

*Full Length Research Paper*

# Role of Islamic leadership in value based corporate management: The case of Pakistan

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Value crisis in corporate world around the globe significantly increased the need to find new management paradigm to deal with existing ethical dilemma. This study investigates inherent flaws of the contemporary corporate management in general and Value Based Management (VBM) in particular. This study identifies that weaknesses of current corporate management stem from two main factors first lack of values and ethics and loss of leadership integrity. This study investigates correlations among independent and dependent variables by observing an existing conditions or state of affairs in non-contrived settings. These correlations are explained through hypotheses testing. A questionnaire containing 50 items was developed and validated. Study was carried out by taking a sample of 302 managers from manufacturing and service sectors of Pakistan. Data was processed and analyzed in SPSS. Results of the study indicate that there is significant and positive relationship among values and ethics, managerial performance and organizational value. Findings suggest that management by example is a better management paradigm to curb many ethical ailments of modern enterprise. This study developed 'Islamic VBM Score' to assess VBM practices in an organization from Islamic perspective. Furthermore, results suggest that Islamic work ethics take the organization towards 'total value based management' through ensuring value for shareholders, employees, customers and society at large.

**Key words:** Leadership, values and ethics, management by example, value based management.

## INTRODUCTION

Leadership crisis across the board is quite evident in both private and public sectors. Politics, governance, management, services, finance, banking, stock exchanges, manufacturing, marketing, selling name any field, you will find some stunning examples of ethical crisis. This phenomenon instigated a serious concern about the credibility of existing corporate leadership around the globe. Therefore leadership of respective fields came under massive criticism to be responsible for ethical and commercial failures. This critique justifies because it is leadership which can help organizations to come out of prevailing ethical dilemma. We have to come out of the

clutches of contemporary approaches of running business (Abbasi, Rehman and Abbasi, 2010) where profitability overrules some very vital elements of human makeup. This study focuses on the role of Islamic leadership in value based corporate management to curb ethical ailments and to ensure value for shareholders, employees, customers and society at large. This study evolves around two aspects of the concept of value based corporate management. The internalization of values and ethics in personal and professional lives of organizational members and secondly value for shareholders means profit through better managerial and organizational performance. Internalization of values and ethics starts from top to bottom; and leaders at every level in the organization are the key instruments to achieve this objective. Therefore this study introduces a new concept of Management By Example (MBE) to motivate

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every member of the organization to abide by the values and ethics and to fulfill their responsibilities towards all organizational stakeholders including shareholders, employees, customers, environment and society.

## **NEED FOR VALUES AND ETHICS**

It is quite surprising that man is the only creature in this world which is faced with dilemma of value crisis. Other creations are following their natural values. None of them is behaving among their own species as humans are behaving among themselves. One can not find any fraud, lie, dishonesty, corruption etc among other species of animal except human beings (Modudi, 2003). It means man does not fulfill the rights of others; thus he needs guidance, control and training to behave ethically. Reports and data presented by Alsop (2004) in his book help us realize the need for ethical value system. Some common ethical breaches include managers lying to employees, doing nepotism and favoritism, taking credit for other's work, receiving or offering kickbacks, stealing from company, firing an employee for whistle-blowing, padding expense accounts to obtain reimbursements for questionable business expenses, divulging confidential information or trade secrets, terminating employees without giving them sufficient notice, and using company property and materials for personal purposes.

Results of the global corruption barometer report (2009) by Transparency International show that 72% of the responses around the globe perceive that political parties, legislature, business, media, public officials and judiciary are corrupt. This signifies the need for values and ethics to be inculcated in every field of life to bring the human society out of ethical crisis.

## **DEFINITION OF VALUE BASED MANAGEMENT (VBM)**

Value based management (VBM) is basically a philosophy enabling and supporting maximum value creation in organizations (Philosophy, 2008). Value creation usually means 'maximizing shareholder's value' (Value Based Management.net, 2008). Although many other dimensions of value creation are identified, the focal concern of value creation remains shareholder's interest in the contemporary approaches. This study expands the concept of VBM from shareholders' interest to the interests of employees, customers and society at large through inculcations of values and ethics in personal and professional lives of the members of an organization from corporate leadership to the first line operator.

## **HISTORY OF VALUE BASED MANAGEMENT (VBM)**

Ummu Al-Mu'minin Khadijah (raa) was one of the wealthiest

merchants of Quraish. She usually sent people to different cities for trade; afterwards she used to get her share in the profit. When she was informed of Prophet Muhammad's (PBUH) truthfulness, trustworthiness and virtues character, she offered him (PBUH) to go to Syria for trade. Prophet Muhammad (PBUH) accepted this offer and when he came back, he had more profit than other businessmen. Meysara a servant of Ummu Al-Mu'minin Khadijah (raa) who accompanied Prophet Muhammad (PBUH) informed Ummu Al-Mu'minin Khadijah (raa) that Prophet Muhammad (PBUH) exhibited honesty and truthfulness in all business transactions. This proves that honesty, truthfulness and trustworthiness are founding stones for maximizing shareholders' value i.e. profit.

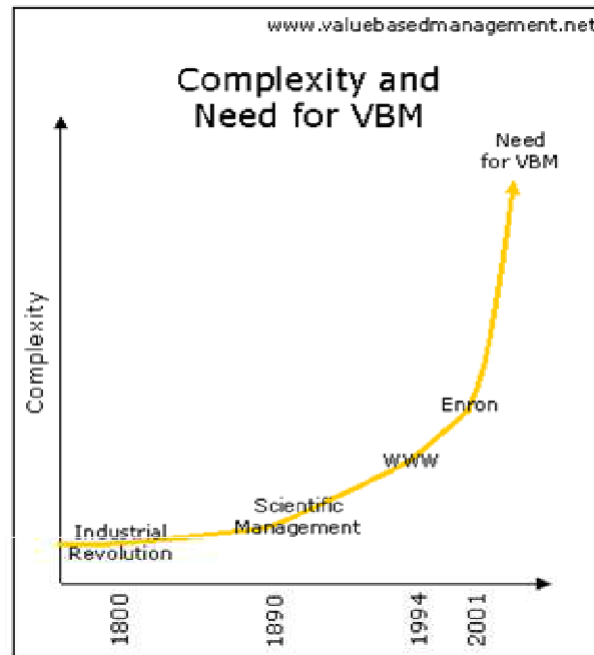
The history and development of Value Based Management (VBM) and the growth of internal and external corporate complexity over time is highly inter-related (Figure 1). The earliest forms of contemporary VBM emerged date back to the end of the 18th century, when, by mechanizing and the industrial revolution economies of scale were achieved. The dislocation of facilities made direct supervision harder, and insight in the efficiency and productivity of organizational activities became more important. Efficiency and productivity methods were developed. During the 19th century, these methods were gradually improved, using communication mechanisms. These systems were aimed at promoting and evaluating the efficiency and productivity of decen-tralized production processes and not yet on measuring and managing value creation as such (History, 2008). The term "value based management" was first used by Jim McTaggart in 1994 in his book 'The Value Imperative: Managing for Superior Shareholder Returns'. Since then, shareholder's value (profit) has been firmly rooted in business and corporate strategy. The birth of the World Wide Web also brought new strategic dimensions and opportunities through technology but simultaneously increasing the complexity of the internal and external environment of modern corporations (History, 2008).

At the beginning of the new millennium the Enron accounting crisis hit the media, followed by several more corporate scandals throughout the world. Accountants, stock analysts, top management, business schools, media, shareholders and investors are all blamed. Among the most prominent ideas to prevent further disasters in the future are: strict accounting practices and rules, improved corporate governance, separation of analysts from other banking activities, more attention for business ethics and corporate social responsibility, rules for executive remuneration, protection of shareholders interests, attention for stakeholders' interests and a long term view towards value creation.

## **LEADERSHIP FROM AN ISLAMIC PERSPECTIVE**

Human society has always been in need of leadership to pursue collective and personal objectives (Abbasi et al.,

## Emergence of VBM



**Figure 1.** Organizational, complexity and need for VBM.  
Source: Adopted from the website of valuebasedmanagement.net.

2010). Leadership is the ability to show the way, to guide, to direct or to influence the actions of others (Majali, 1990). Leaders in the organization must respect the ethics process. In fact it is leadership which is responsible for transforming organizational values and ethics (Hamilton and Bean, 2005). Organizational members are always greatly influenced by the leadership of an organization. Leaders should realize that they are considered as role models and that their behavior is reflected on the culture and procedures of the organization. The degree of success of organizations depends largely on their leadership. Islamic leadership perspective is based on standard values. These Islamic values are compatible with human needs for prosperity and happiness in every sphere of life (Abbasi, Rehman and Afsar, 2009). Leadership development is one of the important subjects in Islamic teachings. Anas (raa), a companion of the Prophet (PBUH), said that he worked for the Prophet (PBUH) for twenty years and that the Prophet (PBUH) never asked him why he did what he did nor did he ask him to do things that he did not do (Jabnoun, 1994). Following are some of the key attributes for effective leadership from an Islamic perspective.

### Servant

In Islamic value system Islamic leadership is viewed more as a service to the organization and its members

(Jabnoun, 1994). Prophet Muhammad (PBUH) said that the leader of the people is their servant. Servant leaders lead with logical feelings related to the follower, which cultivates understanding, gratitude, kindness, forgiveness and compassion (Gunn, 2002). Servant leaders serve; they are what they do (Farling, Stone and Winston, 1999). Servant leaders believe in first to serve, then to lead (Crippen, 2005). Servant leadership is based on trust and sacrifice thus leads to 'Agapao'. Agapao is sacrificial love; it is the kind of action that keeps giving itself away without regard for a return (Patterson, 2003).

### Trustworthy

Global development demands trustworthiness, current economic crisis witnessed several incidences of lack of trustworthiness on corporate management. Prophet Muhammad (PBUH) said that there is no faith (*iman*) for a person who is not trustworthy. It is not possible for corporations to continue with maximizing shareholders' value without ensuring trustworthiness in organizational procedures and practices. Organizations must demonstrate trustworthiness (Vogl, 2003) in order to fully share in the benefit of international business development. Every one who is holding a post of leadership is holding a public trust; following verse of al – Qur'ān elaborates that Islamic value system motivates every member of the organization in general and leadership in particular to be

a trustworthy person (Alhabshi et al., 1994). Allah doth command you to render back your Trusts to those to whom they are due; and when ye judge between man and man, that ye judge with justice: verily how excellent is the teaching which He giveth you! for Allah is He Who heareth and seeth all things. (Al - Qur'ān 4:58)

## **Righteous**

Verily the most honoured of you in the sight of Allah is (he who is) the most righteous of you. And Allah has full Knowledge and is well-acquainted (with all things). (al - Qur'ān 49:13). There is only one thing which provides the basis for superiority among people and i.e. moral superiority (Modudi, 2005). It is by incidence that some one takes birth in a specific nation or tribe, there is no contribution of his own will in it. It is not logical to claim superiority on such bases. It takes personal character to become a well-respected leader with longevity. Character is the inner strength of a leader to have resolve against temptations while being reproach (White, 2008). In Islamic value system there is only one characteristic which gives reasons for superiority of one to another, and it is righteousness; it means that the person avoids sins and follows the right path. A person with such qualities will be respected by all no matter to which tribe or nation he belongs, and the one who is vice versa, will have bad name no matter he is white or black.

## **Consistency**

The tradition of the Prophet (PBUH) has taught Muslims to be consistent in their work. Allah loves one who is diligent in his work. A good leader is hence one who is diligent and consistent in his work (Alhabshi et al., 1994). Consistency demonstrate leadership confidence and control, it means to stay firm on track during rough times and to maintain a solid vision forward (White, 2008).

O ye who believe! When ye meet a force, be firm, and call Allah in remembrance much (and often); that ye may prosper (Al - Qur'ān 8:45)

## **Discipline**

Truly Allah loves those who fight in His Cause in battle array, as if they were a solid cemented structure. (Al - Qur'ān 61:4). Allah (SWT) likes that Muslims are not ill-disciplined and not in the state of hassle, but they are strongly disciplined (Modudi, 2005). To be disciplined is an important feature of Islamic value system to develop quality leadership. Discipline provides tools necessary to reduce practical and behavioral problems in organizations.

## **Cooperation**

“Help ye one another in righteousness and piety, But help ye not one another in sin and rancour. Fear Allah, for Allah is strict in punishment.” (Al - Qur'ān 5:2)

Cooperation in righteous deeds is a golden principle to develop a prosperous society (Daryabadi, 1998a). Let's not behave like so called civilized nations who give priority to their own people rather than their motives. Same instruction implies for personal affairs among the group of people. Islamic teachings bound every one that if anyone is dealing with others (locally or internationally), he/she should cooperate in righteous deeds and should not cooperate in sins and hostility. Islamic value system strengthens the law of reciprocity which asserts that one good deed deserves another and likewise one bad deed deserves another.

## **Justice**

For Allah loves those who are fair (and just). (Al-Hujurat: 9) Justice is the focal point in managing people; it is the responsibility of a leader to ensure justice across the organization. Rawls (1971) asserted that justice is the first virtue to manage organizations. Once justice is ensured, every member of organization will feel comfort and confidence, because he is aware that the leadership of the organization will look after his interest with out any bias. This will eventually bring motivation across organization and every member will work with more dedication and commitment towards set objectives.

## **Resolve**

Resolute person continues to pursue his/her objectives despite the strong opposition of those who have the power to inflict pain and suffering (Safi, 1995). This leads to enhanced efficiency of a person. Resolute person is hard working and performs his/her duties to the best of abilities and exhibits good performance. This was the kind of patience with which Prophets persisted in their mission of transforming their communities from the state of corruption to that of truth, as mentioned in al-Qur'ān that;

Therefore patiently persevere, as did (all) Messengers of inflexible purpose; and be in no haste about the (Unbelievers) (Al - Qur'ān 46:35).

Resolve strengthens one's own inner belief and provides laser-like focus combined with unwavering determination (Flynt, 2008).

## **Eloquence**

Another important quality of leadership is the ability to

articulate and communicate ideas and views with clarity and eloquence (Safi, 1995), because communication is one of the important dimensions of effective leadership (Caldeira and Does, 2006). Eloquence is important not only for persuading followers to adopt the proposed course of action and committing themselves to a specific set of values and purposes, but also for negotiating and communicating with opponents and competitors. Again, al-Qur'ān stresses the importance of eloquence through the example of Musa (AS) whose initial reaction, when he received the divine commission to call the Pharaoh to the way of God, was to plead for the inclusion of his brother Haroon (AS) in this mission based on the fact that Haroon (AS) was more eloquent in speech:

*"And my brother Aaron, he is more eloquent in speech than I: so send him with me as a helper, to confirm (and strengthen) me: for I fear that they may accuse me of falsehood." (Al - Qur'ān 28:34)*

### **Conviction**

Importance of leader's conviction in times of volatility and change is seen in the fact that when the existing order begins to break down, along with its rules and regulations, actions can be guided only by the principles and values to which one is committed. Thus a deep conviction and a strong commitment to a set of principles or values are essential for a leader who wants to reform the accepted pattern of behavior (Safi, 1995). Leader requires strong conviction and should make extraordinary sacrifices in the interest of his/her vision and mission. Conviction is needed if the leader is to challenge the status quo, for without a deep faith in a higher and better order, the task of changing the prevalent order is impossible.

### **Humility**

In response to Allah's command, Musa (AS) first asked for Allah's help to enhance his capabilities and enable him to succeed in completing the assigned task. His plea for help represents the hallmark of Muslim leader, full of humility and dependent on His Lord for everything (Unus, 2005). "(Moses) said: 'O my Lord! Expand me my breast; Ease my task for me;'" (al - Qur'ān 20:25-26). Charismatic leaders always have great self confidence, yet they are very humble. They are willing to admit that they don't know and can't possibly be the best at every thing. They continuously remain eager for learning.

### **RESEARCH THEORY**

Corporate management needs leaders who are prepared to act on principles, with standards and values to guide them, even in the face of strong financial incentives to do otherwise (Clark, 2003). The challenge CEOs have; is to

create an organization which in its culture, system, and processes help the regular people to do the right thing. The main problem is the idea that what the good management is hijacked by a view that says, "Management's only obligation is to maximize shareholder's value", is a very narrow sense of that term. Corporate world has to return to the basics of what good management is. To do that, corporate leaders have to stop separating business from ethics (Freeman, 2002).

A study of 148 secretaries who worked for Fortune 1000 chief executives found that 47% had been asked to lie at some time by their bosses. Government, Sales and Law are graded as top three areas for their unethical behavior. It is not less than a surprise that government which is guardian of millions of people is at the top. Media is at number four. A survey of 200 sales manager showed that 49% of representatives lied on sales call. It has been estimated that workplace theft costs United States business \$ 40 billion each year. A 2002 poll found that 33% of Americans had hardly any confidence in the executives of big companies. In a survey (Hill and Knowlton) of nearly six hundred corporate executives, it was proved that 42% of them were concerned about unethical corporate behavior. A 2001 workplace study also revealed a low level of loyalty and commitment among employees. About 36% did not feel pride in their work and 57% believed that their employer did not deserve loyalty. Today employee loyalty at some companies is even lower. Employees are more cynical and less trusting because of all the recent cases of accounting abuse and executive greed (Alsop, 2004).

Miller (2003) in his lecture entitled "Ethics, Values and Business in the 21<sup>st</sup> Century", stated that corporate scandals have shaken investor confidence and made the global market volatile because of doubts about corporate management practices and ethics. This is a topic that is at the top of the mind of the business world. Corporate management needs leaders in whom stakeholders can place confidence to use the granted powers wisely and efficiently. Leaders bear the responsibility for modeling the desired personal and corporate behavior. Organizations need employees who do the right thing and live up the standard values and ethics.

In light of the literature review, the research theory of this study is based on four dimensions; Values and Ethics (VE), Management By Example (MBE), Managerial Performance (MP) and Organizational Value (OV).

### **Values and ethics (VE)**

Islamic values are set of beliefs and morals, a social doctrine, and a call to righteousness among all members of organization (Asad, 2007); it is a complete, self-contained ideology which regards all aspects of our existence – moral and physical, spiritual and intellectual, personal and communal – as parts of the indivisible whole which we call "Human life." Islamic values are

compatible with man's need for prosperity and happiness in all affairs of life. Islamic values have established their strength in history; these do not depend on norms and practices of societies which tend to be situationally specific and changing overtime, depending on societal standards and acceptance. Islamic values are indeed universal and hence, applicable in all sphere of life. There is clearly no place for arrogance, injustice, dishonesty, greed, pomp and grandeur in the Islamic value system (Alhabshi et al., 1994).

Islamic value system inculcates the culture of Inviting to Good and Forbidding from Wrong (IGFW). Thus each member of a group starts facilitating others to follow and practice Values and Ethics (VE) which ensure prosperity for both the individual and the organization.

*"Let there arise out of you a band of people inviting to all that is good, enjoining what is right, and forbidding what is wrong" (Al - Qur'ān 3:104).*

This is the duty of every Muslim to motivate others to do the right and to forbid them from wrong. But for convenience of entire group of people, it is said that at least one group of people must perform this duty and leaders should actively participate in this duty. Inculcating the culture of IGFW is the peculiarity of Islamic value system, which ensures that every member in the organization contributes to the implementation of values and ethics. In Islamic value system every one works as a police man, an observer, an ethics officer.

### **Management by example (MBE)**

According to the report of Ethics Resource Centre (2003), internalization of values and ethics will not occur without the active support in word and deed of company's leadership, ranging from the CEO to immediate supervisor. When it comes to leadership Islamic value system elucidates that leaders must be role models, they must let their actions speak louder than their words (Jabnoun 1994).

*"O ye who believe! Why say ye that which ye do not? Grievously odious is it in the sight of Allah that ye say that which ye do not" (Al - Qur'ān 61:2-3).*

First show excellence and then demand excellence. If the leader wants others to come on time, he has to come on time and others will follow. One can not change others without changing oneself. If people are working late, be with them, if nothing else just to motivate. People will never trust unless one does the same what he wants others to do. Don't expect others to follow the advice and ignore the example (Seyal, 2002).

Management By Example (MBE) is the number one value when it comes to leadership. Management by example paves the way to success through hard work and devotion. In the business world, MBE is a superior

pattern of management where leaders do not ask others to do anything that they wouldn't do themselves. Highly successful leaders are not only ethical but they also set a standard of excellence for others to follow. They are role models, whether they are military, government, or private industry leaders; they demonstrate a clear and distinct message through their actions to those who follow them.

### **Managerial Performance (MP)**

There are many internal factors which play a vital role in motivating the performance of employee (Garg and Rastogi, 2006) e.g. workplace spirituality and leadership style. Islamic value system provides workplace spirituality through internalization of value and ethics (VE) for enhanced performance along with a unique leadership style based on management by example (MBE). Islamic value system has multi dimensional effect in ensuring total value based management. On one hand Islamic value system grooms a kind of leadership which follows the principle of MBE and on the other it ensures internalization of service, resolve, conviction, discipline, justice and cooperation.

### **Organizational value (OV)**

This study focuses on four elements of organizational value namely shareholders' interest i.e. profit, welfare of employees, customer satisfaction and protection of all stakeholders in the society at large.

#### **Profit**

Profit is the making of gain for the benefit of shareholders and the Islamic value system allows earning by means of business transactions.

*..... but let there be amongst you traffic and trade by mutual good-will: .... (Al - Qur'ān 4:29)*

#### **Employees**

Welfare of employees covers both human rights and general wellbeing (Employee Welfare, 2009). Prophet Muhammad (PBUH) explained the Islamic concept of welfare of employees as it has been narrated on the authority of Abu Malik that Ubaidullah b. Ziyad visited Ma'qil b. Yaser in the latter's illness. Ma'qil said to him:

*"I am narrating to you a tradition. If I were not at death's door, I would not narrate it to you. I heard the Messenger of Allah (may peace be upon him) say: A ruler who, having obtained control over the affairs of the Muslims does not strive for their betterment and does not serve them sincerely shall not enter Paradise with them" ("A ruler", 2007).*

## Customers

Sales and profitability depends on keeping customers satisfied (Customer care, 2009), therefore it is important to keep customers happy. Give measure and weight with (full) justice (Al - Qur'ān 6:152). Daryabadi (1998b) explained that it means being away from fraud and deceiving (p. 123), so that no one could deprive others of their rights. Apparently in this little instruction there are all dimensions of trading ethics. Beside excellence in personal values, purity in trading ethics is essential component of Islamic value system.

*So establish weight with justice and fall not short in the balance.* (Al - Qur'ān 55:9)

Modudi (2005) explained that nature of this Universe doesn't accept injustice, brutality and savagery (p. 251). It is not allowed to be unjust with others in any case; even if some one arrogates a little right of purchaser during weighing, he disrupts the balance of Universe.

## Society

To contribute to the welfare of society is vital element for the success of any organization to come together with the community to support those who are vulnerable and in need of help (UK National Program 2010).

**Human beings:** Welfare of society is an obligation beyond legal requirements where organizations voluntarily step forward to build flourishing society. Welfare of society has many dimensions in Islam. Society is made up of human beings and Islam ensures welfare of every segment of society. There are different modes of contribution for the welfare of society, some are obligatory and some are voluntary. Islam prioritizes the welfare of different segments of society, as explained in following verses.

*Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to the truth); for those in bondage and in debt; in the cause of Allah; and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom. (Al - Qur'ān 9:60). They ask thee what they should spend (in charity). Say: Whatever ye spend that is good, is for parents and kindred and orphans and those in want and for wayfarers. And whatever ye do that is good, Allah knoweth it well. (Al - Qur'ān 2:215).*

**Environment:** Islamic teachings are quite explicit to protect the environment. Cleanliness is one of the important requirements to be a Muslim.

*For Allah loves those who turn to Him constantly and He*

*loves those who keep themselves pure and clean. (Al - Qur'ān 2:222).*

Daryabadi (1998a) explained that here cleanliness means purity from both physical and spiritual dirt (p. 419). A saying of Hazrat Muhammad (PBUH) that "*Cleanliness is half the Faith*" further endorses the importance of cleanliness. The Prophet (PBUH) also said,

*"If the last hour strikes and finds you carrying a nursing tree to the grove for planting go ahead and plant it".*

## DEVELOPMENT OF MODEL AND HYPOTHESES

Researcher conducted extensive literature review to formulate research model and hypotheses for the study. Ethical scandals in recent history of corporate management from Enron in 2001 to Pfizer in late 2009 triggered a hard debate around the globe. Corporate leaders, accountants, stock analysts, business schools, media, shareholders, legal advisors, banks and investors are all blamed. Despite stringent rules and regulations including Sarbanes-Oxley Act in 2002 corporate world still observes high profile scandals as recent as mortgage brutalities in US, hoarding of sugar crisis in Pakistan, environmental disasters committed by Chevron in Ecuador and Rs. 190 million scam of WAPDA in Pakistan. In the light of literature review four dimensional research model has been developed for this study as depicted in Figure 2. Major dimensions of the research model are VE, MBE, MP and OV. On the basis of extensive literature review, the study developed some hypothesis as shown in the next section of the paper.

## HYPOTHESES

H<sub>1</sub>: There is significant relationship between values and ethics (VE as independent variable) and management by example (MBE as dependent variable).

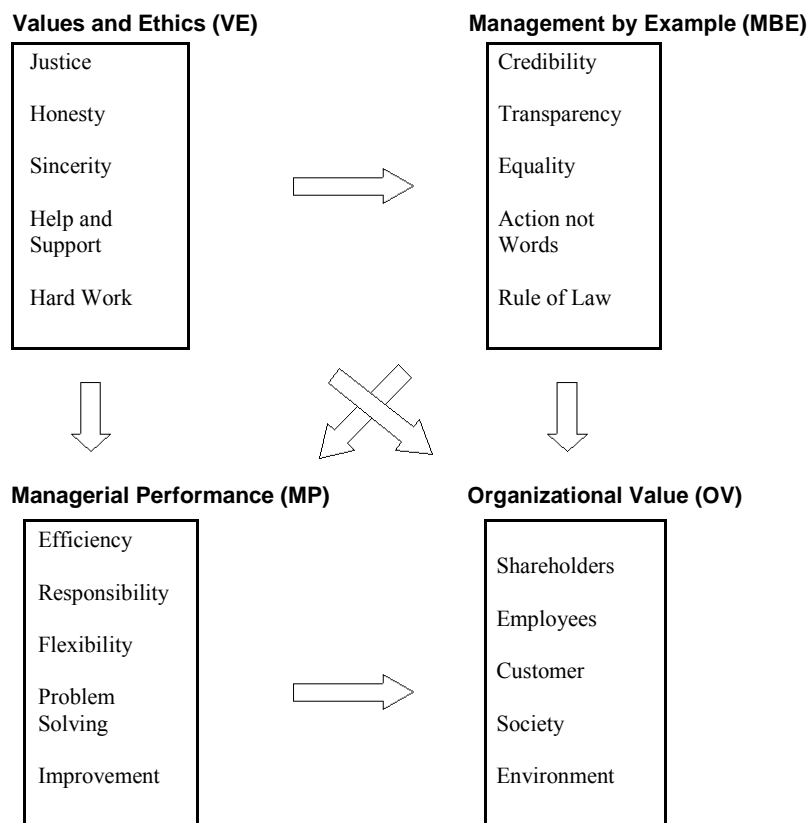
H<sub>2</sub>: Values and ethics (VE as independent variable) significantly and positively influence managerial performance (MP as dependent variable).

H<sub>3</sub>: There is significant relationship between values and ethics (VE as independent variable) and organizational value (OV as dependent variable) for all stakeholders of organization.

H<sub>4</sub>: There is significant and positive relationship between management by example (MBE as independent variable) and managerial performance (MP as dependent variable).

H<sub>5</sub>: Management by example (MBE independent variable) leads to higher organizational value (OV as dependent variable).

H<sub>6</sub>: Good Managerial Performance (MP as independent variables) will result in outstanding organizational value



**Figure 2.** Shows the Values and Ethics (VE), Management By Example (MBE), Managerial Performance (MP), and Organization Value (OV).

(OV as dependent variable) for all stakeholders of organization.

## METHODS

### Population

The researcher aimed to investigate manufacturing and service industries of Pakistan. There are two leading segments in each sector. In manufacturing sector textile industry is the major contributor in Pakistan's economy. In service industry telecom is fastest growing segment and showed tremendous potential over past few years. Therefore investigated population is divided into two strata. One is Textile Industry and the other is Telecom Industry. Population size is 248 organizations. Textile industry is the largest industrial sector of Pakistan, which still represents 46% of total manufacturing and provides 68% of Pakistan's export (Majeed, 2003). Telecom sector is the fastest growing sector of Pakistan. According to PTA telecom sector contributed one third in total FDI in the country in 2004 to 2005. In the same period telecom contributed Rs. 67.1 billion in national exchequer in terms of taxes and fee with 67% growth.

Of the sample 89% were male and 11% were female, 85% were less than 40 years of age and 37% hold graduate and 63% hold post graduate degree. Of the subject 64% have the experience more than five years (Table 1).

### Sampling

A stratified random sampling procedure was conducted to include organizations in sample. The sample size was 24 organizations, including 16 organizations from textile industry and 8 organizations from telecom industry. As, Al-Kazami and Ali (2002), selected 6 public organizations and 10 private enterprises, total 16, in their study of 'Managerial Problems in Kuwait'.

### Instrument

'Islamic VBM Score' was developed as an Instrument, with the help of previous studies in related field. Islamic VBM score has four dimensions i.e. values and ethics (VE), management by example (MBE), managerial performance (MP) and organizational value (OV). To explore the impact of Islamic values and ethics in the makeup of organizational behavior towards VBM researcher incorporated Islamic work ethic scale used by Darwish (2000) to find out the role of Islamic work ethic (IWE) as mediator of relationship between locus of control, role conflict and role ambiguity in Islamic country setting. Darwish (2000) particularly suited to be incorporated in current study due to two reasons; first Islamic work ethic scale and second Islamic country setting; both reasons correspond to current study settings. Three more published studies were also thoroughly evaluated in the development of the instrument. These are: Arsalan (2001), "The work ethic values of Protestant British, Catholic Irish and Muslim Turkish managers", Abdalla (1997) "Construct and concurrent validity of three



**Table 1.** Frequency distribution of respondents (N=302).

Variable	Categories	Frequency	Percentage	Cumulative %
Gender	Male	269	89.1	89.1
	Female	33	10.9	100
	Total	302	100	
Age	18-25	50	16.6	16.6
	26-32	128	42.4	58.9
	33-39	78	25.8	84.8
	40-46	22	7.3	92.1
	47 and above	24	7.9	100
	Total	302	100	
Education	BA	49	16.2	16.2
	BSc	42	13.9	30.1
	BBA	16	5.3	35.4
	BCS	6	2	37.4
	MA	46	15.2	52.6
	MSc.	24	7.9	60.6
	MBA	91	30.1	90.7
	MCS	25	8.3	99
	Doctorate	3	1	100
Total	302	100		
Experience (Years)	1-5	109	36.1	36.1
	6-10	95	31.5	67.5
	11-15	56	18.5	86.1
	16-20	17	5.6	91.7
	20 and above	25	8.3	100
Total	302	100		

Protestant work ethic measures in an Arabian Gulf Society” and “Islam and socially responsible business conduct: an empirical study of Dutch entrepreneurs” (Graafland, Mazereeuw and Yahia, 2006). The scale used by Stathakokopoulos (1998) has been incorporated in Islamic VBM score to evaluate managerial performance and its impact on organizational value.

### Reliability

Reliability refers to the consistency and stability of data collection instrument. Cronbach’s alpha ( $\alpha$ ) is commonly used test for this purpose. Cronbach’s alpha of ‘Islamic VBM Score’ forhist study is 0.844.

### Pilot study

A pilot study of 60 respondents was conducted before data collection to verify the instrument. Results of pilot study were consistent with the objectives of the study and validated the reliability of instrument. Sample of pilot study included respondents from both sectors i.e. Textile and Telecom. Pilot study validated the instrument and Cronbach’s alpha for pilot was  $\alpha = 0.708$ .

### Data collection

A letter sent to the heads of each organization included in the study to acquaint them with study objectives and to gain support for survey. Participants were assured of confidentiality and anonymity (Al-Kazami et al., 2002). Researcher distributed 350 questionnaires over a period of six months in 24 organizations, using drop-off and pick-up method (Darwish, 2001). Respondents were top executives, middle level and lower level managers. Of 350 questionnaires distributed 302 were collected resulting in an 86% response rate. Questionnaire was administered in English.

### Data analysis

Data were analyzed using descriptive statistics such as percentages and frequencies to present the main characteristics of the sample. Means and standard deviation were also part of analysis. *Correlations* were calculated to measure the association between independent variables and dependent variable. If variable A and B do not correlate, there is no reason to run further tests to tease out a relationship that doesn’t exist. *Regression* is a statistical procedure that is also used to find relationships among a set of variables. But, regression tells us how accurately we can predict the value of one variable if we know the value of another.  $R^2$  is an

**Table 2.** Correlational analyses of H<sub>1</sub> to H<sub>6</sub>.

Variables	Values and ethics	Management by example	Managerial performance	Organizational value
Values and Ethics	1			
Management by Example	0.325**	1		
Managerial Performance	0.425**	0.203**	1	
Organizational Value	0.469**	0.314**	0.333**	1

\*\*Correlation is significant at 0.01 level (2-tailed).

important indicator which explains the percentage variance in dependent variable by the independent variables. *P-value* is percentage. It tells that how likely it is that the relationship emerged is by chance or it is real. A p-value of 0.05 means that there is a 5% chance that the relationship emerged randomly and a 95% chance that the relationship is real. It is generally accepted practice that p-value less than 0.10 is considered as significant. For all these analyses well-known statistical software packages SPSS was used.

## RESULTS AND DISCUSSION

There is dominance of male respondents and they form 89% of the sample. There is low percentage of female managers in both areas of the study i.e. textile and telecom. In telecom sector there are relatively more female workers than textile industry. This study covers managers who are working at different organizational levels, still there is big difference in male to female ratio even in telecom industry. Most of the respondents are between 26 to 32 years of the age but less than 26 form almost 17% of the sample; 26% of respondents are between 33 to 39 years of age (Table 1). Most of the respondents hold master degree and have more than five years of experience.

### Correlations analyses

Results of correlational analyses of hypotheses of the study are given in Table 2.

H<sub>1</sub>: There is significant relationship between values and ethics (VE as independent variable) and management by example (MBE as dependent variable).

Finding of the study suggests that there is significant relationship between values and ethics and management by example as shown in the table above where ( $\gamma = 0.325^{**}$  at  $p < 0.05$ ). This result complements the view of Alhabshi et al. (1994) that Islamic values are compatible with man's need for prosperity and happiness in all affairs of life. Conformity to standard values and ethics escorts corporate leaders towards managing by example; thus providing base for smooth and effective organizational operation. When it comes to leadership Islamic value system elucidates that leaders must be role models, they

must let their actions speak louder than their words (Jabnoun, 1994). Management by example inculcates motivation among all organizational members to work hard for organizational success through legitimate means. Management by example has a potential to close the door of illicit practices because leaders set their own example of excellence in personal and professional lives for others to follow.

H<sub>2</sub>: Values and ethics (VE as independent variable) significantly and positively influence managerial performance (MP as dependent variable).

Result of the correlation analysis of VE and MP shows that there is positive and significant relationship between values and ethics and managerial performance ( $\gamma = 0.425^{**}$  at  $p < 0.05$ ). Strong commitment towards values and ethics can enhance managerial performance according to the findings of the current study; therefore corporate organizations should improve employees' commitment towards standard values and ethics. These results deny myths about business ethics e.g. business and ethics do not mix, rather it will be a better statement that if business and ethics proceed together they will bring more value for all stakeholders of organization. Role of Islamic leadership in value based corporate management is now more evident because Islamic value system is based on inculcating values and ethics in organizational culture through IGFW. If standard values and ethics are practiced in corporate management, it will significantly influence managerial performance and managers will try their best to deliver according to the expectations of their organizations, in terms of investment return, sales and profit growth. This strengthens the view that good ethics means good business. Result of H<sub>1</sub> is consistent with previous studies e.g. (Ahmed et al., 1999; Garg et al., 2006).

H<sub>3</sub>: There is significant relationship between values and ethics (VE as independent variable) and organizational value (OV as dependent variable) for all stakeholders of organization.

This study concludes that values and ethics positively and significantly influence organizational values for all

**Table 3.** Regression analysis.

	<b>B</b>	<b>Std. error</b>	<b>t-value</b>	<b>p-value</b>
Constant	1.754	0.413	4.24	0.000
Values and Ethics (VE)	0.376	0.061	6.15	0.000
Management by Example (MBE)	0.131	0.041	3.21	0.001
Managerial Performance (MP)	0.193	0.071	2.732	0.007
R <sup>2</sup>	0.267			
F	36.248			0.000

stakeholders of organization including shareholders, employees, customers and society at large ( $\gamma = 0.469^{**}$  at  $p < 0.05$ ). Implementation and internalization of values and ethics will bring prosperity for all four elements of organizational values focused in this study; shareholders, employees, customers and society at large including environment as discussed in research theory. Result is consistent with Darwish (2001) that there is positive relationship between values and ethics and organizational value.

H<sub>4</sub>: There is significant and positive relationship between Management By Example (MBE as independent variable) and managerial performance (MP as dependent variable).

This study determines significant relationship between management by example and managerial performance, where  $\gamma = 0.203^{**}$  at  $p < 0.05$ . When it comes to corporate management Islamic value system ascertains that leaders must be role models for their fellow beings. Allah (SWT) says in Al-Qur'an;

*"O ye who believe! Why say ye that which ye do not? Grievously odious is it in the sight of Allah that ye say that which ye do not" (Al - Qur'an 61:2-3).*

Internalization of values and ethics will not occur without the active support in word and deed of company's leadership, ranging from the CEO to immediate supervisor. Results of H<sub>4</sub> suggest that management by example complements managerial performance. Degree of success of organizations depends largely on the role of leadership. Inline with the statement that first show excellence and then demand excellence; this study also concludes that management by example helps managers to raise their performance for long-term success of organizations. Result is consistent with Garg et al. (2006).

H<sub>5</sub>: Management by example (MBE independent variable) leads to higher organizational value (OV as dependent variable).

This study proves that there is significant relationship

between management by example and organizational value with  $\gamma = 0.314^{**}$  at  $p < 0.05$ . The degree of success of organization both in terms of shareholders' value i.e. profit and the value for other stakeholders' e.g. welfare of employees, loyalty and satisfaction of customers etc. greatly depends on management by example. Leaders are role models and their behavior is reflected on the culture and outcome of the organization. Leaders can take entire organization towards welfare and protection of all stakeholders through their personal example, because, people value practices more than words and follow what their leaders do. Result is consistent with Goodhew et al. (2005) that good organizational performance stems from leadership role.

H<sub>6</sub>: Good Managerial Performance (MP as independent variables) will result in outstanding organizational value (OV as dependent variable) for all stakeholders of organization.

Result of the current study proves that there is significant and positive relationship between managerial performance and organizational value where  $\gamma = 0.333^{**}$  at  $p < 0.05$ . Managerial performance and organizational performance are directly related to each other. Good organizational performance means welfare, growth and protection of all stakeholders of organization including shareholders, employees, customers and society at large. Finding is consistent with previous studies e.g. according to Stathakokopoulos (1998) managerial performance is of key concern because it is closely related to organizational effectiveness and performance and according to Gupta et al. (1984) there is high degree of interaction between managerial performance and corporate performance.

## Regression

Detail of the regression analysis of the research model is given in Table 3.

How well do the regressors, taken together, explain the variation in the dependent variable? This is assessed by the value of  $R^2$  (Triola, 2004). The value of  $R^2$  more than 25% is acceptable.  $R^2$  is the magnitude of relationship

**Table 4.** Model summary and coefficients.

Dependent variable	Independent variable	Estimate	SE	Critical ratio	p-values	Result
MBE	←----- VE	0.452	0.076	5.970	0.000	Accept
MP	←----- MBE	0.122	0.034	3.601	0.000	Accept
MP	←----- VE	0.335	0.046	7.300	0.000	Accept
OV	←----- MP	0.193	0.070	2.745	0.006	Accept
OV	←----- VE	0.376	0.061	6.188	0.000	Accept
OV	←----- MBE	0.131	0.041	3.232	0.001	Accept
X <sup>2</sup>	49.062					
p-value	0.000					

with which independent variables influence dependent variable.  $R^2$  explains the percentage variance in dependent variable by the independent variables. Result of regression analysis of the research model explains that cumulatively all three independent variables (VE, MBE and MP) cause 26% variation in dependent variable OV. Individually VE has the strongest influence thus causes 37% variation in dependent variable OV. According to the regression results MP is the second strongest influence thus causes 19% variation in OV. Management by example (MBE) causes 13% variation in OV according to the current study.

Are the regressors (independent variables), taken together, significantly associated with the dependent variable? This is assessed by the *F* statistics. According to the results of regression there is 36% association of independent variables (VE, MBE and MP) with dependent variable (OV). The higher the value of *F*, the more significant it will be. Are the relationship of each regressor (independent variable) with the dependent variable statistically significant, with all other regressors (independent variables) taken into account? This is answered by looking at the *t-values*. *t-values* are obtained by dividing the estimated value of the parameter (independent variable) by its standard error (Triola, 2004). *t-value* is the measure of the likelihood that actual value of the parameter (independent variable) is not zero.

Results of *t* statistics suggest that none of the regressors (independent variables) has zero value.

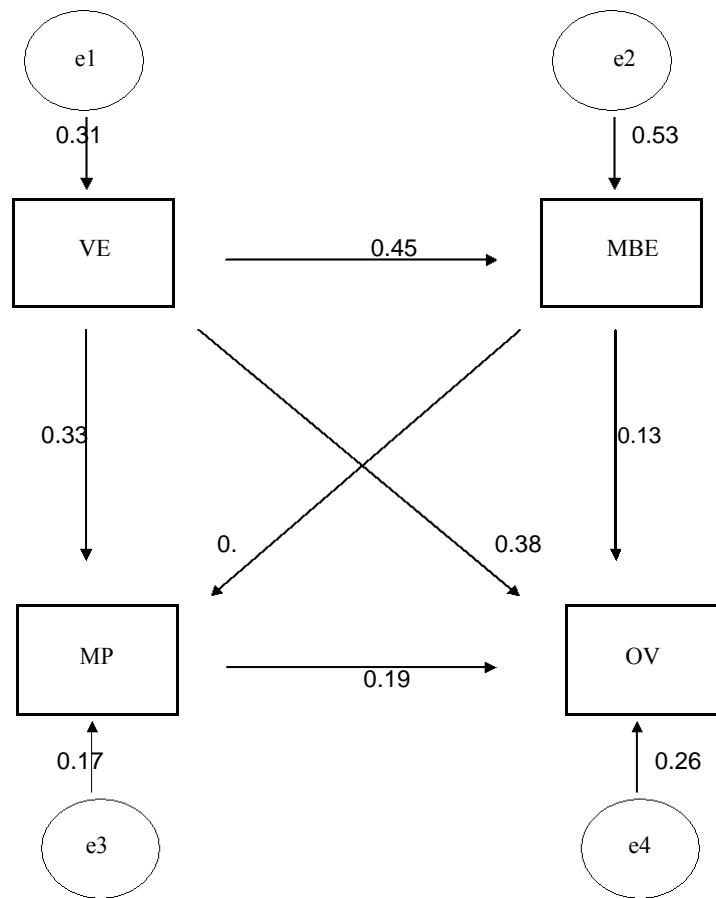
P-value is percentage. It tells that how likely it is that the relationship emerged is by chance or it is real. A p-value of 0.05 means that there is a 5% chance that the relationship emerged randomly and a 95% chance that the relationship is real. Therefore according to the results of regression there is 95% chance that all correlations of the research model are real. If, p-value is  $\leq 0.05$  it rejects the null hypothesis and accept alternate hypothesis. P-values for VE, MBE, MP and the research model are less than 0.05. Therefore it accepts alternate hypotheses of current study. It is generally accepted practice that p-value less than 0.10 is considered as significant (Triola, 2004), thus all p-values of the results are significant.

Results of hypotheses testing obtained through AMOS accept hypotheses of the study as shown in Table 4.

These results reveal that VE has multidimensional effect in VBM. First and the foremost; VE have the potential to develop a leadership paradigm based on MBE. Management by example has significant potential to enhance MP and OV to ensure VBM. Values and ethics also positively and significantly influence managerial performance as portrayed in path diagram in Figure 3. Results of the study suggest that VBM is better achieved through inculcating VE in organizational culture and procedures. Only lip service for VE has proved to be insufficient to solve ethical dilemma and other problems related to ensure profit for shareholders under all circumstances. Current study demands strong commitment towards VE in words and deeds to ensure value for all stakeholders of organization. Prevailing ethical crises around the globe in general and in corporate management in particular demands swift measures. Laws and regulations have proved to be ineffective, because no law or regulation can ensure total compliance from human being; until human being him/herself shows determination to abide by VE. Results depict that MBE and internalization of value and ethics (VE) lead the organization to ensure value for all stakeholders of organization including shareholders, employees, customers, environment and society coupled with enhanced managerial performance (MP). The above table depicts that one degree change in practicing VE can bring 45% change in management pattern in VBM. Besides that one degree change in VE can bring 38% positive change in OV. There are positive relationships between MBE and MP and MBE and OV.

## Conclusions

Study obtained evidence that Values and Ethics (VE) positively affect both Managerial Performance (MP) and Organizational Value (OV) for all stakeholders of an organization. Findings of this study encourage corporate management to ensure commitment towards standard values and ethics for long-term sustainable profitability. The Results deny myths like 'business and ethics donot mix' and 'ethics in business is relative'. The results show that in an organization Management By Example (MBE)



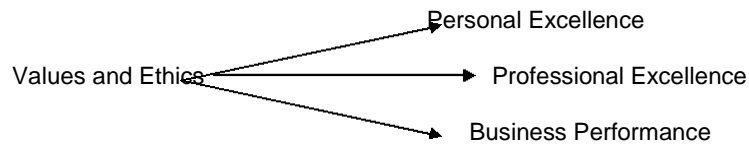
**Figure 3.** Path diagram of research model.

has positive and significant correlation with both Managerial Performance (MP) and Organizational Value (OV) for all stakeholders; thus strengthens the term Management By Example (MBE) introduced by this study. Current study concludes that MBE is an important and practicable model of management not only for Islamic leadership but for all those who are looking for effective leadership paradigm which can resolve ethical problems of modern corporations.

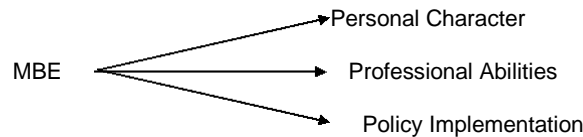
This study describes that there is positive and significant correlation between managerial performance (MP) and organizational value (OV) for all stakeholders of organization; this finding compliments the results of same kind of studies conducted to view the role of managerial performance leads to higher profits or vice versa. Islamic value system has multidimensional impacts on elevation of managerial performance. Islamic value system bounds leaders/managers to work hard for the betterment of their people and organization. Islamic value system held them accountable for the poor performance of their organization. In an Islamic value system leaders are the servants, they have to work day and night for the prosperity and satisfaction of all stakeholders to

performance in organizational success. Important aspect of the results of this study is that value and ethics positively and significantly influence managerial performance. Values and ethics in organizational culture bring resolve, justice and righteousness among all members of organization including leaders/managers. On the other hand Islamic value system embodies new leadership model that is, MBE, which brings enthusiasm among organizational employees because their leaders are their role models.

Results reinforce that managerial performance (MP) influenced with values and management by example brings significant and positive value for all stakeholders of organization. It also means that high lead the organization towards total value based management. This study concludes that values and ethics are corporate DNA for long term corporate reputation and growth; because strong commitment towards standard values and ethics has double effect on organizational culture, first it develops a kind of leadership which abides by the rule of law and second it provides every stakeholder an environment enriched with honesty, sincerity, justice, help and support.



**Figure 4.** Dimension of values and ethics.



**Figure 5.** Dimensions of MBE.

## RECOMMENDATIONS

Results of the study have significant implications for value based corporate management to ensure higher value for all stakeholders of organization. Following are the recommendations of the study. Finding of the study that values and ethics (VE) have significant and positive effect both on managerial performance (MP) and organizational value (OV) for all stakeholders of organization strongly recommends to standardize organizational values and ethics by formulating a code of values and ethics. Code of values and ethics will serve as a yardstick to evaluate the behavior of organizational members towards standard norms. After standardizing and erecting a code of values and ethics it is recommended to internalize those values and ethics in every member of organization through training and development program. Focusing on values and ethics promote security and confidence and strengthens resistance against temptation. It should be ongoing process to give continuous on the job education on organizational code of values and ethics.

Re-engineering of recruitment process is necessary to hire those who are most likely to have values and virtues, this needs stringent screening. Employment should be on probationary basis until internalization of values and ethics in question has been demonstrated. Although chief executive officer (CEO) should be the chief ethics officer, but keeping in view the exceptionally expanded nature of modern enterprise study recommends that the ethics officer is the most required position in corporate management. Core responsibility of ethics officer will be to work exclusively for standardization and internalization of values and ethics in organizational culture. Compliance for values and ethics should be the part of reward and punishment policy of the organization. People who do not comply with code of values and ethics should not be tolerated because they are the main threat in the long run to corporate growth and reputation. Study recommends that MBE is the suitable pattern of management to

eliminate ethical dilemma from corporate management. Corporate leaders have to set their example for others to follow in abiding with code of organizational values and ethics. MBE can help modern corporations to come out of ethical dilemma.

## CONTRIBUTION TO EXISTING LITERATURE

By definition contribution is scrutinizing the existing mass of knowledge about a subject, in order to explore new dimensions. Thus, after critically probing the contemporary management theories of VBM, this study has proposed numerous extensions which will take value based management an extra mile in the forward direction. Foremost amongst these propositions is the novel orientation to the role of ethics. According to the contemporary management models, practicing business ethics is necessary to enhance the business performance, thereby narrowing down the true scope of ethics. On the other hand, this study broadens the scope of ethics by establishing a clear link between ethics and three (rather the one) crucial aspects of management, namely personal excellence, professional excellence and of course business performance (Figure 4).

According to this study, without personal and professional excellence in values and ethics, business performance cannot enhance and code of values and ethics cannot be implemented effectively if those at the helm of affairs don't practice these values and ethics in their personal and professional lives. It is for these two missing links that today's corporate world replete in financial and ethical scandals. Thus, this research fills the missing links in the prevalent VBM models, thereby offering a comprehensive tool to curb the mal practices which abound in the existing management structures.

Another direction in which the researcher has thrown a stone is the two popular management perspectives namely MBO and MBWA. The aforementioned perspectives have proved inadequate, giving rise to several question

marks on the effectiveness of each. This study proposes a new perspective, that is, MBE. While the former (two) notions constrict to materialistic gains, MBE synergizes the business performance and human resourcing (Figure 5). Overindulgence in maximizing the shareholders' interest has caused various ethical dilemmas. Contrarily, MBE offers a unique solution; keeping the shareholders' interest intact, and effectively eradicating ethical crisis at the same time. Development of Islamic VBM Score is also an important contribution of this study, which contains 50 items and provides an opportunity to future researchers to delve role of Islamic leadership in new directions.

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## Appendix

### Islamic VBM Score (Questionnaire)

Respondent # \_\_\_\_\_

#### DEMOGRAPHIC INFORMATION

GENDER  Male  Female

AGE:  18-25  
 26-32  
 33-39  
 40-46  
 47 and above.

EDUCATION: BA/ BSc/ BBA/ BCS/ MA/ MSc/ MBA/ MCS/ DOCTORATE

WORK EXPERIENCE:

1-5  
 6-10  
 11-15  
 16-20  
 20 and above

INDUSTRY AND ORGANIZATION \_\_\_\_\_  
\_\_\_\_\_

NUMBER OF EMPLOYEES IN THE ORGANIZATION:  
\_\_\_\_\_

#### **Values and Ethics (VE)**

1. Justice and truthfulness at the workplace are necessary conditions for organizational success.
2. Continuous self evaluation helps the person to get ahead in life.
3. Help and support should be emphasized and encouraged in organizations to increase profitability.
4. Internalization of values and ethics is essential for managerial performance.
5. Implementation of strategies needs sincere hard efforts.
6. Laziness is vice.
7. Dedication to work is virtue.
8. Good work benefits both oneself and others.

9. Producing more than enough to meet one's personal needs contributes to the prosperity of society as a whole.
10. One should carry out work to the best of one's ability.
11. Work is not an end in itself but a means to foster personal growth and social relationship.
12. Life has no meaning without work.
13. More leisure is not good for society.
14. Human relations in organizations should be emphasized and encouraged.
15. Work enables man to control nature.
16. Creative work is a source of happiness and accomplishment.
17. Any man who works is more likely to get ahead in life.
18. Work gives one the chance to be independent.
19. A successful man is the one who meets deadlines at work.
20. One should constantly work hard to meet responsibilities.
21. The value of work is derived from both accompanying intention and results, not just results.

#### **Management by Example (MBE)**

1. People value practices more than words.
2. If the one can't keep time oneself, one ought not teach others to do so.
3. Every member of organization should have the right to question the leader.
4. Leaders are always above the law.
5. There should not be any distance between leaders and followers.

Leaders should not indulge in financial scams.

#### **Organizational Value (OV)**

1. A successful organization is the one which gives emphasis to welfare of employees.
2. Loyal customers are asset for business.
3. Protection of shareholder's interest is the obligation of management.
4. Ethnic, racial and sexual discrimination is undesirable.
5. Respect of every one's integrity is the source of togetherness.
6. Safe working environment results in increased productivity.
7. Protection of rights of all stakeholders surrounding the organization including human beings and environment is the key to organizational success.

#### **Managerial Performance (MP)**

1. Solving day-to-day problems lead to efficiency.
2. Adjusting to new situations is always easy.
3. One should take responsibility in his work.
4. Displaying up-to-date knowledge of the market.

5. Making operating decisions to achieve the goals for organization.
6. Relation with immediate boss.  
Coping with pressure or strain on job.
7. Having managerial integrity.
8. Monitoring customers and competitors is important.
9. Readily assuming responsibility is a good feature.
10. Ability to solve problems creatively is needed to enhance performance.
11. One should have good working relationship with other managers.
12. Fully supporting and carrying out the company policies.

13. Making rigorous attempts is essential to achieve objectives.
14. Making an effort to improve managerial skills.
15. Working long hours when necessary

\*All are seven point scales ranging from '1' strongly disagreed to '7' strongly agreed.