

# The Theory and Practice of Islamic Management Style: The Experience of Bank Muamalat Indonesia

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**Abstract:** The unprecedented growth of Islamic banks around the world raises the question whether there is a need for these institutions to be managed on the bases of a distinct Islamic management style? Would it make any difference? And if so, how it can be internalized within the companies? This paper attempts to trace the effort to establish distinctively Islamic management norms. To this end, it analyzes the experience of PT Bank Muamalat Indonesia Tbk and asks whether an Islamic management style really exists in its day-to-day activities. The managerial approach adopted by PT Bank Muamalat Indonesia Tbk, namely *ZIKR-PIKR-MIKR* does perhaps bring us nearer to the ideal Islamic management style, which has proved to bring about high financial performance and best practice. However, in the very dynamic conditions of the modern economic system, the approach would benefit from enrichment by the theory of learning organization, which will lead individuals working in an organization to maintain learning and enhancing their capabilities within dynamic environment.

## **I. Introduction**

The unprecedented growth of Islamic banks around the world raises the question – do they need to be managed on the bases of a distinct Islamic management style? Would it make any difference? And if so, how it can be internalized within the companies?

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Such fundamental questions need to be addressed since any enterprises which claim to operate in adherence to Islamic values must be able to demonstrate those values in their routine practice. However, there has not been any serious attempt to explore the notion of a distinctive Islamic management style (Dar, 2004:2). Perhaps this is unsurprising since, in economic enterprise, the effort to implant business ethics still encounters considerable cynicism (Treviño and Nelson, 1999:3-4). Perhaps also, ethicality seem impractical, given that implementing it in such a highly competitive setting could incur cost (Novak, cited in Wydburd, 1998:108).

However, Drucker (1994:59) warned businesses against an exclusive emphasis on only the pursuit of profit, as that may “misdirect managers to the point where they may endanger the survival of the business”. Rather, they need to offset self-interest (*i.e.* the pursuit of profit) against moral commitment (Treviño and Nelson, 1999:23). This simply means that any individuals or companies that manage their business solely on the basis of self-interest without attending to moral commitment will acquire a bad image because media coverage will disclose their unethical practices and damage their reputation.

Does reputation really matter to business? Yes, indeed. Some multinational companies have lost market share within a week of getting a bad reputation, as evidences in Table 1. Because of the racial discrimination issue, Texaco suffered a market loss of \$1.1 billion, equal to 10% of its total market in 1996; Motorola in 1995 lost \$6 billion or 16 percent of its total market regarding cellular health effect (Fombrun, 2002:18). Evidently, the perception of ethical behaviour contributes to the success of business. Although in short term, it may carry considerable cost, implementing ethical practice in all spheres of business is, according to Kingston, a winning strategy in the long term (cited in Wydburd, 1998:108).

It is important therefore to outline a management style that reflects the Islamic values of any business that claims to be Islamic. Doing so will also distinguish Islamic business management from management styles that are not Islam-specific.

This paper, therefore, attempts to trace the effort to establish distinctively Islamic management norms. To this end, it analyzes the experience of PT Bank Muamalat Indonesia Tbk and asks whether an Islamic management style really exists in its day-to-day activities. And if it does, are there any consequences in terms of financial performance?

**Table 1: Loss of Reputation Leading to Large Declines in Market Value within One Week After Crisis**

Companies	Year	Crisis	Market Loss	
			(\$ Billion)	% Market
Archer Daniels	1995		1	11
Bankers Trust	1989	Misled customer	2	4
Exxon	1995	Oil Spill	3	5
Intel	1995	Product flaw	3	12
J&J	1982	Product tempering	1	14
Motorola	1995	Cellular health effect	6	16
Salomon	1991	Corner Bond Market	1.3	30
Texaco	1996	Racial discrimination	1.1	10

Source: Fombrun (2002)

## II. Where do we start?

As we said in the introduction, there has hardly been any effort to evolve a distinctively Islamic management style. Muslim businessmen have tended to follow the management practices prevalent where they are operating. Middle Eastern Muslim businessmen, for instance, have tended to replicate a Western management style; their South Asian counterparts have followed the practice of Hindu or Western businesses (Dar, 2004:3).

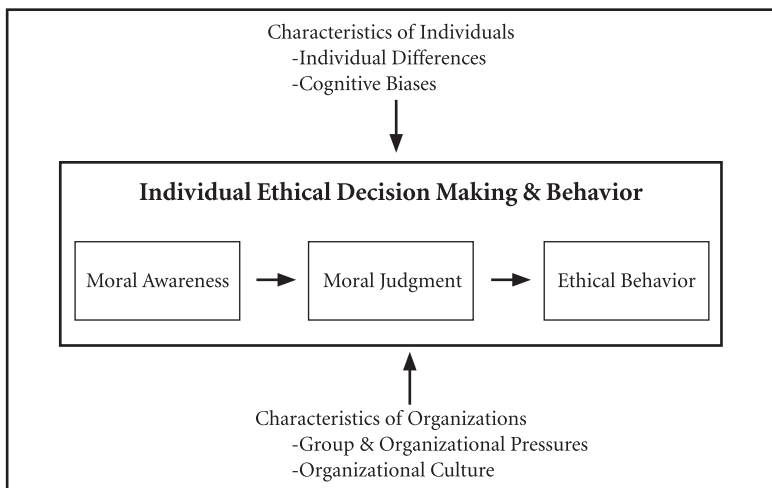
Dar (2004:12-19) suggested exploring distinctively Islamic management styles, starting from a theory of an Islamic firm. From this point, he elaborated eight distinct principles of Islamic management. This may be the right approach to the extent that management style always emerges in a certain group, whether in an organization or a firm. However, if we start from a firm or organization, what we may get is the old (Western) style more or less, dressed in Islamic symbols. Hence, a distinctively Islamic management style will not occur.

Of course, we cannot ignore existing management models, whether American or Japanese or other. However, according to Alhabshi, we must emphasize the attitude or values of the producers. In this regard, he is impressed by Japanese management styles, which “put tremendous emphasis on the individual worker, his attitude, his loyalty, his passion for quality and technology” (Alhabshi, 1994:19). It is not surprising then if ‘total quality management’ (TQM) in Japan is 90 percent attitude, while the remainder is quality control (Woods, 1998:4).

Why is the individual's attitude so important? It is clear that an individual, especially in a position of authority or influence can reflect the organization. For instance, a top executive tends to be a behaviour model and directly shapes corporate 'culture'. An employee not in a position of authority is nevertheless responsible for at least his own behaviour (Hackworth, 1999:3). If we look, for example, behind the bankruptcy of the giant Enron Corporation, we can attribute much of the failure to the character displayed among its executives, notably Kenneth Lay, Jeffrey Skilling, and Andrew Fastow. These people happen to live in the same gated community in Houston, a fact that has been read as a great metaphor for cronyism (Moberg, 2002). Furthermore, Moberg affirmed that they "grew arrogant, thinking themselves invincible".

The unethical behaviour of an organization precedes its acquiring a bad reputation, which can be traced to those "bad apples that spoil it for the rest of us" (Treviño and Nelson, 1999:8). The term 'bad apples' is indicative of individuals departing from ethical standards. To avoid being 'bad apples', Treviño and Nelson suggested that every person within the organization should consider three steps: "moral awareness (recognizing the existence of an ethical dilemma), moral judgement (deciding what's right), and ethical behaviour (taking action to do the right thing)" (Treviño and Nelson, 1999:15). This is explained in Figure 1.

**Figure 1: The Stages of Ethical Decision Making & Behaviour**

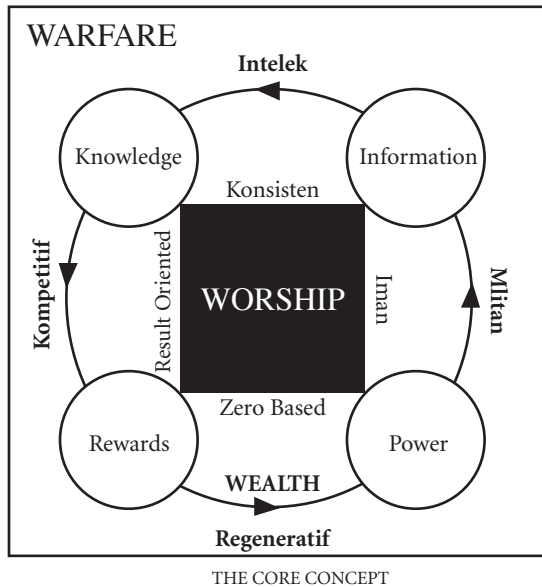


Source: Treviño and Nelson (1999:14)

Perhaps then, we can start to evolve a management model from the individual instead of the firm, since the individual is the smallest unit of any group or organization. In this regard, Amin’s efforts to describe three stages of management – summarised in three ‘W’ steps, namely *Worship*, *Wealth*, and *Warfare* – in his admirable book *The Celestial Management* (2004) is interesting. Although he does not claim it to be on Islamic management style, there can be no doubt that Islamic values are its basic foundation, which as a concept is defined in the following sections.

The first stage is *Worship*, as explained in Figure 2, which is formulated in four attributes with the acronym *ZIKR*, where *Z* stands for *Zero Based*, *I* for *Iman* (faith), *K* for *Konsisten* (consistency), and *R* for *Result-Oriented* (Amin, 2004: 4). This stage focuses on how to manage individual excellence. The concept of *ZIKR* (in Arabic *dhikr*, meaning the mention and remembrance of God), according to Amin, “inspires an individual that all his activities are merely intended to deserve God’s blessing” (2004:11). He then states (Amin, 2004:11): “*ZIKR* builds the harmony between a human being as a creature to God, his Creator. This intimate relationship is referred to as the strengthening of the vertical bond with God (*hablun min Allāh*). If this bond is strong, God’s ‘hand’ will be present every time he is in difficulty”.

Figure 2: The Core Concept of Worship, Wealth, and Warfare (ZIKR-PIKR-MIKR)



Source: Muamalat Team (2004: 2).

From this relationship, we can draw upon genuine Islamic values embedded in the human being. We can claim them as ‘genuine’ because these values, serving as the basic foundation, are related in religious consciousness. By contrast, Western business ethics derive from ‘secular humanist views’ (Lewis, 2004:6 and Jackson, 1996:83).

Does religious consciousness make a difference? Consider the case of employees whose motivation is only financial reward. If they feel that they are not getting the salary or promotion they deserve, they will tend to abuse any opportunities that arise. “Exaggerating their expense claims” is one practice that illustrates this tendency (Jackson, 1996:41). Those who do this may feel that they are merely taking what they are justly entitled to but not given. However, their being treated unjustly does not justify their behaving unethically. When the employees’ motivation has some basis in religious consciousness, their attitude and behaviour will be different. Working, according to Gymnastiar, should be considered as a form of worship (as cited in Amin, 2004: 74 and Siddiqi, 1996:65-67). The motivation to do the best work is then not merely based on self-interest (*i.e.* to secure wages), but because it expresses one’s dedication in life. Hence, Amin states (2004:112): “Hard work should bring about the result you expect. However, if there is still something lacking because of the negligence of the management, they are convinced that their God will never be negligent in fulfilling His promises over the good deeds that they have done, later in the hereafter”.

The second *W*-step is *Wealth*, which refers to a balance between material riches (money, stock, bonds, etc.) and spiritual wealth (happiness, caring, etc.) (Amin, 2004:130). The concept of *Wealth* is transformed through *sharing* of *PIKR* (in Javanese language, it literally means empowering reason). This acronym stands for the four attributes of sharing *Power*, *Information*, *Knowledge*, and *Reward* (Amin, 2004:5-7). “If *ZIKR* cleans the heart, *PIKR* enlightens the reason” (Amin, 2004:7). Where *ZIKR* encourages individual excellence, *PIKR* facilitates best performance in a group, team, or organization.

The third *W*-step is *Warfare*, which aims to boost the community’s economy (Amin 2004:191). The associated acronym *MIKR* stands for four attributes, namely *Militant*, *Intellect*, *Kompetitif* (*Competitive*) and *Regenerative*. If *ZIKR* and *PIKR* work at individual and organization level, then *MIKR* works at the community level. “*MIKR* community will bring about a strong, superior and long-lasting organism” (Amin, 2004:11). From

these three steps, *ZIKR-PIKR-MIKR*, Amin affirms that the strong need to shift from conventional management, which is closely linked to this-worldly incentives to motivations oriented. He writes (Amin, 2004: xiv):

The management science is no longer in the sense of getting things done through the people, but rather, getting God-will done by the people. While the former places CEOs as the center of coordination whose instruction must be carried out by his subordinates without exception, the latter makes a CEO someone that facilitates the environment in keeping with the moral spirit that can be accounted for to both human beings and God.

Is this what we are to call Islamic management style? No one should or could claim that. However, this approach does bring us closer to a new perspective on how Islamic management ought to be. The difficulty then is, how this ideal can be internalized by people in line with organization objectives. That is the real challenge.

### III. The Practices of BMI in Managing Business

PT Bank Muamalat Indonesia Tbk (BMI) is the first Islamic bank in Indonesia. It was established in 1991 and commenced operation in May 1992. It has around 500 employees with assets in 2003 more than IDR 3000 billion.

**Table 2: The Link between a Perpetual Measure of Reputation and Financial Measure of Market Value**

Companies	Financial Measure (\$ Billion)	Perpetual Measure (10 pt scale)
General Electric	80.8	8.7
Microsoft	44.9	8.3
Intel	31.3	8.3
Hewlett-Packard	26	8.1
3M	18.4	8.1
Motorola	17.7	7.6
Oracle	16.7	7.5
Computer Associates	10.7	6.7
Automatic Data	8.1	6.6

*Source:* Data from Stern Stewart (Dec 96) and Fortune (Oct.97) as cited by Fombrun (2002)

Within the scope of this paper it is impractical to try to describe all the interesting BMI management practices. However, we can make a start

by observing BMI's corporate culture. Understanding corporate culture, according to Hampden-Turner (1994:11), is a "vital tool for management if it is to encourage high performance". A good corporate culture is credited with strengthening corporate reputation, and there is a widely held view that a 5% difference in corporate reputation can result in a market share difference between 1% and 5% (Fombrun, 2002:16), which is depicted in Table 2. As a next step, we can directly engage with the major practices that have been instituted in order to sustain the business and provide optimum benefits for its stakeholders.

### 3.1. A brief of BMI's corporate culture

People can recognize BMI by its distinct culture. The first striking thing is the dress code that one observes upon entering the BMI counter. The female staff wear *jilbāb* (*hijāb*), while the male staff wear their *koko*. For many Indonesians, these costumes reflect Islamic values (Amin, 2004:62). According to Brennan, by dressing appropriately one can make the best impression; doing so "encourages self-confidence and shows you have given thought to others and the situation" (Brennan, 2003:33).

Apart from the uniform, customers may also be surprised when the counter is closed briefly – for about 10 minutes or so – when the call for midday prayer is heard. This practice does not disrupt service; rather, it is done to allow the customers and staff to do the prayer together. This is intended to foster *jamā'ah* and good relations as well as to strengthen the bank's position among similar institutions (Amin, 2004: 64).

It is very common for top executives of a business, to each have their own rooms, but in BMI, they share a room together. The work place is "designed without partition and very simply which reflects modesty, practicality, and openness among the crew members" (Amin, 2004: 66).

Carrying out their duties, all of BMI's employees must be free from any kind of unethical behaviour. Their signing an agreement with the organization indicates the commitment (Amin, 2004: 65). On one side, it prevents employees from such moral hazard as accepting bribes even gifts from the customers. On the other side, customers are forced to avoid conflict of interest by following clean practices. If "the dirty practices (bribery or gifts) can be proven, the agreement will, by law, become null and void" (Amin, 2004: 65).

We may observe that what the corporate culture set out to inculcate in its employees is the imperative of preventing moral hazard. The demanding



nature of its commitment is evident, since it is explicitly mentioned that any one who violates it will not only suffer consequences in this world but also in the *hereafter*. To non-believers, mentioning the *hereafter* in company rules may seem ridiculous. But, it does send out the strong message of the need to adhere to Islamic values. Any member of staff found to receive a *rashwah* (bribe), will be fired. This is justified by the argument that “the authority of Muamalat as a place to obtain pure income [halāl] will fade” (Amin, 2004: 182).

### 3.2. Some of BMI’s major business practices

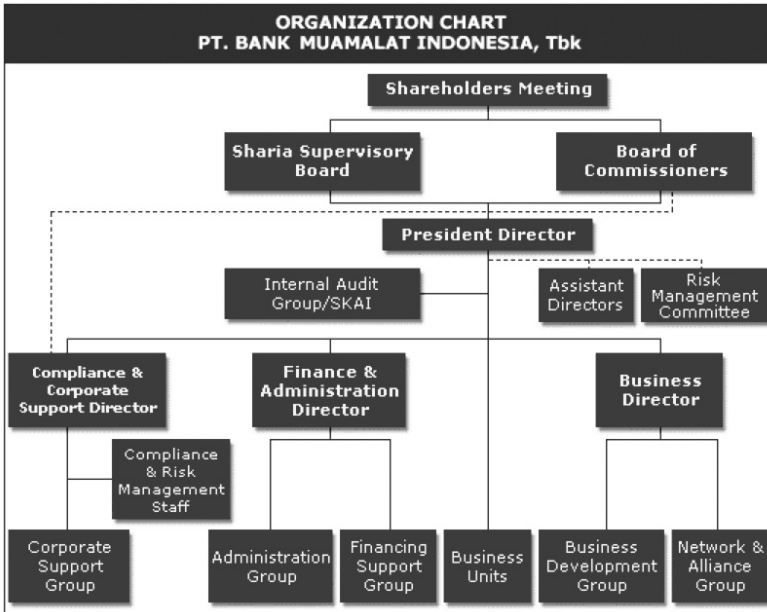
**Power sharing** (power is the first attribute in the acronym of *PIKR*) in BMI is expressed by delegating authority to other competent staff. However, the one who delegates remains responsible for the final outcome (Amin, 2004:158). The point is to have top executives deal with matters of top priority, while lesser matters are dealt with by their subordinates (Amin, 2004: 159). The result is shorter decision-making lines.

To shorten bureaucracy lines, Riawan Amin, the President Director of BMI, has radically stream-lined the company, reducing 16 divisions to five divisions (Amin, 2004: 232-233), as depicted in Figure 3. This both facilitates rapid decision making, and improves efficiency. For balance, this measure is offset by rigorous checking-up across the company. For example, on one Sunday in June 2003, Amin demanded of all branch heads that they send in their financial summaries (Amin, 2004: 161). Possibly, most of these chiefs had been enjoying a day off. However, within three hours, most of them had sent the required data either by SMS or facsimile. Amin collected and analysed the information and directly replied back to them, mentioning that two branches had recorded best performance, and one a fantastic profit increase of 400%. Naturally, some branch heads were very curious about this and suggested a thorough investigation of the data. Later on, their suspicions proved right when it was realised that one branch head had sent wrong information. Amin calls this as ‘top-down and bottom-up checking’, which encourages a massive checking-up from anyone in the group.

**Information sharing in BMI**, implementing attributes in *PIKR*, is mainly aimed to provide transparency (Amin, 2004:164). In fact, Amin affirms that not all information is open to everyone, but at least all parties can easily obtain information relevant to their activities (Amin, 2004). One of the valuable practices in this respect is to allow all staff to know all the financial information relevant to their salary slip. The slip, for instance,

indicates the amount of profit-sharing accumulated in a particular month, outstanding targets still to be achieved, and the branch which realized the best financial performance (Amin, 2004). This openness on information helps to motivate staff to compete and perform at their best. From the customers' side, they are able to submit their financial proposal faster than other banks (Amin, 2004: 166).

Figure 3: The Structure of PT Bank Muamalat Indonesia Tbk Organization



Source: Available at: <URL: <http://www.muamalatbank.com/profil/struktur.asp>>, Access Date: 16 February 2005

**Knowledge sharing in BMI** is the third attribute in PIKR is facilitated by classical method, but mainly through person-to-person dialogue (Amin, 2004: 171). Staff are encouraged to develop their own ideas, drawing on their experiences. Given sufficient relevant knowledge and information, they are expected to make appropriate decisions without awaiting permission from their supervisor (Amin, 2004: 165).

**Reward sharing** is the last attribute of PIKR is In BMI, staff get two rewards: a 10% bonus, which is collective in nature, out of the corporate profit, and an individual reward linked to their PA or performance appraisal (Amin, 2004: 175). Of the 10% bonus distributed at the end of 2003, 20% was

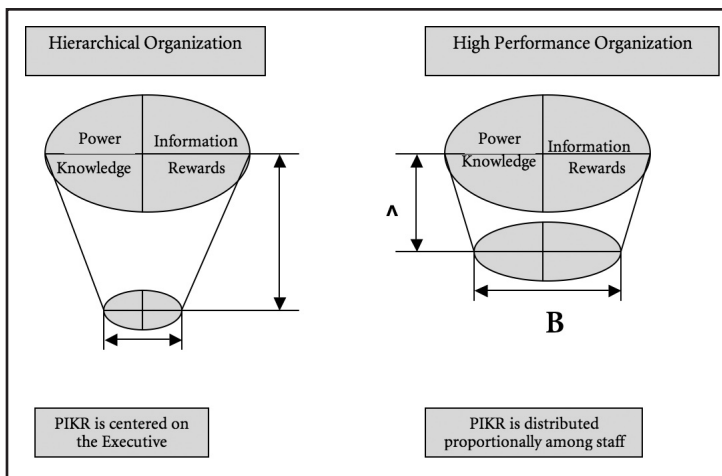
allocated in pension funds, 20% in shares, with the remainder paid on the basis of unit performance level (Amin, 2004: 179). Compared to other banks, the level of reward in BMI is fairly high or at median level (Amin, 2004: 178). It is interesting to note that reward given in respect of merit increase (percentage increase in salary) is unique to BMI. With the same PA score, staff at lower ranks enjoy a higher merit increase. For example, where a clerk and an officer have the same PA score of A, the clerk would get a merit increase around 30-40%, while the officer would get less than that (Amin, 2004: 179).

If this reward scheme is applied consistently, it must certainly encourage staff motivation. No wonder that Tyson, as cited in Bratton and Gold (1999:262), affirmed that reward based on profit sharing “can increase performance, result in greater employment stability and be a ‘win-win’ for employees and employers”.

### 3.3. Does the paradigm of PIKR perform better?

Amin argues that by adopting the PIKR paradigm, a hierarchical organization can change into a high performance organization (Amin, 2004:183), which can be seen in Figure 4. Is this claim valid?

**Figure 4: PIKR Transforms a Hierarchical Organization into High Performance Organization**

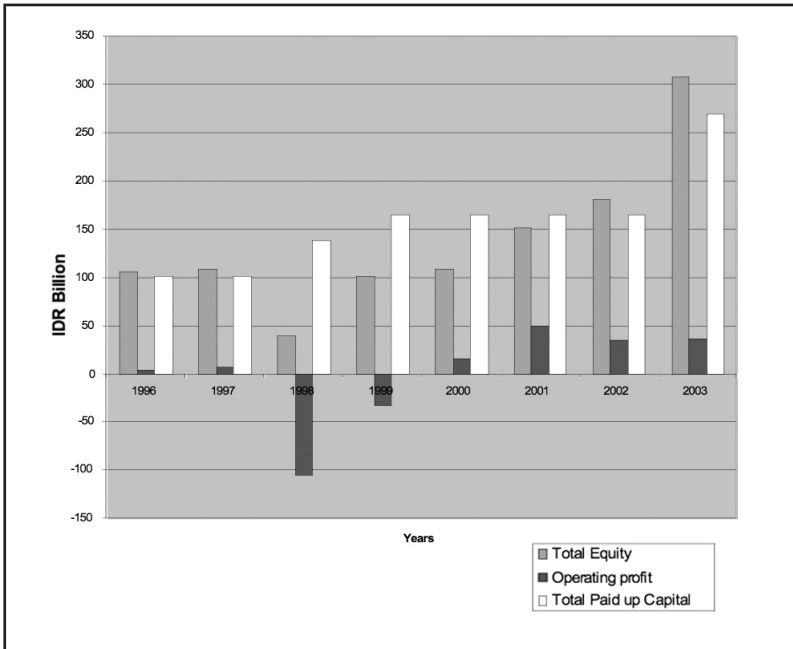


Source: Riawan Amin (2004:184)

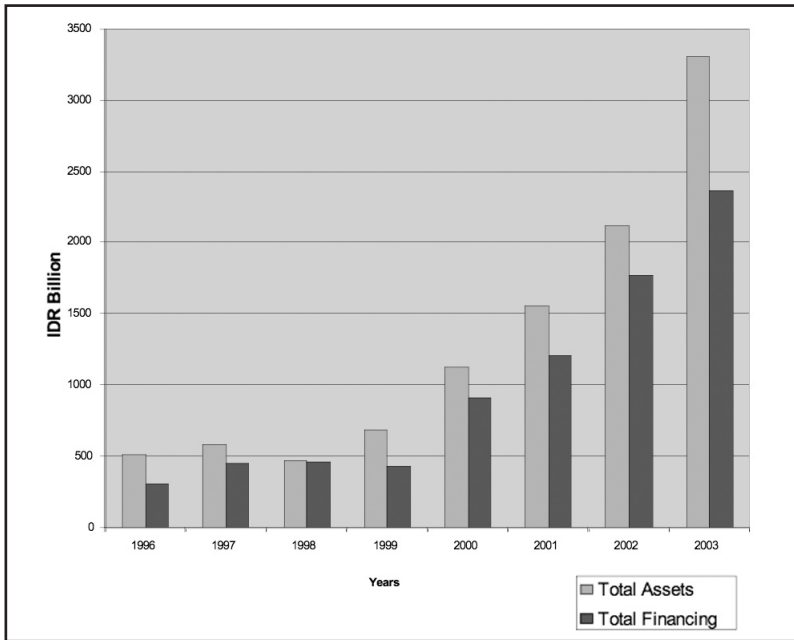
Perhaps, we can answer the question by simply looking back at the financial performance of BMI. In 1998, the monetary economic crisis swept and hurt several banks including BMI. At that time, BMI suffered operational losses of IDR 105 billion, while total paid up capital was reduced one third or to IDR 39.3 billion, as depicted in Figure 5. It was indeed a critical condition and forced the shareholders to change the executives on the Board of Directors. The shareholders appointed Riawan Amin as a president director and other young progressive people (Arviyan Arivin, Suhaji Lestiadi, and Budi Wicaksono) as directors.

From this point on, the concept of *ZIKR-PIKR-MIKR* was explored and implemented. The impact was quite dramatic, the losses were reduced, and the bank moved towards recovery and even growth in profit and financing as can be seen in Figure 6. What really looks like a miracle is that the total equity exceeded the paid up capital at IDR 174.32 billion. Of this, only IDR 66 billion came from capital providers, while IDR 108 billion were definitely contributions from over 500 staff (Amin, 2004: 22).

**Figure 5: Total Equity, Operating Profit, and Total Paid up of BMI, 1996-2003 (IDR Billion)**



Source: Available at: <URL: [http://www.muamalatbank.com/profil/kinkeu\\_eng.asp](http://www.muamalatbank.com/profil/kinkeu_eng.asp)>, Access Date: 16 February 2005

**Figure 6: Total Assets and Total Financing of BMI, 1996-2003, (IDR Billion)**

Source: Available at: <URL: [http://www.muamalatbank.com/profil/kinkeu\\_eng.asp](http://www.muamalatbank.com/profil/kinkeu_eng.asp)>, Access Date: 16 February 2005

In terms of network, BMI has been developing its branches and service points at remarkable pace. In 2002, it had only 13 branches, the figure rose sharply in 2003 to 35. The amount of service points also jumped from 66 to 166 (Amin, 2004: 32). In terms of product, the management has developed many product innovations including *Shar-E*. It is an Islamic investment product, provided in a special initial package of IDR 125,000. It is available in every online post office in Indonesia and can be used like a debit card to shop in more than 18,000 outlets handling the BCA Debit card (from *Shar-E Card*: n.d.). In light of this, the claim that Muslims may use *ribā*-based services because alternative Islamic bank networks in Indonesia are very limited, would appear to be no longer valid.

Another valuable achievement is BMI's reputation. According to Karim Business Consulting survey, BMI was ranked first on *Top of Mind* (easily remembered name) by customers of Islamic Banks (Murtiaji, 23th February 2004). BMI also gained *Superbrands Award* for its success in building up a strong corporate image (Wahyuni, 24th July 2004). And, perhaps the highest

honour of all, BMI was awarded *Most Outstanding Performance by an Islamic Bank* by the Kuala Lumpur Islamic Finance Forum, which is held by the Centre for Research and Training (CERT) in collaboration with Dow Jones Islamic Indexes (Wulaningsih, 8th December 2004).

#### IV. Enriching the Formula

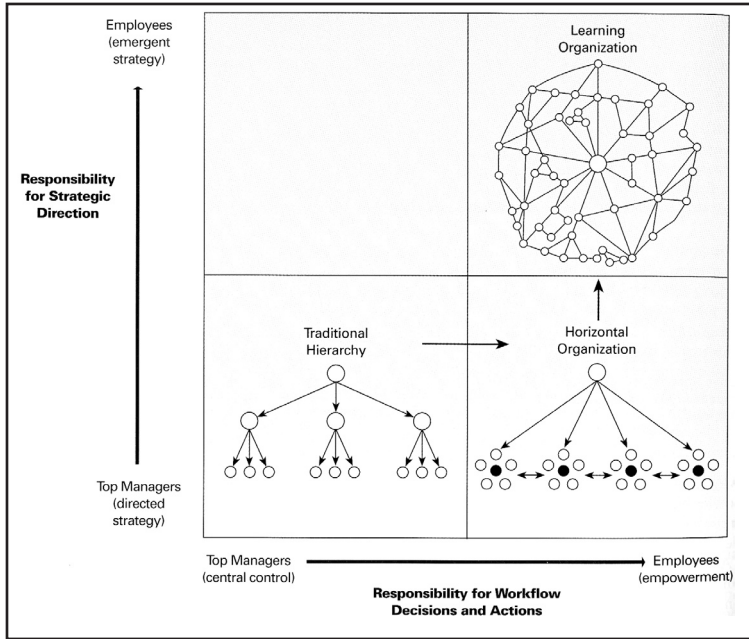
The concept of *ZIKR-PIKR-MIKR* looks to be a strong management approach to enhance the performance of an organization. It is obvious that sharing of *PIKR* as the basis for action has successfully altered a traditionally hierarchical organization into a horizontal one. Perhaps, it will be further breakthrough if that horizontal organization can be transformed into what Peter Senge calls a, '*Learning Organization*', which is defined as (Senge, 1990:3): "...organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole together".

Rapid change will give opportunity only to those who are flexible, adaptive and productive enough to survive. Organizations need to "discover how to tap people's commitment and capacity to learn at *all* levels" (Senge, 1990: 4). In other words, this model suggests that "every one engaged in identifying and solving problems, enables the organization to continuously experiment, improve, and increase its capability" (Daft, 1998:562). A learning organization is described as "a web in which different parts of the organization are adapting and changing independently while at the same time contributing to the company mission" (Daft, 1998: 563), which is presented in Figure 7.

The *Information* and *Knowledge Sharing* attributes in *PIKR* can be vital in enabling the learning organization to operate and flourish. In this respect, how to motivate every individual to involve within the process is indispensable. Another imperative is the need for *servant leadership* (Daft, 1998: 565). Leaders are considered to be serving to others and the organization's vision and should dedicate themselves to encouraging individuals to be continuously learning. Senge states that "[o]rganizations learn only through individuals who learn. Individual learning does not guarantee organizational learning. But without it no organizational learning occurs" (Senge, 1990: 139). Senge, therefore, recommends the five disciplines, they are: systems thinking, personal mastery, mental models, building shared vision, and team learning. It is beyond the scope of this paper to explore all of these terms here. The point to be made is, these methods can be used to

accelerate the process of *PIKR* within the organization and this should result in better performance.

**Figure 7: Learning Organisation**



Source: Daft (1998:564).

**V. Conclusion**

A distinctive Islamic management style is a very new discourse that needs to be developed much further. Islamic values are the main fuel on which to run the distinctively Islamic management style, and the individuals, who constitute the smallest units in the organization, need to internalize and actualize those values. Only then can those values be reflected within organizational structure and operation, which then enables the individual to achieve the same Islamic values, gradually establishing a virtuous circle. The *ZIKR-PIKR-MIKR* procedures as currently implemented in PT Bank Muamalat Indonesia Tbk, clearly does enable staff to realize personal and collective objectives without compromising ethical principles.

The approach of *ZIKR-PIKR-MIKR* does perhaps bring us nearer to the ideal Islamic management style. However, in the very dynamic conditions of the modern economic system, the approach would benefit

from enrichment by the theory of learning organization, which will lead individuals working in an organization to maintain learning and enhancing their capabilities within dynamic environment. Only flexible and adaptive individuals, consecutively, will cope effectively with the challenges, and only their success in doing so can ensure the survival of the organization.

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