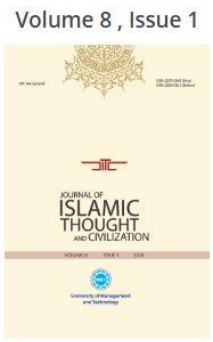

Journal of Islamic Thought and Civilization (JITC)

Volume 8, Issue 1, Spring 2018
ISSN: 2075-0943, eISSN: 2520-0313
Journal DOI: https://doi.org/10.32350/jitc
Issue DOI: https://doi.org/10.32350/jitc.81
Homepage: https://www.umt.edu.pk/jitc/home.aspx

Journal QR Code:

Article: **Supply Chain Management: An Islamic Business Ethics Perspective**

Author(s): **Noor ul Ain**
Asher Ramish

Online Pub: Spring 2018

Article DOI: https://doi.org/10.32350/jitc.81.10

Article QR Code:

Noor ul Ain

To cite this article: Ain, Noor ul, and Asher Ramish. "Supply chain management: An Islamic business ethics perspective." *Journal of Islamic Thought and Civilization* 8, no. 1 (2018): 144–166.
Crossref

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A publication of the
Department of Islamic Thought and Civilization
School of Social Science and Humanities
University of Management and Technology
Lahore

Indexing Partners

Supply Chain Management: An Islamic Business Ethics Perspective

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Abstract

This paper basically aims to explore and introduce the opportunities of using Islamic business ethics and regulations as a mechanism for resolving ethical quandaries in the contemporary business world. The paper firstly introduces a practical approach for Islamic business ethics that is identified by reviewing The Holy Qur'ān, *Hadith*. Interviews are conducted with Islamic scholars to reason its applicability in the field of supply chain and a comparative analysis is done through literature review of supply chain ethics to demonstrate how Islamic business ethics could be implemented in order to arrive at a moral judgment. The study is qualitative and conceptual in nature. The findings of the study disclose that the similarities between Islamic and supply chain ethics are tremendous. The findings of the study reveal the confirmatory pieces of evidence to validate the roots of supply chain ethics in Islamic business ethics. This paper provides systematic insights and a practical approach to the compatibility and applicability of Islamic business ethics into supply chain ethics in order to improve the overall performance of the supply chain. The similarities are being disclosed with a view to incorporate them into supply chain ethics for effective supply chain management to govern ethical decisions. The proposed structure and developments can help to resolve ethical issues to enhance the supply chain performance by incorporating Islamic business ethics into supply chain ethics. Its limitations are that some constructs from Islamic and supply chain ethics may still have not been compared and can be researched in future.

Keywords: Islam, Supply Chain Management, Ethics, Supply Chain Ethics, Islamic Business Ethics

Introduction

In recent era, individuals have to face many ethical concerns frequently in various aspects of everyday life and even at work which they are not much familiar with; the ways to deal with such ethical issues as these ethical concerns entail a good balance between numerous conflicting principles. Moreover, no universal agreement is existing regarding the definition of what is wrong and right. In a review of published articles in

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the Wall Street Journal in 1991, ethical issues such as theft, deceitfulness, dishonesty, deception, conflict of interest, discrimination and fraud etc. were reported.[1] Therefore, the adoption of ethical perspective has been essentially restrained for today's contemporary businesses in order to effectively manage and consolidate different business activities. The two most broadly talked about perspectives are; the Islamic view and the western view. Organizations generally manipulate themselves according to the political, legal and social values of that particular country in which they exist. Hence, the culture and ethical concerns of Islamic and western countries differ from each other.[2]

Consequently, the various operations of organizations are handled according to the environmental fabric of the particular country where they are located and especially for Muslims this can be done more efficiently with the familiarity of comprehensive Islamic business ethics. In the Qur'ān Allah says, "Allah has made business legitimate for you."[3] In recent era for any business entity, one of the most crucial departments to look for is Supply Chain Management (SCM). Intense global competition, products with shorter life cycle, and increased opportunities are the key determinants which have enforced organizations to pay more consideration to SCM and make substantial investments in this field.[4] The contemporary developments in business world have made supply chain management, as one of the most attention seeking area for the managers and policy makers. Consequently, SCM has become a key component of competitive strategy in order to improve organizational productivity and ultimately profitability of the organization as a whole.[5] So the management of supply chain should also be done in legitimate ways. With the discussion on ethics, the basic idea that comes in mind is the behavioral trait of the people and managers, in relation to dealing with the customer in best possible way. The term business ethics is very vast and substantial in Islam. In Islam the revelation and guidance about business ethics came from Qur'ān, *Sunnah* and *Hadith* of Prophet Muhammad (*SAW*).[6]

The aim of this paper is to contribute towards the application of Islamic business ethics in supply chain management using the examples from Islam and supply chain management literature. The next section of the paper is structured as follows: The

[1]Jay Owen Cherrington and David Jack Cherrington, "A Menu of Moral Issues: One Week in the Life of the Wall Street Journal," *Journal of Business Ethics* 11, no. 4 (1992): 255-265.

[2]Bilal Khan, Ayesha Farooq and Zareen Hussain, "Human Resource Management: An Islamic Perspective," *Asia-Pacific Journal of Business Administration* 2, no. 1 (2010): 17-34.

[3]Al-Qur'ān: al-Baqarah 02:275.

[4]David Simchi-Levi, Philip Kaminsky, and Edith Simchi Levi, "Designing and Managing the Supply chain: Concepts, Strategies, and Case Studies," (McGraw-Hill, 2003).

[5]Angappa Gunasekaran et al., "A Framework for Supply Chain Performance Measurement," *International Journal of Production Economics* 87, no. 3 (2004): 333-347.

[6]Muhammad Hashim, "Islamic Perception of Business Ethics and the Impact of Secular thoughts on Islamic Business Ethics," *International Journal of Academic Research in Business and Social Sciences* 2, no. 3 (2012): 98-120.

literature review is being presented for ethics, business ethics, and Islamic and supply chain ethics. Then, a comparative review analysis is presented of different Islamic and SCM ethics variables/constructs. The last section presents the sum-up conclusion of the review.

2. Literature Review

2.1. Ethics

Ethics can be defined as an assemblage of moral beliefs and principles that differentiate what is right and what is wrong.[7] Ethics describe someone about the things that should be done and the things that must be prohibited, hence we can state that ethics are normative in nature. Ethics are well-thought-out as moral standards which helps in judging the behavior of people. Ethics are frequently summed up as the 'golden standards' to be followed by the individuals as well as the organization for achieving prosperity and success. [8]

2.2. Business Ethics

A business or firm is basically an economic system and organization which is intended to provide goods and services to the customers and in turn earn profits from them.[9] Businesses have to deal with numerous stakeholders and clients in order to provide best goods and services to their customers. Business ethics are very crucial these days and these ethics refer to the moral guidelines and principles that are governing the business world.

These moral standards direct decision making of organizations. Some of these business ethics are obligatory by government and law, so businesses are obligated to follow them. However, a number of business decisions are not mandatory by law, but these decisions also require ethical or moral judgments before the final decision.[10] The significance of business ethics can be described by comparing them with the foundation of a building, as without foundation and pillars no building can stand. Just like the role of pillars and foundation in constructing and designing the skeleton of a building, no business can achieve its goal without adopting ethical practices sustainably. These business ethics are basically designed according to the core standards and values of the particular organization.[11]

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[7]Andrew Crane, and Dirk Matten, *Business Ethics: A European Perspective. Managing Corporate Citizenship and Sustainability in the Age of Globalization* (Oxford University Press, 2004).

[8]Nel Noddings, *Caring: A Relational Approach to Ethics and Moral Education* (University of California Press, 2013).

[9]Bahodirjon Ganiev, "Business-Ethics in Islam," *Theoretical and Applied Science* 7 (2015): 177-179.

[10]Samir Ahmad Abuznaid, "Business Ethics in Islam: the Glaring Gap in Practice," *International Journal of Islamic and Middle Eastern Finance and Management* 2, no. 4 (2009): 278-288.

[11]Bahodirjon Ganiev, "Business-Ethics in Islam," *Theoretical and Applied Science* 7 (2015): 177-179.

Islamic Ethics

"You are the best of peoples, evolved for mankind, enjoining what is right, forbidding what is wrong, and believing in Allah."[12]

In Islam, the most thoroughly linked term with ethics is '*Khulq*,' that is being explained in Qur'ān through a varied range of terms such as *Haq* (right, fact and truth), *Khair* (virtuousness), *adal* (stability and fairness), *qist* (impartiality and parity), *birr* (morality, virtue), *taqwa* (piousness and devoutness) etc. Moral and virtuous actions are designated as '*Salihāt*' while the immoral and dishonest actions are termed as '*Sayyi'aāt.*'[13] In Islam the basic ethics, standards and rules are derived from two ultimate sources which guide and describe principles and actions. The first source is divine and spiritual, the message to Prophet (*SAW*), the last messenger of God in the series of messengers by Almighty himself and is recorded in the Holy Qur'ān. The second source is the demonstration of the message of God by the actions, standards and sayings of Prophet (*SAW*) and are termed as the *'Sunnah.'*

The Holy Qur'ān and *Sunnah* are regarded as the final and vital conclusion and guide of the revelations of Allah to humanity by the Muslims.[14] Islamic business ethics were explained by Beekun and Badawi in a normative perspective.[15] They argued that like other aspects of ethics in daily life, business ethics also cannot be ignored. The salient features of the system of Islamic ethics are that they are well-adjusted, impartial, fair and compassionate, and well balanced. The Islamic ethical system emphasizes on rights of each stakeholder either primary or derivative and simultaneously prohibits mistreatment, favoritism and other human misfortunes, as Allah has given man the role of His steward or agent on Earth and hence he must adhere to Islamic practices for fair and just business activities. [16]

2.3. Supply Chain Management (SCM) Ethics

This increased importance of Supply Chain ethics in the present times is because of the wide range of activities that it encompasses such as from procurement of raw materials to its delivery to the end user. The supply chain strategies that are aimed at achieving efficient and integrated supply chain should incorporate ethical consideration;

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[12]Al-Qur'ān: āl-Imrān 3:110.

[13]Rafik Issa Beekun, *Islamic Business Ethics* (Virginia: International Institute of Islamic Thought IIIT, 1997).

[14]Azim Nanji, *Islamic Ethics: A Companion to Ethics* (Basil Blackwell *Oxford*, 1991): 106-18.

[15]Rafik Issa Beekun and Jamal A. Badawi, "Balancing Ethical Responsibility among Multiple Organizational Stakeholders: The Islamic Perspective," *Journal of Business Ethics* 60, no. 2 (2005):131-145.

[16]Mohd Zulkifli et al., "The Concept of Business Ethics in Islamic Perspective: An Introductory Study of Small and Medium Enterprises (SMEs)," *Entrepreneurship Vision 2020, Innovation, Development Sustainability, and Economic Growth* (2013): 1021-1032, http://umkeprints.umk.edu.my/1481/1/Entrepreneurship%20Vision%202020.pdf

for satisfying the needs of all supply chain partners. It must also take into account the assortment of varied organizational entities which includes both internal (functional) and external (supplier level) entities.[17]

Poor management of SCM would lead to increased costs, decreased profits and finally decreased optimization. The management of supply chain is done by either entirely integrating in-house activities which are performed inside a firm or it can be done with the help of autonomous activities of each channel within the end-to-end chain.[18]

The field of Supply Chain became an internationally managed area of management field in the period of late 1970s to 1999. The year 2000 primarily turned around the increasingly synchronized Supply Chain operations, where Supply Chain assisted supplementary functions of the company in the form of an integrated approach.[19] Global trends of sourcing, quality-based competition along with reduced lead time and in-time delivery are some of the fundamental drivers for the frequent adoption of Ethical SCM practices. These factors are stimulating the need for the organizations to have an effective as well as ethical supply chain management. Moreover, the worldwide movement of material and processes requires corporations to pursue more ethical ways, in order to synchronize the information and materials flow throughout the organization.[20] During 1980's, the adoption of modern technologies, tools and strategies such as Kanban, Lean management, Just-in-time, and Total Quality Management reduced the cost of production and increased the overall profitability of the organization. Such approaches were very successful for reducing the manufacturing costs. In the recent times, the focus of such companies has been shifted towards ethical considerations within Supply Chain Management with a view to improve market share as well as profits.[21]

2.4. Comparative Analysis of Islamic and Supply Chain Ethics

This section presents a detailed comparative analysis of different variables regarding Islamic and supply chain ethics by highlighting the similarities between them and demonstrating the worthy effects of incorporating Islamic ethics into SCM. The variables/constructs are discussed and demonstrated in the figure below:

[17]Soo Wook Kim, "An Investigation on the Direct and Indirect Effect of Supply Chain Integration on Firm Performance," *International Journal of Production Economics* 119, no. 2 (2009): 328-346.

[18]Martin Christopher, *Logistics and Supply Chain Management* (UK: Pearson, 2016).

[19]Michael H. Hugos, *Essentials of Supply Chain Management* (John Wiley and Sons, 2018).

[20]John T. Mentzer and Mark A. Moon, *Sales Forecasting Management: A Demand Management Approach* (Sage, 2004).

[21]David Simchi-Levi, Philip Kaminsky, and Edith Simchi Levi, *Designing and Managing the Supply Chain: Concepts, Strategies, and Case Studies* (McGraw-Hill, 2003).

Islamic and Supply Chain Ethical Principles	Transparency *(Al-Shafafiyah)*
	Conflict Resolution *(Al-Halul-Tana'zaat)*
	Win-Win Situation *(Al-Fouzo-Lil Janibāin)*
	Consensus based Forecasting *(Al-Ijma)*
	Sharing Rewards *(Al-Taqāsimul-Makafāt)*
	Actual and Derived Demand *(Al-Talabul-Fa'aili Wa Talabul-Mushtak)*
	Relationship Management *(Al-Idaratul-AlaKaat)*

Figure 1. Seven Islamic and SCM Ethical Principles

2.4.1. Transparency

Transparency is referred as a process that assumes honesty and integrity in communication, full revelation of information and a rational expectation in relation to the upfront exchange between different parties, having genuine stakes in the potential outcomes of a particular act.

a. Transparency in Islamic Ethics. Islam places great emphasis on lucidity, transparency and truthfulness as standardized qualities, pertaining to matters related to business and corporate operations; for avoiding all sorts misunderstanding or doubts. Numerous examples can be found in Qur'ān and *Hadith* in this regard. Allah says in Holy Qur'ān:

> "Woe to those that deal in fraud, those who, when they have to receive by measure from men, exact full measure, but, when they have to give by measure or weight to men, give less than due. Do they not think that they will be called to account?"[22] In another verse, Allah warns the people that He is witnessing every act whether it is business or recitation of Qur'ān…" We are Witnesses thereof when you are deeply engrossed therein."[23]

[22]Al-Qur'ān: al- Mutaffifīn 83:1-4.
[23]Al-Qur'ān: Yūnus 10:61.

Prophet (*SAW*) clearly instructed the principles of buying and selling. "*Kitāb-ul Buyu*" (The book of Buying and Selling) in every *Hadith* compilation has many narration of Prophet (*SAW)* concerning the principles of business. It is reported from Prophet (*SAW*) that he said:

> "The seller and the buyer have the right to keep or return the goods as long as they have not parted or till they part; and if both the parties spoke the truth and described the defects and qualities [of the goods], then they would be blessed in their transaction, and if they told lies or hid something, then the blessings of their transaction would be lost."[24]
>
> It is also reported on the authority of Abu Huraira (*RA*) that, "Once prophet (*SAW*) passed through grain pile, He put his hand inside the pile, and he felt the grains wet, Prophet (*SAW*) asked the owner of grains that why the grains are wet? The owner replied that these became wet due to rain. Then Prophet (*SAW*) again asked that why you didn't put these wet grains up-side so that people could see the defects of them. Then Prophet (*SAW*) said, the adulterous is not amongst us."[25]

These examples from Qur'ān and Hadith emphasize upon clarity and transparency within business and trade activities. Transparency and clarity in business dealings reduce chances of failure and enhance the overall effectiveness and success the venture. On the other hand, it also reduces the chances of victimization of one party from the other, through activities such as concealing, dishonesty, cheating or deceitfulness. The basic ruling is to respect moral values while initiating transactions and business dealings, bearing in mind the teachings of our religion. So the above verses and *Hadiths* clearly depict the concept of transparency within supply chain management and highlights it within the context of Islamic teachings and ethics.

b. Transparency in SCM Ethics. Transparency is an important issue in SCM ethics due to following reasons: It mostly inhibit the companies from the ethical dilemmas triggered by different direct or indirect actors of supply chains (i.e. different tier suppliers and customers, other companies etc.) so these dilemmas can create hurdles for the companies and can harm the reputation and goodwill of the companies in the market, among stakeholders and in society as a whole, Additionally, the credibility and business survival can also be at stake. So it is important to develop and maintain transparency at all levels of supply chain, to enhance the visibility throughout the supply chain. In order to observe and manage different levels of supply chains i.e. upstream and downstream, transparency is required in corporate activities and conducts. Major and renowned companies focus on transparency of supply chain management ethics amongst both point-of-source and the

[24]Muhammad b Ismail Bukhari, *Sahih al-Bukhari*, "The Book of Sales (Bargains)," If both the seller and the buyer explain the good and bad points regarding the transaction and hide nothing and give sincere advice. Hadith. No. 2079.

[25]Abu Isa Tirmizi, *Jami at-Tirmidhi*, "Book of Business," Hadith. No. 1315, https://muflihun.com/tirmidhi/12/1315.

point-of-destination, in order to avoid unanticipated ethical dilemmas ranging from marketplace to different stakeholders.[26]

- A partnership model in support for transparency was given by Wood's, in which he highlighted various areas within a corporate that requires commitment towards business ethics (e.g. ethical culture and organizational artifacts; ethics between stakeholders and marketplace) and explained how transparency is essential within corporate activities, operations and behaviors, in order to prevent blame game and inappropriate actions or behaviors of different actors involved in the supply chain. Transparency in supply chain is not an easy task to accomplish, as it requires a concrete beginning with constant improvisations with time.[27]
- Transparency is not just about gaining visibility within supply chain management. Through transparency a company can attain various insights, which can assist them for initiating numerous reasonable actions and for coping up with risks effectually. This can be exercised through retrieving, learning from, and by taking actions on supply chain information. So all these features make transparency a vital process and enhance the capacity of companies to manage risk with the help of a constructive supply chain resilience against the influences introduced by crucial risks.[28]

2.4.2. Conflict Resolution

Conflict is a state of dispute or clash between co-dependent parties that have different opinions, essentials and concerns. Most of the times, the impact of conflict is negative and it interrupts the smooth and regular flow of working operations. Conflict resolution finds out a non-violent solution for such conflicts by initiating negotiations and satisfying parties in the best possible manner.

a. Conflict Resolution in Islamic Ethics. Almighty Allah in the Qur'ān commands to make peace among two groups of believers in case of any conflict[29], as all believers are brothers and this reconciliation will be blessed by Allah.[30] It is also narrated from Um Kulthum bint Uqba that Prophet Muhammad (*SAW*) said, "He who makes peace between the people by inventing good information or saying good things, is not a liar."[31]

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[26]Göran Svensson, "Aspects of Sustainable Supply Chain Management (SSCM): Conceptual Framework and Empirical Example," *Supply Chain Management: An International Journal* 12, no. 4 (2007): 262-266.

[27]Greg Wood, "A Partnership Model of Corporate Ethics," *Journal of Business Ethics* 40, no. 1 (2002): 61-73.

[28]Kelly Marchese and Jerry O' Dwyer, "From Risk to Resilience: Using Analytics and Visualization to Reduce Supply Chain Vulnerability," *Deloitte Review* 14, (2014): 122-133.

[29]Al-Qur'ān: al-Hujurāt 49:9.

[30]Al-Qur'ān: al-Hujurāt 49:10.

[31]*Sahih al-Bukhari*, "Book of Peacemaking," Chapter, He who makes peace between the people is not a liar Hadith. No. 2692, https://sunnah.com/bukhari/53/3.

In another Hadith, Sahl b. Saad narrates, "Once the people of Quba fought with each other till they threw stones on each other. When Allah's prophet (*SAW*) was informed about it, He said, "Let us go to bring about reconciliation/resolution between them."[32]

All of the above verses and *Hadiths* disclose the importance of conflict resolution and make reconciliation between people, for better future in this world as well as the life hereafter. Conflict resolution is essential for smooth functioning and helps in aligning the conflicting goals and interests of different supply chain partners, in order to achieve organizational goals.

b. Conflict Resolution in Supply Chain Management. In supply chain, conflict can be defined as the working as well as the behaviors of different co-dependent parties which obstruct those parties in accomplishing their objectives.[33] So these different and conflicting opinions result in poor efficiency and reduces service level to the customers. Resolution of these conflicts is important to accomplish overall goals of the organization. The following discussion clarifies the debate regarding this issue.

- A negative relationship has been found between conflict and supply chain performance i.e., quality of product, costs, lead time etc.[34]
- It is evident that almost 24% to 60% of management efforts in relation to time and energy are consumed for the resolution of conflicts, having negative consequences such as low motivation, increased stress levels, high turnover, reduced efficiency and weak performance.[35]
- Conflict prevails within and between different supply chain partners due to various reasons such as inadequate trust between partners, diverse goals of different partners, use of bullying due to power, win-loss attitude and lack of collaboration and support among partners.[36]
- In some situations, conflicts encourage creativeness, improvement, and enhancements at certain levels. However, supply chain relationships among different partners can be damaged by extreme and unnecessary conflicts. Proper conflict management tactics such as cooperation, synchronization, participation of suppliers in product design, effective and improved communication between partners, collaboration and shared thoughtfulness between different concerned

[32]*Sahih al-Bukhari*, "Book of Peacemaking," Chapter: "Let us go to bring about a (re)conciliation." Hadith. No. 2693, https://sunnah.com/bukhari/53.

[33]Anne Coughlan et al., *Marketing Channels* (Prentice Hall, 6th ed., 2001).

[34]Ping-Kit Lam and Chin Kwai-Sang, "Identifying and Prioritizing Critical Success Factors for Conflict Management in Collaborative New Product Development," *Industrial Marketing Management* 34, no. 8 (2005): 761-772.

[35]Tony Fiore, "Resolving Workplace Conflict 4 Ways to A Win-Win Solution," (2005), https://www.businessknowhow.com/manage/resolve.htm

[36]Süleyman Barutçu et al., "Supply Chain-Based Conflict: A Study from Textile Exporters' Perspectives," *Journal of Global Strategic Management* 4, no. 2 (2010): 90-102.

parties or partners of supply chain can reduce the negative consequences of conflicts.[37]

2.4.3. Win-Win Situation

Win-win situation describes situations as well as attitudes that generate a win or equal benefits for all the parties involved within and would not take place if both the parties do not agree upon the implications of this win-win situation for them. Win-win does not focus upon having a good intention towards each other but instead requires mutual consent of all involved parties, for attaining objectives through collaboration and integration.

a. Win-Win Situation in Islamic Ethics. Islam emphasizes upon equitable dealings and lawful sources of wealth and draws a distinction between legitimate and unlawful sources of earning. The basic principle states that it is discrimination if one individual is earning profit in a transaction whereas the other individual is suffering from loss and such kind of earnings are not allowed in Islam.[38]

Allah says in the Holy Qur'ān, "Give just measures and cause no loss (to others) by fraud and weigh with scales true and upright and do not make people short of their things, and do not spread disorder in the land as mischief-makers."[39] Qur'ān also warns not to use oaths as tools of deceit in these words, "You resort to oaths as instruments of mutual deceit, so that a person might take greater advantage than another; although, Allah puts you to the test through this. Surely, on the Day of Resurrection, He will make clear the truth concerning the matters over which you differed."[40]

Prophet Muhammad (*SAW*) also warned believers from injustice and miserliness, "Avoid doing injustice and loss to others, for on the Day of Judgment, it will turn into manifold darkness, and safeguard yourself against miserliness, for it ruined those who were before you. It incited them to murder and treating the unlawful as lawful."[41]

The above examples from Qur'ān and *Hadith* reveal that gaining profits at the expense of others is strictly prohibited in Islam. Only those transactions are permitted in Islam that encompasses the free consent of all involved parties and benefits all parties equally, as impartiality among transactions is one of the fundamental principles of Islam.

b. Win-Win Situation in SCM Ethics. In today's dynamic environment, no partner can gain enduring benefits by focusing upon win-loss strategy i.e., I win and you can go, because in such a situation the other partner who does not attain expected benefits may

[37]Kevin Bradford et al., "Managing Conflict to Improve the Effectiveness of Retail Networks," *Journal of Retailing* 80, no. 3 (2004): 181-195.

[38]Sayyid Abul A'la Mawdudi, *Towards Understanding Islam* (Kube Publishing Ltd, 2013).

[39]Al-Qur'ān: ash-Shu□arā 26:181-183; al- Mutaffifīn 83:1-4.

[40]Al-Qur'ān: an-Nahl 16:92.

[41]*Sahih Muslim*, Hadith No. 203.

choose to work with someone else. So long term collaborations, mutual risk and benefit focus upon win-win relationship which is required in order to have enduring and optimized benefits.[42]

- The win-win situation takes place, when all supply chain entities get higher profits rather than a single or individual entity. This can be attained through a well-coordinated and collaborative supply chain, by having optimization of the entire supply chain initiated through joint actions and best performance by several supply chain entities.[43]
- In order to have optimization of entire supply chain, several entities of supply chain in the present times have a contemporary view; to act as one unit rather than focusing on each entity's isolated profit. So this contemporary view of supply chain emphasizes the need of coordination and collaboration among several supply chain entities in order to realize and attain a win-win situation.[44]
- In supply chain, several organizations are involved in order to pursue their autonomy and at times have contradictory objectives. To achieve these objectives, enforcement of coordination and collaboration is crucial, which can be attained in a win-win situation through mutual consent, ensuring that each participant in the supply chain receives a higher profit than separate isolated profits of each participant.[45]
- The idea of co-prosperity given by Toyota also indicates that Toyota as a customer wants not only themselves to win but also want their suppliers to co-prosper along with them, as only this can ensure a sustainable growth of the supply chain.

2.4.4. Consensus based Forecasting

Forecasting is a process of predicting the future. In the contemporary business environment various forces such as globalization and environmental dynamics initiate the necessity of reducing costs through waste reduction, cheap production and enhancing the quality and lead time. This can be done only if the supply chain is collaborated and well aligned in terms of information and resource sharing. Consensus based forecasting is the need of the hour for having a collaborative forecasting of supply chain.[46]

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[42]Hartmut Stadtler, "Supply Chain Management: An Overview," *Supply Chain Management and Advanced Planning* (Berlin, Heidelberg, Springer, 2015): 3-28.

[43] Jianxiong Zhang et al., "Coordinating a Supply Chain for Deteriorating Items with a Revenue Sharing and Cooperative Investment contract," *Omega* 56 (2015): 37-49.

[44]Veen van der, Jack and Venugopal V., "Win–Win Situations in Supply Chain Partnerships: a Tutorial," *OR Insight* 13, no. 3 (2000): 22-28.

[45]Jianxiong Zhang et al., "Coordinating a Supply Chain for Deteriorating Items with a Revenue Sharing and Cooperative Investment Contract," *Omega* 56 (2015): 37-49.

[46]Noah Schachtman, "Trading Partners Collaborate to Increase Sales," *Information Week* 807 (2000): 182-188.

a. Consensus Based Forecasting in Islamic Ethics. Islam places much emphasis on mutual consultation (*Shura*) while conducting affairs and matters. This can help in achieving better outcomes and hence decisions should be initiated after mutual consultation. Allah says in Qur'ān, "And consult them in the conduct of affairs, once you have taken a decision (through mutual consultation); place your trust in Allah. Surely, Allah loves those who place their trust in Him."[47] Allah blesses those who conduct their affairs by mutual consultation.[48] The important of consent is evident from the verse where it has been asked not to take other's property without their consent. "O you who believe: do not devour each other's property by false means, unless it is trade among you by mutual consent."[49]

Prophet Muhammad (*SAW*) also used consult his companions which is indicated through various traditions as well. Sayyidina Mu'adh (*RA*) reported that (when) Allah's Messenger (*SAW*) sent him to Yemen, he asked him how he would decide (cases). He said, "I will decide in accordance with Allah's Book (the Qur'ān)." He asked, "What, if it is not in the Book of Allah?" He said, "(I shall act) in accordance with the *Sunnah* of the Messenger of Allah (*SAW*). "He asked, "And if it is not in the *Sunnah* of Allah's Messenger (*SAW*)?" He said, "I shall do my best to form an opinion (through consensus) and I shall spare no effort."[50]

All of the above verses and hadiths demonstrate that those decisions and matters that are resolved through mutual consultation and consensus are more significant and hence could generate better results than decisions that are taken by a particular individual.

b. Consensus based Forecasting in SCM Ethics. Forecasting has gained enormous significance over the past few decades because it helps in accomplishing crucial purposes for the organization such as, target evaluation, resource allocation, integration of conflicting and different objectives of varying functional departments, product development etc. The business environment is dynamic and hence there exist chances of error in the forecasts which can lead towards misallocation of resources and poor efficiency. These errors can be minimized through consensus based forecasting by engaging the concerned actors in the development of forecasts because consensus based forecasting is done by keeping in view the opinions and suggestion of different supply chain players.[51]

- Firms that aim to act proactively in anticipation of events for them consensus based forecasting is very crucial in order to align the required resources to

[47]Al-Qur'ān: āl-Imrān 3:159.

[48]Al-Qur'ān, ash-Shūrā, 42:38.

[49]Al-Qur'ān, an-Nisā, 4:29.

[50]Muslim b Hajjaj, *Sahih Muslim,* "Kitab al-Iman (Faith)" Hadith. No. 46. http://ahadith.co.uk/hadithbynarrator.php?n=Muadh+bin+Jabal&bid=4&let=M

[51]Larry Lapide, "An S&OP Maturity Model," *The Journal of Business Forecasting* 24, no. 3 (2005): 15-20.

accomplish their targets in the best possible manner. It is significant that the forecasting process includes the consensus of different actors having varying objectives and interests, along with collaborative information exchange helps in reducing the forecast errors and conflicts among different supply chain partners.[52]

- The accurate forecasting is a process that requires information and input from multiple sources and actors for having a wider look on the internal as well as external factors which can have an impact upon the functioning of the supply chain. This can be done only with the help of consensus based forecasting which can assist to integrate information from multiple sources and supply chain actors into an effective executable plan that can be implemented throughout the supply chain.[53]
- The accuracy of a forecast can be improved by initiating impartial negotiations and collaborations between various enthusiastic predictors from different supply chain levels. This can be achieved through consensus based forecasting which helps in developing an effective and agreed forecast for implementation.[54]

2.4.5. Sharing Rewards

Rewards act as motivators for the continuity of performance. Now a days the business environment is dynamic hence the traditional way of giving rewards on the basis of individual outcomes is emerging. Thus the focus has shifted from an individual rewards approach to a holistic approach in order to reduce conflicts of interest and objectives amongst several business partners and to have aligned and collaborative goals and outcomes for optimal performance. So sharing rewards among all concerned partners and actors is required for achieving a sustainable competitive advantage in the emerging global market.

a. Sharing Rewards in Islamic Ethics. Islam stresses upon the importance and value of brotherhood and association in order to have a balanced life. Islam also acknowledges the importance of rewards for good deeds, as an encouraging factor. Sharing rewards emphasizes upon sharing encouragement with all the concerned actors in order to motivate them for better and improved performance. Qur'ān has stressed on the need and importance of sharing and condemns miserliness. It is said in Qur'ān, "Allah does not love the arrogant and the proud, those who are miserly and bid people to be miserly and

[52]Rogelio Oliva and Watson Noel, "Managing Functional Biases in Organizational Forecasts: A Case Study of Consensus Forecasting in Supply Chain Planning," *Production and Operations Management* 18, no. 2 (2009): 138-151.

[53]Scott Armstrong, "Significance Tests Harm Progress in Forecasting," *International Journal of Forecasting* 23, no. 2 (2007): 321-327.

[54]Elaine Deschamps, "The Impact of Institutional Change on Forecast Accuracy: A Case Study of Budget Forecasting in Washington State," *International Journal of Forecasting* 20, no. 4 (2004): 647-657.

conceal the reward which Allah has bestowed upon them. We have kept in readiness a humiliating punishment for such deniers (of Allah's reward)."[55]

Prophet Muhammad (*SAW*) stressed on the importance of giving and spending on dependents and deserving individuals of the society. It is also advised not to withhold money while spending in Allah's way. [56] He said, "The upper hand is better than the lower hand (i.e. he who gives in aid/gift is better than him who takes it). One should start giving first to his dependents. And the best object of contributions is that which is given by a wealthy person (from the money which is left after his expenses)."[57]

These verses and Prophetic traditions clarify the notion that rewards and gains must be shared among the engaged actors as well as the needy dependents because withholding rewards or gains is not beneficial and is also disliked by Allah. Sharing brings more and more benefits and rewards for those who spend and share their belongings with others.

b. Sharing Rewards in SCM Ethics. When the chief aim of supply chain is to make improvisations in the overall performance of the supply chain, then rewards should be based upon the performance of the complete supply chain rather than on individual and isolated performances by a particular firm. Rewards should also be shared among all supply chain partners.[58]

- In order to improve the overall performance of supply chain the best strategy is to align the interests of all supply chain partners through shared risks, costs and rewards based upon mutual consensus, with the aim of having synergy among them and attaining maximum benefits on equitable basis. In this way all partners get benefit in the form of profit and shared rewards by establishing coordinated and trustworthy relationships between them. The Holistic rewards of supply chain are shared among all members of supply chain and deliver benefits to all of them because these rewards are based on the performance of the complete supply chain. These rewards motivate all members of the supply chain to put forth their best efforts and attain maximum level of betterment and improvement within the supply chain, as the rewards are distributed among all supply chain partners.[59]
- The supply chain that lacks shared goals often face problems in terms of collaboration, poor forecasting and planning, ultimately resulting in poor performance and reduced profits. In order to avoid these problem, supply chain

[55]Al-Qur'ān: an-Nisā, 4:36-37; āl-Imrān 3:180.

[56]Ahmad an-Nasai, *Sunan an-Nasa'i*, "The book of Zakat," Hadith. No. 2550.

[57]Muhammad b. Ismial Bukhari, *Sahih Bukhari* "The Book of Zakat," Hadith. No. 508; Ahmad an-Nasai, *Sunan an-Nasa'i*, "The book of Zakat," Hadith. No. 2550.

[58]Martin Christopher, *Logistics and Supply Chain Management* (UK: Pearson, 2016).

[59]Jie Yang et al., "Strategic Alliance Formation and the Effects on the Performance of Manufacturing Enterprises from Supply Chain Perspective," *International Journal of Production Research* 53, no. 13 (2015): 3856-3870.

partners often choose to initiate cooperative efforts for the improvement of overall supply chain. This is done by devising contracts of profit sharing with an intent of sharing rewards equally among the partners, building an association for improvising customer service level.[60]

2.4.6. Actual and Derived Demand

Actual demand increases directly from the end consumer and can be forecasted in order to deal with it. Derived demand is mediated by other subsequent supply chain actors due to certain terms and policies and this demand can be planned instead of forecasting.

a. Actual and Derived Demand in Islamic Ethics. Free open market, transparency and truthfulness are emphasized by Islam as standards of price and demand identification within business activities and operations, in order to avoid deceit.

Prophet Muhammad (*SAW*) prohibited the withholding of commodities in general use for the sake of increasing the price.[61] He also barred businessmen from hoarding.[62] Numerous *Hadith*s of "*Kitab-ul-Buyu*" (the Book of Buying and Selling) describe the important principles of sales and trade given by Prophet (*SAW*). He prohibited the buying of commodities before they reach market because market will decide the price.[63] Similarly he also prohibited from "Bidding more and more only for deceiving."[64] In another *Hadith* Prophet (*SAW*) prohibited to enter a transaction on the transaction of other when he has already committed. It is said, "Do not be jealous of one another, slandering each other, hate each other, and mutually hostile; one of you should not enter into a transaction when the other has already entered into it; and be fellow brothers and true servants of Allah.[65]

All these *Hadiths* reveal that it is unethical to create a derived demand just for personal benefits at the expense of others. Let the market be a free market and the price and demand of product must be determined by the free market force because this can reduce chances of discrimination against a particular party by other parties through activities such as hoarding, price fluxes and shortage of the products.

b. Actual and Derived Demand in SCM Ethics. Any supply chain can face two types of demands; one is the actual demand and the other is the derived demand. The actual

[60]Usha Ramanathan and Gunasekaran Angappa, "Supply Chain Collaboration: Impact of Success in Long-term Partnerships," *International Journal of Production Economics*147 (2014): 252-259.

[61]Ahmed-Bin-Hanbal, *Musnad Ahmad b Hanbal*, Hadith No. 19802.

[62]*At- Tirmidhi*, "No one hoards but the traitors (i.e. the sinners)." Hadith. No. 1134.

[63]Muhammad b Ismail Bukhari, *Sahih Bukhari*, "Book on Sales and Trade," Chapter: It is forbidden to meet the caravans on the way (to buy the goods away from the market, Hadith No. 2165.

[64]*Sahih Muslim*, "The Book of the Prohibited Actions," Hadith No., 1580.

[65]*Sahih Muslim*, "The Book of Virtue, Good Manners and Joining of the Ties of Relationship (Kitab Al-Birr was-Salat-I-wa'l-Adab)," Hadith. No. 6215.

demand arises from the end consumer and it is also known as independent demand because in this type of demand the company directly assists the end users. The derived demand is caused due to other organizations of the supply chain and is influenced by certain factors like price fluxes, order fulfillment conditions, availability or shortage of particular product etc. in order to get additional benefits from this derived demand.[66]

- All of the other successive firms in the supply chain that do not serve the end user customers directly, have to face a demand that is moderated by some other factors such as buying and ordering polices etc. of the other supply chain actors. So the derived demand is tempered by other firms or actors in the supply chain and is dependent upon their policies and actions.[67]
- Many of the firms fail in making a distinction between actual/independent demand and derived/dependent demand. The former type of demand is the real demand of end users that needs to be forecasted in order to be fulfilled. While the later type of demand is not real end consumer demand, instead it is the consequent or derived demand that is the result of various policies and actions of other concerned supply chain partners. And this demand is mostly created by other actors, have supplementary gains and can be planned. Bullwhip effect is mostly created due to derived demand. For effective management of any supply chain, it is very essential to identify the variances of actual and derived demand and then establish appropriate methods and procedures to deal with each type of demand, for attaining optimal level of performance at all levels of the supply chain. This can reduce the costs and improve other services for satisfaction of the customer.[68]

2.4.7. Relationship Management

Relationship Management is an emerging business approach which implies that an organization must develop and sustain interaction and cooperation with all of its stakeholders and audience. It can be in the form of customer relationship management (CRM), supplier relationship management (SRM), business relationship management (BRM) etc.

a. Relationship Management in Islamic Ethics. Islamic law states that entities depend upon other entities and hence it is important to develop effective relationships among buyer, supplier and other stakeholders. This can be done by implying that interdependencies exist among different members and networks of society and hence

[66]Rogelio Oliva and Watson Noel, "Managing Functional Biases in Organizational Forecasts: A Case Study of Consensus Forecasting in Supply Chain Planning," *Production and Operations Management* 18, no. 2 (2009): 138-151.

[67]John Mentzer and Moon Mark, *Sales Forecasting Management: A Demand Management Approach* (Sage, 2004).

[68]Laura Johanna Hellgren, "The Demand-Supply Balancing Process in Supply Chain Management-case Mining and Metals Industry Equipment," *Supply Chain Management: An International Journal* 14, no. 4 (2015): 259-269.

relationships must be managed humbly, nicely and with full leniency in order to build trustworthy and enduring relationships. Prophet Muhammad (*SAW*) said:

- "The seller and the buyer have the right to keep or return the goods as long as they have not parted or till they part; and if both the parties spoke the truth and described the defects and qualities [of the goods], then they would be blessed in their transaction, and if they told lies or hid something, then the blessings of their transaction would be lost."[69]
- Abu Qatadah related that the Prophet (*SAW*) said: "If anyone would like Allah to save him from the hardships of the Day of Resurrection, he should give more time to his debtor who is short of money, or remit his debt altogether."[70]

The above *Hadīths* highlight the importance of relationship management and highlights its significance in all walks of life. Management of these relationships is one's primary responsibility and they would be asked about it by Almighty Allah on the Day of Judgment.

b. Relationship Management in SCM Ethics. In the contemporary business environment, the ability to manage relationships among stakeholders is crucial for winning ends. In order to achieve optimal benefits of supply chain management, collaborative and trustworthy relationships are important. Collaborative relationships imply that all supply chain partners can attain synchronization within their objectives, resources and operations by working together and with mutual consensus.[71]

- Relationship management is very crucial in order to establish long term cooperative partnerships and to gain sustainable competitive advantage in a dynamic business environment. These days much pressure is being exerted on supply chain managers to make long term, reliable and closer relationships among suppliers, customers and other supply chain participants, for surviving as well as growing in the global market. So, management of these relationships is essential and is a valuable and fundamental asset of supply chain management. In order to develop and manage long term relationships, proper understanding and clarity about behaviors, intentions and actions of several supply chain actors is crucial and important, for establishing sustainable and improved relationships among all

[69]*Sahih al-Bukhari*, "The Book of Buying and Selling," Hadith. No. 293. http://ahadith.co.uk/hadithbynarrator.php?n=Hakim+bin+Hizam&bid=1&let=H

[70]*Sahih Muslim*, "The Book of Transactions," *Chapter 24 Merit of Giving Respite to One Who is in Straitened Circumstances*, Hadith No., 3788.

[71]Stanley Fawcett et al., "Why Supply Chain Collaboration Fails: The Socio-Structural View of Resistance to Relational Strategies," *Supply Chain Management: An International Journal* 20, no. 6 (2015): 648-663.

partners of the supply chain. This can also lead towards a more efficient and responsive supply chain.[72]

- Relationship management is considered as a strategic competence and it emphasizes that firms should develop the capability to efficiently understand and manage closer relationships with key supply chain actors. They should focus on all key stakeholders and advocates that the firm must have the ability for the establishment and sustainability of fruitful relationships with all the participants and actors of the supply chain. So management of supply chain relationships in a flexible and constantly changing environment is essential for the overall performance of the supply chain.[73]

Figure 2 provides a suggested framework based on the above discussion for making ethical decisions in supply chain management.

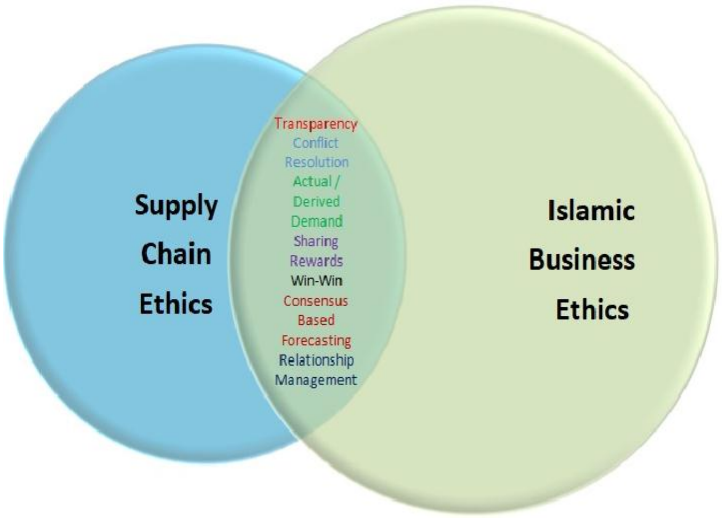

Figure 2. Framework for Ethical Decision Making in Supply Chain

3. Discussion and Limitations

This paper provides systematic insights and a practical approach for the compatibility and applicability of Islamic business ethics into supply chain ethics in order to improve the overall performance of the supply chain. The similarities between Islamic

[72]Anne Touboulic, and Walker Helen, "Theories in Sustainable Supply Chain Management: A Structured Literature Review," *International Journal of Physical Distribution and Logistics Management* 45, no. 1/2 (2015): 16-42.

[73]Peter Hines and Samuel Donna, "The Development of Supply Chain Relationships: A Multi-Lens Approach," in *Global Logistics: New Directions in Supply Chain Management*, 5th Edition (London: Kogan Page, 2007): 107-128.

and supply chain ethics are presented with an aim to incorporate them into supply chain ethics for effective supply chain management and to govern ethical decisions. The paper firstly introduces a practical approach for Islamic business ethics that is identified by reviewing The Holy Qur'ān, Hadiths and by conducting interviews with Islamic scholars. Its applicability in the field of supply chain is reasoned through a comparative analysis that is done through reviewing literature pertaining to supply chain ethics and by demonstrating how Islamic business ethics can be implemented in order to arrive at a moral judgment. The study is qualitative and conceptual in nature. The findings of the study reveal the similarities between Islam and supply chain ethics are tremendous. The findings reveal the confirmatory evidences to validate the roots of supply chain ethics in Islamic business ethics. The Islamic ethical system respects the interests of individuals as well as collective perspectives and therefore the reasoning processes of the Islamic ethical methodology can be incorporated for deriving moral and ethical judgment in the contemporary business world.

Supply Chain Management is an area where poor management can lead to increased costs, decreased revenues and ultimately reduced profitability. Consequently, SCM has become a key component for developing a competitive strategy in order to improve organizational productivity and profitability of the organization as a whole,[74] so the management of the supply chain should be done in legitimate ways. The proposed structure and developments can help to resolve ethical issues by enriching the ethical and moral judgments, in order to enhance the supply chain performance by incorporating Islamic ethics into the supply chain ethics.

However, the paper has certain limitations which should be kept in mind for future research such as some variables / constructs from Islamic and supply chain ethics may be ignored due to time and resource constraints. Therefore, the future research should be done on other supply chain ethical variables to substantiate the relationship among other supply chain and Islamic ethics in order to ensure transparent and legitimate business dealings, reducing the chances of failure and enhancing the effectiveness and success at the account of all involved parties. On the other hand, it would also reduce the chances of victimization of one party on the hands of others through activities such as concealing, dishonesty, cheating or deceitfulness. Moreover, the consideration and adoption of these ethics would enable organizations to function smoothly and align the conflicting goals and interests of different supply chain partners for achieving organizational goals in the best possible manner.

[74]Stefan Schaltegger and Burritt Roger, "Measuring and Managing Sustainability Performance of Supply Chains: Review and Sustainability Supply Chain Management Framework," *Supply Chain Management: An International Journal* 19, no. 3 (2014): 232-241.

4. Conclusion

The above discussion reveals that Islamic business procedures provide a worthy mechanism for Muslims to meet their religious obligations even though living in a modern, diversified and globalized society. Islam teaches us to treat employees as well as stakeholders equally without any prejudice. Islam helps us to derive moral judgments that can be used in the Muslim world in order to get maximum benefits and prevent all possible destructions. The Islamic ethical system respects both the individual and collective viewpoints and provides a synthetic view to be used for benefiting each individual who is involved in a particular business activity. Hence, Islamic ethics must be incorporated in supply chain ethics in order to maintain balance, clarity, transparency and improved relationships between all supply chain actors which will ultimately increase the trust, coordination and better communication among different level of supply chain and can eventually lead towards effective supply chain performance and better customer service level. Finally, if the work is completed in an ethical manner it will not only yield positive results in the form of improved business performance but will also help individuals to please Allah Almighty, which is the only ultimate aim of the Muslims.

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