

ISLAMIC BUSINESS ETHICS AND COMPETITIVENESS: A PRELIMINARY APPROACH ON A CASE STUDY OF MUSLIM FFB PRODUCERS IN MALAYSIA

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ABSTRACT

Islamic economy is discussed and compared with capitalism and socialism on the segments of business activities of production, consumption, distribution and transaction in the general economic system. The context is based on the values and ethics to 'run rightfully the economic system' through the characteristics of Islamic economy and *muamalah* involving the aspects of *Rabbaniyyah* (godly in nature), *Akhlaqiyyah* (ethics), *Insaniyyah* (humanism), and *Wasatiyyah* (balanced in approach). The first part of the research work is to analyse the determinant factors of competitiveness of the players of the supply chain of FFB feeding the open market of CPO with four identified independent variables, namely: cost of production, pricing, innovation and infrastructure, and related policies. Revealed Comparative Advantage (RCA), Time Lines and Multiple Regression Analysis are to be adopted in the data analysis process. Consequently, the following part is to analyse the practices of Islamic business ethics among them—the smallholders—inclusive of the GLCs as well by which a qualitative method is utilized. The expected findings are to be of important contribution to the understanding of the practices of Islamic business ethics in the economy, especially among Muslim smallholders and as a whole adding to the body of knowledge of the discipline.

Key words: Islamic business ethics, competitiveness, Fresh Fruit Bunch (FFB), Crude Palm Oil (CPO), smallholders.

Introduction

A conceptual model is developed from various stages from the scrutiny of the antecedents and consequences of the dimensions of contributing factors of the ethical functional activities and competitiveness through the mediating effect of Islamic values and ethics on the line of analysis – the FFB producers in Malaysia. This multiple case study with the approach in the context of its values and ethics in the characteristics of Islamic economy and *muamalah* involving the aspect of the school of thought in *Rabbaniyyah*—godly in nature, *Akhlaqiyyah*—ethics, *Insaniyyah*—humanism, and *Wasatiyyah* – balanced in life; which is largely based on the study from a renowned writer, Al-Qaradhawi (2009). The outcomes are expected to shed the light on the understanding of the mediating effect, to the research method and also to the industry and policy.

Problem Statement

The unprecedented incident of September 11, 2001 has influenced world politics for an unthinkable future (Hooker, 2004); and even before that itself, Chapra (2009) points out that as a result of 'centuries of decline', Muslim countries are not able to serve as a model to be emulated with. Consequently, Alserhan (2011) quoted from Belt (2002) which tells the general perception about Islam amidst the erosion of trust on the idea of what Islam actually is making an impression onto the world at large:

"The term Islam itself is an Arabic word meaning 'submission to God—Allah,' with its roots in the Arabic word 'Salam' which literally means peace. That may come as a surprise to many non-Muslims, whose perceptions of the belief have been distorted by terrorists, many from the Middle East, whose acts in the name of Islam have been condemned by Muslim leaders everywhere."

Belt (2002)

Therefore, to patch up the ‘damage’ done, at least in the school of thoughts pertaining to business ethics, the society at large should be made to understand that, Islam requires traders, both organizations and individuals, achieve a balance between commercialism and humanitarianism, and between profit and social responsibility (Alserhan, 2011) which basically in line with what Al-Qaradhawi in 2009, elaborates in the understanding of Islamic economy that has Godly characteristic–*Rabbaniyyah*, ethical–*Akhlaqiyyah*, humanistic–*Insaniyyah*, and balanced in life–*Watassiyah* (Al-Qaradhawi, 2009, Beekun, 1996). It covers the importance in preserving the noble status of Islamic principles in the understanding of subject-matters such as the scope in production, consumption, distribution and transaction activities. A better knowledge of cultural variations and an in-depth knowledge in Islam through the Shari’at law – in the quran and hadiths–is needed to examine the work ethics and other work-related attitudes, such as individualism in non-Western settings (Al-Qaradhawi, 2009; Chapra, 2009; Rizk, 2009).

Topics on productivity, competitiveness and comparative advantage are well defined and covered in various researches involving countries, cities, firms and enterprises (Arslan and Tathdil, 2012, Lau et al., 2009; Rifin, 2010; and, Sun et al., 2010) and are often based on theories and models discovered by management scientists like Krugman and Obstfeld (2003) and Porter (1980, 1990). Porter developed the famous Five-Forces Model on “*Forces Driving Industry Competition*” This is also highlighted in the Encyclopedia of Management, (2009). The model exhibits the state of competition in an industry which deals objectively in profit making mission against competitors in the economic and societal environment with different collective strength of the ‘forces’ among industry competitors. It is a strategy fabricated by an enterprise or organisation in the marketing of products and services to compete with each other in either ‘Red or Blue Ocean’ as how Kim and Mauborgne (2015) highlight in their book, *Blue Ocean Strategy–How to Create Uncontested Market Space and Make the Competitors Irrelevant*. At this juncture, this study focuses on the construct of cost of production towards evaluating competitiveness by grouping up with the other components, namely; pricing, innovation and infrastructure, and related policies in the industry. Rifin (2009) claims that Indonesia is more competitive in the export of palm oil products as compared to Malaysia and regards Malaysia as the main competitor in oil palm industry and considers government intervention into the system as unhealthy (Hadi, 2004; Hasan, 2000; Hasan et al., 2001). However, contrary to earlier claim, Tham and Loke (2001), reveal that government policies could improve competitiveness and this is further strengthened by Lau and co-workers (2009) especially in the context of macro-economic and political stability view point.

However, many researchers touch on firms, industry, city, state or country (Arslan and Tatlidil, 2012; and Lau et al., 2009), but not much focused on the scrutiny into segments representing the smallholders sector indulging in the agricultural related activities such as planting of oil palm in a particular designated area. Therefore, as it is stressed earlier, cyclical nature of the outlook of the market rests heavily on the fundamental and technical factors of the industry (Murphy, 1986; Lescaoux, 2009, Marzukhi et al., 2015), and this situation prompts the study in this forthcoming research endeavour to look into the Islamic mediating effect on Muslim FFB producers in Malaysia. The palm oil industry activities in Malaysia are administered through the Ministry of Primary Industry and the quality compliance is based on the grading manual issued by the MPOB (*Manual Penggredan Buah Kelapa Sawit*, Edisi Ketiga (2003). Surprisingly, Yeganeh (2013) conducts a study on cultural and religiosity aspects on the determinants of national competitiveness and concludes that regardless of religious denomination, religiosity is a major hindrance to national competitiveness

Objectives

Research Aim

The research focuses on the Islamic mediating effect in business ethics and competitiveness on FFB producers in the Malaysian oil palm industry context focusing on the supply chain of the commodity in the trade.

The general aim of the study is to clarify how the Muslim producers could benefit from the inclusion of Islamic business ethics in the daily practices and evaluate the factors that determine their competitiveness in the industry. This navigates the study towards two contributing factors, namely; ethics or functional activities and operational factors towards a consideration of the impact from the perspective of the outcomes to be realized from the forthcoming empirical analysis. From this study, it is intended to develop and validate a model of Islamic mediating effect in business ethics and competitiveness perspectives of the industry.

Research Objectives

To achieve the research aim, the following list of objective is formulated:

1. To understand the general aspect of Islamic business ethics practices among the FFB producers engaged in the supply chain of FFB of the Malaysia oil palm industry via a review of the literature and interview through a multi-case study approach.
2. To analyse the determinant factors of competitiveness¹ of FFB producers as the unit of analysis in the perspectives of cost of production, pricing, innovation and infrastructure, and related policies through data collection.
3. To evaluate the contributing factors of the ethical practices and competitiveness, and outcome factors in the unit of analysis (i.e. the FFB Producers) on the Islamic mediating effect of business ethics in the operational environment through analysing the data collected in the course of the study work.
4. To develop a model of an acceptable mediating effect of Islamic business practices and competitiveness by orchestrating the contributing factors and the outcomes in the forthcoming empirical data analysis exercise

Research Questions

¹ Definition of competitiveness is appended in Table 4.

This research will attempt to answer the following questions as the main issues to be addressed:

1. How do the contributing factors in the perspectives of production, consumption, transaction, and distribution activities affect the practice of Islamic business ethics among FFB producers in Malaysia?
2. What are the determinant factors of competitiveness of Muslim FFB producers in the perspectives of cost of productions, pricing, innovation and infrastructure, and related policies in the Malaysian oil palm industry?
3. What are the outcomes of the mediating effect of Islamic business ethics among FFB producers in Malaysian oil palm industry?

Significance of the Study – Expected Potential Contribution

Contribution to the understanding of the Islamic mediating effect in Muslim FFB producers

This research seeks to contribute to the understanding of better insight into the mediating effect of Islamic business ethics to the policy makers of the country and to extend existing research method, and verifying the conceptualized model put forward. Dr. Yusof Al-Qaradhawi in 2009, elaborates on the Islamic economy that has Godly characteristic - *Rabbaniyyah*, ethical - *Akhlaqiyyah*, humanistic- *Insaniyyah*, and - balanced –in-life - *Watassiyah* (Al-Qaradhawi, 2009, Alserhan, 2011, Beekun, 1996). It covers the importance in preserving the noble status of Islamic principles in the understanding of subject matters in the scope of *production, consumption, distribution* and *transaction* activities by incorporating the characteristics of Islamic economy in values and ethical aspect in the understanding about *where* mankind is heading to; what *objectives* in life are we in for; and through *what means* are we going through it. It is all about the almighty Allah – we are heading to the *hereafter*, with the objective of *meeting the Creator* in the day of Judgement through the *laws* in the Quran and hadiths. Therefore, an insight into the study of adherence to the practices of Islamic business ethics among the subject in this case study is of much interest to be associated with. The resultant effect from of the input of the dimensions of ethics in the functional activities of competitiveness into the theme of consequences is the expected to work into.

Contribution to Method

This study is expected to contribute to the research method too. A mixed-method in the research philosophy in both the positivist and intepretativist approach is to be adopted with the first dimension of *ethics* utilising the questionnaires and for the dimension of *competitiveness*, a multi-case study (Eisenhardt , 1991 p.620; Yin, 2009) with interview activities are in the pipeline. It is in the process of reaching the *outcomes* theme in the study. Extensive literature review is expected to be part of the in-depth study to serve the research questions as duly conceptualized in the research model (please see Figure 1).

Contribution to industry and policy

Practitioners and the authority will benefit from the outcome of this research where a more picturesque view in the understanding of Islamic ethics in the industry is mediated both in the value and practices in the relevant activities in the daily business transaction in the oil palm industry which moves parallels.

Research approach

Focal theory

The focal theory in devising the framework in the philosophical stance or paradigm is based on inductive and deductive approach with the former embarks on the subjectivity of the study and the latter touches on the objectivity of the dimensions in the framework. In other words this is a mixed-method approach in both the epistemological undertakings – qualitative, and ontological assumptions – the quantitative method. For the first objective, it is to understand the general aspect of Islamic business ethics practices among the FFB producers engaged in the supply chain of fresh fruit bunches (FFB) of the Malaysia oil palm industry via a review of the literature and interview through a multi-case study approach (Eisenhardt, 1991) and in the second objective, it is to analyses the determinant factors of competitiveness of FFB producers as the unit of analysis in the perspectives of cost of production, pricing, innovation and infrastructure, and related policies through data collection. For the third objective, it is to evaluate the contributing factors of the ethical practices and competitiveness, and outcome factors in the unit of analysis (i.e. the FFB Producers) in the mediating effect of Islamic business ethics in the operational environment through analysing the data collected in the course of the study work. Finally, it is to develop a model of an acceptable mediating effect of Islamic business practices and competitiveness by orchestrating the contributing factors and the outcomes in the forthcoming empirical data analysis exercise. In research method for a case study approach, Eisenhardt (1991 p. 620) stresses that multiple cases are a powerful means to create theory by replication and extension among individual cases, and Yin, in the year 2009, similarly stresses that case study is a very powerful tool in a research work. Al-Salti, S., (2011) from Brunel University in her doctoral thesis also adopted this method in her research as well. Table 1 shows how the focal theory is transformed into conceptual model and subsequently by taking the research questions and objectives of the intended research work as a basis of devising the framework.

Table 1. Step 1 - Development of Conceptual Model

Begin	Objectives	Key factors	End
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Focal Theory	I	To understand the general aspect of Islamic business ethics practices among the FFB producers engaged in the supply chain of fresh fruit bunches (FFB) of the Malaysia oil palm industry via a review of the literature and interview through a multi-case study approach	Conceptual Model (please see Figure 1)
	II	To analyse the determinant factors of competitiveness of FFB producers as the unit of analysis in the perspectives of cost of production, pricing, innovation and infrastructure, and related policies through data collection	
	III	To evaluate the contributing factors of the ethical practices and competitiveness, and outcome factors in the unit of analysis (i.e. the FFB Producers) in the mediating effect of Islamic business ethics in the operational environment through analysing the data collected in the course of the study work	
	IV	it is to develop a model of an acceptable mediating effect of Islamic business practices and competitiveness by orchestrating the contributing factors and the outcomes in the forthcoming empirical data analysis exercise.	

Source: Developed by researcher for current study

The process of developing a conceptual model commences from the developing of the research questions and objectives, the approach in the focal theory and eventually the culmination in devising a conceptual model for the forthcoming research work.

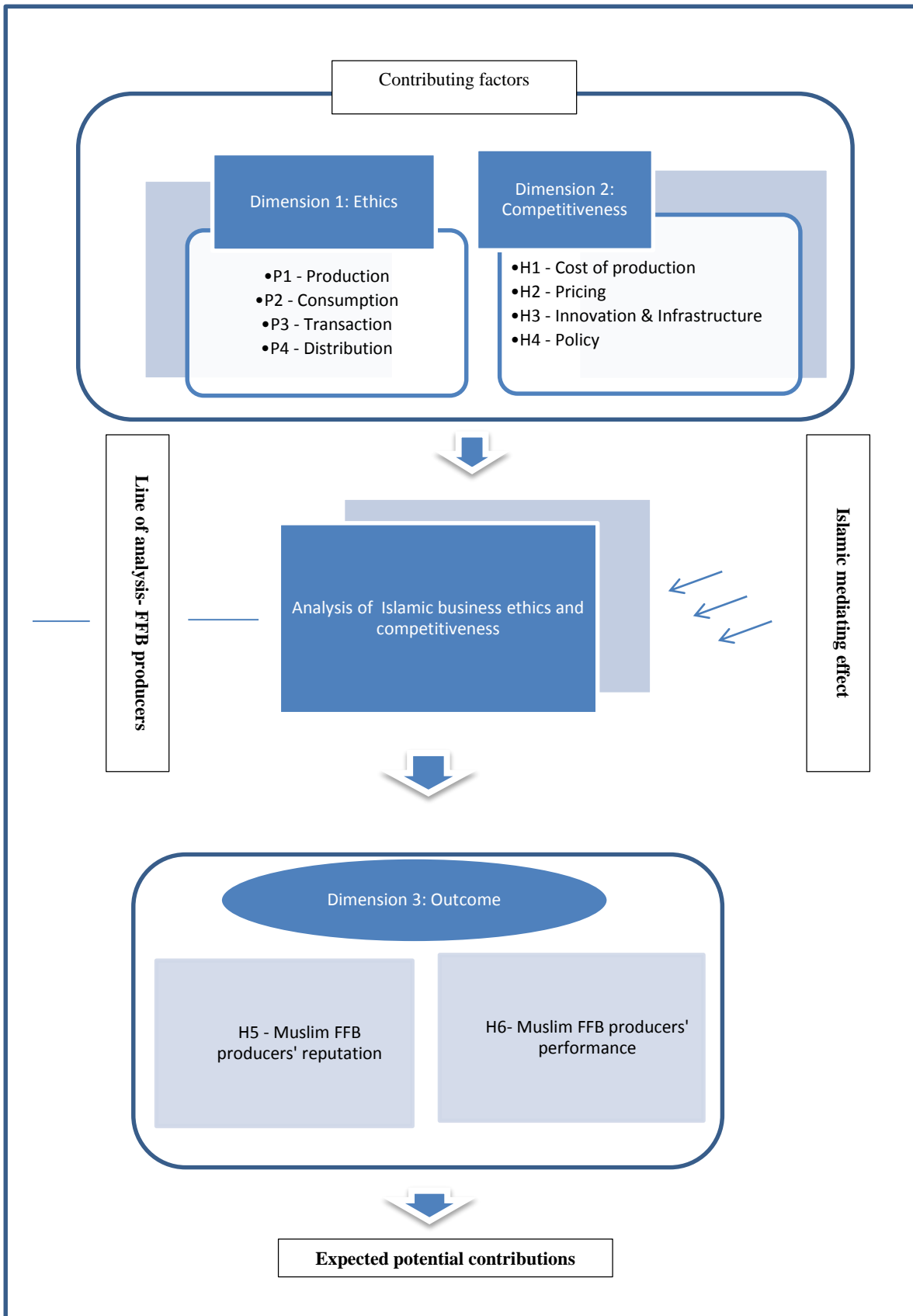
Conceptual Model

The conceptual model is developed from various stages from the scrutiny of the antecedents of the dimensions of the ethical functional activities and competitiveness through the mediating effect of Islamic values and ethics on the line of analysis – the FFB producers in Malaysia. *Ethics* is the first contributing factor or dimension to touch on with four second-order constructs which encompasses four functional activities or first order items. Firstly, it is production which supports three first-order constructs, namely; free-mind, *Istiqamah*, and punctuality (Al-Qaradhawi, 2009; Chapra, 2009; and, Beekun, 1996), which are interrelated to productivity of mankind in everyday job-related activities. Secondly, is **consumption** (Krugman and Obstfeld, 2003), which discusses on the behavior of ‘Wasting of food²’, the habit of borrowing and spending-spree from wealth earned (Alserhan, 2011; Al-Qaradhawi, 2009; and, Chapra, 2009). The third second-order construct is **transaction** This is a very much scrutinized subject which spans from the Quran and hadiths and is covered widely by experts in the related school of thought (Al-Qaradhawi, 2009; Abeng, 1997; Abuznaid, 2009; Chapra, 1979, 2009; Ismail & Mawar 2012; and Rice 1999). Finally, the fourth one is **distribution** which supports the first-order constructs of collection defaults by buyers, holding of stock, and payment of *Zakat*. (Al-Qaradhawi, 2009; and, Chapra, 2009). Philip Kotler, in the year 2000, touches in a wide range in the book in the marketing context on the constructs mentioned above. The research method to be adopted is multi-unit case study which entails appropriate protocols with interviews in the designated population of oil palm FFB producers in Malaysia.

The second dimension is competitiveness which supports four second-order constructs, namely; *cost of production, pricing, innovation and infrastructure*, and *policy* which are identified as the perspectives to evaluate competitiveness of FFB producers. Firstly, is production cost which covers the scope of labour, transportation, field maintenance that contribute to highest opportunity for improvement in the field and harvesting activity (Malatec, D. & Malatec, B., 2013). Secondly, is pricing which discusses on revenue, selling price, quality of FFB, and Oil Extraction Rate (OER) given to the producers. Thirdly, is innovation and investment in infrastructure (Sasson and Reve, 2014) which deals on building of road in the fields, purchasing of assets, building of ramps for the collection of FFB, and irrigation work. Fourthly, is related policies prevailing in the country (Hasan et al. 2001), be it on taxation or other related procedures drawn by participating associations such as Malaysian Palm Oil Association (MPOA) and South Peninsula Oil Milers Association (SPOMA), the Malaysia Palm Oil Board (MPOB), millers, and refineries (Teoh, 2002). The research method to be utilized is quantitative methodology with questionnaire as the tools for data collection exercise.

The third dimension is the outcomes or the consequences. It is a theme that constitute to the mediating effect of Islamic business ethic in the practices of the FFB producers as a line of analysis. The process commences from the review of literatures for Dimension One and Two, the analysis process, and finally Dimension Three which represents the consequences of the analysis from the mediating effect of Islamic business ethics on the line of analysis of FFB producers in the setting of the research.

Figure 1. Conceptual Model of Islamic mediating effect in Muslim FFB producers in Malaysia



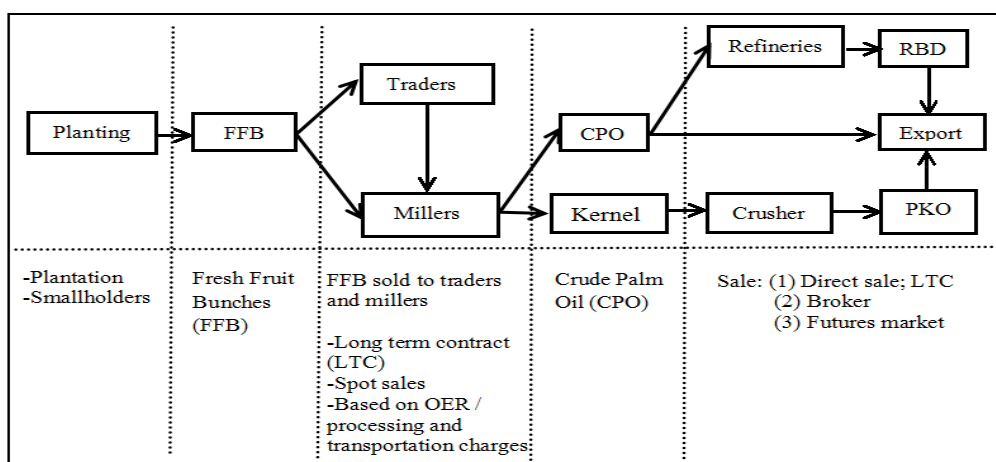
Source: Developed by researcher for current study

Literature review

Oil Palm Overview

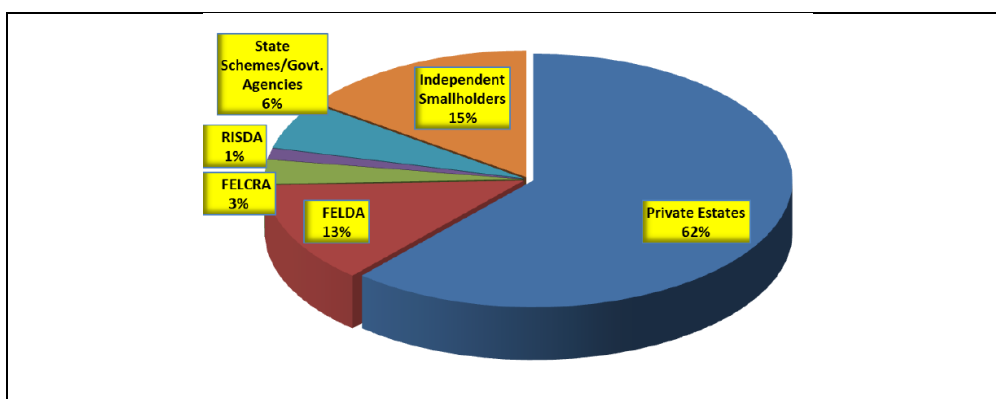
Oil Palm, an ancient tropical plant from the West African rainforest region with a scientific name *Elaise guineensis* has a rich historical background that traces back into the 19th century. The noble palm tree was then brought to South East Asia and has ever since becomes the “the most efficient oilseed crop in the world” (Teoh, 2002; Palm Oil Facts & Figures, Sime Darby). The palm oil industry activities in Malaysia are administered through the Ministry of Primary Industry and it is specifically geared into the establishment of a matured industry to spear ahead into the competitiveness mode with other countries involved in the up-streams and down-stream activities by the producers of palm oil and palm-based products and related derivatives. The principal organisations responsible for the growth in the development of the industry are the Malaysian Palm Oil Association (MPOA), the Malaysian Palm Oil Board (MPOB) and the Malaysian Palm Oil Council (MPOC). In the oil palm industry, the marketing process of FFB and its derivatives such as CPO, PKO and RBD Olein, covers a wide range of players commencing from the agronomic stage—involving land preparation, planting, field maintenance, pest and disease control and harvesting. Consequently, it encroaches into the market³ channel and encompasses market players both locally-based and abroad involving in taking long or short positions in physicals or futures market through commodities exchanges orchestrated by designated clearing houses. In Malaysia it is the Malaysian Derivative Exchange (MDEX). The flow of the market structure involving industry players is depicted in Figure 2 below.

Figure 2: Palm Oil Market Structure



Source: Developed by researcher for current study

Figure 3. Distribution of Oil Palm Planted Area by Category (2014).
Total Planted Area 5,392,235 Hectares



Source: Adapted from MPOB for current research

Oil Palm planted area

As at December 2014, MPOB reports that the total planted area of oil palm in Malaysia is 5.4 million hectares, with East Malaysia and Peninsula Malaysia contributing to 51.5% and 48.5% respectively. Categorically, private estates cover 62% of the total planted land area in the year 2014 with independent smallholders hold 15%; FELDA 13%; and FELCRA, state schemes and government agencies, and RISDA with three, six, and one percent respectively (Figure 3).

³ Kotler (2000) explains on the scope of marketing as the task of creating, promoting, and delivering goods and services to consumers and businesses in which ten types of entities are involved, namely; goods, services, experiences, events, persons, places, properties, organizations, information, and ideas. It is the relationship between the industry and the market.

Literature from the Holy Quran

In Islamic context, from the verses of the Holy Quran⁴ the Almighty Allah specially mention about plant and the related subjects. Allah brings forward to mankind with the endowments and necessary ingredients to live in this world to show the signs of His power as the Creator of the earth and other Godly creations. It shows the understanding of His gifts the many kinds of lovely plants and fruits that are sprouting from the rain water and which are beneficial to mankind. It is now the peoples’ belief and submission to the Creator that really matters. Further to these limited but sufficient references to this school of thoughts, the following *surahs* are supporting the numerous citing as *dalil* from the holy Al-Quran and also the subject of payment of the alms (*zakat*) is also clearly stated in Surah Al An-Am (6:99 & 141)⁵.

And it is He Who sends down rain from the sky, and with it brings forth the buds from every plant. From these We bring forth every foliage and out of the close-growing grain (fruits), and out of the spathe of palm trees dates in thick clusters hanging low and near; and then (We make) gardens of grapes, and olives and also pomegranates, each of which are alike (in form, appearance and tastes) and different. Observe their fruits when they bear fruits and ripen. Surely, in these there are signs (of Our greatness) for people who believe.

Surah Al An-Am (6:99)

The Surah that includes the mention on payment of alms or *zakat* is cited from this Surah (6:141).

It is He Allah Who brings forth (for you) gardens with creepers and without creepers, and the date palms and crops of diverse (shapes, appearance and flavours, and the olives and pomegranates alike (in color or in leaf) and different in (taste). Eat of the fruits when it bears fruit, and pay what is due of them (of the obligatory alms) upon the harvest day. But do not be prodigal (in eating and spending), for Allah does not love the prodigal.

Surah Al An-Am (6:141)

Mankind is benefitting from the green trees (that absorbs carbon dioxide and releases oxygen in the process of *photosynthesis* that the Almighty created. Heat that is absorbed by the wet and green trees from the sun is then in turn kindles into fire. It is also deciphered that the fire as mentioned in the *ayah* refers to the ancient coal from those buried plants that are dug up to be used as fuel. Consequently, researchers also mention that oil from trees such as oil palm, latex and the like are also related to the explanation on the (palm) trees of different types and in this case it is the oil palm. The energy obtained in burning oil from plants which burns in the form of biofuels is one striking evident ordained from this surah.⁶ For this particular school of thought Allah says,

“He Who has appointed for you fire (which can be obtained) from the green tree so you can kindle your fire from it”

Surah Yaasin 6:80

Table 2 depicts the *ayahs* about multiple dimensions pertaining to plant which the researcher is relating to oil palm trees. Oil palm possesses the nearest resemblance to the dates palm indeed.

Table 2. Taxonomy on *Ayahs* from the Quran (compiled from Al-Qaradhawi , 2009 and self-research)

<i>Ayahs and Surahs</i>	Multiple Dimensions in values and ethics in Islamic economy and muamalah
Al An-am 6:99	The green plant; the power of Allah
Al An-am 6: 141	Plant and payment of zakat (alms)
Yaasin 36:80	Plant that Allah give to mankind for source of fire
An – Nahl 16:89	Good ethics revealed in the Quran
Ali ‘Imran 3:110	Law abiding

Source: Developed by researcher for the current study

There are many the *ayahs* concerning the dimensions of *production, consumption, transaction, and distribution* activities (Al-Qaradhawi,2009) and many researchers are touching these subjects which fall in the second order constructs or the dimension of the ethical functional activities which complements to the contributing function of another dimension – competitiveness. An example for one item on consumption- Surah Al-Baqarah 2:28) - Consumption (honesty is required to the handicapped people - Al- Baqarah 2:28 – In transaction - be considerate to debtors and so on.

Islamic Business Ethics - Definitions of ethics

The definition of business ethics can be seen in different perspectives from various authors. Table 3 shows the various definitions which exist.

Table 3. Definition of Ethics

⁴ Mentioned in these surahs: Taa Ha - 20:53., Al Hajj – 22:5., Ash Shua’Ara’ – 28:7., Luqman 31:10., Qaf 50:7

⁵ Tafsir Al-Quran AL-AISAR. Surat: Ali ‘Imran – Al-An’Am – Sistematis dan Mudah dalam Pembahasan.

⁶ Translated from M. Quraish Shihab, Tafsir Al-Mishbah.

Author	Year	Definition
Al-Qaradhawi	2009	Al-Qaradhawi elaborates in the book that, there is a hadiths saying that “Islamic <i>akhlak</i> or ethics is of utmost importance in life and Prophet Mohammad (pbuH) is the person—the messenger of Allah who is bestowed to us mankind to practice them”.
Abuznaid S. A.	2009 p.279	Ethics is defined as a branch of philosophy that deals with moral behavior. Morality refers to whether something is right or wrong, good or bad. Although morality is a complex concept, it can be defined in terms of both means and ends.
Oxford Dictionary		According to the Oxford Dictionary, ethics is defined as: (1) a system of moral principles by which human actions may be judged as good or bad, right or wrong; (2) the rules of conduct recognized in respect of a particular class of human actions.
Al-Aidaros	2013	From an Islamic point of view, ethics is related to several Arabic terms. These terms are as follows: <i>ma’ruf</i> (approved), <i>khayr</i> (goodness), <i>haqq</i> (truth and right), <i>birr</i> (righteousness), <i>qist</i> (equity), ‘ <i>adl</i> (equilibrium and justice), and <i>taqwa</i> (piety). Good actions are described as <i>salihat</i> and bad actions are described as <i>sayyi’at</i> .
Beekun	1996	Beekun (1996) defines ethics as “the set of moral principles that distinguish what is right from what is wrong,’ that is practiced without specifying any condition to attain success by “inviting to all that is good (<i>khayr</i>), enjoying what is right (<i>ma’ruf</i>) and forbidding what is wrong (<i>munkar</i>). the term that is most closely related to ethics in the Quran is <i>akhlaq</i>
Chapra	1979	Chapra (1979) explains that Islam covers all sectors of human activity and possess goals and values that encompasses the economic well-being of mankind in terms <i>akhlaqiyyah</i> (Al-Qaradhawi, 2009) norms, brotherhood and justice
Rice	1999	Rice (1999) says Islam provides practical coverage on specific economic dimensions, taxation, wealth management, fair trading and consumption.

Source: Developed by researcher for the current study

Discussion on Ethics by Al-Qaradhawi and other researchers

Conceptually, Islamic business ethics is primarily taken into consideration in the book written by Al-Qaradhawi (2009) and several citations from journals related to this topic is carried out to strengthen the reviewing work. Al-Qaradhawi in his book—*Ekonomi Islam: Nilai dan Akhlak* (2009)⁷ discusses on the values and ethical perspectives of Islamic economy in depth⁸. It covers the importance in preserving the noble status of Islamic principles in the understanding of subject matters such as the scope in production, consumption, distribution and transaction activities. Al-Qaradhawi continues to stress that Islamic economy is characterised by its values and ethics that differs from other economies—capitalism and socialism. The writings are based on the Qur’an and hadiths and specifically, he believes that “no one will be led astray if a person holds onto it—Qur’an and hadiths—as a guideline in life. . . .” and stresses that good ethics in Islamic characteristics in the practice of economic related activities has long been captured in the al-Quran and hadiths and continues to clarify the reason why al-Quran was revealed to Prophet Mohammad (pbuH); that is to ascertain that Islamic ethics is observed by the ummahs as cited in this *ayah*,

“And (remind them) on the day we raise up in every nation a witness against them from among themselves, We shall bring you (O Mohammad) as a witness against (your) people; and We have revealed the Qur’an to you explaining everything, which serves as a guide, a blessing, and good news to Muslim.”

Surah An-Nahl 16:89

Al-Qaradhawi elaborates in the book that, there is a hadiths saying that “Islamic *akhlak* or ethics is of utmost importance in life and Prophet Mohammad (pbuh) is the person—the messenger of Allah who is bestowed to us mankind to practice them”. Islam relates the ethics in the Islamic pillars to be practiced—*solat*, payment of *zakat*, fasting in the month of Ramadhan and perform the pilgrimage to Mekah (the haj) and if these practices are done without having an impact in a person’s *akhlak* and mannerism, the good value in the name of Allah is null or lost. The writer further strengthens the points raised with a *dalil* of hadiths which says⁹:

“Probably there is someone who performs (the ibadah at night) but what he receives is (exhaustion) only sleepless night, and probably there is someone who is fasting but receives nothing in return but only hunger.”

Narrated by Ibn Majah from Abu Hurairah

Beekun (1996) defines ethics as “the set of moral principles that distinguish what is right from what is wrong,’ that is practiced without specifying any condition to attain success by “inviting to all that is good (*khayr*), enjoying what is right (*ma’ruf*) and forbidding what is wrong (*munkar*). This is explained in the Qur’an (3:110);

You are the best of peoples, evolved for mankind, enjoining what is right, forbidding what is wrong, and believing in Allah.

Surah Ali-‘Imran 3:110

⁷ In English Language; “Islamic Economy: Values and Ethics”. The original title is *Dawru al-Wiyam waal-Akhlak fi al-iktisad al-Islamiy*.

⁸ This book is translated into Malay language by Mufti Labib and Arsil Brahim.

⁹ The researcher translated this text from the Malay version as it appeared in the book.

However, Beekun (1996) in turn remarks on how a particular conduct should be adhered to in respect to business context and analyses the determinants of the formation of individual ethics from the several independent variables and constructs. The author cites a hadith that explains about the absence of discrimination in hiring workers¹⁰ and in being honest in daily business transactions—which is termed as legal interpretation. The degree of commitment of an organisation's leader is another factor that determines individual ethics and followed by individual factors ranging from moral development, personal values personality, family influence, life experience and to situational factors of mankind. These points are also explained by Al-Qaradhawi (2009) in terms of these schools of thought; *Rabbaniyyah*, *Akhlaqiyyah*, *Insaniyah* and *Wasatiyyah* and both authors agree that Islamic ethical systems are different from secular systems and other religion's practices.

In a similar context, Chapra (1979) explains that Islam covers all sectors of human activity and possess goals and values that encompasses the economic well-being of mankind in terms *akhlaqiyyah* (Al-Qaradhawi, 2009) norms, brotherhood and justice, fairness in distribution of income and in the context of social welfare. In 2009, Chapra in another journal reveals that the primary purpose of development is to promote well-being with both material and non-material needs which are interdependent and complementing to each other, such as spiritual needs in mental peace and happiness in life which demand all individuals to be considered as equals and treated with dignity. The practices are in respect to the understanding of religious values with regard to the value and ethics in economy and *muamalah Islamiyyah* (Al-Qaradhawi, 2009). As in marketing activity, Chapra (2009) comments that law-makers' regulation is insufficient to prevent cheating, but instead by inculcating the sense of belief in 'reward and punishment in the Hereafter', it is the most appropriate thing to resort to. Consequently, in the year 2009, Chapra has this to say, "As a result of centuries of decline, Muslim countries are at present not in a position to serve as a model for any country. They face many of the same problems that the West faces, some more seriously and some less....."

In multinational businesses, Rice (1999) reveals that it is important for managers to study the business ethics of another country and for this purpose the author discussed the issue in Egypt. Rice (1999) further stresses that there is a mark divergence between philosophy and business ethics practiced in this region and it is of utmost important for international managers to learn about a country's culture when a religion-based subject is to be taken into consideration. The author says that: "Islam is generally misunderstood and it is often surprising to some extend it contains an entire socio-economy system". Islam has the 'moral filter' in business transaction as compared to the free-market capitalist (Rice, 1999) and the religion teaches a person a self-restrain ability to be 'unselfish' (Al-Qaradhawi, 2009) in dealing with goods and services offered in the market. Rice (1999) further mentions about the significance in the knowledge about unity (*tawhid*), justice (*adalah*), trusteeship (*khilafah*) in business transaction which are part of the school of thought of Rabbaniyyah (Godly), *Akhlaqiyyah* (ethics), *Insaniyyah* (humanism), and *wasatiyyah* (the need for balance) (Rice, 1999, Al-Qaradhawi, 2009).

Abuznaid (2009), examines the business ethics from the Islamic perspectives using descriptive, analytical and comparative analysis method. The paper outlines some of the ethical guidelines that should be manifested in a Muslim manager, such as being trustful, honest, and consultative. The author also highlights some of the moral issues that seem to be common between Islam and other religions such as no lying, stealing, fraud, or deceit (Al-Qaradhawi, 2009). Similarly, Abeng (1997) discovers that in the modern business environment, ethic is developed in an environment of a society, and continues to note that even the success of non-Muslim business leaders seems to emulate or resemble the principle in Islamic business ethics. Abuzaid, takes an example of a successful Japanese business man who led his company by and large 'following' the Islamic perspectives in business ethics which relates on such topics as profit maximisation to the distribution of wealth (Chapra, 1979) as it is practiced in capitalistic economy (Al-Qadhawi, 2009)¹¹. This is also part of the school of thought in business transactions which is reflected in the Shari'ah law. Chapra (1979) mentions the great philosopher-reformer-sufi explained that the objective of the Shari'ah is to promote the welfare of the people which lies in safeguarding their faith, their life, their intellect, their posterity and their property. The author comments on the fundamental principles in business ethics streaming into freedom and justice which reveals the right of owning properties such as *Istikhlah*¹² (Al-Qaradhawi, 2009), the legality of trade and the presence of mutual consent in business transaction (Chapra, 1979).

Dimensional factors in ethics (functional activities)

The approach is in the context of the values and ethics in the characteristics of Islamic economy and *muamalah* involving the aspect of the school of thought in *Rabbaniyyah*—godly in nature, *Akhlaqiyyah*—ethics, *Insaniyyah*—humanism, and *Wasatiyyah*—balanced in life. It is largely based on the research findings put forward by a renowned writer Al-Qaradhawi (2009). For the second order construct of *production*, three items are identified, namely; free-mind, *Istiqamah* and punctuality (Al-Qaradhawi, 2009); Chapra, (2009); Beekun, (1996); Kotler (2000) pp 17 and subsequently in *consumption*, 'wasting of food', borrowing and 'spending spree' – (Alserhan, 2011; Al-Qaradhawi, 2009; Chapra, 2009; Krugman and Obstfeld, 2003. pp 299) are the items identified. The third construct is *transaction* which carries 'weighing method', price-fixing, and quality of FFB as the items to be taken into consideration of the research method (Al-Qaradhawi, 2009; Abeng, 1997; Abuznaid, 2009; Al-Aidaros, 2013; Chapra, 1979, 2009; Kotler, 2000 .p.12; Rice, 1999), and finally *distribution* – which has 'collection defaults by buyers', 'holding of stock', and payment of *zakat* as the item in theme Al-Qaradhawi, (2009); Chapra, (2009); Kotler (2000) pp 513. Ismail and Mawar (2012) mention in a journal - as for marketing aspect, Malaysia has a lot potential of trade opportunities among OIC member countries and stresses that in a trade there is no compromise on quality – an ethic to observe.

¹⁰ Narrated by Abu Dharr, Mishkat Al-Masabih, transmitted by Ahmad—"You are not better than people with red or black skins unless you excel them in piety".

¹¹ This is further explained by Al-Qaradhawi (2009) explains in his book mentioned earlier.

¹² *Istikhlah*—This is a concept of ownership of property where everything belongs to the Almighty Allah, and mankind is only given the privilege or power to make good use of them into the school of thought of *Rabbaniyyah*, the godly in nature of all practices in life. p 30.

Competitiveness - Definition of Competitiveness

This is another dimension in the contributing factor of a second order constructs complementing to the dimension of ethics. The definition of competitiveness can be seen from different perspectives. Table 4 shows the various definitions which exist.

Table 4: Definition of competitiveness

Authors	Year	Definitions
Feurer & Chaharbaghi	1994	Competitiveness is relative and not absolute. It depends on shareholder and customer values, financial strength which determines the ability to act and react within the competitive environment and the potential of people and technology in implementing financial strength.
From Business Dictionary Application Version 1.4,		The ability of a firm or nation to offer products and services of the local and world markets at prices that competitive and provide adequate returns on the resources employed or consumed in producing them.
Lau et al.	2009	Competitiveness is a polysemous concept – the phenomenon of having or being open to several or many meanings (Webster’s New World Dictionary)
Porter	1980	Michael Porter a renowned marketing strategist explains the term competitiveness as ”the intensity of competition in an industry is neither a matter of coincidence or bad luck”
Riffin	2009	“The definition of competitiveness on a country level will be different from that on firm level”
Arslan & Tathdil.	2012 p 32	The author quotes the definition from Haque, 1995 - “The ability of a country to produce goods and services that meet the test of the international market and simultaneously to maintain and expand the real income and also rise the welfare level of its citizen”.
Aramayo & Vokun	2012	The ability of a region in the long term, to promote themselves economically against other regions, through the implementation or improvement of technology, infrastructure, education, and maintaining social cohesion and environmental sustainability.
Fagerberg J., et al.	2007	It is a relative term.
Krugman, Paul	1994	Competitiveness is a seductive idea, promising easy answers to complex problems

Source: Developed by researcher for current study

Dimensional factors in competitiveness

Cost of production is a construct, which covers the scope of labour, transportation, effective field maintenance practices (Maletic and Maletic, 2013) that contribute to highest opportunity for improvement in the field, harvesting methods and other related items which reflect into the trade and cost competitiveness of an entity in a business operation (Hadi, 2004; Tham and Loke, 2001; Erceg, 2014; Baskett and Jacquemard, 2005). In pricing, Fagerberg et al., (2007) in a research conducted in 90 countries reveal that price is one the determinants of competitiveness. Price fluctuations or as it is referred as the booms and slumps in prices is well discussed in world commodity market. In addressing the issue in world commodity prices, Cashin et al., (2002); Lescaroux, (2009) and Murphy, (1986); stress that cycle in price fluctuations is a dominant feature of commodity prices and it will continue to be one of the most challenging issues facing policymakers in commodity-exporting developing countries (Srivasta and Talha, 2007); and Malaysia is one of them. However, the idea on government intervention into an industry results in a mixed tone; with some applaud it and some oppose to ‘any kind of government involvement in it’ (Hasan, 2000; Rifin, 2010; Sun et al., 2010; Tai-Yu et al., 2007). Other authors, such as Cashin et al., (2002); and Baffes (2007), further argue that for most commodities, the period spent in the doldrums or bearish market situation last longer than price booms or bullish situation and the probability of price recovery is independent of the time already spent in the slump as exchange rate volatility (Dahl and Iglesias, 2009; Sadorsky, 2000;) tends to provide mixed effect in the short- and long term scenarios on commodities trades (Sari et al., 2010).

Lescaroux (2009) argues that the ups and downs of a commodity market is more related to common changes in fundamental and technical factors. Other commodities especially metals, Crude Oil–called Light Sweet in US, Brent in UK, and raw materials such as those traded in Chicago Board of Trade (CBOT) (Murphy, 1986) are inclined to follow different direction (Baffes, 2007). Chen, S., and Chen, H. (2006) suggest that real oil prices have significant forecasting power of future exchange returns and reflected by previous or historical fundamental and technical factors relative to the commodities in trade (Murphy, 1986; Lescaroux, 2009). Murhy (1986) reveals that the price cycle has the ‘history repeats itself’ behavior which relates the study of market action to human psychology and stresses that “the key to understanding the future lies in the study of the past, or that the future is just a repetition of the past.” This likens to Ries (2000), in his explanation on the similar nature of events in the book *The Asian Storm–Asia’s Economic Crisis Examined*. The book discusses how disaster in the financial crisis affects Malaysia, South Korea, Indonesia and Thailand where many banks were forced to close doors, merge or owed their temporary survival to nationalization. Stock market crashed in 1927 and sixty years later in 1987.

Similar to this notion, Akram (2009) finds that a weaker dollar leads to higher commodity prices. Consequently, Zhang et al., (2008) reveal that, the spillover of US Dollar exchange rate on the crude oil price is relatively unperturbed. These are only

predicted prices based on fundamental and technical factors ranging from climatic report–El-Nino is one of the yearly phenomena affecting crop production, hence the price – to production, import and export figures and stock positions in the local and world market. Furthermore, pricing which covers the price booms and slumps in the market sentiment of a commodity by considering other factors such as USD and exchange rates, prices of crude oil and other related vegetable oil prices and fundamental factors which consequently affect the dependent variables of competitiveness (Santis, 2003; Lescaroux, 2009; Wirl, 2008; Moslares and Ekanayake, 2015; Murphy, 1986; and He and Westerhoff, 2005) of the subjects of the study–the FFB producers. It covers the sub-constructs of revenue, and determination of selling price which involves quality of FFB, and Oil Extraction Rate (OER).

The next construct is innovation and infrastructure which touches on building of road in the fields, purchasing of assets, building of ramps for the collection of FFB and irrigation work (Sasson and Reve, 2014). This is in line with numerous findings on the subject of real interest of USD versus investment cost, shift of focus to technology and development (TD) and the relationship between investment on infrastructure on competitiveness (Tham and Loke, 2001; Tai-Yue et al., 2007; Aramayo and Vokun, 2012; Jian et al., 2006; Fagerberg, et al., 2007; and Huo, 2014). Innovation is considered as the driver for changes in a competitive environment (Feurer and Chaharbaghi, 1994; and Rogers, 1998). Finally, is the related policies prevailing in the country, which covers on taxation or other related procedures drawn in by participating associations, government agencies and NGOs, such as MPOA, MPOPC, MPOB, RSPO and other related industry players. This variable draws many studies resulting in both positive and negative results with many researchers agree on government intervention activity into the industry and some do not (Hasan et al., 2001; Erceg, 2014; Sasson et al., 2014; Zou and Wang, 2012; Williams, 2008; Yu, 2000; Barlow, Zen, and Gondowarsito, 2003). Government interventions in trade such as import tariffs and export subsidies are usually not utilized properly in a country’s term of trade (Krugman and Obstfeld, 2003).

Further to this point, the items in interest in this study pertaining to this variable are: threshold prices, fiscal policy, RSPO, export tax, and bio-diesel or biofuels policy. Babcock (2012) explains that the United States has biofuels policy to regulate its production and notes that crude oil price increases the demand for biofuels and creates strong market-driven investment incentives. As for the advantages, Carriquiry (2007) reveals that biofuels: reduce the emission of gases responsible for global warming; promote rural development; and reduce pollution–and adds that it can also be used without major modifications to engines currently in use.

Dimensions or key contributing factors

There are three dimensions or contributing factors in the conceptual model with each having several items as in the first and second order constructs, namely functional, and operational factors. The third one is the consequences or the outcomes of the mediating effect of the Islamic business ethics among FFB producers.

Table of propositions and references

Propositions are generated from the constructs of the second order of the dimension – P₁, P₂, P₃ and P₄ (see Table 5) - and subsequently through the first order items, further propositions are developed in the following tier of the dimension and appears as P_{1a}, P_{1b}, and P_{1c} ; P_{2a}, P_{2b}, and P_{2c} and followed by P_{3a}, P_{3b}, and P_{3c} respectively. This is an example of the one set of the propositions generated from the construct Production, P₁:

- P₁*- Production activities will strongly influence the practice of Islamic business ethics among FFB producers.
- *P_{1a}* - Free-mind will significantly influence the practice of Islamic business ethics among FFB producers
- *P_{1b}* - Istiqamah will significantly influence the practice of Islamic business ethics among FFB producers
- *P_{1c}* - Punctuality will significantly influence the practice of Islamic business ethics among FFB producers

(Note: Further generation of propositions for P₂, P₃ and P₄ are not shown here).

Table 5. Table of propositions and references

Dimension	Islamic Business Ethics		Propositions	References
	Second Order Constructs	First Order Constructs		
Functional factors - ethics	Production	<ul style="list-style-type: none"> • Free-mind • Istiqamah • Punctuality 	P ₁ - Production activities will strongly influence the practice of Islamic business ethics among FFB producers (See P _{1a} ,P _{1b} and P _{1c} below)	Al-Qaradhawi, (2009); Chapra, (2009); Beekun, (1996); Kotler (2000) pp 17.
	Consumption	<ul style="list-style-type: none"> • Wasting of food • Borrowing 	P ₂ - Consumption activities will strongly influence the practice of Islamic business ethics	Alserhan (2011); Al-Qaradhawi, (2009); Chapra, (2009); Krugman and Obstfeld (2003) pp 299; Rice (1999).

	<ul style="list-style-type: none"> Spending-spree 	among FFB producers (See P _{2a} , P _{2b} and P _{2c} below)	
Transaction (honesty, trustworthy, advice)	<ul style="list-style-type: none"> Weighing method Price-fixing Quality of FFB 	P ₃ - Production activities will strongly influence the practice of Islamic business ethics among FFB producers (see P _{3a} , P _{3b} , and P _{3c} below)	Al-Qaradhawi, (2009); Abeng (1997); Abuznaid, (2009); Al-Aidaros (2013); Chapra, (1979, 2009); Ismail & Mawar (2012); Kotler (2000) p.12; Rice (1999)
Distribution	<ul style="list-style-type: none"> Collection defaults by buyers Holding of stock Payment of Zakat 	P ₄ - Distribution activities will strongly influence the practice of Islamic business ethics among FFB producers (See P _{4a} , P _{4b} , and P _{4c} below).	Al-Qaradhawi, (2009); Chapra, (2009); Kotler (2000) pp 513;

Source: Developed by researcher for current study

Table of hypothesis and references

Hypothesis are generated from the constructs of the second order of the dimension – H₁, H₂, H₃ and H₄ (see Table 8), and subsequently through the first order items, further hypothesis are developed in the following tier of the dimension to appear as H_{1a}, H_{1b}, and H_{1c}; H_{2a}, H_{2b}, and H_{2c} and followed by H_{3a}, H_{3b} and H_{3c} respectively. This is an example of the one set of the hypothesis generated from the construct - cost of production, H₁:

- H₁ - Production Cost positively affects the competitiveness of Muslim producers in Malaysia*
- H_{1a}: Labour significantly affect the competitiveness of FFB producers in Malaysia*
 - H_{1b}: Transportation significantly affect the competitiveness of FFB producers in Malaysia*
 - H_{1c}: Field maintenance significantly affect the competitiveness of FFB producers in Malaysia*

(Note: Further generation of Hypothesis for H₂, H₃ and H₄ are not shown in this paper).

In the outcome or consequences theme, two Hypothesis, H₅ and H₆ are identified representing the mediating effect of Islamic business ethics on the line of analysis of FFB producers’ performance and reputation (Awang, Z., & Jusoff, K. 2009; Ahmad, 2001, and Rokhman W., 2010).

Table 6. Table of hypothesis and references

Dimension	Competitiveness		Hypothesis	Reference
	Second Order	First Order		
Operational	Production Cost	<ul style="list-style-type: none"> Labour Transportation Field Maintenance 	H ₁ - Production Cost positively affects the competitiveness of Muslim producers in Malaysia	Baskett & Jacquemard, 2005; Erceg, 2014; Hadi, 2004; Maletic D., & Maletic M., 2013), Subramaniam, 1997; Tham & Loke, 2001.
	Pricing	<ul style="list-style-type: none"> Selling Price Quality OER 	H ₂ - Pricing positively affects the competitiveness of Muslim producers in Malaysia	He & Westerhoff, Lescaroux, 2009; Moslares, 2015; Murphy, 1986; Teoh, (2002) Wirl, 2007.
	Innovation & Infrastructure	<ul style="list-style-type: none"> Road Asset FFB collection ramp Irrigation 	H ₃ - Innovation and infrastructure positively affects the competitiveness of Muslim producers in Malaysia	Aramayo & Vokun, 2012; Fagerberg et al., 2007; Feurer & Chaharbaghi, 1994; Jian et al., 2006; Huo, 2014; Tham & Loke, 2001; Sasson & Reve, 2014; Tai-Yue et al., 2007; Teoh (2002)

	Policy	<ul style="list-style-type: none"> • Threshold price • Fiscal policy • RSPO • Export tax policy/Tariff • Biodiesel 	H4 - Policy positively affects the competitiveness of Muslim producers in Malaysia	Barlow et al., 2003; Carriquiry, (2007); Erceg, 2014; Ismail & Mawar (2012); Teoh, (2002); Williams, 2008; Zou & Wang, 2012.
Outcome	Reputation	<ul style="list-style-type: none"> • Respect in community • Easy to handle with buyer • Easy to handle with government agency 	H5 –Islamic mediation positively affects the Muslim FFB producers' reputation	Awang & Jusoff (2009); Dean (2014).
	Performance	<ul style="list-style-type: none"> • Sales • Profit • Motivation 	H6 – Islamic mediation positively affects the Muslim FFB producers' performance	Ahmad (2001); Rokhman (2010); Yeganeh (2013); Rice (1999). Dean (2014).

Source: Developed by researcher for current study

Conclusion

This is a preliminary study involving the line of analysis of the FFB producers through the antecedents or contributing factors of dimensions of business ethics and competitiveness to realise the Islamic mediating effect in this research philosophy where various propositions and hypothesis are generated. It is a multi-case study protocol utilizing the deductive and inductive approaches in both qualitative and quantitative research methodology in arriving into the outcome of the study that are expected to contribute to the in-depth understanding of the mediating Islamic effects on Muslim FFB producers in Malaysia, the method, and to the industry and policy in particular.

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