

ISLAMIC BUSINESS ETICS PRINCIPLES AND EMPLOYEE'S WELFARE

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ABSTRACT

This study aimed to obtain empirical evidence on the effects of Islamic Business Ethics Principles application on Employee's Welfare. This study was conducted in Micro, Small, and Medium Enterprises (MSMEs) in Karanganyar, Central Java, Indonesia. The paradigm used in this study was positivistic with hypothesis testing, while the analysis is conducted with Multiple Linear Regression. The results of this study concluded that Islamic Business Ethics affects Employee's Welfare. Partially, several indicators such as Siddiq, Amanah, and Istiqomah affect employee's welfare in MSMEs in Karanganyar, Central Java, while for the indicators such as Tabligh, Fathanah, and Qana'ah does not affect employee's welfare. Therefore, sugesstions for the next reseach are (1) to add MSMEs' owner as subject of the reseach in order to obtain detailed information about the employees' welfare, and (2) qualitative research methods can be used to obtain a more detailed and profound information about employees' understanding and experience in the implementation of Islamic Business Ethics Principles.

Keywords: Employee's Welfare, Islamic Business Ethics, MSMEs

INTRODUCTION

Small business is a real business that can create employment and even able to create new jobs, especially for creative and innovative businesses. Total labor absorbed by MSMEs in Indonesia increased from 83.6 million in 2005 to 107.7 million people in 2012, that means that the employment grow 3.4% each year (Manurung, Adler Haymans, et.al, 2014).

Unlike large enterprises that are likely to be highly dependent on the content of imported raw materials, small businesses usually used local raw material, so that they are not depend on the foreign exchange rates as for the purchase of raw materials they use Rupiah. Therefore, small businesses are less affected by the influence of foreign currency fluctuation. However, small businesses usually start from a home business (family business) so that the labors they employed usually are managed by its owner family member and the management process do not have a specific standard. After the business grows, the management will start to hire more workers, who usually are still close family or the community around the production location. The ease in finding the employee will further affect the determination of the compensation given to the employee, the management sometimes do not think about the amount of compensation that should be given to the employee. This type of management will ignites a conflict between business owners and the employee because there is no clarity of business management principles applied in the company. The presence of persistent conflict will negatively affects employees' motivation and employees' welfare.

Research related to the influence of business management on employee's welfare have been widely conducted, among others, Agrawal (2014: 102) stated that employees will feel prosperous when they are free from worries and problems. Furthermore, Electronic Industry Citizenship Coalition (EICC, 2012: 4) conclude that there are six categories of factors that affect employee's welfare, i.e. cultural, societal, industrial, corporate, facility (work location), and personal. Ajala (2012: 141) stated that workplace convenience and good communication affect employee's welfare, health, morals, efficiency, and productivity. Meanwhile, Patro (2012: 19) mentioned that employee's welfare includes provision of lending, free health facility, pensions, and education facilities for employees and their families, as well as residential facilities. Zhong (2011: 19) in his research on the influence of corporate governance on employee's welfare concluded that corporate governance affects management decisions to improve employee's welfare.

Previous studies have not widely applying the concept of Islamic management in the business examined. Islam, as a *rahmatan lil 'alamin* (mercy for the whole world) religion, has a very strategic objective. The goal is not purely material, but the goal is also based on human well-being, both in the world (*maslahah*) and happiness hereafter (*Falah*). As-Syatibi in Centre of Assessment and Development of Islamic Economics (2008:54) stated that all terms in the Qur'an and Sunnah have intrinsic benefits to create human benefit, known as Maqasid Shariah (sharia purpose) which includes the maintenance of the religion (*deen*), soul (*nafs*), intellectual (*'aql*), family and descendants (*nasl*), and materials (*'maal*). These five terms are a basic human need, which is an absolute requirement that must be met so that people can live happily in the world and in hereafter.

This study enhances previous researches (Agrawal, 2014; EICC, 2012; Ajala, 2012; Patro, 2012; and Zhong, 2011) with some distinctions, i.e: (1) business management concept use the indicator of Islamic Business Management, (2) employee's welfare concept use *Maqashid syariah* indicator, (3) research objects are MSMEs in Surakarta, Indonesia.

Employees are valuable assets for a company, because no matter how advanced and high the technology used in the company, everything will be in vain if it is not managed by human. A good management of employee will increase employee's motivation, passion, and persistence, which in turn will increase the productivity of the company. The provision of compensation in accordance with the contributions made by each employee will increase employees' loyalty and a sense of belonging to the company.

Previous studies described that Islamic Business Ethics approach in company management is not widely used in the study of management. Therefore, a research related to the application of Islamic Business Ethics in its relation with employee's welfare is very important to be conducted, so the formulation of problem proposed in this study is: Does Islamic Business Management affect employee's welfare?

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Islam teaches that human is as vicegerent of Allah (*khalifa-tu'llah fil ardhy*) that is the leader in earth. Human are entrusted by God as the manager of the world they inhabit. Based on the concept of the caliphate, then humans are required to have the ability to explore and manage the world, both the natural resources and human resources. In relation to the management of a company as one of the mandate of the caliphate, then companies that apply the rules of good corporate governance will show better financial performance (Saleh, 2008).

The principle business ethics applied in the conventional corporate management are merely a principle that focuses on material issue, which is carried out solely to meet obligations among

business partner, not as a principle which saw that management is a part of religious worship and human obligations to our fellow human beings and to Allah. That is why the existence of Islamic Business Ethics Concept is necessary. The concept of Islamic Business Ethics is adopting the value systems contained in the Qur'an and the Prophet personal experience as *uswatun hasanah*. The Prophet's traits become the principles of Islamic Business Ethics, including: *shiddiq*, *amanah*, *tabligh*, *fathonah*, *istiqamah*, and *qana'ah* (Muhammad, 2005).

Siddiq in the context of Islamic Business Ethics means the framework of business management that reflects *taqwa*, truth, honesty, courageous, brave, patient, and sincere. All activities of a company are informed to the stakeholders are true and honest, without any element of fraud. Islam forbids any business relationship which contains oppression, and requires the fulfillment of justice that applied in every trade and business contract. In connection with the implementation of Islamic Business Ethics, especially in the corporate performance reporting, the accounting statements should be a full disclosure to users or stakeholders. Accounting reports should provide transparent information of the organization situation, so that there is no item which is deliberately hidden to deceive outsiders that can inflict a loss (Harahap, 2008).

Amanah means trustworthy, responsible or credible. *Amanah* is a fidelity to one's commitment in implementing the rights and obligations given to him. *Amanah* also means a professional, discipline, diligent, hard working, independent, skilled, tough, unyielding, and confident (Alwan, 2010). In connection with the implementation of the principles of Islamic Business Ethics, the concept of *Amanah* can be realized in the form of do not accept gifts or commissions in the business lobby, do not take *riba*, do not accept bribes, do not cheat, do not *dhalim*, and from the start of input, process, and output should be free from forbidden transactions and services.

Tabligh means communicative and argumentative. Alwan (2010) interpret *Tabligh* as friendly, courteous, polite, communicative, transparent, enthusiastic, and highly motivated. People who have *Tabligh* as their trait, will convey information correctly (weighted) and using polite words (*bi al-hikmah*). If someone is a leader in the business world, he must be a man who is able to communicate his vision and mission properly to his stakeholders. All activities of the company must be transparent, so it can be accessed by stakeholders. Furthermore, in the dissemination of the new regulations, an agent must implement it to the internal parties first, and then communicate to all stakeholders. This is done to reduce the occurrence of massive rejection which result in collisions and inhibit community wellbeing.

Fathonah can be interpreted as intellectual, intelligence, and wisdom. Alwan (2010) interpret *fathanah* as intelligent, clever, innovative, creative, and strategic. The implications of *fathanah* in the business management are indicated by performing all management activities intelligently, by optimizing the existing potential sense to achieve the goal. In connection with the implementation of Islamic Business Ethics, then a business person needs to innovate continuously with patience, tenacity, perseverance, and accuracy.

Istiqamah means standing upright in a place without ever shifting, because the root of the word *istiqamah* is "*qooma*" which means standing, then etymologically, *istiqamah* means upright. *Istiqamah* is having a strong stance (consistent). A Muslim who are professional and has a noble character has a consistent attitude, which is the ability to act in accordance with principles, unyielding, and able to maintain their principles and commitments despite they have to deal with the risk of endangering themselves (Tasmara, 2002).

Istiqamah means dealing with all obstacles but remains stand. Consistent means keep treading the straight path though facing obstacles. This is not just idealism, but a character that inherent in the

soul of every Muslim who has the spirit of *tauhid* (Tasmara, 2002). Furthermore, when somebody is *istiqamah* they must carry maximum effort and finally they had to *tawakkal* (*total surrender*) which means that they surrender or entrust themselves to the Supreme Planner in implementing the plan they arranged and surrender under God protection when facing the adversities. According to Dinsi (2008), *tawakkal* corresponds to a fixed plan or willingness which accompanied by an effort in implementing a plan. The implementation of *tawakkal* in business management, among others are, during the economic crisis, besides striving to find solutions to face the crisis with maximum effort accompanied by the patience, a company has to develop the *tawakkal* as their final attitude.

Qana'ah is simplicity, efficiency, and effectivity in doing an assignment. Humans basically have greed; there is no limit for sufficiency, except for those who have spiritual control. A person who has *qana'ah* as his trait will be able to manage his desire, so he will not be greedy and will have a commitment to the Almighty and be alert to the flow of life (Muhammad, 2005). The application of Islamic Business Ethics requires managers to have *qana'ah* as their trait, because they must manage the funds entrusted by the donor, effectively and efficiently, so that it resulting in sharia value added. According to Mulawarman (2009), sharia value added does not adopt the model of economic income or accounting income, but it adopts a model called the *rizq* income. *Rizq* income means that God is the place and the center of *rizq*, so *rizq* related to the context of spirituality. Therefore it cannot be separated between the context of *rizq* or life with full of enjoyment with life in the hereafter which by Triyuwono (2000) called as the concept of co-existence / paired.

Welfare means security, safety, peace, joy of life, prosperity, and so on (www.indonesiandictionary.org), while the employee is any person who does the job. It can be concluded that employee's welfare is a safe condition, tranquil, and prosperous, protected from various threats and difficulties felt by someone who has done a job somewhere. In this study the welfare of employees are referred to Ghazali (Chapra, 2000):

- a. A peaceful feeling to implement Islamic sharia
- b. A feeling of being able to pay the *zakat*, *infaq*, and *sadaqah*.
- c. A feeling of safe, including safety of working condition, provision of insurance, and business health care.
- d. Pleased feelings, including the provision of recreational time, leave grants, and so on.
- e. Prosperous feeling, including the provision of appropriate salary, benefits to employees such as cafeteria for employees, giving working uniforms to employees.

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In Islam, employee's welfare refers to all activities to organize and distribute services to employees. Welfare is described in the Qur'an in the story of Adam and Eve in paradise which is the dream of human of a comfortable life, sufficient food, clothing, and shelter. Furthermore, the implementation of Islamic Business Ethics principles which is consisten with norms in the form of fair and honest behavior will create a pleasant working condition. This working condition is the basis for employees to do good deeds, that is the attitude that always give the best for the company, so that the performance of the company will increase and will further improve the welfare of employees. The hypotheses are:

H₁: There is an influence of *Siddiq* toward the employee's welfare.

H₂: There is an influence of *Amanah* toward the employee's welfare.

- H₃: There is an influence of *Tabligh* toward the employee's welfare.
 H₄: There is an influence of *Fathanah* toward the employee's welfare .
 H₅: There is an influence of *Istiqamah* toward the employee's welfare.
 H₆: There is an influence of *Qana'ah* toward the employee's welfare.

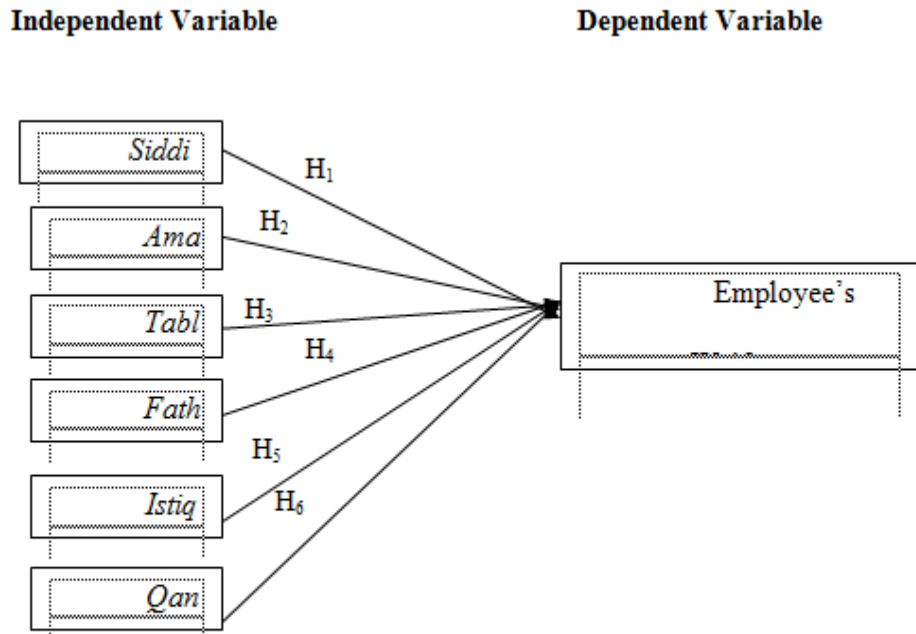


Figure 1
 Conceptual framework

RESEARCH METODHS

Population and Research Sample

The population in this study is MSMEs in Karanganyar, Central Java, Indonesia. Samples were taken by purposive sampling method; i.e. sampling based on the subjective judgment of researchers. Some considerations used by the researcher are:

1. MSMEs owned by Muslim / Muslimah Business owners.
2. Has been established for at least 2 years.
3. Willing to provide the data associated with the research material.

Type, source, and data collection

This study is a quantitative research with hypothesis testing as a means to prove the empirical data obtained from the research area. The data are obtained from primary data. The data was collected by distributing questionnaires to the respondents who were deemed eligible and can provide the information required in this study.

Operational Definition and Measurement of Variables

Islamic Business Ethics is a system that puts transcendental-spiritual accountability with the principles based on the Prophet's traits, which includes *shiddiq*, *amanah*, *tabligh*, *fathanah*, *istiqamah*, and *qanaah*. This variable constructs were measured using an instrument developed by Muhammad (2005) and has been refined by Ghoniyyah (2010). All indicators are measured with a

Likert scale of 1 to 5. A score of 5 means the company has implemented the values in Islamic Business Ethics dimension, and a score of 1 means that the company has not implemented these values.

Furthermore, the employee's welfare is measured by *maslahah* dimension developed by Ghazali in Chapra (2000), which includes indicators of basic needs, security assurance, health assurance, improved life quality, ability to pay *Zakah, Infaq, Shadaqah* (ZIS), comfort in performing their worship, and increased worship quality. All indicators are measured with a Likert scale of 1 to 5. A score of 5 means that the company has implemented the values in *maslahah* dimension, while a score of 1 means that the company has not implemented the values in *maslahah* dimension.

Data Analysis Methods

The researcher employed Multiple Linear Regression analysis to test the hypothesis testing. Multiple Linear Regression analysis was used to examine the effect of more than one independent variable on the dependent variable (Ghozali, 2009:105). Multiple Linear Regression analysis is a linear regression analysis which is used to examine the relationship between two or more dependent variables with the set of independent variables. This analysis is displayed in the form of the regression equation and then the coefficient of simultaneous regression (F test), coefficient of determination, and the partial regression coefficient (t-test) are tested.

The model used in this study is presented in the following regression equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Explanation:

Y	= employees' welfare
β_0	= constant
β	= regression coefficient
X_1	= <i>shiddiq</i>
X_2	= <i>amanah</i>
X_3	= <i>fathonah</i>
X_4	= <i>tabligh</i>
X_5	= <i>istiqomah</i>
X_6	= <i>qonaah</i>
ε	= <i>error term</i> (standard error)

FINDINGS

Description of respondents in this study can be known by its demographic characteristics. The recorded demographic variables are: gender, age, occupation, and education. The data indicates that 60% respondent are male and the remaining 40% are women. Most of the respondents (54%) have aged between 25-50 years, with the majority of respondents senior high school equal to 68%.

Table 1
Employees Demographic

Characteristics	Frequency	Percentage (%)
Gender		
a. Male	30	60
b. Female	20	40
Total	50	100
Age		
a. < 25 years old	15	30
b. 25 – 50 years old	27	54
c. > 50 years old	8	16
Total	50	100
Education		
a. Senior High School	34	68
b. Diploma	11	22
c. Undergraduate	5	10
Total	50	100

Source: Results of Processed Primary Data, 2014.

Table 2
**Descriptive statistic of the Dimensions of Islamic Business Ethics
and Employees' Welfare**

Variable	N	Minimum	Maximum	Mean	Std.Deviation
<i>Shidiq</i>	50	15	25	21,72	2,329
<i>Amanah</i>	50	17	27	24,56	2,537
<i>Fathanah</i>	50	9	13	11,34	1,464
<i>Tabliqh</i>	50	12	21	22,27	2,629
<i>Istiqamah</i>	50	23	32	29,55	2,739
<i>Qanaah</i>	50	8	12	11,42	1,221
Employees' Welfare	50	25	36	31,73	3,154

Source: Results of Processed Primary Data, 2014.

Hypothesis testing is done by multiple linear regression and showed the following results.

Table 3
Results of Multiple Regression Analysis
Islamic Business Ethics with employees' welfare

Variable	B	t-value	p-value
Constant	-0,125	-0,556	0,541
<i>Siddiq</i>	0,039	3,095	0,001
<i>Amanah</i>	0,027	3,785	0,000
<i>Fathonah</i>	0,009	0,745	0,427
<i>Tabligh</i>	0,002	0,296	0,769
<i>Istiqamah</i>	0,048	3,548	0,000
<i>Qanaah</i>	0,012	0,653	0,472
Adjusted R Square (R2)	0,245		
F-value	3,204		
p-value	0,009*		
* Significant at $\alpha = 0,05$			

Source: Results of Processed Primary Data, 2014

All regression coefficients of Islamic Business Ethics dimensions show positive values, it means that the higher the implementation of Islamic Business Ethics the higher the Employees' Welfare in the MSMEs. Furthermore, if each dimension is reviewed, the dimension of *Siddiq*, *Amanah*, and *Istiqomah* are the dimensions which have a positive effect on employees' welfare. This means that if the company applies the principles of honesty, professional, disciplined, responsible, independent, skilled, tough, persevering, tenacious, unyielding, and confident, then employees' welfare will increased. As for dimension of *Tabligh*, *Fathonah*, and *Qana'ah* do not affect employees' welfare. This can be explained from the level of education, with the majority of respondents are senior high school, so the ability of communication and innovation is still quite low. The *Qana'ah* related to the amount of compensation which may have not meet employees' expectations of which can cover all the minimum needs that must be borne by employee.

The results of this study support the research conducted by Ajala (2012:141) which stated that a comfortable workplace and good communication affect employee's welfare. These results are in line with the results of a research conducted by Ghoniyah (2010) who found that Islamic Business Ethics has a positive effect on the employees' welfare.

CONCLUSION

The overall results of this study are consistent with previous studies and concluded that Islamic Business Ethics affects employees' welfare. Partially, for each dimension, the conclusion of this study is: the dimensions of *Siddiq*, *Amanah*, and *Istiqomah* affect employees' welfare in MSMEs in Karanganyar, Central Java, Indonesia. This means that, if the principles of honesty, mutual respect between the rights and obligations, as well as the confidence, and unyielding are applied to the management of employees, it will improve employees' welfare.

As for dimensions of *Tabligh*, *Fathanah*, and *Qana'ah* did not affect employees' welfare. This can be traced from the level of education, with the majority of respondents are senior high school, so

the ability of communication and innovation is still quite low. The *Qana'ah* related to the amount of compensation which may have not meet the expectations of employees which can cover all the minimum needs that must be borne by the employee.

LIMITATIONS OF THE STUDY

Although this study has been carried out with caution, but still there are some limitations that cannot be avoided. The following limitations are expected to be considered for future researchers in order to get better results. Some of these limitations include:

1. The results of this study have a very limited scope, only to MSMEs in Karanganyar, Central Java, Indonesia, so the results may reflect the lack of comprehensive results.
2. Subjectivity of respondents in answering the questionnaire, make the researcher cannot know honesty and accuracy of answers to the questionnaire.

SUGGESTIONS

Some suggestions for the development of subsequent research include:

1. Future research is expected to expand the area of research and not only on MSMEs but can be extended to the larger and wider scope.
2. Research subjects can be added with the owners of MSMEs to obtain more detailed information about the employees' welfare.
3. Qualitative research methods can be used to obtain a more detailed and profound information about employees' understanding and experience in the implementation of Islamic Business Ethics Principles.

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