners have no personal assets, the entire business loss does legally fall on the solvent partner.

3.1.3 **Corporation:**

A corporation has been defined *as* an artificial being invisible, intangible and existing only in contemplation of the laws. It is a legal entity. It has limited liability. As a legal entity, it has its own existence apart from that of its owners. The owners of corporation are called shareholders.

The shareholders may not directly manage the business. They however elect the Board of Directors to administer the company. The Board of Directors in turn employ the Managing Director and other management staff to carry on the day to day operation of the business.

Types of corporation:

There are basically two types of corporations. I.e., Private limited company and public limited company.

Private Limited Company:- It has some characteristics which make it different from public limited company. These include:

1. It is restricted by its articles to transfer its share. It therefore cannot write to the public to subscribe for any share or debenture of the company.
2. The total membership of its shareholders is restricted to fifty.

Public Limited Company:- This is the largest form of business organization. It has the following characteristics.

1. Shares of a public company are freely transferable.
2. There is no limit to the number of shares of a public company. Any member of the public can buy share in a public company. The shares are sold on the stock exchange.
3. The share holders of public companies can attend all the statutory meetings e.g., Annual General Meeting, in accordance with the provisions of the companies and allied maters decree.
4. A public company is required to publish its annual accounts. The accounts must also be presented at the Annual General Meeting to its members.

Features Of All Corporation

The features are general to all types of corporation, private or public

1. *Legal Personality:* it is an artificial legal person created by a specific law, i.e., statute law under the American system, through the approval of its articles and memorandum of incorporation. As a legal entity, it can sue and be sued for any act done within the state it is incorporated. But in different state, it has to register as a foreign corporation. As a legal personality, the company is a totally different individual from its owners. The act of the company are not the acts of its owners. Each is independent of the other.
2. *Limited Liability:*- The shareholder (the owner) is liable only for the unpaid portion of their share capital. In case of problem, once they pay up

their share capital, and the share capital is fully paid, they no longer have any liability. So their personal assets cannot be used to pay for the debts of the company. Share holders cannot lose more than the value of their investment.

3. *Perpetual Succession:*- A corporation is supposed to last forever. It is not suppose to die with the death of a member or withdrawal, but can only end by winding –up (voluntarily or legally).

Advantages And Disadvantages Of Corporation

1. It has the ability to mobilized a large capital to run the company, good capital base to act or enter into big dealings that could provide high yield and it has the capability of borrowing from banks and other financial institutions.
2. The major disadvantage is to do with lack of good control of the business by the owners, and it is separated them as those with few shares cannot attend the annual meeting and vote. It is also expensive to form, as it involve large cost of management consultants, legal fees, taxation etc.

3.2 Principles Of Management:

The role of management principles: Man wishes to obtain the maximum goal satisfaction with minimum expenditure of time, money , unpleasantness or other unsought consequences. This desire to accomplish

goals through cooperation and to do so efficiently requires group actions whether in business, military, religions, charitable or social objectives.

When people organize formally to attain a common goal, it is essential that there will be management. The task of creating the internal environment for organized effort to accomplish group goals. In coordinating group activity, the manager plans, organizes staff, directs and contracts. These are virtually the functions of manager at all level.

3.2.1 **Planning:**

Planning involves selection of enterprise objective as well as goals of departments and programs and the determination of the means of reaching them. Planning ca be defined *as the* selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results.

It also concerns future activity, it deals with futurity of present decisions, today's effort are the tomorrow's work that the manager thought about yesterday. In other words, planning is deciding in advance what to do, how to do it, when to do it, who is to do it. Planning bridges the gap from where we are, where we want to go. It makes possible for things to occur which would not otherwise happen.

Planning is intellectual in nature. It is mental work, conscious determination of courses of acting, the basing of decision on purpose, facts and considered estimates that requires thinking, imagination and foresight.

3.2.2 **Organizing :**

In order to accomplish goals, carryout plans, and make it possible for people to work effectively, activities must be grouped logically and grants of authority must be made so that conflicts and other frictions do not arise.

The word *'Organizing'* stuns from the word *'organism'* which according to the dictionary means to create a structure with parts so integrated that their relation to each other is governed by their relation to the whole.

Organizing is the establishment of effective authority relationships among selected work, persons and workplaces in order for the group to work together effectively. In other words, organization is concerned with the activity-authority structure of an enterprise. It is thus the grouping of activities necessary to attain enterprise objectives and the assignment of each grouping to an executive with authority necessary to manage these activities.

Tangible components of organizing

For effective organization to be done, the work for which the organizing is being done is set forth as a result of planning. This work must be divided so that package of work can be assigned to specific organization groups and ultimately to individuals.

Secondly, emphasis must be given to the person who will perform the work, their experience, competency, and behaviour must be taken into account in determining who should perform what portions of the work.

Thirdly, the workplace, it means the physical means and environment necessary for the accomplishment of the work by the people. It also includes the location of the work, the performance, materials, machines, lighting, desks, files, sales kit and paper form.

The relationship among the work, people and workplace are also a significant part of organizing.

3.2.3 **Staffing:**

One can plan, organize and make decision but no tangible output is achieved until we implement the decisions regarding the proposed and organized activities. And this requires staffing.

Staffing is getting all the members of the group to want to achieve and strive to achieve the objective the manager want them to achieve because they want to achieve them.

Staffing is the executive function which encompasses the recruitment, selection, training, promotion and retirement of subordinate. Recruitment is therefore a searching for, and obtaining potential job candidates in sufficient number and quality so that the organization can select the most appropriate people to fill its job need.

And by selection, it means a match between the applicant's qualification and requirement of the jobs.

While training is the effort to help workers to satisfy their performance deficiently and improving present and future work performance.

And finally, motivation of the workers. The relationship between the organization and its members is governed by what motivates them to work and the fulfillment they derive. Therefore, it is important to find out what would motivate an employee. Whatever compensation implemented must be able to ensure that the structure can attract and retain services of employees, and paying employees according to the requirement of the job and improve his morale at work and promoting them accordingly.

3.2.4 **Controlling:**

Control implies measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plan. It helps to insure that what is intended to be

accomplished is accompanied and that the various efforts are maintained in their correct inter relationships so that adequate coordination is attained. There can be no controlling without previous planning, organizing and staffing. Control is therefore closely related to planning.

Once a plan becomes operational, control is necessary to measure progress, to uncover deviations from plan and to indicate corrective action. Corrective action may involve simple measures such as minor changes in direction, it may mean setting new goals, formulating new plans, changing the organization structure, improve staffing.

All controls in a business will normally be related to one or all of the following factors.

1. Controlling in management
2. Controlling quantity and quality
3. Controlling time use and cost
4. Managerial audits and overall controls.

Marketing mix under the contemporary business setting:

Marketing mix is one of the major concepts in modern marketing. It is defined as the set of controllable tactical marketing tools that the firm can bring together and blend to create or produce the desired response from its target market. It consist of everything the firm can do to influence the

demand for its product. These activities can be summarized into what is known as four 'ps' packaging, price, place and promotion.

Various decisions would be made under each of the mentioned activity to allow the company to establish a strong position in the target markets.

Product:- A product is anything that can be offered to a market for attention, for acquisition, for use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organization and ideas.

It may be a bundle of physical (tangible) and psychological (intangible) satisfaction that a buyer receives from a purchase. Management decisions have to be carefully taken as to what attributes these products will have that will make product or services get to areas intended, attracts the right attention, influence its purchase. These decisions are taken in the areas of four 'ps' .

3.3.1 **Packaging:**

Package is one of the marketer's most vital tools for selling. Packaging is the general group of activities in product planning, which involves designing and producing the container or wrapper for a product. Many products have a distinct image in the consumer's mind through the packaging, thus creating awareness.

Packaging is a major element in the marketing mix for a product. The traditional function of a packaging are product protection and facilitating handling and storage of the product. But in recent times, packaging is receiving increasing recognition as an effective marketing tool. Well designed packaging can create convenience value for the consumer and act as an effective promotional medium for the manufacturer.

Objectives Of Packaging

1. *Self-Services:-* A large number of products are sold in super markets and shops. Thus, a consumer confronts a package instead of a salesman. It is the packaging, which must perform many of the sales tasks. It must attract attention, describe the products features, give consumer confidence and make a favourable overall impression of the product.
2. *Consumer Affluence:-* Consumers nowadays are willing to pay a little more for the convenience, appearance, dependability and prestige of better packaging. It is therefore essential to satisfy the consumer's demand.
3. *Company Brand Image:-* Packaging contribute to instant consumer recognition of the company or brand. It aids the company's effort to build distinctive product and company image. It is not only meant for product or brand identification but also carries the brand's or product's positioning concept in terms of quality, cost and other factors.

4. *Protection:*- The package offers protection to the product; e.g., unbreakable plastic bottles or styrophone encasements for televisions. If the message is not good, the product can spill, leak or spoil or can be tempered with.

3.3.2 **Pricing:**

Price is often one of the most visible element of a company's product marketing mix. Price is the value of a product expressed in terms of naira and kobo. It is the act of translating into quantitative tern (naira and kobo) the value of the product to customers as a point in time. Pricing decisions are very necessary under the following situations.

1. When a company wants to introduce a new product or enter a new market with an old product.
2. When cost competition, demand, inflation etc., render old price inadequate.
3. When the firm produces several products that have inter-related demand and cost.

Pricing Objectives

In terms of objectives, the firm must first establish what role(s) it wants price to play in the business or marketing mix. Broadly speaking, a firm may have the objective to pursue maximum profits in the short and long way. It may wish to maintain good relations with labour, the government and customers.

It may wish to build a new image for the entire company over at the face of decreasing profits. Therefore, a firm's pricing decision will reflect all these objectives.

1. *Profit Maximization:-* On this, the company may wants to achieve maximum current profit. The intention may be to forestall losses from a new product that is likely to be failure in the market. It may be to achieve a large rate of return on investment. It may be to achieve a satisfactory level of profit.

2. *Volume Oriented Objective:-* The intention is that high production volume will reduce costs and eventually give the firm desired profits in the long run. Therefore, the firm would adjust price achieve in the following.

    (a) Maximization of Sales revenue

    (b) Maximization of market share.

    (c) Maximization of consumer volume.

3. *Status-quo Objective:-* Pricing strategy can be used to bring about changes in the market-place. But when a favourable situation exists, any change represents a threat, whether from customer, competitors or government. To protect its position, a firm may pursue status-quo-oriented objective for the following reasons.

    (a) Maintenance of market share

    (b) Meeting competitors

(c) Maintenance of image

(d) Maintenance of stable price

(e) Achievement of certain mark-ups.

(f) Recovery of cost

4. *Market Skimming:-* In market skimming, the firm wants to serve those customers or buyers that are ready to pay a much higher price than others in the aggregate market because the product has high present value to them.

3.3.3 **Promotion:**

Promotion consist of communications that inform potential consumers of the existence of products and persuade them that those products have some satisfying capabilities. It is the coordination of all seller-initiated, efforts to set up channels of communication and persuasion in order to facilitate the sales of a product or service or the acceptance of an idea.

To achieve this, the marketer must know and decide on the following.

(a) The target audience.

(b) Desired audience behaviour.

(c) The message.

(d) The media.

(e) Source of information attributes.

Promotion Strategy Or Promotion Mix

1. *Advertising:-* Is any paid form of non personal presentation and promotion of ideas, goods or services by an identified sponsor. It is aimed at large groups rather than at individual consumer. It comes in many form and have many uses. It involve magazine, newspaper, radio, television, out door display, direct mails, catalogue etc.,

3. *Personal Selling:-* This is the oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales. The purpose of personal selling is to bring the right products into contact with the right customers and make certain that ownership transfers take place. Personal selling is the most effective tool at certain stages of the buying process. It has the advantage of receiving immediate feedback which allows for instant changes in the message presentation to persuade the consumer.

3. *Publicity:-* Is another non personal stimulation of demand for a product, service, or business unit by planting commercially significant news about it in a published medium or obtaining favourable presentation of it on radio, television or stage that is not paid for by the sponsor directly.

Publicity is used to promote various brands, products. It is commonly used to launch new products and brands. It is very effective

because information transmitted tends to convince the audience more than if it were to come from a sponsor-since the medium is assumed to have little to gain by taking the position stated in the news item.

4. *Sales Promotion:-* Consists of those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness, such as displays, shows, and exhibition, demonstrations, free samples and other various non-recurrent selling efforts.

Sales promotion comprises a wide variety of tactical promotional tool of a short-term incentive nature designed to stimulate target market response. It may be directed at consumers in the form of consumer promotion or to middle men in the form of trade promotion.

3.3.4 **Placing (Distribution):**

Distribution is an important element of providing satisfaction in the market place. Distribution involves the physical movement of products to ultimate consumers. The most attractive product, at an attractive price is worth nothing if it is not available to buyers when they want it. Distribution therefore bridges the gaps of space and time between production and consumption.

Channel of distribution:

The channel of distribution is the means by which products and service are made available to customers in the market place. It is an organized system of agencies and institutions which performs all the activities required to link producer with users and users with producer in order to accomplish the marketing tasks.

The channel is made up of participants that accomplish different marketing functions responsibilities. They are referred to as middle men. The may take title to the goods they handle, e.g. (merchant middlemen) or they may only facilitate the buying and selling functions, e.g., (agent middle men).

1. *Whole selling:-* It include all activities involved in selling goods or services to those who are buying for purpose of the sale or business use. In this regard, any sales and accompanying activities undertaken by one person or firm to sell to another person or firm, where the buying is not for personal use can be referred to as whole selling. Whole seller must be a middleman who usually does not sell to ultimate consumers. Whole sellers differ in whether they take title to goods or not.

(a) *A merchant Whole seller:* They are independently owned business that take title to the products they handle. They are also called jobber, distributors.

(b) *Agent and Brokers:-* They do not take title to goods. Their main function is to facilitate buying and selling. They work on a commission basis, ranging from 2 – 6 % of the selling price.

2. *Retailing:-* Includes all the activities involved in selling goods or services directly to final consumer for their personal, non business use. In other words, the retailer is the last link in the chain of distribution. The position of the retailer in the channel of distribution is strategic.

The retailer is a specialist in selling, and the community looks to him for the supply of the needed goods at a convenient place, convenient quantities, at reasonable prices and a time when they are wanted.

The retailer is generally able to ascertain the needs and requirements of customers. He also exercises a considerable influence on their buying decisions.

CHAPTER FOUR

4.1 Business ownership in Islam vis-à-vis modern business:

Islam allows private ownership of property but subjects the owners to restrictions preventing him from using property except to the common good. It encourages the acquisition of private property and allows the individual to promote his own good. it exhorts him not to forget that absolute ownership of everything belong to God. The Sovereignty of the heavens and the earthy and all that is between them belongs to Allah .

It follows therefore, that proprietorship of all the free gifts of nature-land, water and their wealth does not belong to any individual. Mankind holds them jointly in trust. The trust is conditional in the sense that men benefit themselves equally and not to the exclusion of anyone, not for enriching one's self or exploiting others or holding others in subjection.

The ownership of business in Islam is under some ethical injunctions that are meant to regulate it and makes beneficial to the owner and society.

1. To exploit property to the fullest extent without adversely affecting the interests of the community.
2. To pay Zakat: Zakat is the most important a fiscal and distributive mechanism of an Islamic economy.
3. To spend in the way of Allah i.e., Lawful spending.
4. To abstain from taking interest
5. To avoid fraud in business dealings, hoarding or monopoly

Islamic encourages productive efforts beyond all doubts. On a number of occasions prophet (p.b.u.h) pronounces productivity almost a duty. A man happened to pass by the prophet (p.b.u.h). the companions lied his vigour and exclaimed O prophet, had this activity been in the cause of Allah (it would have been better) The prophet said*;* If he is striving (to earn) from his small children, he is (striving) in the cause of Allah. If he is striving (to earn) for his old parents, he is in the course of Allah. Even If he is striving for his wife, he is in the cause of Allah. But If he is striving to amass wealth and take pride into it and boast of it, he is (striving) in the cause of Satan.

Islam as the modern business setting has some established structures of business ownership as well as laid down principles for the execution of business activities. Structure of business ownership such as sole proprietor partnership and joint ventures found in present contemporary business and their regulations of conduct were found in Muslims,

Business, though some of these structures are found in Asian and Middle East economies. African and indeed Nigerian's economy hardly practice partnership and joint venture referring to as *Musharaka* or *Mudaraba* in Islamic concepts and practice of business.

Principles or method of executing business such as marketing, finance and other contemporary business such as insurance are consulted

and practice in those economies mentioned. We share these structure and regulation as found to be re-evolving in Islamic or Muslim world today.

4.1.1 **Musharaka:**

Definition: *Musharaka:* The definition given by *musharaka* is common in *Maliki* and *Hanbali* school of thoughts, but the term used to describe it may sometimes differed among various scholars. For example; *Hanbali* school of thought referd it in as *shirkat-inan,* while *maliki* use the term *shirkat-mufawada* to carry the same meaning.

Musharaka or *Shirkat* (partnership) means participation of two or more persons in a certain business with defined amounts of capital according to a contract or articles of partnership for jointly carrying out a business and for sharing profit and loss in specified proportions

Under this arrangement, it is not necessary for every party to enter into practical transactions, although none can be formally excluded from active participation. According to Al-khafif pp42-4, in principle, every party has the right to participate though in practice he may not. By mutual agreement, it is possible that capital is provided by a few persons and the business carried out by many people including the person providing the capital, or the other way round.

4.1.2. **Injections regarding *Musharaka*:**

1. *Loss:*- It refers to that part of the capital which is lost or destroyed.

It will be distributed in proportion to the invested capital by each partner.

2. *Profit* will also be distributed among the partners, equal to proportion of capital provided except in a situation where one partner is saddled with greater responsibility than the others. Then profit must be settled according to agreed proportion. No fixed amount can be settled for any party but fixed proportion of the capital would be settled upon .

3. In a running business, losses will be made good by profit till the business comes to a close and accounts are finally settled. At the time of the settlement of accounts, the original capital will first be set apart. Any amount left after will be deemed as profit, or in case of a shortage loss.

4. A partner may with the permission of other partners procure additional amount of capital from other persons under an agreement of *shirkah.* He may also supply a part of the partnership capital to other party again on the basis of *shirkah* or *mudarabah.*

5. No partner of a *shirkah* agreement can borrow or lend out money to another person without the express permission of the capital owners.

6. No party bears responsibility for the liabilities of other parties except in the case when such liabilities have been accepted by the point business with the permission of all concerned parties.

7. All parties have the right to terminate agreement at any time. If the number of contracting parties is more than two, the remaining parties may continue the agreement. And the agreement may end with the death of any

one of the arties. Where there are more than two parties, others can also continue

4.1.3 **Mudarabah**:

Definition: *Mudarabah* means that one party provides capital and the other utilizes it for business purposes under the agreement that profit from the business will be shared according to a specified proportion. The party that provides the merchandise (capital) and the part that engages in business may each comprises many person. For example, a bank contributes all the financing and the customer contributes only his managerial efforts or labour (in interest free banking) and gets an agreed proportion of the profit actually realized.

Under this agreement, the partner offering his effort will lose nothing but his labour or his job (as the principal capital is not his) in the case of financial loss resulting from normal business conditions. This financial risk that the partner contributing his fund bears justifies his claim of share in profit. The other partner gets his share because of efforts puts in only, but would be held responsible for the loss of capital, should this be the result of is negligence or willful act. To guard against this, the bank may require a security from the customer or business partner.

Mudarabah is more popular form of investment by the Islamic banks. Generally, the banks have been found to be able to make 10 - 14%

profit on their investment activities. The tables show the profit on investment activities of some Islamic banks.

ISLAMIC INVESTMENT COMPANY OF THE GULF 31/7/80

Mudarabah	**Date of issue**	**Valuations ($)**	**Increase since inception**	**1980 annualized increase (%)**
1st Mudarabah 3 yrs	Jan 1979	118.30	18.30	12.6 %
2nd " (Profit paid)	May 1979	101.57	1.57	9.47 %
3rd " "	Oct 1979	1065.00	65.00	8.13 %
4th " "	Feb 1980	10.69	0.69	13.80 %
5th " 1 yr	Feb 1980	105.25	5.25	10.50 %
6th " 3 yrs	Feb 1980	103.85	3.85	10.50 %
Monthly institutional Mudarabah				6.90

Table
Faisal Islamic Bank Of Sudan 31/12/1979

Average Profit on investment activities: 13.5%

Table
Kuwait Finance House 31/12/1979

Average Profit on investment activities 10% - 12%

4.1.4 **Injunctions regarding *Mudarabah:***

1. Part of the capital loss or destroyed will be borne by the owner of that capital. Any party who has not invested any capital will not be liable to any loss of capital.

2. Profit will be distributed among the partners in business in proportions settled by them. The share of every partner must be settled as percentage of profit not fixed amount.

3. Parties entitle to share of the business profit may claim their share only when the suppliers of the originally invested capital have their investment returned to them, either as actual possession of the capital or as a legal transfer in their favour.

4. The party engaged in running the business can with the permission of the other party (capital owner) employ his own capital in the mudarabah, or obtain additional capital from another person's for business purpose, or supply the business found as capital to another party for the purpose of conducting business as mudarabah or musharakah.

5. The partner actually running the business under mudarabah is entitled to make credit sales in connection with the business except when the other partners or capital-owners forbid him to do so.

6. The value of goods and services purchased on credit on behalf of the joint business should not exceed the total value of the concern. Any credit purchases in exceed the total value can be made only with the permission

of other partners or capital owner. If on behalf of the enterprise and with permission, a party has purchased goods on credit and the capital of the concern is insufficient to meet the cost of those goods, this party will be responsible, equally with the other parties, for paying the debt.

7. The agreement can be concluded for a fixed term and any partner can terminate the agreement any time and the agreement is terminated with the death of a partner, but at each of the circumstances mentioned, the other partners can continue if there are more than one partner.

4.1.5 **Musharikatul-Ain:**

It means the partnership of two or more people for the purpose of conducting business, mostly of providing some services. Partners in this form of business are not contributing money as their capital but their service or talents. Example of this is the lawyer's chamber, entertainment club, advertising agency, labourer union, etc.,

4.1.6 **Injunctions regarding musharika Ain:**

Distribution of income is done on agreed percentage based on either expertisement or good will already created by old partner.

4.2.1 **Principles of management in Islam**:

Management in Islam refers to the process of moving people in a planned direction by motivating them to achieved desired output through non compulsive means. Effective management is the process of creating a vision, developing a strategy, enlisting cooperation and motivating action. In other words, management suppose to undertaken the following functions:-

1. Create a vision of the future that takes into account the legitimate long-term interest of all parties involved
2. Develops a rational strategy for moving toward that vision.
3. Enlist the support of the key power centers whose cooperation, compliance the teamwork is necessary to produce that result.
4. Highly motivates that core group of people whose action are central to implementing the strategy.

4.4.2 **Characteristics of a manager in Islam**:

The prophet (p.b.u.h.) said that the leader of a people is their servant. Thus a leader should be in the business of serving and helping others get

ahead. Therefore, management in Islam is characterized by among others the following:

1. *Allegiance:-* It means both the manger and the surbordiante are bound in allegiance to Allah.

2. *General Goal:-* The manager perceives the goals of the organization not only in terms of the interest of the group parties involved, but also in terms of general societal objectives.

3. *Adherence to the Shariah:-* The manager is not above observing Islamic injunctions and can only continue in office as long as he adheres to what the shariah has enjoined.

4. *Delegated Trust:-* The manager accepts his authority as a divine trust of great responsibility. Islam commands the manager to do his duty for Allah and to show kindness to those under his authority.

4.2.3 **Management of objectives according to Islam.**

Islam has enjoined great emphasis in management by objectives referred to as *"Shariah"* (mutual consultation). The Quran has made it clear that Muslim manager are obligated to consult those who have enough knowledge or those who can provide sound advice in setting any objective or goal:

> And those who answer the call of their lord and
> establish prayer, and WHO CANNOT CONDUCT

THEIR AFFAIRS BY CONSULTATION and spend out
of what we bestow on them for sustenance (42:38)

The best of all managers who received his objectives, goals or target direct by revelation of the future is commanded to consult his subordinate in some cases.

It is part of the mercy of Allah that you do deal gently with them. Were you severe or harsh hearted, they would have broken away from about you; so pass over (their faults) and ask for (Allah's) forgiveness for them; and consult them in affairs (of moment). Then when you have taken a decision, put your trust in Allah. For Allah loves those who put their trust (in Him) (3.159)

4.2.4 **Planning in the Islamic business**

On the scene of Islamic business, planning is a completely new discipline approved by some and fiercely denied by others who considers it as a illicit innovation sneaking dawn into Muslim old established concepts.

They argue that business committed to destiny as such planning does not exist in our heritage and was never applied during the course of our past history. The propagators of this did not understand the implication of our heritage nor did they live up to the logic of the modern era.

At all levels and in all walks of life, one can find that human's are spontaneously practicing a certain degree of planning. A merchant must

know how and with whom he will be dealing with, where he will find his goods and whether they are suitable for marketing in his particular area.

If simply put, planning is a way of charting our course to get from here to there. Then Muslim are the only people that makes the general planning., because their present is this world and where we want to go is the Paradise and the course of action is their worship Failure to take the right course will land to where we don't want to be. As imam Nawawai summarise the life plan of a Muslim.

4.2.5 **Planning Process in Islam:**

The planning process is divided into two parts.

1. The determination of objectives is expression of intention (NIYYAT). It is the basic foundation of all work. If properly formulated, the work will be valuable and a reward will be given if not executed.

2. *Formulation Plan:-* Under this second part of the process, plan role are formulated to achieve organizational purposes, mission and goals, this is general in any affairs of a Muslim life being it business or otherwise.

(a) Define objectives and goals (paradise, profit, development)

(b) Collect and analyse information (seek for knowledge)

(c) Consider all alternative (false or trust, wrong or right)

(d) Define tasks and communicate (propagation or training educate)

(e) Set up control mechanism.

Allah (SWT) commands that we must take up the means and methods conducting to the targeted ends.

> We gave the ways and the means to all ends, one such way (he) will follow". (18:24, 84)

4.2.6 **Organising in Islam**:

As seen earlier under the contemporary management principles, organizing is getting people to work with one another as a harmonious unit. Working is an Islamic directive full of blessing and operational efficiency.

> By those who range themselves in ranks. And so are strong in propelling (evil or failure). And this proclaim the message (mission)

Organization in Islam pertain to all profession as copied by contemporary theories and practice of management. It is more reflected in the military. *Q37:1-3)*

The arrangement of the military is directed in the Quran and applied by the greatest manager prophet (p.b.u.h)

> Truly, God loves those who fight in cause battle array, as if the were a solid cemented structure". (Q 61:4).

The proper arrangement of people in prayer and war accordly has been borrowed by present military, the rising of hands in begging at prayer is borrowed by military as salute. These and many others can be cited. But most importantly, it

should be understood that Islam enjoin organization and forbidden anyone from singling himself along.

> The hand of Allah is with the jama'ah (people).
> Truly, whoever singles himself out (from people)
> will be singled our for the hell fire
>
> (Sunan al tirmidhi)

The well known narration of the battle of Uhud in which the prophet (p.b.u.h) arranged his companions accordingly in positions can be sited here. And the failure that befalls the companions on disobeying the prophet can also be recalled. The principle of organizing can never be over emphasized in Islam.

Failure to comply with the principle has in the past cause a lot of set backs to the Muslim organizations in general and their business in particular.

4.2.7 **Staffing; an Islamic perspective:**

The staffing function a manager is given a great emphasis in Islam. As rightly observed under the contemporary function of staffing, it is central to achieving a meaningful goal. No matter how good a plan, organizing exercise can be done, if the proper manpower is not put in place, the result will not only be failure but detriment to business and the society at large.

Unqualified worker and the manager that employed will not only be responsible for the misconduct in the world, but also in the hereafter. As in

the case of a judge. The prophet Muhammad (p.b.u.h) was reported to have said.

> Judges are three; two will be in hell, and one will be in paradise. The man who knows the truth and gives judgement contrary to it, will be in hell; the man whose judgement is based upon ignorance will be in hell, but the man who knows the truth and gives judgement in accordance with it will be in paradise.

4.2.8 **Recruitment in Islam**:

Although, Islam discourages one from applying for the job of leadership. As the prophet (p.b.u.h) was supported to have said "whosoever seek for leadership should not be given", but yet it permit one to apply for any job and should be given, provided the followings conditions are fulfilled.

1. *Knowledge:-* Generally, the work of an educated person cannot be compared with an uneducated person. Most especially, complete layman on the job. Therefore, one should only apply for the job he has knowledge as the case of the prophet Yusuf.

> (Joseph) said; Set me over the store-houses of the
>
> land; I will indeed guard them, as one that knows.

2. *Honesty and strength:-* The worker should not only have knowledge, but must have honesty and strength to handle the job. Honesty here implies justice, truthfulness and faithfulness in handling one's job. And one makes

good and efficient worker out of himself, strength and ability as in the case of prophet Musa (p.b.u.h) and the daughters of prophet Shu'aib

> O my (dear) father; engage him on wage; truly the best of men for thee to employ is the (man) who is strong and honest.
>
> (Q 38:26)

3. *Competency:*- Knowledge, honesty and strength are not just the authentic to qualify an applicant for employment, but he is to be competent enough to handle the job. A disciple of prophet (p.b.u.h) Abu Zarr was reported to have asked the prophet to appoint for a job of leadership. The prophet said:

> The earth has never carried a man and the slay has never covered a man that is more trustful than Abu Zarr, but you should never seek for leadership even after my life.

4.2.9 **Compensation in Islam:**

An individual employed to work for another individual, company or government is definitely placed in a comparative weaker position and his interest is likely to be jeopardized by his employer. Therefore Islam places a lot of importance on ensuring that an employee is given his due compensation.

1. *Prompt payment of wages*:- An employee is entitled to a wage which will enable him to enjoy a decent standard of living and agreed upon before commencing the job.

> *The prophet (p.b.u.h.) forbids the employment of*

any employee without first settling his wages

Mishlat-ul-masabih

And upon successfully completing his task or reaching the stipulated time, he should be given his compensation immediately.

The prophet (p.b.u.h.) ordered that an employee should be paid immediately he completed his task before the last drop of his sweat dried up.

4.2.10 **Motivation**:

Motivation is the satisfaction one derives from his job that stimulate him to add more effort. It could be physical satisfaction such as food, cloth or better salary as mentioned above,. It could also be psychological, e.g., job security or security in general.

Therefore, Islam ordered that they should not be over worked because they have other responsibilities to their creator, family and rest. The prophet was reported to have said:

Do not impose upon the labourers job which overcome than if you give them a job which is too much for them. You must help them.

In another traition, the prophet (p.b.u.h) enjoins all those who have working animals to observe three conditions.

They should be taken to work when they are fresh and be relieved of work. When they are still fresh (not over worked) suitable arrangements must be made at proper intervals for feeding, water and rst. They should not be beaten and sworn at.

If such protection is offered to animals, human being deserve greater protection without being told.

4.2.11 **Promotion in Islam**:

Islam encourage people to work in team for proper attainment of goals, but it recognized the efforts of individuals towards achieving a goal. There are number of tradition that some prophet used to distribute benefits according to efforts and humanitarian consideration after a battle. And Allah in holy Quran enjoin a leader to organize people according to ranks.

By those who range themselves in ranks.

(Q 37:1)

4.2.12 ***Controlling In Islam***:

Controlling being the act of ensuring to action is according to plan. The issue of controlling is also of great importance to Muslim in their personal life and their general conduct. A Muslim is enjoin to conduct his life as it is plan for him by his creator Allah (S.A.W)

And when a Muslim make a pledge, plan in word or written, he is enjoined to ensure fulfillment.

> O 'you who believe! Why say you that which
> you do not? Grievously odious is it in the sight
> of God that you say that which you do not.
>
> (Q 61:2-3)

It was reported that Hazat Umar bn Khattab upon assigning a job to somebody used to asked his companion

Do you think by assigning a job I have done my obligation in the sight of Allah? He said no, until I follow-up to conform the job which is done accordingly.

4.3 **Marketing Mix and Islamic perspectives**

Islam permits and indeed encourage all possible means of enhancing his business. The prophet (p.b.u.h) was asked what form of trade is most preferred, he said:

> Any trade that a person does with his hands
> and form of business is permissible.

It is also all the wisdom adopted with the aim of facilitating the business and boosting it. It is also permissible once it is free of harm to any party. The prophet (p.b.u.h) was quoted to have said;

> Wisdom is a lost asset (Animal) of a muslim whenever
> you see it, you should hold it {Bulugul mar am}

It can there fore be seen that the formation of marketing mix as it is coiled in the contemporary business strategy is not only accepted or encouraged in Islam but has a number of principles guiding it.

4.3.1 **Product**

Islam provides that any item to be sold must show some certain characteristics attached. It have to be :

1. *Lawful and pure:-* The product to be transacted upon must be free from implicating harm on the customer or society, and such things are explained by the prophet and those not mentioned would be examined by Islamic Jurist at all time. The prophet (p.b.u.h) prohibits the sales of alcohol, meat of dead animal, pig and idols. {Bulugul mar'am".

2. *Present or Known:* Any item to be sold must be something already owned by the seller and present at his hand any/or known to the buyer.

The prophet (p.b.u.h.) said:

Don't sell what you don't have.

Don't sell fish in the river {Bulugul mar'a}

4.3.2 **Promotion in Islam:**

Islam permits the effort advertisement of one's product for the people's awareness. It is carried-out in available means and places. The only regulation impose by Islam under the promotional aspect is this.

1. Advert should not exaggerate the qualities of his product:

   A deal can be called of on realization that the description on advert did not meet actual attributes by the buyer {Minhajj Muslim}

2. Mispresentation: Islam totally condemn mispresentation of products quality to deceive the buyer or to cover default. The prophet (p.b.u.h) said:

   Whoever deceives in dealing is not with us" {Minhajj-Muslim}

There is unanimity among jurists, the permissibility of advertising inside the mosque. I.e., for an individual to use the mosque in advertising his product. But the point of contention is whether the actual transaction can be carried-out in the mosque or not.

3. There should not be criticism of othe's product with the view of promoting one's own. And should not invites a customer away from a

competitor by purposeful lowering of price. During the process of negotiation between, but it is allowed if they did not reach an agreement. Ibn Umar reported that prophet (p.b.u.h) said:

Do not sell one upon another {Muwatta}

4.3.3. **Packing in Islam**

The act of providing a protection to your product to make it qualitative is allowed. It is also allowed to make product convenient to customers affordability by dividing it into units and measures and attracts him by showing the features of his produce.

1. But Islam enjoin the seller to avoid deceit in his packaging that by showing feature that did not agrees with the actual quality of the product. This is because the buyer could be ignorant of the item, or its inferior.

   In such case, the prophet (p.b.u.h)advice a man to always rise his voice to the seller and say: *"There is no deceit or fraud here"*. With this statement, the man is given three days guarantee on whether to accept the goods or return. {Muwatta}

2. On another narration, a man displays his product (grains) in the market and ready to stand, the prophet (p.b.u.h) dip his hands into the grains and found that only the upper part is neat. But dow below the grain is wet by rain. He said to the man:

   Whoever deceives is not with us {Bulugul Mar'am"

3. As packaging also divide a product into units or measure for the buyer's convenience of purchase, Islam enjoined that whatever unit is displayed on the package should be equal to the weight of the product. A lot of products today have the weight written on level or package less than the actual weight. Islam made a sound warning on this in a number of verses and Hadith.

> Woe to those that deal in fraud. Those who,
> when they have to receive by measure from men,
> exact full measures. But when they have to give
> by measure or weight to men give less than
> due {Quran 83:1-3}

And it was reported that Sa'id Bin Almusayyab used to say:

> When you reach the land where the people
> observe true weights and measures, stay there
> longer, and when you arrive in a land where
> they decrease in weight and measures, stay
> there but a while {Muwatta}

4.3.4 **Pricing in Islam:**

Islam did not impose any fixed price at which an individual should sell his product. It gave the seller the room to fixed the price according to his decision considering the costs he must have incurred on purchasing the products and his efforts. But only enjoined an individual to be moderate in his dealings. The prophet (p.b.u.h) said:

> The Lord likes the man who acts moderately
> while selling and also while purchasing and
> acts likewise in recovering his debts {Muwatta}

The taimiyah comcepts of just price. It refers to that price which is paid for similar objects in a given time and place. The jurist of Islam preferred to called it the price of the equivalent.

The phrase, in the normal way and without injustice on their part signifies that the price of the equivalent must be a competitive price and there must be no fraud, because in the competitive market prices are given and only the fraudulent seller can charge higher prices.

But Ibn taimiyyah goes beyond the jurist, he advocates setting a price of the equivalent where one is not already in place. When doing so, he explicitly takes into consideration the subjective value of the product of the buyer as well as the subjective value to the seller.

Islamic jurists also rejected pricing called "*ALGIBNO"*. It refers to a situation where an individual has sold a product of a certain quality a price of a product at a lower quality. For example, the packaging describe the product to posses a given quality and on opening, he realizes the main product do not have the quality described to contained. In such a situation, the buyer has the right to take the product back and claim his money. But the buyer has no right of claim if he saw a packaging of similar nature containing certain quality and decides to purchase the product at a lower value than the

value of the original product. And price should not be lower to make a competitor at a lose. Umar bin khattab said to Hatib: *Either* enhance your rate or get away from our market {Muwatta}.

4.3.5 **Placing in Islam:**

The distribution of goods from the point of production to point of consumption as another role of a marketing manager is of great importance. Islam encourage the person who make a product available to people most especially when they are in dire need of it. Abdulrahaman bin Auaf used to order grain in a large number to make it available to people of Medina.

And Ilam disapprove any effort to hoard goods in order to increase price. It was reported that Uthman B. Affan used to prohibits hoarding and concderning {Muwatta}.

And it was also reported Malik that Umar bin-khattab said:

> Nobody should hoard grain in our market. People (middlemen) who have more money than they need should not buy any corn that comes to our country for stocking and selling at higher rates. Persons who endure the trouble of bringing grains to us in winter and summer shall be the guests of Umar if God wills they may stock them.

Agents of Distribution:

There are different categories of agents. Those that takes title and those that do not. All the categories are regarded as helping in providing goods and services to customers and therefore encouraged in Islam.

It is only discouraged when it is meant to create unnecessary shortage as mentioned above in the narration of Umar bin khattab.

Another area of Islam injunction on middle men has to do with the right to make profit or not. An individual or agent that serves as a middleman who does not take tittle to the product is not liable to make any loss should not make any gain. Therefore whatever benefit that accrues to the business has to be remitted to the owner of the product. But the middlemen that takes title of the goods has right to make profit. A large number of such middlemen that takes none remain on their fees, but make prices unnecessary high. And even those with title are lying to fix a just price

CHAPTER FIVE

Summary, Conclusion And Recommendation

5.1 Summary:

An assessment of contemporary business formation at level of sole proprietorship, partnership and corporation is made and the various advantages of each. The principles of management used to manage and execute business from setting a goal to achieving it, correcting deviation to maintain standard are observed.

The tactics employed to facilitate the effective sales of a product under the contemporary system were shown. On the other side, the Islamic principles of busiesss that guides the activity of an individual on his business life were highlighted from the formation of business of all kinds, mudaraba, musharaka-talents but without capita to stand in a position of co-partner and not just a sevant and also the various way of sharing profit and loss accordingly.

Islamic principles guiding employees and employers, seller and buyers are explained to a possible extend.

5.2 Conclusion:

The contemporary business setting as it is being practice today has provided the owners of business a lot of freedom to exercise their superior power of wealth owning to extremely pursue their primary motive of making profit.

This can be seen right from the formation of business ownership which donates only a person with capital, is a partner in the case of corporate company.

The owners are given enough shell against any liability for the business action. Therefore consideration for any humanitarian nature are not given to neither the managers nor the ultimate user, but only to profits and return.

Based on the above, managers saddle with the responsibility of executing a business, have to adopt strength effort in applying their managerial principles or tactics on employee to meet up with the laid-down goal of making profit as the primary motive.

The freedom given to use the marketing mix against the ignorant buyer is too much. Most especially in our backward countries of Africa. Sellers tells the buyer whatever he wants to tell him and sells whatever he wants to sell with no guided ethics.

Islamic principles applied into business activities right from business formation, operation and dealing with customers, provided each and every individual with or without wealth adequate protection and justice, therefore opportunity to effectively participating and tap opportunities and benefits due to him.

Infact, business are more prosperous under the Islamic ethics and consumers are more satisfying . and indeed blessing awaits all participants.

5.3 **Recommendation:**

Institution of learning should endeavour to include into the course outline of student managers subjects of Islamic business principles. It is very important

considering the state of country's business environment full of dubious activities that are continually rendering the economy backward.

The government has a role to play in adopting the policies of regulation business activities according to the Islamic principles to provider prosperity in people's wealth and satisfaction of the need efficiently. Most importantly, we must have the fear of God in our undertaking. It is the only source of progress and wealth.

> And for those who fear God, he (ever) prepare a way out.
>
> And He provides for him from (sources) he never could imagine.
>
> And if anyone puts his trust in God, sufficient is God for him. For God will surely accomplish his purpose. Verily, for all things has has God appointed a due proportion
>
> {Quran 65:2-3}

BIBLIOGRAPHY

1. Burton H. Marcus & Edward M. Tauber “Marketing analysis and decision making.”
2. Baker M.J. “marketing strategy and management” 1992 second edition, Macmillan press limited London .
3. Cravens, David W. “Marketing decision making concepts and strategy” 1979 little, Brown and Com Canada.
4. Jonah Sheshi Suman Gana “ Entrepreneurship” 1995 Jofegan Associates Jos, Nigeria.
5. Khurshid Ahmad “Studies in Islamic Economics” 1991 Islamic foundation Leicester U.K.
6. Kotler P. “Principles of marketing “ Prentice hall Inc (1980) Englewood Cliffs N.J.
7. Muhammad Nejatunah Siddiqi (phD).“ Economic enterprise in Islam” 1979 Ishaat –e- Islam trust Dellic.
8. Muhammad Nejatunah Siddiqi (phD). “Partnership and profit sharing in Islamic law” 1985 The Islamic foundation Leicester U.K.
9. Mohammed Anas El- Zerga. “Problems of research in the theory of Islamic economics and suggested solutions” 1986 A symposium jointly held with the Islamic research and training institute Islamic Devt. Bank Jeddah.

10. Muhammad Akram Khan “Isdlamic Economics” 1991 Islamic foundation Leicester U.K.

11. Syeds Nawah Haider Naqvi Ethics and economics an Islamic synthesis” 1981 The Islamic Leicester