

# **Bureaucratic System of Management in Islamic Financial Institutions: Implications & Alternatives for Social Inclusion**

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## **Abstract**

Islamic financial institutions (IFIs) have adopted an organizational design forged under the ideological and sociocultural forces in Europe which significantly differs with those of Islam. Modern discourse on Islamic banking and finance accepts such a design without sufficient analysis on its efficacy towards achieving the ideals of Islamic economics and finance. The paper develops a theoretical argument that the said design is not value neutral; rather influences all of its internal & external stakeholders by its metaphysical orientation. The available literature suggests that the bureaucratic system of management rewards psychopathic behaviour; distorts the morality of its subjects; colonizes non-market spheres; instrumentalizes religious-cultural values for capitalist objectives, and disintegrates traditional-socially inclusive-collectivities. It is argued that such characteristics of the bureaucratic system render it incapable to accomplish the ideals of Islamic economics to produce a just and inclusive socioeconomic order. It therefore can create significant hindrance for IFIs to accomplish their vision. The paper also highlights the original design of market institutions from Islamic historical experience, which was naturally oriented towards the goal of socioeconomic inclusion and justice. Some real life examples of contemporary alternatives are also discussed in the end.

**Keywords:** Bureaucratic Management, Organizational Design, Social Inclusion, Islamic Financial Institutions.

**KAUJIE Classification:** F21, G1, H4, J4, M0.

**JEL Classification:** G20, P5.

## **1. Introduction**

Institutions are conceived, developed and evolved in a particular cultural and ideological atmosphere (Mokyr, 2010). This atmosphere has been referred to as meta-norms and rules by Hollingsworth (2000) which influence the functionality and evolution of the macroeconomic and political design to the micro level intrinsic details of the institutions. Greif

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(1997) argues that it is not advisable to import a certain institutional design from one sociocultural and economic order and expect it to perform under the meta-norms and rules of another. Metaphorically speaking it is like expecting a component of an automobile to function inside a locomotive.

Contrary to this understanding the modern Islamic financial institutions, along with many other things, have also adopted an organizational system from the modern bureaucratic system of management. This adoption is without sufficient scrutiny and disregard of historical particularity and cultural specificity of the respective institutional design. There is also a lack of academic investigation on the degree of compatibility of bureaucratic system with the metaphysical position of Islam, its history and centrality of the 'human subject' who is answerable to Almighty Allah. On the contrary, the focus of developments in the arena of Islamic banking and finance are based on processes, methods and contractual details within an 'institutional framework' of European origin. This is despite significant clarity in the literature produced by western authors on the comparison of bureaucratic order with the traditional market system (for details see Astrachan, 1988, p. 168).

The core objective of mainstream research in Islamic banking and finance is rather more towards making Islamic financial industry increasingly competitive and profitable as per standards not much different from its ideological competitor. This paper addresses the gap by exploring the degree of compatibility which exists between Islam's metaphysical position and the modern institutional design emerged under the influence of Enlightenment discourse (Mokyr, 2010). In other words, this paper would explore the extent to which philosophical foundations and design of modern bureaucratic management system as adopted by corporations including the IFIs is coherent (or incoherent) with the philosophy and objectives of Islamic economic discourse.

The modern market and the state institutions in the post-colonial world were brought by the colonial powers and forced upon the locals in nearly all colonies. The pre-existing organically evolved institutions of the traditional society were turned upside down by forceful imposition of foreign institutions<sup>1</sup> (Gellner, 2000; Polanyi, 1957; Dalrymple, 2006; Said, 1994; Moore, 1966). After getting accustomed to these institutional

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<sup>1</sup> The forceful imposition of modern market and political system is still happening in different parts of the Muslim world; Afghanistan, Iraq and Libya are some examples (Klein, 2008).

frameworks for a few generations, the locals now find it difficult to think of any other alternative yet at the same time experience a continuous tension created by the incoherence between the two ideological forces: One which exists at the very foundation of the foreign institutions, and the other embedded within the traditional socio-cultural contexts in the colonial world (Ansari, 2009).

One of the reasons behind stated tension is the tendency of the European market and state institutions to disintegrate social infrastructure which existed in the traditional society (Polanyi, 1957). Modern standards would consider these traditional institutions as primitive; however, social inclusion<sup>2</sup> or integration was their inherent feature (Javaid, 2015; Curl, 2009; Mortensen, 1999; Fairbairn, 2004). The disintegration of these traditional institutions eventually also leads to social exclusion (or disintegration) of masses, subsequently making socioeconomic injustice an integral feature of the colonial and post-colonial world.

Below, we shall discuss the historical origins of bureaucratic order with a focus on the difference between ontological and epistemological foundations of modern bureaucratic and pre-capitalistic institutional framework. This section will also explain how market system eventually has to colonize non-market spheres of the society; and how this modern process of bureaucratization provides rational justification to disintegrate every pre-modern or non-capitalistic institutional formation while reintegrating them into the process of continuous accumulation and competition. The next section will evaluate the degree of coherence between bureaucratization phenomenon and ontological and epistemological foundation of Islamic socioeconomic framework will be discussed within the context of the problem of social inclusion and exclusion. The last section will discuss the original Islamic alternative for the organizational design along with some modern examples while evaluating the implications arriving from the discussion followed by the conclusion.

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<sup>2</sup> “The World Bank defines social inclusion as the process of improving the terms for individuals and groups to take part in society. Social inclusion aims to empower the poor and marginalized people to take advantage of burgeoning global opportunities. It ensures that people have a voice in decisions which affect their lives and that they enjoy equal access to markets, services and political, social and physical spaces.” (World Bank, 2013); “A socially inclusive society is defined as one where all people feel valued, their differences are respected, and their basic needs are met so they can live in dignity.

## 2. Bureaucratic System of Management: What is?

A bureaucratic institution operates on a structure of impersonal rules, has a hierarchy of authority, where employees have to follow a certain discipline and procedures. Obedience to the rules ensures their job security and promotion to the next level in the hierarchy. The key features of Henry Fayol's design of modern bureaucratic business organization are: "Division of work; Authority; Discipline; Unity of command; Unity of direction; Subordination of individual interests to the general interest; Remuneration; Centralization; Scalar chain (line of authority); Order; Equity [equal justice for all]; Stability of tenure of personnel; Initiative; and *Esprit de corps* [building of a culture of harmony and unity]" (Wren & Bedeian, 2009, p. 217). For a layman, strictly documented procedures, ritualistic and often slavish compliance by all involved in the process is how a bureaucratic system would appear. Many have resembled it with a machine (Deleuze & Guattari, 1983; Boldeman, 2007; Spengler, 1962; Polanyi, 1957; Weber, 1994).

Some argue that the past bureaucracies emerged when civilization became mature and the political authority organized its various functions with strict rules and procedures. Bureaucracies have been found in Chinese Mandarin civilization, Greeks, Romans, Ottomans, Mughals, etc. However, the story of the rise of bureaucratic system in industrial and post-industrial civilization is somewhat different. The emergence of industrialization, capitalism and ideology of nationalism has some connections. Along with the capitalist nation states, the national armies in Europe were also developed during 15<sup>th</sup> and 16<sup>th</sup> centuries onwards. These armies organized on bureaucratic principles were the biggest consumers of various products like uniforms, weapons, etc. which required mass production of industrial scale to meet the demands. The military, therefore, offered tremendous opportunity for the industrial-capitalist working in the textile supply chain, from the raw material of cotton to the finished military uniforms (Ferguson, 2012). Semler (2005) has explained that the design of business firms, the management techniques and the overall culture have been inspired by the military. The language and jargons on a shop floor remind you of a military boot camp (ibid). The persona of mass production machinery and atmosphere inspired by the military perhaps contributed to the design of modern bureaucratic management system.

The modern design of the bureaucratic system, therefore, is a historically determined phenomenon and specific to the culture of European society. However, defenders of excessive modernization

particularly in post-colonial societies presume a linear process of historical change and consider all forms of change in the context of modernization as natural and evolutionary. Thus in our part of the world, it is presumed that modern man, society, state and all its corresponding institutions are the natural manifestation of the potential already existed in Neolithic man. Therefore, it is believed that modern bureaucratization is natural but evolutionary while excessive bureaucratization of the whole life-world is necessary to meet the demand of an evolutionary epoch of human existence. As such, the modern social scientific discourse presumes a directly proportional relation between human intellectual evolution and the process of bureaucratization of the given life-world.

## **2.1 Ontological and Epistemological Foundations of Modern Bureaucratic Design**

One of the most celebrated aspects of modernity is its claim to provide an objective understanding of nature (particularly in the case of hard sciences) that cannot be affected by the subjective variation of the knower. This methodological understanding of nature has focused on the mechanical nomenclature of physical reality which works independently of human will and its subjective contingencies. This ideal of hard sciences (i.e. *Wissenschaft*) has not been compromised even by the rationale of *Geisteswissenschaften* i.e. human sciences.

Although modernity is intrinsically anthropocentric, ironically this ontological centrality of modern subject of knowledge demands a subject independent of all its encumbrances, historicity, particularities and cultural specificities to achieve objective knowledge. This modern demand of formal, rational and transcendental self has associated emotions, passions, feeling and spirituality as real but contingent aspects of human being. Therefore, these aspects should not be considered to determine the reasonable parameters of a given life-world and authentic epistemic claims. In other words, the modern epistemological discourse has identified human subjectivity as one of the most fundamental problems in the pursuit of objective, absolute and certain knowledge. The dream of neutral, unbiased, objective and presupposition-less epistemological foundations for a given life-world compels modern intelligentsia to discard all kinds of moral, spiritual, emotional and aesthetical dimensions of a human being because of their partiality, relative subjectivity, and prejudices. So the phenomenal task before modern thinkers was how to develop such an anthropocentric order which is not influenced by the human subjectivity.

The structuralist solution for the realization of a modern dream is bureaucratically driven institutional order in which human subject along with all its particularities will be irrelevant and provide the ultimate basis of such a life-world which despite having anthropocentric foundations is not influenced by subjective relativities and personal encumbrances. Concretization of the modern way of life around the prevailing ontology<sup>3</sup> of man and his relationship with dominant epistemology cannot be possible without the bureaucratization of a given life-world. In view of Weber:

“Everywhere we find the same thing the means of operation within the factory, the state administration, and the army and university departments are concentrated by means of bureaucratically structured human apparatus in the hands of the person who has command over (beherrscht) this human apparatus” (Weber, 1994, p. 281).

## 2.2 The Design of Bureaucratic Machine

The primary objective of a firm, business or a corporation in capitalism is to convert existing capital into more capital (M-C-M' as argued by Marx). Human subjects are, therefore, mere consumables, along with other resources, in the process of capital accumulation in the bureaucratic machine. However, this instrumentalization of human subjects (labour) by another subject (manager) isn't possible if they involve their emotions, passions, feeling, and spirituality in their relationship within the organization. In primitive societies, interpersonal relationships and commitments of members of traditional institutions such as guilds were influenced by tradition, religion, culture, kinship, etc. (Polanyi, 1957). On the contrary, in a Weberian bureaucratic system, as Koshal (2005) explains, the traditional relationships have been replaced “with an eternal and irreconcilable struggle among the values of (a) impersonal money and (b) impersonal bureaucracy...” (p. 28).

Therefore, a team of specially trained managers, who are ideologically committed to becoming instruments of the system, makes the achievement of organizational objectives possible. These managers also idealize getting richer and freer unprecedentedly. They are rewarded accordingly upon successful achievement of the business goals. Therefore, the commitment

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<sup>3</sup> It would be unreasonable to claim that there is one single, unified and comprehensive metaphysical account through which we can explain the western civilization. However we can reasonably argue that the institutional formations of contemporary Western civilization failed to disassociate itself from Enlightenment metaphysical and epistemological assumptions even in their so- called post-metaphysical age.

of the manager with the firm and its shareholders is primary and ought to supersede every other commitment a manager may have, i.e. either with his colleagues, his subordinates or with anyone outside the firm. This commitment has an ontological significance.

In this context, the managers are expected to utilize the resources such as labour, machine, infrastructure, raw material, available capital in the most efficient and effective manner for the sake of firms primary goal. Labour or human capital is yet another resource just like raw material or machine available at the disposal of the managers which they efficiently utilize like any other commodity (Polanyi, 1957). Labour and the manager both slavishly serve capitalist objective; however in different capacities (Deleuze & Guattari, 1983; Marcuse, 1964; Spengler, 1962).

Manager in specific departments are specialists with specialized qualification and are considered experts in their areas. Their specialization defines their roles, duties, working boundaries, and even compartmentalizes morality within their specified area (Jackall, 1983). It is quite possible that a bureaucratic procedure might not be perfect in achieving the firm's goals or might be inefficient due to "bounded rationality", or extreme rule-mindedness may keep employees from improving the system they are a part of (Vaughan, 1999, p. 281). The typical bureaucratic organization, therefore, resembles a not so perfect machine whose every component is expected to perform synchronously, dispassionately, devoid of any freedom (Jaffee, 2001, p. 111), carry out his job description to achieve the intended end-objective of the firm irrespective of socioeconomic or environmental consequences.

### **2.3 Bureaucratization of Morality**

Preparing of the workforce for the bureaucratic machine begins with the moral "decoding and coding" (Deleuze & Guattari, 1983) of the employee, which perhaps begins when s/he is admitted in a school as a child. College and university structure is also designed on similar principles (Robinson, 2010; Mitra, 2013). Jackall (1983) has made a compelling case on how a bureaucratic order influences the morality of people working in it. The concluding remarks of his HBR article deserve to be quoted at some length:

"In the bureaucratic world, one's success, one's sign of election, no longer depends on one's own efforts and on an inscrutable God but on the capriciousness of one's superiors and the market ... Men and women in bureaucracies ... fashion specific situational moralities for specific significant people in their worlds." (p. 130)



According to Jackall, anything contributing toward the organization's goals, ensuring survival and growth in an organizational hierarchy tends to become moral episteme for the employee while replacing standards taught by family, culture or religion. The moral and ethical values which a person upheld earlier would be gradually unlearned therefore replaced with "bureaucratic ethic" (ibid) gradually inside a bureaucratic organization (such as a school).

Shwartz (2009) also acknowledges that "over-reliance on rules" inside a bureaucratic structure chips away the "moral skill" of those involved. Such systems of rules and incentives, in Shwartz view, "destroy our desire to do the right thing" without us noticing it; and excessive reliance on such a system causes "people who engage in that activity to lose morale and it causes the activity itself to lose morality". Sandel (2012) has exhaustively discussed the moral limits of financial incentives and penalties to manipulate public behaviour in various domains of life such as "health, education, public safety, national security, criminal justice, environmental protection, recreation, procreation". Sandel has argued that such ways only transforms 'wrong doings' into a market commodity such that rights to do the wrong can be purchased if one has enough cash in his pocket, while 'good deeds' become attractive to the extent you are incentivized for doing it. He asserts that this leads to moral corruption and intensify the effects of economic inequality in a society.

Curtis (2007) has given various examples from the law-enforcement entities and public hospitals in UK where the staff used devious ways to win the number game of incentive based performance management system. Such a transformation according to Curtis was intended to free people from the clutches of bureaucracies. It, however, trapped them into a new form of more invisible control system, and in order to break away or dodge the controls, the managers resorted to various corrupt ways in overwhelming numbers. Curtis argues in the concluding remarks that the fundamental ontological assumptions, behind such number chasing systems, aptly justify the behaviour of two types of people in real life: firstly the economists and secondly the psychopaths (ibid).

Evidence suggests that the degree of compatibility in between psychopaths (those who are without conscience and incapable of empathy, guilt, or loyalty to anyone but themselves) and the modern flexible management system (with invisible bureaucracy) have increased after 1990s in the western world. Psychopaths have found such organizations "inviting" (Babiak & Hare, 2006). According to Hedges (2009), people with psychopathic tendencies who often become managers are "petty,



timid, and uncreative ... They see only piecemeal solutions that will satisfy the corporate structure. Their entire focus is on numbers, profits, and personal advancement. They lack a moral and intellectual core.” (p. 111). Zouboff (2009) agrees and even takes responsibility for creating such managers. Ronson (2012), argues in one of his talks that the issue is more holistic, not just limited to the internal design of the firms; According to him: “capitalism ...rewards psychopathic behaviour ... [i.e.] the lack of empathy, the glibness, cunning, [being] manipulative. In fact, capitalism, perhaps at its most remorseless, is a physical manifestation of psychopathy.”

Bureaucracies have been in existence since many thousand years considering Egyptians and Chinese civilizations of the past. Chinese bureaucracies cannot be called as capitalistic and yet they aggressively promoted markets and business activities while curbing any sign of greed or temptation to earn excessive profits among the merchants (Graeber, 2011). The problem, therefore, lies not exactly in being bureaucratic but being bureaucratic under the epistemological dominance of the capitalist market rationality and scientific method. Such dominance influences the minds and hearts of the subjects whose moral implication has been highlighted by Wennerlind (2011).

There is stark similarity in the observation of Winnerlind and Hedges suggesting that much hasn't changed since the beginning of modern age. Critchely (2013) also makes a similar observation; in his view modern capitalist world is a place where “naked self-interest”, “unfeeling hard cash”, and “conscienceless free-trade” dominate the sociocultural and political fabric of the society, life of an agent of capital is “a life of open, unashamed, direct and brutal exploitation.”. Boyd (2008) summaries (while referring to Walzer) that every standard, including moral, in such a society is determined by a “single dominant good of money” (p. 76). Modern bureaucracies are institutionalization of such an ideology.

## **2.4 Bureaucratization of Pre-Modern Life-world and Social Exclusion**

The institutional structures naturally endorse the same metaphysical assumptions upon which they stand. It's little or no surprise that modern bureaucratic institutions in free market system can only be expected to exclusively endorse and propagate the capitalist ideals and values explained above among its stakeholders, irrespective of which sociocultural-ideological context they are exported to (Greif, 1997).

The non-market entities are deterritorialized and then reterritorialized according to the logic of capitalist market (Deleuze & Guattari, 1983), or

as Toffler (1980) explained, traditional institutions are gradually disintegrated and then the society is reorganized or restructured “under the chain of command of various bureaucratic managers.” (p. 61-62). Subsequently the moral landscape of the society also transforms gradually into the same image where the money becomes the dominant criterion to gauge what is good and bad even in all non-market spheres like family, education, masjid/church/synagogue, health, military, politics etc.

Bureaucratic rationality has been penetrating into family, health care, leisure, politics, travel, work and even education (Jaffee, 2001). Keat (1997) termed it as “colonization” of the society by the market, Ritzer (1983) called it ‘McDonaldization of society’, and Walzer (1983) explained it as ‘Market Imperialism’. Gellner (2000) has observed a similar phenomenon in post-colonial societies where the traditional clan based-tribal system was turned upside down by the modern market and state structure brought by the colonial forces.

Sandel (1984) asserts that due to “concentration of power in both the corporate economy and the bureaucratic state ... intermediate forms of community that have at times sustained a more vital public life [are now being eroded]” (p. 6-7). Nozick (1994) argues that “bureaucratic rationalization, general rules and procedures came to replace action based upon personal ties” (p. 180). Subsequently extended family system eventually disintegrated into unstable nuclear families and eventually into lonely individuals. This disassociation from kinship network increasingly qualifies the human subject to become cogs in the bureaucratic machine. The industrialization and institutionalization of the European society and the entire colonial world has been instrumental in this social disintegration and dislocation. In view of Polanyi (1957) this has been fundamentally because of commodification and instrumentalization of land, labour and capital.

Schumacher (1973) also observed that due to disintegration of traditional village along with its ‘cultural and psychological structures’ the “Social cohesion, co-operation, mutual respect and above all self-respect, courage in the face of adversity and the ability to bear hardship – all this and much else disintegrates and disappears.” This phenomenon of social dislocation was extended to the colonies all across the world. India, for example, was “disorganized and thus thrown a prey to misery and degradation” despite benefiting economically in the long run (Polanyi, 1957, p. 168). During more recent times, a similar phenomenon has been observed at Ladakh (Tibet), Sarawak (Malaysia) to Rwanda. According to Hodge (1995) the modern bureaucratic structure of the market and the

state has forcefully replaced the “traditional economy [of Ladakh]” where “everyone knew they had to depend directly on family, friends and neighbours ... The fabric of local interdependence is disintegrating as the distance between people increases.” (p. 98). The social dislocation happens thanks to the demands of the impersonal industrial machine which uses land and labour as a raw material in the process of production. The commoditization of land dislocates the villagers and relocates their produce according to the requirements of global market, leaving no choice for the natives but to accept the employment terms of the. It is therefore not surprising to read Polanyi (1953) when he writes:

“It was in the first half of the sixth century that the poor first appeared in England; ... their gradual transformation into a class of free labourers was the combined result of the fierce persecution of vagrancy and the fostering of domestic [and export] industry.” (p. 109)

Toffler (1980) has explained the dynamics of this transformation through the bureaucratic principles of “standardization, specialization, synchronization, concentration, maximization and centralization” (p. 59) ... These principles, according to Toffler, made the “individual to wander in ... world of looming mega-organizations.” (p. 60) Individuals once disconnected from their family, tribe, culture or psychological structures (Schumacher, 1973) eventually “feel oppressed and overpowered” (Toffler, 1980, p. 60) by the modern bureaucratic order of market and state institutions. Metaphorically, bureaucratization of society is like chopping of a tree and using its wood to make a horse-cart, chair, windmill etc. but eventually killing the tree. Such a social transformation eventually shatters individual’s spirituality, psyche, cultural affiliation, and socioeconomic and political fabric of the society.

In other words such a transformation fundamentally causes ‘social exclusion’ which is “involuntary exclusion of individuals and groups from society’s political, economic and societal processes, which prevents their full participation in the society in which they live” (UN, 2010) or in words of Cappel (2002) it is the “process of being shut out from the social, economic, political and cultural systems which contribute to the integration of a person into community”. Metaphorically speaking, if industrial machines are fundamental source of greenhouse gases, and controlling these emissions isn’t profit friendly, then how come we expect the same machines to inhale back the emitted pollution to solve the problem of global warming while ensuring profitability to the shareholders?

### 3. The Incoherence of Bureaucratic Designs with Islamic Philosophy

Today Muslim world is dominated by the same pro-capitalist industrial bureaucratically driven market order. From political to financial system, all invented and evolved under the influence of Enlightenment movement in Europe; therefore, significantly incoherent with the traditional pre-colonial values, norms, beliefs, ideals, ontology and episteme, which Muslims still hold dear to their heart. However, it is difficult for Muslims to find a radical alternative because survival of a significant majority depends on the same foreign institutions. This dilemma has forced many Muslim thinkers, from Jamaluddin Afghani, Sir Syed Ahmed Khan, to Maulana Mufti Taqi Usmani<sup>4</sup> in different ways to integrate the modern institutions and systems with Islamic philosophy. Islamic finance industry is perhaps the most popular example. It is, however, unfortunate that implication of such an amalgamation hasn't been explored in depth before practically creating a cyborg like system in which the mechanical part significantly dominates and yet it is expected to show empathy, kindness, love and to have a heart filled with piety or *taqwā*.

As a consequence, the centrality of human subject in Islamic intellectual discourse is being neglected in this excessive bureaucratization of the whole life-world, as in Islamic intellectual discourse it is the subject that is answerable, not the bureaucratic order. The purpose of the order is also not set by the individual; rather it is actually meta-subjective, impersonal, dispassionate, abstract and rational mechanism. The question therefore is: can we use such an institutional design with the above mentioned tendencies to accomplish sociocultural, economic and/or political vision of Islam, or simply speaking, the objectives articulated by *maqāṣid al-Sharī'ah* or the objectives of Islamic law?

This adds to the explanation regarding the inability of IFIs to produce results like equitable distribution of wealth, reduction of poverty, promoting social inclusion (i.e. people feeling valued, their differences respected, their basic needs met so they can live in dignity, in words of Cappo, 2002) etc. This is often a hot topic of discussion of almost any conference on Islamic economics and finance, and discussion group, where emphasis is given to fulfill the promises which the label 'Islamic'

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<sup>4</sup> There is fundamental difference between the approach of Sir Syed Ahmed Khan and Molana Mufti Taqi Usmani towards religion and modernism, so much so that the latter utterly rejects the approach of the former. We do not intend to draw any parallels among the two.

brings with itself. However, root causes of such an inability are barely discussed. Can we expect that cyborg (half machine, half human) like creature to show sympathy, which has a tendency to behave in manners explained above? There is an antagonism and tension between the cooperative spirit of Islam and modern institutional design of European origins (see Table 1 below for a detailed comparison) which is not being significantly recognized by modern scholars in today's post-colonial Islamic world. Theoretically speaking, since the latter is dominant and toxic to the former, this perhaps can be one of the reasons due to which the expectation of concerned academia of Islamic finance remains unfulfilled. Greif (1997) cogently argues:

“It is mis-leading to expect that a beneficial organization of one society will yield the same results in another. The effect of organizations is a function of their impact on the rules of the game and the cultural beliefs of the society within which this game is embedded. Analyzing economic and political institutions and the impact of organizational modifications requires the examination of the historical development and implications of the related cultural beliefs.” (p. 994)

Often *‘ulamā* of Islamic banking and finance and the Islamic financial professionals influenced by the same *‘ulamā* refer to examples where Prophet (PBUH) acknowledged and accepted the common practices (*‘urf*) of Jews. Therefore, it is suggested by many that the financial institutions and monetary system, which are now commonly used in today's post-colonial Muslim world (*‘urf*), should be accepted after eliminating any prohibited elements. Once it's done, it would be legitimate to put a label of 'Islamic' on them and reasonable to expect these modified modern institutions to play an instrumental role to resurrect an equitable and just economic system back to life. The 'vision' of Meezan Bank, the largest Islamic bank in Pakistan, is telling in this context:

“Establish Islamic banking as banking of first choice to facilitate the implementation of an equitable economic system, providing a strong foundation for establishing a fair and just society for mankind.”<sup>5</sup>

However, with every passing day it's getting more and more clear that such expectations from the modern form of Islamic financial institutional model are nothing but unrealistic. Such unmet expectations lead to disappointments which have been expressed even by Mufti Taqi Usmani as well (Usmani, 2008).

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<sup>5</sup> Source: <http://www.meezanbank.com/vision.aspx>; accessed 20<sup>th</sup> July 2015.

### 3.1 A Brief on the design of Market Institutions in Islamic History

The market institutions in Islamic history emerged out of the primary institutions of tribe, family and Masjid. These traditional institutions are known as guilds, souks, *khāns*, caravansaries, *dār al-āmānah* (safe keeping vaults), *dār al-istithmār* (for money transfer), *waqf* (an endowment trust fund) etc. (Javaid, 2015; Zaman, 2013). The design of these traditional institutions was strikingly different from modern western market institutions. Such institutions were built around the idea of mutual respect, brotherhood or maintain strong mutual relations; market institutions in Muslim history were an emergent outcome of socially inclusive community system. The guilds in *bāzār* were mostly clan-based family businesses where the older generation mentored and facilitated (often financially through *shirkah al-‘aqd* and *qard al-hasan* type contracts) the new generation to develop the necessary skills to manufacture and sell the products<sup>6</sup>.

People who did business together also belonged to the same family and tribe, and followed the same *ṣūfī* order as well. Therefore, the relationship was four tiered i.e. economic, religious or spiritual, tribal and paternal. Such an organization of socioeconomic life can be regarded as more organic than mechanical where it was difficult to draw line between different market and non-market spheres of life. In fact, a single holistic sphere encapsulating all aspects of sociocultural and economic life was dominated by the spiritual influence of the mosque. Such a socio-economic order still exists in various entrepreneurial communities in the Muslim world, particularly subcontinent (with some cultural differences). These communities not just provide employment to a significant segment of population but also contribute substantially to the GDP and exports of their respective countries (for details see Levin, 1974; Papanek, 1972; Egbert, 1998; Dobbin, 1996; Menning, 2010).

It is not argued here that imperfection or corruption of any kind was (is) non-existent or cannot exist in such a system, rather such an institutional framework naturally sprung out when Islam became the dominant ideology in the Muslim world (once after the reign of Prophet Muhammad (PBUH) and second time in the process of establishing of Ottoman Empire). This framework was coherent with Islamic values, beliefs, ideals and norms and capable of self-correcting whenever required

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<sup>6</sup> It may be argued that such market institutions were present even before advent of Islam; however, one shall not forget that Islam approved many old practices and prohibited some as well. For example interest on loans was a norm, yet was prohibited.

in the light of Islamic ideals, like any other system<sup>7</sup> founded on any other ideology, through its feedback loop (Hollingsworth, 2000).

The following table compares and elaborates the Islamic alternative of institutional design for social inclusion along with its impact on non-market entities. The description about modern bureaucratic design on the left side is a summary of what is already explained in the sections above.

**Table 1: Comparison between the spirit and physical structure of two systems under discussion**

Modern Bureaucratic Organization	Traditional Islamic Organization
<i>Origin</i>	
The industrialization of Europe under a secular and techno-scientific rationality created an institutional order built on mechanical-impersonal principles	Emerged from the traditional Family and Clan system mimicking an organic order of social organization.
<i>Epistemological and Ontological foundations</i>	
Subjects shall act rationally (self-interestedly), in line with machine logic, not emotionally, not intuitively, not religiously, neither under the influence of any traditional or cultural underpinnings, for the sake of accumulation of capital, while prioritizing their primary commitment to the organization over any other commitment outside the firm. At a macro level, it is the bureaucratic order, not an individual who is expected to deliver results; individuals are rather considered as replaceable components of the bureaucratic machine.	Subjects shall think and act in line with Qur'ān and Sunnah and set their priorities accordingly. Rationality means pleasing the Creator, which is also the primary objective of every action in the <i>bāzār</i> . The primary commitment of the subject is with Allah (SWT), then one's family, community, then mankind as a whole. The commandments or instructions of Qur'ān and Sunnah are addressing the individual subject, not the institution as a whole, making spiritual, intellectual, emotional and physical wellbeing of each as centrally important for any institutional order established on the teachings of Qur'ān and Sunnah.
<i>Teleological orientation of the System</i>	
Questions pertaining to the authority, division of labour, rights and duties of subordinates and their supervisors, rules and regulation, performance measurements, promotional criterion, objectives of the organization, hiring	All such questions are addressed keeping in view the teaching of Qur'ān and Sunnah. The satisfaction of the customer also falls in the same category and quality standards and operating procedures are developed

<sup>7</sup> Like capitalism and its institutions also self-correct whenever the phenomenon of capital accumulation is threatened in anyway.



<p>and firing rules, organization culture, code of conduct and ethics, treatment of unintentional and deliberate failures, etc. are all answered keeping in view the mechanical efficiency in achieving the organization's rational objectives i.e. profit maximization or continuous increase in shareholder's value.</p>	<p>keeping in view the idea that wastage of any resource is a sin as per the Qur'ān (17: 26, 27). The financial objective isn't to maximize capital rather the welfare of the community via redistribution of wealth generated in the bazaar and the guild which are embedded into the same community. (Javaid, The Sociocultural -- Guilds, 2015)</p>
<p><i>Hierarchy and Order</i></p>	
<p>The organization is split between labour, manager, and shareholders. Shareholders own the firm; manager possesses the knowledge to allocate the factors of production (man, machine, material, capital, land, etc.), while labour is used to convert raw material into finish good. The seniority of an individual is based on his knowledge and experience in the process of capital accumulation, and managing the labour. Division of responsibilities, however, is done across the line of specialization. One department cannot dictate its terms on other departments; however, they all interdependently perform their duties. Each department has certain performance indicators each of which translates into the fundamental objective of the firm, which would be achieved when outlined procedures and processes are followed with due diligence. Labour is also good to the extent to which his or her skill set can contribute to the firm's objective; this also determines the moral worth and wage rate of labour in a firm. Labor is expected to follow a standardized procedure and repeat a certain task over and over again like a machine component as per the principles of scientific management. Such a division</p>	<p>Individuals within a guild belonged to the same family or extended family; they follow the same <i>sufi</i> order, and they act as financiers of junior members as and when needed. Therefore the relationship is personal and multidimensional. The social and financial inclusion existed as the guild were organized around on the lines of family order, where compromising on the wellbeing of individuals was out of context. Rather the <i>bāzār</i>, with all its sub-institutions including guilds, was an instrument to facilitate the maintenance of the social and religious order of the society as a whole. "[In Ottoman Guilds for example] members included masters, councils, <i>sheikhs</i>, artisans and had its unique internal hierarchy and a mechanism to manage ... 'most guilds had a three-tiered structure comprising masters, senior apprentices, and regular apprentices, regardless of the period' ... Elders in the guild formed a council setting standards for operations and quality and regulated the production accordingly. Violation of those standards could result in the exclusion of craftsmen from the guild. <i>Sheikh</i> (the senior most position in a guild's hierarchy, a chief) was responsible for the purchasing of raw materials,</p>

of labour also exists within the managerial functions, such as production, procurement, quality control, marketing, supply chain, operations management, finance, and accounts, human resource management, etc.	distributed first to poor craftsmen, then to the rich. Despite the existence of hierarchy ... ‘the master, journeymen and apprentice remain essentially of the same socioeconomic class, in close personal contact’” (ibid).
<i>Ethics and Morality</i>	
The personal ethic of individuals (irrespective of their background) working in the bureaucratic environment is transformed into bureaucratic-ethic (doing what is necessary for survival, the end justifying the means) i.e. anything which ensures survival and growth within bureaucratic setup is good and moral. Incentive based system also motivates the subjects to opt for devious ways to meet their performance targets	Since <i>bāzārs</i> were organized under the influence of the mosque, <i>ṣūfī</i> order and family, code of conduct, criterion to determine right and wrong, etc. were predominantly determined in light of Islamic teachings. Moral philosophy of religion determined the market norms and regulated dynamics of <i>bāzār</i> and its sub-institutions. Islam doesn’t stop from trading with non-Muslims; so egalitarian atmosphere of guilds in Muslim history is widely acknowledged. (ibid)
<i>Encouraged Behaviour</i>	
The incentive-based performance management system not just transform the ethical standards but also attract individuals with psychopathic tendencies with inclination towards moral corruption. This includes people who consider their self-interest important, don’t have the ability to empathize and sympathize, use devious ways to achieve goals, and don’t feel guilt for getting ahead at the expense of others.	Cooperation supersedes competition in a typical guild atmosphere as everyone around you is a family relative and follower of the same <i>ṣūfī</i> order (ibid). The welfare of everyone around is a priority, therefore, self-cantered, selfish; psychopathic behaviour cannot find any encouragement within traditional Islamic order of <i>bāzār</i> and guild (ibid).
<i>Impact on non-market entities (Social inclusion or exclusion)</i>	
Influence on psych and episteme also penetrates in non-market spheres because of dominating, colonizing influence of market over every aspect of society from politics, to family, to education, law enforcement, and defense, etc. The traditional social setup is disintegrated, and the individuals are reintegrated as cogs of	Instead of disintegrating the traditional social order, the family and mosque structured <i>bāzār</i> . This made the social inclusion an integral feature and function of the <i>bāzār</i> and all sub-institutions and facilitated social and financial inclusion. In simple words, guilds inside the <i>bāzār</i> were family-owned businesses, where family and

the machine-like system of production.	religious values determined the norms of the guilds and subsequently of the entire <i>bāzār</i> (ibid).
<i>Means vs. Ends</i>	
Capitalism transforms everything into a sellable commodity; even the right to break the law has a price tag and good is done only in exchange for an incentive. Capitalist institutions incorporate the commoditized ethics, where religion or religious values can only survive if can be commoditized in the same manner, sold either to an internal or an external customer.	Since <i>bāzār</i> was an integral part of the social order, therefore it was an instrument to achieve various socio-cultural and religious ends. Economic wellbeing of every individual was one of the ends desired by Islamic teachings. Idea of instrumentalizing religion and family for economic objectives like the production of wealth or capital accumulation was out of context (ibid).

### 3.2 Implications and Recommendations

The problem of social exclusion cannot be expected to be solved by the spread of an institutional design which has caused it in the first place as explained by Polanyi, Schumacher, Hodge and others referred above. Metaphorically, a machine cannot perform the function of a tree. Islamic banking industry follows the same system of management internally run by the executives trained in western education system (Rethel, 2011; Farooq, 2013). The regulators, universities and corporate clients of the Islamic banking industry also follow the same institutional design. It is recognizable for every stakeholder in contemporary scenario and conveniently complies with the central banking system of British origin (Wennerlind, 2011); again built upon impersonal bureaucratic principles.

Therefore, any attempt to tweak the existing bureaucratic-corporate order of Islamic financial system doesn't seem promising. Looking back at the evolution of early management discourse, it is a known fact that the bureaucratic management system was presented as an alternative to get the family out of the business firms to improve efficiency in the process of capital accumulation (Boltanski & Chiapello, 2007), and it did so at the cost of colonizing the minds of its employees while also disconnecting them from their families and communities. The reasons for doing so that are historically determined in European cultural and ideological environment are out of context for a society built on Islamic values. IFIs having a modern bureaucratic design are sync with corporate entities built on similar principles, and share the goal of capital accumulation and improving market competitiveness, irrespective of externalities explained above.

Social integration and distributive justice are functions of socio-economic system of Islam. The cooperative attitude encouraged by Islam develops healthy relationships. The economic activity embedded in these relationships strengthens the bonds of the community instead of the other way around. Such a cooperative atmosphere has been documented for the Memon, Chinioti, Dehli-wala, Bohri, and Ismaili communities in the subcontinent and other parts of the Muslim world. It has been noted that within these communities a healthy social order is preserved through family-business nexus which expands on the lines of extended family, therefore, subsequently integrates the family members in the business ventures (Levin, 1974). This strengthens the family, which in turn strengthens the business in a virtuous cycle (Menning, 2010). Financial support is provided to the new entrants in the market via interest-free loans on favourable conditions (Egbert, 1998). The larger enterprises within the community generate employment for junior members, often providing them with job training before financing their venture once they have acquired enough skills to start their own business (Papanek, 1972). The trust factor within the kinship networks within the community also reduces the risk generated through information asymmetry, subsequently decision making easier (Menning, 2010). The communities generally remain receptive to the needs of the vulnerable, disable and the weak ones. Members are facilitated through financial support, linkages or trainings to develop community members. This makes the community an inclusive system which doesn't discriminate against the disabled, who are rather unemployable therefore excluded from modern market system. The community support is, therefore, analogous to the social security in the modern western world, rather with a more personal touch (Dobbin, 1996; Papanek, 1972; Egbert, 1998).

It is also interesting to note that the described traits of the aforementioned communities are similar to the guilds found in Ottoman Empire and other places in Muslim history (Javaid, 2015). It is argued here that in such a socioeconomic order where economic relations are embedded in social relations, an atmosphere of socio-economic inclusion and distributive justice can be bred. A free market institution built on impersonal foundation striving for shareholder's value isn't capable of doing so, as seen earlier. The entrepreneurial communities highlighted above very much exist in the contemporary world. The business transactions which occur across the family firms in such communities, in author's view, is the appropriate medium to practice various modes of finance including *mushārah* and *mudārah*, if their impact, as envisioned by the ethos of Islamic economics, is desired.

It is proposed, therefore, that instead of practicing Islamic finance modes in the present financial world, they need to be brought down to the community level where Muslim traders and family oriented businesses can practice them in their daily lives. However, lack of proper training during formal education keeps the traders away from modes like *mushārah*, *istisnā'*, *ijārah* during their routine business transactions. To fill this gap, various organization and movements have emerged in Pakistan such as Halal Alternative Solutions (<http://halalsolutions.org>), Sharī'ah Consultancy Service for Trade and Finance by Jamiatul Rasheed<sup>8</sup>, Al Mostaqeem (<http://almostaqeem.com/>), Center of Advance Islamic Economics (<http://www.caiepakistan.org/>), Ubudiah Business Model (UBM) movement in Karachi, and efforts to produce a manual by Maulana Sohail of Islamic ways of doing business in Lahore<sup>9</sup> with his team of scholars.

Another interesting case is of Akhuwat, which is the largest interest-free non-profit microfinance organization in the world, operating in Pakistan on the principles of cooperation and mutual support. Akhuwat is run by a significant number of volunteers. It operates from the mosque network to provide loans to help the poor start their business (Akhtar, Akhtar, & Jaffri, 2009). Since 2001, they have benefited 1.4 million families, and have disbursed more than Rs. 28 billion in loans with a 99.93% recovery rate<sup>10</sup>. I have noted earlier that:

“Now Akhuwat isn't a microfinance bank, therefore it doesn't really have to compete with the bank who capitalizes on the needs of the poor with interest based microfinance products under the pressures of investors. It isn't supervised by State Bank of Pakistan also; therefore doesn't have to comply with banking regulations as well, nor have to employ staff from banking industry to run its operations. The example of Akhuwat is a radical one and such a huge shit for IFIs wouldn't be easy, however it's nevertheless a good case to prove that by changing the rules of the game the desired objectives can be achieved much more effectively and efficiently.” (Javaid, 2014, p. 38)

If Akhuwat would have been an Islamic bank with profit for shareholders as its major goal, then it can be safely assumed that its impact on poverty elevation would have been significantly less. To sustain and grow, typical microfinance banks charge exhuburant amount of markup on their microfinance products, which is not the case with Akhuwat as the benefit is transferred to the poor (khan, AsmatUllah, & Khyber, 2010).

<sup>8</sup> Webpage: <https://www.facebook.com/scsdarulifta/info>

<sup>9</sup> Their material is available for distribution within their affiliates.

<sup>10</sup> See [http://akhuwat.org.pk/progress\\_report.asp](http://akhuwat.org.pk/progress_report.asp); accessed on 4<sup>th</sup> Sep 2016.

Akhuwat is also active in the area of free education and also provide loans for marriage and other social needs on interest free basis<sup>11</sup>. In early years of Akhuwat it would have been hard to defend its case, however, in fifteen years time Akhuwat has now proven that it's possible to run an organization sustainability on a national level with the spirit of mutual support, cooperation and volunteerism. The results of these efforts are yet to be measured particularly in the context of their impact on the phenomenon of social inclusion and community development. Nevertheless, the entrepreneurial communities and example of Akhuwat described above are theoretically appropriate platforms where practicing principles of Islamic business and finance can yield better results.

#### **4. Conclusion**

The discussion in this paper is based on the position of Hollingsworth (2000), Mokyr (2010) and Greif (1997) that institutions evolve under the influence of culture, values, beliefs, ideals and norms upheld in a certain society. Institutional development is a historical process determined by the culture of a certain society. Therefore, importing a certain institutional design into another socio-cultural reality will bring undesirable results. In this context, we have reviewed the history and ideological foundations of bureaucratic system of management. The impact of the said system on the human subject and non-market entities has also been evaluated.

The discussion suggests that the bureaucratic system, currently under the use of IFIs, is historically, culturally and ideologically different from the socioeconomic institutions emerged in Islamic history. The former has been designed to maximize profits and shareholders' value in an impersonal manner irrespective of its sociocultural and environmental externalities, while the latter aspires for a cooperative atmosphere where spiritual, psychological, social and economic wellbeing of all stakeholders as prioritized in the holy Qur'ān and Sunnah. These differences are summarized in Table 1.

It is not worthwhile to assume that the modern bureaucratic corporate system is capable to accomplish the spiritual and social aspiration of Islamic worldview. Alternatively, different scenarios have been explored which are more appropriate to accomplish the goals of inclusion and justice. Even in the western world the disintegrating impact of industrial revolution pushed lots of people to form cooperatives also known as co-opts (Curl, 2009; Fairbairn, 2004). These co-opts are democratic and

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<sup>11</sup> See [http://akhuwat.org.pk/loan\\_products.asp](http://akhuwat.org.pk/loan_products.asp); accessed on 5<sup>th</sup> Sep 2016.

inclusive organizations providing employment, low cost products and services to millions of people in a variety of sectors (see <http://ica.coop/>).

The review of the capitalistic bureaucratic order done here might not be exhaustive or completely void of any conceptual error; however, it may be sufficient enough to spark a thought process to consider the dimensions of analysis obscured until now from the focus of concerned experts. This paper may help in reviewing our expectations from modern Islamic financial industry (operating on a bureaucratic management system) and reconsider an institutional design compatible with the spirit of Islam.

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