

# Islamic Framework for Governing the Nexus of Individual and Organizational Behavior

MUGHEES SHAUKAT<sup>1</sup>

## Abstract

Scholarship has asserted for deducing and decoding the nexus of individual and organizational behavior as an off shoot and reflection of the overall governance system. It is argued that the efficacy and universality of the governance system is the bedrock of the overall efficiency and sustainability of a successful organization. The same, in actuality, is no different from the overall societal behavioral. Consequently, the lack of understanding and hence attaining the same has resulted in mal-understanding of a just organizational behavior, leadership failure resources and expertise drain and misutilization. All in contrast to pareto superior aims. Different strand of theories were put forward in explaining the notions and the nexus of individual and organizational. Number of models and frameworks have been circulated, over the decades, to provide philosophical underpinnings. The current study, while resorting to historical, analytical and deductive approach, will not only dwell on the known theories with the aim to put forward a relevant framework from an Islamic perspective.

**Key words:** Islamic Framework, Governance, Organizational Behavior

## 1. Introduction

It's all about the governance system and the ensuing cultural configuration that not only factors in but also nurtures and fosters ideation and innovation. The same is essentially driven by a just an ethical incentive structure via an institutional architecture akin the notion of 'new institutional economics', 'behavioral economics' and the 'motivational/emotional intelligence theorists. NIE defines institutions as rules and norms governing economics/organizational behavior in the society. Accordingly, how well the system performs depends crucially on the rules governing individual and collective behavior. Principles among the softcore rules: rule of laws and procedures, well defined rights, and a high degree of trust, cooperation, consultation, reciprocity, risk sharing, empathy, efficient contract enforcement, and good governance.

Dundon & Rollinson (2010: p4) states that "...organizations are extremely complex entities that are not easily understood without conscious effort, this is no reason why they should be studied. Nevertheless, there are two important reasons why an understanding of organizational culture and the ensuing behavior of people in them is, or should be, of concern to us all". Consequently, the strength of organizational ethos and behavior is based on how the same is enshrined on and adhered to given rules, resulting in a culture that

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<sup>1</sup> Head of Islamic Finance in the College of Banking & Financial Studies, entity, under the Central Bank of Oman, Muscat, Oman. Email: mughees@cbfs.edu.om

encourage and support ‘ideation, institutionalization and just incentive models. This is at the root of reducing organizational behavioral complexities towards more universally predictable human and employee actions and behavior. Understanding the science of taming human/employee behavior and streamlining the same towards just and common objectives, are at the bedrock of blue chip and sustainable organizational growth. Unwrapping the top global Brands like Google, Microsoft and similar, evidence the strength, objectivity, and universality of the said behavioral philosophies. Actions Cognition, and the resulting behavioral coordination and outcome predictability are hence self-originating.

## **2. Gauging the Behavioral Dynamics**

As propounded by Shaukat & Shafique (2019) question arises, how one would judge that a given action or a given behavior is streamlined with objectives and is beneficial for the organization. To answer the same, philosophers, ethicists, social scientists and emotional intelligence got involved into a debate arguing that the best way to do is to look at some criteria of ‘Just’ behavior/action/policy. It was basically to see whether certain policy, action or behavior is ethical. Consequently, sufficing ethics became a criterion for judging a just approach/outcome. Ensued were an array of ethical and justice theories. ‘Ethics’ are a particular view of actions and their consequences based on some criteria that determine whether or not a given action matches the expectations of those criteria or not. This brings into discussion the overall notion of governance structure or the corporate governance as per the parlance of organizations (Rahman & Al-Buraey, 1992). The governance system is hence mandated by the organization to create policies to achieve the aims the later has conceived from it. Efforts to differentiate between an organization and its governance system generally end up by terming both as same. Could it be not possible that organizations be run without a governance or would the absence of governance create random behaviors and outcomes. For that to happen, there has to be a common reference point, individuals/employees must be willing to help each other; they should be close to one and other so that they know the common needs. This has direct lineage to the submitted concept of New Institutional and Behavioral Economics. The offshoot of the same, in an organization perspective are the ensuing inter socio and cultural fabric that is necessary knitted on the former.

## **3. Commonly Known Approaches**

In this respect, there were floated a number of ethical or moral aspect of organizational policies. It is noteworthy however that all these endeavors were an afterthought or ex-post of the system’s adoption of the policies and the shortcomings. However, what made the judgement difficult was the dependence of selected criteria on the views of the ethicists, philosophers, behavioral economists or/and social scientists (Choudhury, 1991). Nevertheless, what is clearly observant is a strong Nexus between Ethics & Justice - Common Behavioral Rules to establish Operational Limits for organization behavior and unified growth culture. Among the common strands are the following ‘just behavior’ theories:

**Jeremy Bentham** (Kelly, 1990) – Believes in *lassies-faire* system but with certain burden of the legal contingencies to deter weakening or abusing the set institutional order.

- ❖ **Pareto** (Benn, & Paul, 1967) - Distinction between participant's welfare & wellbeing - Governance can help in redistribution of goods via incentive tilts.
- ❖ **John Rawl** - Theory of Justice; the Veil of Ignorance
- ❖ **Nozick** - Theory of entitlement & Distributive Justice - Governance support is allowed only when injustice occurs i.e., minimal governance.
- ❖ **James Buchanan** - Public Choice Theory- Rejected the idea that governance can correct complex behavioural systems.
- ❖ **Amartya Sen** - Justice is comparative, plural in valuation and focuses on human behaviour and capabilities. Supported the governance models in place (Shaukat & Shafique, 2019).

It can be summarized that:

- ❖ Driven by their governance world view, the behavior of a employees and organization is based on the adopted values and preferences that translated into the decision making and collective behavior or action.
- ❖ 'Rational performers': arguing that people perform rationally i.e., their actions are 'reasoned based

#### 4. The Islamic Framework

All in all, from Buchanan to Rawls to Nozick and to Sen, all appear to concur that if people are left without being under the influence of any governance model or coercive power but ensured that no one will step into others' rights or fringe/violate the same, they will come up with a social contract of their-own, ending up having a 'Minimal state'. It means that the inequalities in the society that have come up because somebody willingly gave up his share, is fine and there is no reason for government to get involved. Note that under this system, one can also sell oneself to slavery based on the notion of willingness. In other words, the society has no right to legislate morality. The ethics of the situation will yield unified justice via respecting the rights and liberty of individuals. See (Shaukat, 2016).

However, the prescriptions efficacy of the above crucially depends on the practicality and universality of the same. As a result, anti-fragile (Taleb, 2012) corporate governance and resulting organizational behaviors remains incomplete. Nevertheless, looking studying the same from an Islamic ideology notion (not necessarily a religious notion) provide interesting finding, here the corporate governance structure is driven from the ideas of behavioral sciences and codification from the concept of justice in Al Quran. The mother source for (corporate) governance model being Chapter 31 Verse 17:

"Establish worship and enjoin kindness and forbid iniquity, and persevere whatever may befall thee. Lo! that is of the steadfast heart of things." 31:17 (Glorious Quran).

Interpreting the same with the other codification of justice behaviors<sup>1</sup> yields ideal an recipe for automatically enhancing Personality, Ability, Perception, Motivation, Socio-cultural factors, Organizational factors; yielding success stories. The cognitive justice behavior rule: "Give everyone their right due and put everything in its rightful place". The practicality and universality could be judged given the trueness of the outcomes debar of Teleological' or a 'Deontological' approach for governance (Shaukat. & Shafique, 2019).

It can be argued that the above based model of organizational behavior would also address well various types of behavioral theories. For Example, Trait, Psychoanalytic, Humanistic and McClelland's Theory of Needs<sup>2</sup>. Consequently, Equity and not Equality will be served. As a result, alienation and lack of ownership and demotivation among employees will convert to unification, team building, cooperation, consultation, reciprocity and enhanced coordination from top down to bottom up, increasing efficiency, ideas, innovation, creativity and dedication. Indigenously, idealism and institutionalism will be imbibed in the vision, mission and values of the organizational behavior. The same also provides fine insights for an ideal leadership and management regimes for a prosperous organization. To Shaukat & Alhabshi (2015) this also helps them in deciding on their own actions and forming their expectations of other's responses when faced with individual or collective risks.

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<sup>1</sup> See, for example, Al-Nahal, 16:90; Al-Mayeeda, 5:8; Al-Hadeed, 57:25; for equity in justice: Al-Nisa, 4:135; Al-Mayeeda, 5:8; Al-Shura, 42:15.

<sup>2</sup> **Trait Personality Theories:** Theories based on the premise that predispositions direct the behavior of an individual in a consistent pattern.

**Psychodynamic Personality Theories:** Freudian approach that discusses the id, superego, and ego. Special emphasis is placed on unconscious determinants of behavior.

**Humanistic Behavioral Theories:** Emphasize the individual's growth and self-actualization and the importance of how people perceive their world and all the forces influencing them. Humanistic personality theories reject psychoanalytic notions – Humanistic theories view each person as basically good and that people are striving for self-fulfillment – Humanistic theory argues that people carry a perception of themselves and of the world – The goal for a humanist is to develop/promote a positive self-concept. The human behavioral theory is a standpoint on management that stresses the importance of attempting to understand the various factors that affect human behavior in organizations. The employees' behavior was not precious by job circumstances alone, there were internal reactions to the job state also that affect their behavior.

**McClelland's Theory of Needs:** Need for achievement is the drive to excel, to achieve in relationship to a set of standards. Need for power is the need to make others behave in a way they would not have otherwise. Need for affiliation is the desire for friendly and close interpersonal relationships.

## 5. Managing Behavioral risks and Uncertainty

Risk and uncertainty are undeniable facts of life. As was discussed earlier, uncertainty stems from not only the lack of information but also from ignorance of knowing the response and behavior of others under such conditions. The question arises as to why risk and uncertainty exist (Rafiki & Wahab, 2014). This question becomes more acute for those who believe in the Supreme Creator of all things. Since it is believed that existence of risk and uncertainty is a source of difficulty for humans, a Creator-centric question also arises: why create risk and uncertainty for humans?

The Qur'ān, on the other hand, provides a more compelling explanation: humans are subjected to tests throughout their lives to allow them a sense of the degree to which they, individually and collectively, are rule compliant (see for example, chapter 2 verse 155; chapter 7 verse 130; chapter 76 verse 2; chapter 29 verse 2; chapter 9 verse 126; chapter 11 verse 7). Without risk and uncertainty, testing would not be possible (Mirakhor, 2011). To ease the intensity of anxiety in dealing with tests and, therefore, reduce uncertainty and demand on humans' cognitive ability, compliance with the (economic) behavioral rules prescribed by Qur'ān reduces risk and uncertainty. The result is better coordination in society's behavior. It can be stated that such rule compliance while promoting coordination in actions, determines the degree of certainty in the formation of expectations, prevents conflict, reconciles differences, facilitates cooperation, promotes social integration and solidarity, and strengthens social order. The result is that the behavior of the individual, the organization and society as a whole immediately become increasingly predictable in all aspects, making the governance simple and controllable (Khan et al., 2010).

## 6. Rule Compliance

The tightly streamlined and synergetic behavioral and governance nexus model, is essentially made to found a natural, universal pareto superior equilibrium via a comprehensive set of Quranic rules governing the structure and operations of an economy; including rules that extend well beyond what the New Institutional Economics (Shaukat & Alhabshi, 2015) would consider needed for a well-functioning organization. The Qur'ān makes clear that the compliance with the prescribed rules is the guarantor of: better socio-economic justice and cohesion, unity and order in any human collectivity and economic growth and stability (see for example chapter 5 verse 2; chapter 3 verse 103; chapter 8 verse 46). The promise made in the verse 96 of chapter 7 of the Qur'ān (see also chapter 65 verse 2; chapter 65 verse 3; chapter 5 verse 65-66; chapter 12 verse 90' chapter 5 verse 66; chapter 8 verse 53; chapter 10 verse 9; chapter 2 verse 25; chapter 16 verse 97; chapter 24 verse 55; chapter 40 verse 40) (Mirakhor et al., 2012). Conversely all prohibited behavior are those that ultimately lead to social injustice and disintegration. Central among the rules that constitute the full institutional framework of an Islamic economic system, alongside the application of sharing risks and no *ribā*, are rules governing:

- Full and transparent observance of Property rights. In Islam, there are only two ways in which individuals can gain legitimate property rights. Individuals can gain property rights through a combination of their own creative labour and other resources or through

transfer—via exchange, contracts, grants or inheritance—from others who have gained property rights title to an asset through their own labour (see chapter 53 verse 40; chapter 17 verse 26; chapter 24 verse 22; chapter 30 verse 38; chapter 4 verses 11-12). Fundamentally, therefore, work is the basis of acquiring rights to the property<sup>1</sup>. The fourth rule governing property rights forbid instantaneous property rights claim without commensurate work. The exception is transfer via gifts from other who have gained legitimate property rights claim on the asset transferred. The prohibition covers theft, bribery, gambling, interest from money lent, or, generally, income and wealth obtained from sources and activities not permitted by Shari‘ah (see for example chapter 5 verse 38; chapter 2 verse 188 and 275; chapter 5 verse 90) .

- Faithfulness to terms and conditions of contracts. Islam forcefully anchors all social-political-economic relations on contracts. More generally the whole fabric of the divine law is contractual in its conceptualization, content and application. Its very foundation is the primordial covenant between the Creator and the humans (Mirakhor, 2011) [see chapter 7 verses 172-173]. The covenant imposes the obligation on humans to remain faithful to its affirmations that they recognize the supreme Creator as its Cherisher Lord. In verse 152 of chapter 6 the Qur‘ān urges the believers to fulfil the covenant of Allah. This is extended to the terms and conditions of all contracts through another clear verse of chapter 5 verse 1 in which believers are ordered to be faithful to their contracts. They are ordered to protect faithfulness to their covenants and what has been placed in trust with them as a shepherd protects sheep (see chapter 23 verse 8; also chapter 17 verse 34; chapter 2 verse 2; chapter 16 verse 91-92; chapter 3 verse 61). So much so that the Qur‘ān has dedicated the longest verse on the importance of contracts and their fulfilment (see chapter 2 verse 282), thus believers do not treat obligations of contracts lightly. They will take on contractual obligations only if they intend fully to fulfil them<sup>2</sup>. Hence, their commitments are credible (Mirakhor, 2011).
- Shari‘ah approved sources of factors and products before they enter the market;
- Provision of full information regarding qualities, quantities and prices of factors of production and product to all buyers and sellers—before the start of price bargaining process;
- “There is no ‘Ghash’ meaning there should not be any kind of misrepresentation of the product.
- No Gharar and ‘Maisir’ and a strict prohibition of speculative activities;

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<sup>1</sup>The concept of work in Islam (called *‘amal*) is far broader and has different characteristics and objectives than that understood in the Western economic tradition. In Islam, work ethic is defined by the Qur‘ān itself, which mentions the word *‘amal* in 360 verses. A closely related concept of *fi‘l* (also translated as work) is mentioned in an additional 109 verses. All these verses stress the need for work and action by human beings (Islamreligion.com, accessed on 10, August, 2013 at 15:45).

<sup>2</sup>This has implication for the cost and efficiency of transactions as it eliminates informational problems as well as moral hazards and adverse selection (see Mirakhor, 2011).

- Full and transparent Information”. Everything about the product must be known and nothing should be hidden. Anyone who enters the market is informed fully of prices and products.
- As well as rules on distribution and re-distribution. This is in consideration of the inequalities that are created due to the fact that some members of the society may be physically or otherwise unable to access resources to which they are entitled to as per the property rights rules of Islam (see chapter 6 verse 165; chapter 43 verse 23; chapter 16 verse 71). The inequalities could also arise due to the presence of the idiosyncratic risks which when materialize play havoc with people’s income and wealth. The most important economic institution that operationalizes the objective of managing any ensuing inequalities is that of the distribution/re-distribution rule of Islamic economic paradigm. For example, the Mechanism for redeeming the rights of the less able in the income and wealth of the more able are the network of mandatory and voluntary payments such as Zakat (2.5% on wealth) and payment referred to as ‘ṣadaqāt’ (see chapter 9 verse 60; chapter 22 verse 41; chapter 2 verse 110, 261; chapter 34 verse 39; chapter 57 verse 18; chapter 73 verse 20) (Shaukat & Al Raisi, 2017).

Consequently, in an Islamic governance system, there would be no problem of ‘Moral hazards. First, due to property rights protection as well as clear exchange of property rights alongside the rule of being ‘faithful to contracts’, the occurrence of moral hazard will be diminished if not completely cured. In fact, adherence to all the rules discussed above assures against any mal-practices. All in all, any form of conduct leading to instantaneous property rights without commensurate equity created by individual’s own labor is prohibited. This type of organization that complies with the prescribed rules produces price for factors and outputs that are just as a result of free and informed bargaining process among stakeholders. The absence of the internalization of above rules makes contracts very costly to form, verify, negotiate, renegotiate and implement. “A further implication of the compliance with the above rule is the possibility of coming up with a contract where the parties to a contract trust each other. They can agree to enter into a simple contract and commit to revising its terms and conditions as contingencies arise” (Mirakhor, 2011).

## **7. Enhanced Coordination and Predictability**

From the above discussion, it can be summarized that the institutional framework of the Islamic governance is composed of a collection of institutions–rules of conduct– to deal with allocation of common and universal behavioral rules and norms, conscious of which could lead individuals, groups, communities, societies and organizations to behave in a common behavioral pattern rules by an equally common incentive structure. The main objective of these institutions is to achieve social justice and unity alongside economic prosperity. Important among their functions is the reduction in uncertainty for members of the society; allowing them to overcome the obstacles to decision making caused by paucity of information. Rules specify what kind of conduct is most appropriate to achieving just results when individuals face alternative choices and must take action. They impose restrictions on what the society’s members can do without upsetting the social order on

whose existence all members count. This also helps them in deciding on their own actions and forming their expectations of other's responses and actions when in situation of uncertainty or facing risks.



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