

Profit Maximization: an Islamic Perspective

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Abstract

This short study deals with the mainstream economic notion of “profit maximization” from an Islamic perspective. The dominant view in Islamic economics today is that Islam does not recognize profit maximization. It is considered to be in contrast with the notion of hereafter. However, we argue that this claim is not supported by the original sources of *Shari‘ah*. On the contrary, there are numerous instances, both direct and indirect, that profit, being an outcome of trade and business activities, is a blessing of Allah which a Muslim is supposed to search and strive for. This claim will be supported from both *Qur’an* and *Hadith*. The focus will be on theoretical aspects of the discussion. If it can be proved that Islam does not oppose profit making, that it makes profit making compulsory at times, that Islam does not restrict profit to a ceiling. The original sources tell us that a Muslim will be held responsible and answerable for the questions of “where” and “how” the wealth, for which profit is a part, was earned and spend, but the question of “why” it was earned in the first place is not to be asked.

Keywords: Profit; *Riba*; Trade; *Shari‘ah*; *Hadith*; Business; *Qur’an*.

Introduction

Islam is a religion of *fi‘rah* which takes into consideration the human nature in giving any command. It is a religion that recognizes the importance of both the spiritual and mundane aspects of human life and gives guideline for both accordingly. The rulings it provides for a better life on this earth are in compatibility with the nature and needs of human beings. Being a religion revealed in the Arabian Peninsula, it put great emphasis on trade and business, and all the relevant concepts because this was the sole economic activity of the people of that time. Therefore, it should be no wonder to find the basic economic words like sale, purchase, measure, weight, property, wealth, interest, scale, loss, profit, business etc. in *Qur’an*. One can easily find that these apparently simple words or phrases usually contain a whole principle(s) on its back which has been elaborated by the commentators of *Qur’an*. These principles that are embedded in the divine commands are such that they surpass all time and space and have universal scope and applicability. Such principles are to be found in both *Qur’an* and *Hadith* which are the two main sources of Islamic *Shari‘ah*. The approach of the present day Muslim economists is usually to judge the permissibility or otherwise of the mainstream economics concepts and procedures in the light of these sources and arrive at a conclusion. Unfortunately, there is a trend to dismiss almost all ideas of mainstream economics without digging deep into inquiring that whether these notions really violate any Islamic rulings, or they are in fact already contained in the *Shari‘ah* itself?

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Profit Maximization in Mainstream Economics

The profit maximization theory of the firm stood as the hallmark of the neoclassical theory of economics for a long time. It serves as the core principle for the production of the firm. According to one assumption of this theory, firms maximize their profit through a simple formula; they increase their production or output to a level where the marginal cost is equal to marginal revenue. However, this equality is held at any cost, i.e. it totally disregards the structure of the market as to whether it is monopoly, perfect competition, oligopoly or monopolistic competition. It is to be noted that although the profit maximization process is the same, this process has different implications if the structure of the market is to be changed. Whereas the simplistic version of the theory is easy to understand; i.e. a firm's owner or manager tries to maximize short-run profits, there are complicated models of the theory according to which the goal is to maximize both short-run and long-run profits. Irrespective of the simplicity or complexity of the model, one criticism against this theory is that managers do not maximize profits always. They try to attain satisfactory profits only. In addition, managers also may try to achieve other goals than mere profit maximization; they may look for maximization of sales, personal welfare and even social welfare. In these cases, profit will naturally be minimized. In spite of all these challenges and criticism, the model of profit maximization still dominates the economic domain and it is used to explain the behaviour of the firm.¹

Further criticism follows the notion of profit maximization as there are questions which are unanswered till now. For example, the first natural question emerges with respect to the meaning of the term itself, i.e. what is the meaning of profit maximization. In addition, one may ask, what profit maximization is relative to? Is it relative to the highest return that one receives at any time in any given market? Can this term which is extremely subjective by its nature be objectified in any possible way?² Similarly, it has been criticized on the ground that it faces fundamental problems regarding the discussion about maximization. Some of these basic issues include the very concept of profit itself as what it is, what is its source, and to whom should it belong.³ However, this criticism and questioning of this theory is understandable due to the fact that it is based on idealistic assumption rather than real world realities. As noted by Cyert and Hedrick:

“The unmodified neoclassical approach is characterized by an ideal market with firms for which profit maximization is the single determinant of behavior. Thus predictions can readily be made by combining the description of the market with the results of maximization of the relevant Lagrangian.”⁴

Although profit-maximization is viewed as the sole objective of firms in traditional theory, managers may opt to pursue objectives other than profit maximization depending on the environment or market that they find themselves in. For instance, Sklivas shows that in oligopoly, strategic interaction with competitors may instigate the firms' owners to adhere to aggressive competition instead of maximizing the profits.⁵ It has further been argued that maximization behaviour, for consumers and firms, raises questions about impartiality and justice in decision making too.⁶

In spite of all this criticism, the proponents of theory still hold that a firm is bound to maximize profits and minimize costs by setting the target output at a level where the marginal costs should equal the marginal revenue. Hirshleifer writes in this regard,

“According to the classical formulation, the aim of the firm as a decision-making agent is to maximize (economic) profit.”⁷ Although traditional microeconomic theory generally regards profit maximization as the sole purpose and objective of business activity, however this assumption is the subject of much study and criticism in economic literature.⁸

Profit Maximization in Modern Islamic Economics Literature

It has been argued by majority of the Muslim economists that the idea of increase in terms of material or physical output is something against the Islamic teachings of brotherhood, sacrifice, *infāq* and *tawakkul*. Perhaps the only exception to this dominantly held view is Hasan who holds that Islam is not opposed to this notion. He elaborates that this concept is not only acceptable in mainstream economics, but is also needed for Islamic economics. He further adds that the question which may arise from Islamic perspective is what is maximized, how much and for what purpose.⁹ However, the writer does not bring evidence from *Sharḥ* ‘ah sources, the much needed aspect of Islamic economics, in support of his claim which may weaken his plea for some readers. As a result, there seems to be misunderstanding in this regard the clarification of which is the main objective of the present paper. The focus of our present study will remain on the two basic sources of *Sharḥ* ‘ah: *Qur’ān* and *ḥadīth*, which are acceptable to all Muslim schools of thought. This is to ensure the validity and acceptability of the argument for all readers.

Profit Maximization in Qur’ān

The first source of *Sharḥ* ‘ah or Islamic law is *Qur’ān*. We find many verses in it mentioning different aspects of business. In fact, it is the hall mark of *Qur’ān* only that its longest verse details the issue of a mundane financial aspect of human life. This verse is known as “*ḥyat-ul-mudḥayanḥ*” which can be translated as the “verse of debt/credit”. It has also been sometimes referred to as “*ḥyat-ul-taḥqīq*” or the verse of documentation. This verse elaborates as what should be done to ensure the rights of the parties who are entering into a debt contract, like a piece of writing or a pledge. Keeping in view the brief nature of this paper, two other verses relevant to our present discussion of profit maximization will be highlighted here. The commentary of the classical Muslim scholars will be presented as evidence so that the reader may come to a conclusion on his/her own.

The first verse occurs in the second chapter of the Holy *Qur’ān* under verse 16. We find the Arabic word “*Ribḥ*”, translated as profit, used here, although it is in the verb form and not a noun. It is significant to know that this is the only verse in *Qur’ān* where we find the exact word profit (or *Ribḥ* in its verb form). Referring to the condition of the “*munḥiqīn*” or hypocrites, Allah describes their situation in the following words: “*These are they who have purchased error for guidance, so their commerce was profitless*”.¹⁰

A well-known commentator of the *Qur’ān* elaborates under this verse:

“*Mere exchange (without any profit) is not called sale, except when it contains some benefit aimed by the exchanging party..... (Sale) is an exchange between the two parties which is intended for profit*”.¹¹

This means that the sole purpose of exchange of any kind in trade, business or any commercial activity is the earning of profit. Otherwise, an exchange without any profit will simply be waste of time and effort.

Muhammad ibn-e-Jarir al-Tabari, another classical commentator of the *Qur'an*, derives the same fact from this verse. According to him:

“...because a trader who earns profit is the one who exchanges the commodity he owns and gets what is better than it, or sells it for higher than cost price. If one exchanges his commodity for something inferior or less than the cost price, he is a loser in business indeed”.¹²

It is to be seen in these examples that “profit” is an integral and intended part of any venture undertaken. In fact, we find that earning profit in business transactions is such a common phenomenon and explicitly known to people of all time and ages that even Allah has used it as an example in His Book and the commentators have accordingly elaborated the meaning of the verse in the light of this universal fact.

Keeping this important fact in mind, i.e. the bargain resulting in profit is what a trader always looks for; we find another verse in which Allah endorses the believers who have concluded such a profitable deal. Thus we see Allah praising them for entering a deal that will result in a high profit for them. According to the verse:

“Verily, Allah has purchased of the believers their lives and their properties; for the prices that theirs shall be the Paradise ... then rejoice in the bargain which you have concluded”.¹³

Under the commentary of this verse, *Imam Quraysh*, one of the most distinguished commentators of the Holy *Qur'an*, states:

“أصل الشراء بين الخلق أن يعوضوا عما خرج من أيديهم ما كان أنفع لهم أو مثل ما خرج عنهم في النفع”

“It is the principle in business among people that they want to receive more profitable or at least equally profitable thing for what they give...”¹⁴

Indeed this is the kind of transaction for the believers here. Since the believers received a higher compensation as a result of this exchange, they deserve to be happy and congratulated for this.

Profit Maximization in *Hadith* Literature:

Once it is clear from the Holy *Qur'an* that profit is the essential and sole element of economic activities as per human nature, it is helpful to look into the second source of *Shari'ah* and find out further explanation of the issue at hand. A close study of *Hadith* reveals that abundance of wealth and earning of profit is a blessing of the Creator. We even find that the Prophet of Allah himself prayed for an increase in the physical/material sources of some of his companions. As a result of his prayer, they were bestowed with sources not usually found with other companions of the Prophet. The first *Hadith* in this regard is what has been narrated by *Imam Tirmidhi* in his book about one of the companions named *Urwah al-Barqi*. He was assigned the task of buying a goat by the Prophet who gave him one dinar for this purpose. After buying a goat for this dinar and coming back home, he was offered two dinar for the same goat. He accepted the deal, went back to the market, bought another goat for one dinar out of the two, came to the Prophet and handed him over the goat as well as the one dinar left. The Prophet felt so happy that he prayed for him:

بارك الله لك في صفقة بمينك

“May Allah put barakah (blessing) in your bargains”.¹⁵

The question here is that the companion here earned 100% profit in this bargain. He brought this in to the knowledge of the Prophet who not only expressed his willingness and happiness at this, he also prayed Allah for an increase in his other

bargains. It has been narrated about this event that the said companion, 'Urwah -al-Barqī, became so prosperous in his life later that he became one of the richest persons of *Khāfah*. *Imam Bukhārī* even claims that he was so much blessed because of this prayer that: "Even if he would buy sand, he would earn profit in it."¹⁶

We find a second *ḥadīth* in which there is a clear indication that Islam does not limit profit to any level (when the profit is earned by legal means). *Imam Bukhārī* narrates this *ḥadīth* in his famous book about a companion named Zubair ibn al-'Awwām. He bought a precious land at the upper part of Medina for 170,000 dirham. Later, the same land was sold by his son, *Abdullah*, for 1,600,000.¹⁷ In other words, the difference between the two prices is more than 900%. We cannot underestimate the fact that there must have been the gap of a couple of years between the sale and purchase of this piece of land which would have minimized the apparently huge difference between the two prices (of purchase and sale); nevertheless, it does validate the fact that there are no explicit ceiling of prices that Islam fixes which cannot be crossed while making profit. The only ceilings for earning profit, according to Islam, are the general conditions of sale as well as the overall urge to be lenient and helpful to others in dealings.

We find instances in *ḥadīth* literature which even makes it obligatory sometimes to earn profit. This can be inferred from a famous *ḥadīth* narrated by *Imam Tirmidhī* which states: "Lo! Whosoever becomes the guardian of an orphan's property, he should trade in it so that it is not engulfed by *zakaat*."¹⁸

This *ḥadīth* makes it an obligation for the guardians of orphans' property to invest it in profit generating activities. This is to ensure that enough profit is generated which can not only suffice the payment of *zakaat*, but can also cover the daily expenses of the orphan. This was also ordered by the second Caliph, 'Umar, who said that: "Do trading in the orphans' property to save it from *zakaat*."¹⁹

This *ḥadīth* clearly indicates that sometimes it is even compulsory to earn a certain amount of (permissible) profit in order to secure the overall property from being wiped out by other obligations like *zakaat* etc.

Anas ibn Mālik was the companion who served the Prophet for ten years. When he was brought by his mother to the Prophet for the first time, she asked him to pray for his son. According to *Imam Bukhārī*, the Prophet made the following prayer for him:

اللهم أكثر ماله وولده

"O Allah! Increase his wealth and offspring."²⁰

Tirmidhī also narrates that this companion had an orchard which would give fruit twice a year.

Word of Caution

What we have stated above should not be taken at its face value. Indeed, Islam puts no ban on earning profit, rather encourages it, and fixes no limit for it. However, this is what we claim to be a general principle. When it comes to practice, to what an ideal Muslim should do, and to what benefits the whole society, Islam clearly appreciates leniency, good will, brotherhood and mutual help and kindness. There can be no two views about this. Similarly, Islam instructs Muslims to avoid dealing in what is prohibited, avoid cheating, fraud and deceit, and always think that instead of material gains, Allah's blessing is more beneficial which can be invoked by being

helpful and generous to other human beings. *Imam Bukhari* narrates in this regard:

“May Allah bless a person who is lenient in buying and selling and demanding (his rights from others)”²¹

Therefore, this is the type of conduct that a Muslim businessman is supposed to show in his dealings. But again we emphasize the fact that the liberal nature of Islam has not put any restrictions on earning legitimate profit.

Conclusion

Thus, we find that the conventional notion of profit maximization is not to be rejected outright. The Islamic classical literature shows that profit in itself is not a negative thing. What may make it negative is the way it is earned or the way it is spend. For a good Muslim, who knows and protects the limits prescribed by *Shari'ah*, high profits can be a mean of seeking Allah's pleasure by helping other fellows. Similarly, it is a well-known *Hadith* that on the Day of Judgment a Muslim will not be asked about his wealth as to “why” or “how much” did he earn and spend. In other words, maximizing one's profit is a relevant term which depends on factors other than its quantity. The question a Muslim is supposed to answer is “where and how” did he earn and spend it. In a nutshell, it is the source and means of earning and spending and not the quantity, the crux of profit maximization, which is the concern of Islam.

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