Introduction

For more than 20 years now, experts in management at the International Islamic University Malaysia (IIUM) have been working on management from an Islamic perspective (MIP). Recent books in the area of MIP include Ahmad, Islam, and Ismail (2011), Ahmad and Fontaine (2011), and Osman-Gani and Sarif (2011). Over the years, some researchers have specialized in some of the subbranches of Islamic management. Some have developed an interest in organizational behavior, others in business ethics, and yet others in strategic management. The focus of this textbook is on strategic management from an Islamic perspective. The mention of “strategic management from an Islamic perspective” raises three questions:

1. What is the Islamic perspective on strategic management?
2. Does strategic management from an Islamic perspective add anything new to strategic management?
3. Do organizations today apply strategic management from an Islamic perspective?

Part I will deal with the first two questions. Part II will address the last question by providing examples of organizations applying the principles of strategic management from an Islamic perspective.
Leading an Organization Is Like Driving a Car

In different parts of this text, we will use the analogy that leading an organization is like driving a car. The driver (leader of the organization) needs to decide where to go (vision), how to get there (strategy), and at what speed to drive (risk and profitability). To achieve his or her goal, the driver needs to avoid hitting other cars (competitors) while obeying the rules of the road (government regulations). The driver (leader) has a number of passengers in the car (stakeholders).

In conventional strategic management, the measure of success is speed (profitability). Passengers (stakeholders) may not have a comfortable ride and some of them might be pushed out of the vehicle in order to arrive at the destination faster.

In strategic management from an Islamic perspective, the measure of success is striving for justice (organizational justice will be defined later). Generally, this is done by driving safely (reduced risk) although a reasonable speed (profitability) is necessary to arrive at the final destination within a reasonable time frame. The driver (leader) has a moral duty to ensure the rights of all passengers (stakeholders). At the same time, the passengers have a moral duty to speak to the driver to help him drive the vehicle safely. This is because they have different views of the situation that may be important to the safety of all. Everybody agrees that none of the stakeholders ought to be sacrificed for the sake of arriving at the destination more quickly.

We realize that this analogy is far from perfect. Later, we will modify it slightly by arguing that rather than driving one car, it is more like leading a convoy of buses (after all, many organizations have thousands of employees). If an organization has 5,000 employees and we assume that there are about 50 people in one bus, the leader has to coordinate the movement of about 100 buses. Nonetheless, we hope that this analogy gets two basic messages across:

1. The protection of the rights of all stakeholders is a shared moral duty. Although rules and regulations are important, a collective feeling of accountability toward God is necessary to give the passengers the courage to speak up (this statement will become clearer as the book progresses).
2. The Islamic perspective on strategic management is visionary and more than simply a “moral version” of strategic management. A key theme is that conventional strategies fail because many drivers take ridiculous risks. However, the short-term rewards of taking ridiculous risks are such that many leaders are encouraged to feel that they are “better than the rest”—until the organization goes bankrupt. The need to achieve organizational goals while reducing risk is something we hope to explore in some detail.
Critical Thinking

To be successful in business today, one must possess critical thinking skills. Critical thinking refers to the art and science of evaluating claims, statements, and evidences. Critical thinking often requires people to think carefully about assumptions that are being made. In the context of this work, we would argue that critical thinkers need to think very carefully about existing paradigms and where we find them. In our literature review, we will discuss the fact that the strategy literature is confusing because of the overlap between strategy and planning. Furthermore, some of the best ideas related to strategy are not necessarily found in the field of strategic management but rather are found in other academic fields. In regard to reading strategic management textbooks, there can be two approaches.

The first approach is to assume that the existing theories found in the majority of strategic management textbooks are correct. After all, if these theories are in a textbook, they must be true. In that case, any new strategic management textbook that is different from the majority is suspect and cannot be trusted.

The second approach to assume that the existing theories found in the majority of strategic management textbooks need improvement. New research is needed to improve on existing theories. In that case, new textbooks that are different from the majority should be welcomed because they introduce new ideas. Mackenzie and Afzalur Rahim (2003, p. 315) explain,

Strong inference is basically a simple idea. Look for an empirical counter-example to a theory, accept the conclusion that a theory will always need improving and make the improvement. Strong inference is based on the robust conclusion that eventually all theories are proven wrong or in need of a restatement. It makes more sense on working on improving the theory than in trying to justify it. The best way to improve a theory is to find out where it breaks down. That flaw will then lead to a revised version of the theory.

We have written this textbook with this second approach in mind. As authors, we tend to look for the counterexamples that contradict existing theories of strategic management. We have started with a premise that might be controversial for some readers, namely that there is enough practical wisdom in the Islamic tradition that allows us to propose some new ideas about strategic management.

At the same time, we do not intend to simply repeat what other Muslim scholars of strategic management have talked about. In fact, in writing this text, we have ended up quoting only a few Muslim scholars. We have done this to make the text easy to read and to provide a seamless flow in the ideas. We believe that our approach is consistent with the Qur’anic injunction to think deeply and to continuously improve. Badi and Tajdin (2005) note that the Qur’an uses the following words extensively:
The Problem with Conventional Management

Economist Paul Ormerod recently observed that more than 10 percent of all companies in the United States disappear each year (Ormerod, 2007). He argues that many business leaders think that they are able to control events but, in reality, they are far less in control than they think. Successful organizations are those that plan, but at the same time they are flexible enough to alter their plans when things do not turn out as they had planned. Other experts have, on the whole, confirmed that things rarely go according to plan. Bohn (2000) found that many organizations are in a constant state of “fire-fighting” as employees come up with ineffective solutions to customers’ problems. Nutt (2004) found that managers in organizations have a 50 percent success rate when it comes to making decisions, which is equivalent to flipping a coin. Beer and Nohria (2000) report that 70 percent of change initiatives in organizations fail. Deming (1994) reports that 95 percent of changes made by management make no improvement. Starkey, Tempest, and McKinlay (2004) show that 62 percent of businesses in the United States do not survive after five years; 80 percent do not survive 10 years; and 90 percent do not make it beyond 20 years. Haswell and Holmes (1989) observe that studies show different failure rates for different industries. To make things worse, different experts have different ways of defining failure, but everybody agrees that the failure rate is generally high. Observers point out that failure not only affects small companies with limited resources, but it also affects large companies with almost unlimited resources. Those companies that do survive often show poor results before their failure. Coveney, Ganster, Hartlen, and King (2003, p. 20) write, “More than 25% of the top 100 U.S. companies that survived in 2001 lost at least 66% of their market capitalisation.” In short, organizational failure is the norm, and organizational success is the exception.
Many writers on management choose to overlook these facts. We have decided to write our book about these facts because our basic argument is that the traditional approach to management does not work very well and a new approach is needed.

The Problem with Conventional Strategic Management

Like conventional management, conventional strategic management too has a number of problems. Let us first describe the symptoms and then discuss the four major causes. Consider the following statistics. Mintzberg, Ahlstrand, and Lampel write that only 10 percent of strategies are implemented. In other words:

- Success rate: 10 percent
- Failure rate: 90 percent

Clearly, something is wrong with the current approach to strategic management. Scholars of conventional strategic management have discussed (and are continuing to discuss) why this failure rate is so high and what can be done to bring it down. Please do not misunderstand us: Scholars of strategic management know these facts very well and they are working hard to address them. These facts are generally not shared with students who take strategic management courses. We believe they should know these facts and ponder on their logical implications.

The ideas of strategic management scholars will be discussed in Chapter 2 in some detail. One of the perennial problems is the definition of *strategy*. The word itself is ambiguous (Mintzberg, Ahlstrand, and Lampel, 2005) and there are many definitions available in the strategic management literature. In many ways, this was our biggest dilemma. Rather than define the concept in the first chapter, we will simply define strategy as “decisions that are important for the future of an organization.” We will define the term more formally in Chapter 8. In any case, many of the ideas of strategic management scholars are insightful, and we will refer to them from time to time. However, we believe that these scholars are nonetheless trapped in a cultural mind-set. We believe that there are four fundamental problems with conventional strategic management. We will call them FPs, or fundamental problems. These problems are as follows,

- **FP 1** is related to the use of interest-based loans to finance firms. As we will discuss in Chapter 3, interest-based loans assume that it is possible to accurately assess the risk of a business transaction before the transaction takes place. As we will see, this is not possible. In practice, most people take on too much risk and most companies go bankrupt simply because they cannot repay their bank loans. Islam offers an alternative method of financing
where the risks and rewards are shared *after* the business transaction is complete, thereby reducing the risk of default.

- **FP 2** is related to the problem of developing strategies that allow an organization to be sustainable over the long term. This requires the ability to manage the increasing complexity of modern organizations. As organizations become more and more complex, strategic management becomes more and more complex as well and the risk of failure increases. One way to reduce the risk associated with complexity is to develop a corporate culture based on cooperation rather than competition. Cooperation does not mean that a strategy will allow the organization to be sustainable but without cooperation, sustainability is virtually impossible.

- **FP 3** applies to the behavior of individuals within the organization. Most individuals engage in what Argyris (1992, 2001) called “defense routines.” Rather than confronting the reality of a problem, people lie in order to avoid embarrassment. When the culture of the organization supports these defensive routines, there are numerous problems that affect the processes of strategic formulation and strategic implementation.

- **FP 4** deals with the conflict between the interests of the individual versus the interests of the whole organization. This is known as the agency problem. In short, individuals with power have a choice. They can do what is good for them but bad for the organization as a whole. They can do what is good for the organization as a whole but they might—personally—suffer. Often, the organization’s controlling system and reward system encourage individuals to be selfish.

As we will try to demonstrate, all of these four fundamental problems increase the risk of default during periods of economic slowdown. One of these problems alone is already a formidable challenge. The combination of these four problems can be deadly.

Scholars interested in strategic management from an Islamic perspective recognize that these four problems are fundamental to explaining the high failure rate in conventional management. Many scholars of Islamic management believe that the Islamic tradition has practical solutions to offer for at least three of these fundamental problems (FP 1, FP 3, and FP 4). Readers are encouraged to remember the analogy that running a business is like driving a car. The fundamental problems highlighted here are linked to the same core problem: whether one is driving quickly (conventional strategic management) or whether one is driving safely (strategic management from an Islamic perspective).

We believe that this text will be of interest to two different kinds of readers:

1. Muslims who are interested in strategic management from an Islamic perspective because they wish to apply Islamic principles in every aspect of their lives. The reduction in risk and the rate of default is a happy side effect. However, the main desire is to please God alone and this should be the sole motivation of Muslim business leaders.
2. Non-Muslims who are looking for an alternative style of management. The ideas found in strategic management from an Islamic perspective might thus be incorporated into a more universal style of management where reducing risk and protecting the rights of stakeholders take precedence over simply making more profits.
In the Qur’an, there are two chapters that we shall analyze in some detail (see Table 1.1). As we will show with the case studies, if top management understands and applies Islamic principles in business, they can implement the policies to create a cooperative and effective working environment (e.g., Fontaine, 2011).

### The Value of Strategic Management from an Islamic Perspective

Hopefully, the value of strategic management from an Islamic perspective should already be obvious. Let us consider the perspective of the society as a whole. A 90 percent failure rate means unemployment and loss of wealth for the society as a whole. By implementing Islamic principles, let us imagine that the success rate jumps from 10 percent to 30 percent. That means greater employment opportunities and wealth creation for the society.

To continue with the driving analogy, a society in which the majority of drivers are trying to reach their destination safely is a society where public safety will be maximized. On the contrary, a society where everybody drives quickly is a society where public safety will be compromised.

The challenge in the next few chapters is to offer something more concrete in terms of strategic management from an Islamic perspective. We make the assumption that religious symbols are not important per se. For example, if employees come to work wearing religious symbols, those symbols will have no bearing on the overall effectiveness of the organization. However, behavior that is consistent with Islamic values and principles are important.

### TABLE 1.1 The Qur’anic Perspective Related to Strategic Management

<table>
<thead>
<tr>
<th>Surah Description</th>
<th>The Problem</th>
<th>The Solution</th>
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</thead>
<tbody>
<tr>
<td>Al Takathur (Qur’an, 102)</td>
<td>People are competing with one another to get to their destination quickly. They hide embarrassing information from the boss and they play political games inside the organization. Their focus is on this life.</td>
<td>Al Asr (Qur’an, 103)</td>
</tr>
<tr>
<td>Mental model</td>
<td>Competition</td>
<td>Cooperation</td>
</tr>
<tr>
<td>Motivation</td>
<td>Extrinsic</td>
<td>Intrinsic</td>
</tr>
<tr>
<td>Perspective</td>
<td>This life</td>
<td>The next life</td>
</tr>
<tr>
<td>Metaphor</td>
<td>A good driver drives quickly</td>
<td>A good driver drives safely</td>
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</tbody>
</table>
For example, if somebody sees that his or her manager is about to do something unethical, then a moral and religious consciousness should give that person the courage to advise the manager. Thus, we believe that Islamic values need to be internalized and lead to ethical and productive behavior. Although we do not have data to back up our claim yet, we believe that the benefit of applying Islamic strategic management principles is that the organization will have a longer life expectancy and, in the long term, stakeholders will gain greater benefit (Fontaine and Gapur, 2012). We add, though, that the extra financial rewards are not the objective of strategic management from an Islamic perspective. The sole objective of implementing strategic management from an Islamic perspective is simply to please God.¹

As researchers, we recognize that critics (non-Muslims and Muslims) often point out that whenever Muslims start talking about “Islamic solutions,” Muslims tend to offer vague and generic solutions. Clearly, this will always be the case when a discipline emerges. Concepts are still fluid and data is scant. Yet Muslim scholars like Dr. Rafik Beekun have produced research related to strategic management from an Islamic perspective of an international standard (for example, Beekun, 2006; Beekun, 2011). Furthermore, the faculty at IIUM is working hard to produce PhD graduates in the area of strategic management from an Islamic perspective. These PhD graduates are expected to master the Islamic disciplines, master the management disciplines, and produce research that tests hypotheses in a manner that fits academic standards. We assume that over the next 10 or 20 years, more and more PhD students will graduate and make a valid contribution to the field. Today, we might not meet the criteria for evidence-based management that is generally expected, but we are getting there.

In this text, we will explain the methodology for strategic management from an Islamic perspective, show that it adds value to both the theory and the practice of strategic management, and provide some relevant case studies. As the paragraph on critical thinking suggests, this is not the final product of our efforts. At this stage, our evaluation of the conventional strategy literature and the Islamic literature points to the fact that reducing the risk of strategic failure is the major concern for strategists. Although the review of the literature will not be exhaustive, we will turn our attention to four fundamental problems:

1. The financing of organizations
2. The challenge of creating sustainable organizations
3. The problem of organizational defense routines
4. The conflict of interest between the individual and the organization

We will attempt to show that Islam provides practical solutions to all of these problems. The practical benefit should be that, on average, organizations will survive longer as they manage their financial risks better and the corporate culture allows the real problems inside organizations to emerge and be resolved.


**Notes**

1. This writing of this book was made possible by a grant (EDW B11–089–0567) from IIUM.
2. We thank our students for providing their feedback on our book *Management from an Islamic Perspective.* They found the second chapter of that book quite confusing because we quoted too many Muslim authors.
3. According to Mintzberg, Ahlstrand, and Lampel (2005, p. 32), Tom Peters, the legendary management guru, said that it is “much less than 10%.”
4. We realize that we are being repetitive, but this point has to be absolutely clear for Muslim readers if they are truly going to benefit from applying Islamic principles when developing strategies. This point will not be repeated in subsequent chapters.