

Published:
December 15, 2024

Shariah Governance in Non-Financial Organizations

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Abstract

Shariah governance, traditionally associated with Islamic financial institutions, is increasingly gaining relevance in non-financial organizations seeking to align their operations with Islamic ethical, legal, and social principles. This post-doctoral level study examines the conceptual foundations, structural mechanisms, and practical implications of implementing Shariah governance within non-financial sectors such as education, healthcare, manufacturing, NGOs, and public administration. Anchored in the principles of Maqāsid al-Sharī'ah, the research explores how Shariah governance frameworks promote ethical accountability, transparency, and social responsibility beyond the realm of finance. Through an interdisciplinary lens that integrates Islamic jurisprudence, organizational governance theories, and contemporary management literature, the study analyzes key components of Shariah governance—including Shariah supervisory boards, internal compliance mechanisms, ethical auditing, and value-driven policy development. It argues that the incorporation of Shariah governance in non-financial institutions enhances organizational credibility, builds stakeholder trust, and reduces operational risks associated with unethical practices.

Keywords: Shariah Governance, Ethical Compliance Systems, on-Financial Organizations, Islamic Organizational Ethics, Accountability and Transparency in Governance

Introduction

The global discourse on Shariah governance has been overwhelmingly financialized. Regulatory bodies like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and national Shariah boards focus almost exclusively on ensuring compliance in banking, takaful (Islamic insurance), and sukuk (Islamic bonds).¹

Yet Islam's ethical injunctions are not sector-specific; they permeate all human activity. The Qur'an commands, "O you who believe! Eat not of that (meat) on which Allah's Name has not been pronounced... indeed, there has gone forth a decree from your Lord"².

This verse, while addressing consumption, reflects a broader divine imperative: that all economic and organizational conduct must align with sacred norms.

In Muslim-majority countries like Pakistan, where the formal economy includes vast non-financial sectors—textiles, agriculture, education, healthcare, and public services—the absence of structured Shariah governance frameworks leaves these domains ethically

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unmoored. A factory may produce *halal*-certified food yet exploit workers; a private school may teach Qur'anic studies while falsifying grades; a hospital may segregate prayer spaces yet overcharge the poor. Such dissonance reveals a critical epistemological gap: the conflation of Shariah compliance with ritual symbolism rather than systemic ethical integration.

This article contends that Shariah governance in non-financial organizations (NFOs) must be reconceptualized as a multidimensional architecture grounded in *taqwa* (God-consciousness), *amanah* (trustworthiness), *'adl* (justice), and *maslahah* (public benefit). Unlike in finance—where Shariah governance often centers on contract validity (e.g., avoiding *riba*, *gharar*)—in NFOs, it encompasses labor ethics, product integrity, environmental impact, data privacy, and social equity.

I. Conceptual Foundations: Beyond Financial Reductionism

A. Defining Shariah Governance in Non-Financial Contexts

Shariah governance in NFOs refers to the institutionalized processes, structures, and cultures through which an organization ensures that its purpose, operations, outputs, and impacts conform to the ethical and legal principles of Islamic law.³

It is not merely about displaying Islamic symbols or offering prayer rooms; it is a systemic commitment to divine accountability across the entire value chain.

Classically, governance (*siyasah*) in Islam encompasses all affairs that maintain social order and promote welfare, as stated by Ibn Qayyim al-Jawziyyah: “The foundation of governance is justice and public benefit.”⁴ This expansive view rejects sectoral compartmentalization. Whether managing a warehouse or a university, the leader (*wali al-amr*) is answerable before God for how resources are used and people are treated.

B. The False Dichotomy Between “Financial” and “Non-Financial”

The bifurcation of Shariah governance into financial vs. non-financial domains is a modern construct with no basis in classical *fiqh*. In the Ottoman *millet* system, guilds (*asnaf*) regulated everything from bread quality to artisan wages under Shariah supervision.⁵ Similarly, the Prophet Muhammad ﷺ intervened in non-financial matters:

he corrected unfair scales in markets,⁶ mandated ethical treatment of animals during slaughter,⁷ Established standards for teaching and testimony.⁸

These acts demonstrate that Shariah's scope is coterminous with human responsibility. Thus, labeling a textile mill or school as “non-financial” is misleading; all organizations engage in financial transactions, but more importantly, all generate moral consequences. Shariah governance in NFOs must therefore address both transactional compliance (*ahkam mu'amalat*) and behavioral integrity (*akhlaq*).

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II. Theoretical Pillars: Maqasid, Akhlaq, and Organizational Stewardship

A. Maqasid al-Shariah as the Normative Compass

Al-Shatibi's *maqasid* theory provides the most robust foundation for NFO governance. The five classical *daruriyyat* (necessities)—*din* (religion), *nafs* (life), *'aql* (intellect), *nasl* (progeny), and *mal* (property)—directly map onto non-financial domains:

- Healthcare organizations protect *nafs* and *'aql* (mental health);
- Educational institutions cultivate *'aql* and *din*;
- Food manufacturers safeguard *nafs* through *halal* and *tayyib* (wholesome) production;
- Manufacturers and logistics firms secure *mal* (property rights, fair wages);
- Family services uphold *nasl* (marital ethics, child welfare).

Modern expansions—*'adl* (justice), *karamah* (dignity), and *bī'ah* (environment)—further extend applicability. For example, a garment factory that pays living wages upholds *'adl* and *karamah*; a waste management firm that recycles honors *khalifah* (stewardship of earth).⁹

B. Islamic Organizational Ethics (*Akhlaq al-Mu'assasat*)

Beyond legal compliance (*fiqh*), Shariah governance demands ethical excellence (*ihsan*). The Prophet ﷺ said,

“Allah has prescribed *ihsan* (excellence) in all things.”¹⁰

This implies that NFOs must go beyond avoiding *haram* to actively promoting *khayr* (good).

Key ethical principles include:

- Amanah: Fiduciary duty in all roles—from janitors to CEOs;
- Sidq (truthfulness): Accurate labeling, honest advertising, transparent reporting;
- Haya' (modesty): Ethical data handling, respectful workplace interactions;
- Tawazun (balance): Avoiding excess in production, consumption, or profit-seeking.

These virtues constitute *akhlaq al-mu'assasat* (institutional ethics), which cannot be codified in contracts alone but must be cultivated through culture and leadership.

C. The Doctrine of Collective Responsibility (*Fard Kifayah*)

Many organizational functions—education, healthcare, environmental protection—are *fard kifayah* (collective obligations).¹¹

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If neglected by society, all bear moral guilt. Thus, NFOs in these sectors carry a heightened Shariah responsibility. A private hospital that denies care to the poor fails not just legally but theologically, as it abdicates a communal duty.

III. Core Components of the SGF-NFO Framework

We propose the Shariah Governance Framework for Non-Financial Organizations (SGF-NFO), comprising five interlocking components:

A. Shariah-Aligned Mission and Vision

The organization's foundational documents must explicitly commit to Shariah principles. Example:

“Our mission is to produce nutritious food that is *halal*, *tayyib*, and accessible to all, honoring the trust (*amanah*) granted by Allah and our community.”

This prevents mission drift and anchors strategic decisions in divine purpose.

B. Ethical Leadership and Shariah Oversight

- Leadership: CEOs and managers must embody *taqwa* and undergo Islamic ethics training.
- Shariah Committee: Unlike in finance—where boards focus on contracts—NFO Shariah committees should include ethicists, social scientists, and community representatives to address labor, environment, and social impact.
- Accountability: Annual *hisbah* (moral auditing) reports, not just financial audits, should be published.
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C. Operational Halal/Haram Screening

A systematic process to identify and mitigate *haram* elements across operations:

- Inputs: Are raw materials *halal* and ethically sourced? (e.g., no child labor in cotton)
- Processes: Are workers treated with *karamah*? Are safety standards met?
- Outputs: Are products truthful in labeling? (e.g., “organic” claims verified)
- Impacts: Does the organization contribute to social harm? (e.g., pollution, addiction)

This goes beyond AAOIFI's financial scope to encompass ethical supply chain governance.

D. Stakeholder Justice (*‘Adl*)

Shariah governance requires equitable treatment of all stakeholders:

- Employees: Fair wages (*ujrah ‘adilah*), safe conditions, dignity;

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- Customers: No deception (*ghishsh*), fair pricing;
- Community: No externalities (e.g., noise, waste);
- Environment: Sustainable resource use as *amanah*.

The Prophet ﷺ warned, “Whoever withholds surplus water withholds surplus pasture,”¹² linking resource hoarding to social injustice.

E. Continuous Improvement through Ijtihad and Shura

Organizations must engage in contextual *ijtihad* (reasoned judgment) to address emerging issues (e.g., AI ethics, data privacy) through *shura* (consultation) with scholars, staff, and beneficiaries. This ensures Shariah governance remains dynamic, not static.

IV. Empirical Illustrations from Pakistan and the Muslim World

A. Healthcare: Shifa Foundation, Pakistan

Shifa International Hospital (Islamabad) integrates Shariah governance by:

- Offering subsidized care to 30% of patients under *fard kifayah*;
- Banning interest-based financing (using *qard hasan* loans);
- Ensuring gender-segregated but equally resourced wards (‘*adl*);
- Conducting annual *hisbah* audits on ethical compliance.

A 2022 internal review found that 89% of patients cited “Islamic ethics” as a key reason for trust—demonstrating reputational capital derived from authentic governance.¹³

B. Education: International Islamic University, Islamabad (IIUI)

IIUI’s governance embeds *maqasid*:

- Curriculum balances ‘*aql* (sciences) and *din* (ethics);
- Research ethics board screens projects for *maslahah*;
- Student conduct code emphasizes *akhlaq*, not just rules.

Graduate surveys show 76% feel “morally prepared for professional life,” versus 48% at secular peers.¹⁴

C. Manufacturing: Crescent Textiles, Pakistan

One of Pakistan’s largest textile firms, Crescent has pioneered ethical *halal* manufacturing:

- All dyes are *halal*-certified (no alcohol-based solvents);
- Wages exceed minimum by 35%, with profit-sharing;
- Zero-liquid discharge plants protect *bī’ah*.

While not yet formally certified, its *de facto* Shariah governance has attracted ESG (Environmental, Social, Governance) investors from the Gulf.¹⁵

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D. Gulf Models: Halal Parks and Ethical Certification

The UAE's Halal Parks (e.g., in Dubai) mandate that all tenant NFOs—food processors, cosmetics labs, logistics—comply with Shariah operational standards, including:

- Ethical labor contracts (no *kafala* abuses);
- Animal welfare in testing;
- Carbon footprint tracking.

Similarly, Malaysia's MySalam health insurance program extends Shariah governance to non-financial wellness services like telemedicine and mental health counseling.¹⁶

V. Implementation Challenges and Strategic Pathways

A. Key Challenges

1. Lack of Standards: No global framework exists for Shariah governance in NFOs, unlike AAOIFI for finance.
2. Capacity Gaps: Few scholars understand both *fiqh* and organizational management.
3. Greenwashing: Firms may claim “Islamic” branding without substantive ethics—e.g., “halal” fast fashion made in sweatshops.
4. Regulatory Vacuum: Governments rarely mandate Shariah governance outside finance.

B. Strategic Pathways Forward

1. Develop SGF-NFO Standards: Islamic Development Bank (IsDB) or OIC should sponsor a universal framework, building on AAOIFI but expanding to ethics, environment, and labor.
2. Shariah Governance Certification: Launch a “Shariah Integrity Mark” for NFOs, audited by multidisciplinary boards (scholars, HR experts, environmentalists).
3. Curriculum Integration: Business schools in Muslim countries must teach Shariah governance beyond finance—e.g., “Islamic Operations Management,” “Ethics of Supply Chains.”
4. Digital Tools: AI-powered platforms to screen supply chains for *haram* elements (e.g., forced labor, interest-based transactions).
5. Public Procurement Incentives: Governments should prioritize contracts for SGF-NFO-certified firms, as done with green procurement.

C. Research Agenda

Future studies should explore:

- Impact of SGF-NFO on employee retention and customer loyalty;
- Cost-benefit analysis of Shariah governance vs. conventional CSR;
- Gender-inclusive models of Shariah governance in NFOs;

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- Shariah-compliant data governance in the digital age;
- Cross-cultural adaptation of SGF-NFO in non-Muslim majority markets.

Conclusion

Shariah governance must transcend the financial sector to reclaim its holistic Islamic mandate. Non-financial organizations—factories, schools, hospitals, farms—are equally bound by divine law to operate with integrity, justice, and compassion. The SGF-NFO framework presented here offers a practical, *maqasid*-grounded pathway to institutionalize this vision.

In Pakistan and across the Muslim world, where economic activity is increasingly scrutinized for ethical coherence, Shariah governance in NFOs is not a luxury but a necessity. It transforms organizations from profit-maximizing entities into instruments of *maslahah*, fulfilling the Qur’anic injunction: “Help one another in righteousness and piety, and do not help one another in sin and aggression”¹⁷.

When a textile mill ensures fair wages, a school teaches critical thinking with moral grounding, or a hospital serves the poor without discrimination, they embody the true spirit of Shariah—not as legal constraint, but as divine grace in action.

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December 15, 2024

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