

THE IMPACT OF *TAQWA* ON ETHICS AND COMPETITIVE ADVANTAGE IN MALAYSIAN SMES

By:

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ABSTRACT

This paper investigates the influence of *taqwa*, an Islamic ethical framework, on the competitive advantage of small and medium-sized enterprises (SMEs) in Malaysia. *Taqwa*, embodying ethical conduct and responsibility, is posited as a key factor enhancing the competitive advantage of small businesses. The study aims to explore the impact of *taqwa* on ethics and competitive advantage of SMEs in Malaysia through personal interviews with five owners of SMEs. While previous studies have highlighted the crucial role of ethical and socially responsible practices in business success, the specific impact of *taqwa* in this context remains underexplored. This study addresses this gap by examining the role of *taqwa* in SMEs' strategies, ethical marketing, and resilience during challenging times, and employee well-being. The results of the study affirmed that *taqwa* has an impact on ethics into the structure of decision-making procedures. The impact of *taqwa* serves as a guiding principle for enterprises, ensuring that their activities conform to higher ethical standards while maintaining competitiveness. It also considers the implications of *taqwa* on entrepreneurial motivation, marketing orientation, and business sustainability.

Keywords: *Taqwa*, Competitive advantage, Ethical practices, Small and medium enterprises

INTRODUCTION

Taqwa, a fundamental principle of Islamic ethics, plays a crucial role in shaping the business practices and competitive strategies of small and medium-sized firms (SMEs) in Malaysia (Sahabuddin et al., 2024; Sarhan & Ab Aziz, 2024; Wahab et al., 2024). These small and medium-sized enterprises (SMEs), which are crucial to the economic structure of the country, always battle to remain relevant and sustainable in a market that is mostly controlled by larger, more established businesses (Cecora, 2019; Khin et al., 2019; Adan & Hussain, 2021; Mohamad et al., 2021; Yew, 2021). This situation poses a considerable obstacle: although SMEs are crucial as

fundamental drivers of the economy, their lack of ability to effectively compete with larger businesses endangers their survival.

SMEs have significance that goes beyond their economic impact as they embody diversity and innovation in the marketplace. If small and medium-sized organisations were to decrease dramatically, the economic environment would be predominantly controlled by huge corporations and multinational companies (Cecora, 2019; Khin et al., 2019; Adan & Hussain, 2021; Mohamad et al., 2021; Yew, 2020). This trend will not only diminish market options but also subject consumers and the economy to the dominance of these larger corporations, potentially resulting in monopolistic behaviour and a dearth of competition (Tira, 2023; Fathimah et al., 2024; Latinovic & Chatterjee, 2024).

Notwithstanding the difficulties they face, small and medium-sized enterprises (SMEs) in Malaysia have received support. They have received substantial help in the form of financial aid and technical support, which includes various grants and discounted financing programmes designed to strengthen their presence and enhance their success (Ali et al., 2022; Koe et al., 2022; Haba et al., 2023). Nevertheless, despite these endeavours, there persists a discernible disparity in the survival and longevity rates of small and medium-sized enterprises (SMEs) throughout the nation (Cecora, 2019; Koe et al., 2022; Haba et al., 2023).

Thus, this study aims to investigate the influence of *taqwa*, a fundamental spiritual ethical guide on creating and sustaining the competitive advantage of small and medium-sized enterprises (SMEs) in Malaysia. *Taqwa*, is argued as an impact factor in enhancing the competitive advantage of small businesses.

LITERATURE REVIEW

This study argued that *taqwa* has an impact in sustaining competitive advantage of SMEs due to its spiritual ethical nature. This proposition prompts an important research question: What is the key impact factor that could sustain the competitiveness and sustainability of Small and Medium Enterprises (SMEs) in Malaysia? The problems encountered by small and medium-sized firms (SMEs) in Malaysia are diverse and intricate, affecting their achievement and durability (Adan & Hussain, 2021; Mohamad et al., 2021; Ali et al., 2022). First and foremost, small and medium-sized firms frequently struggle with fierce competition from larger corporations. These larger organisations possess substantial resources, extensive market penetration, and notable brand awareness, especially in industries that are predominantly controlled by multinational enterprises (Chelliah, Sulaiman & Yusoff, 2010; Masroor & Asim, 2019; Ooi & Richardson, 2019; Mohamad et al., 2021). SMEs face a notable competitive disadvantage due to the unequal distribution of resources and lack of recognition.

Secondly, obtaining money continues to be a significant obstacle. Notwithstanding endeavours to offer monetary support, small and medium-sized enterprises (SMEs) sometimes have difficulties in obtaining sufficient finance (Chelliah et al., 2010; Mohamad et al., 2021; Yew, 2021). Conventional financial institutions frequently view small and medium-sized firms (SMEs) as being high-risk because of their short financial track record and smaller assets (Ooi & Richardson, 2019; Mohamad et al., 2021). As a result, they impose more stringent lending requirements and charge higher interest rates. The notion is intensified by the unpredictable nature of the marketplaces and the nascent sectors in which small and medium-sized enterprises (SMEs) usually operate, hence augmenting their susceptibility to failure (Chelliah et al., 2010; Masroor & Asim, 2019; Mohamad et al., 2021). These considerations lead to stringent lending prerequisites, such as comprehensive business plans and personal guarantees, in addition to increased borrowing expenses. These circumstances impose significant obstacles for small and

medium-sized enterprises (SMEs) to obtain inexpensive financing, so restricting their capacity to invest, grow, or sustain their operations (Ooi & Richardson, 2019; Yew, 2021). To tackle this difficulty, it is critical to modify lending rules and create specialised financing models that cater to the specific requirements of small and medium-sized enterprises (SMEs). This is essential for the growth of SMEs and the overall economy.

Thirdly, the swift rate of technological progress requires ongoing adjustment and ingenuity. Nevertheless, small and medium-sized enterprises (SMEs) may have limitations in terms of both resources and experience (Rahman et al., 2016; Wasiuzzaman, 2019; Lim & Teoh, 2021, Mohamad et al., 2021). The lack of capacity for small and medium-sized enterprises (SMEs) to invest in and use cutting-edge technologies is a significant obstacle to their expansion and competitive position (Cecora, 2019; Ali et al., 2021). To overcome this difficulty, it is necessary to have both financial resources and a strong emphasis on developing technical competence while remaining adaptable in a swiftly changing digital landscape (Khin et al., 2019; Koe et al., 2022; Haba et al., 2023). For SMEs to thrive and maintain their competitive edge, bridging this technological gap is essential.

Fourthly, small and medium-sized enterprises (SMEs) encounter significant obstacles related to regulations and bureaucracy. The intricate nature of legal and administrative procedures can provide a significant obstacle to the operations of small and medium-sized enterprises (SMEs) that have limited resources (Rahman et al., 2016; Wasiuzzaman, 2019; Lim & Teoh, 2021, Mohamad et al., 2021). SMEs can encounter significant obstacles when dealing with the intricate realm of legislation and bureaucracy. The complex and sometimes confusing characteristics of legal and administrative procedures can provide a formidable barrier, especially for small and medium-sized enterprises (SMEs) that usually function with restricted resources (Chelliah et al., 2010; Mohamad et al., 2021; Yew, 2020). Furthermore, the governmental procedures required to acquire essential permissions, licences, and approvals can be both lengthy and expensive. Small and medium-sized enterprises (SMEs) may encounter difficulties due to excessive administrative tasks, resulting in delays that hinder their company operations and restrict their capacity to promptly seize market opportunities (Lim & Teoh, 2021; Mohamad et al., 2021). For nascent and burgeoning enterprises, these obstacles can be especially disheartening, since they may lack the expertise or networks to negotiate these procedures expediently.

Fifthly, there are clear constraints in terms of market knowledge and networks. Small and medium-sized enterprises (SMEs) frequently lack the comprehensive market knowledge and connections that larger corporations possess, which hinders their capacity to enter new markets, establish business collaborations, and keep updated on consumer trends (Chelliah et al., 2010; Rahman et al., 2016; Masroor & Asim, 2019; Mohamad et al., 2021). Indeed, small and medium-sized firms (SMEs) often face challenges when expanding their market presence due to their limited market knowledge and fewer connections in comparison to larger organisations (Rahman et al., 2016; Mohamad et al., 2021). This disadvantage limits their capacity to enter new markets, establish smart business alliances, and keep up with developing consumer trends (Chelliah et al., 2010; Masroor & Asim, 2019; Lim & Teoh, 2021). Small and medium-sized enterprises (SMEs) had difficulties in recognising and utilising new possibilities, adjusting to evolving client preferences, and competing successfully due to their limited networks and insights compared to larger organisations (Lim & Teoh, 2021; Haba et al., 2023). The lack of market intelligence and networking opportunities hinders their potential for growth and their capacity to adapt and innovate in a rapidly changing market environment.

Sixthly, the acquisition of human resources and talent presents considerable obstacles. Small and medium-sized enterprises (SMEs) may face difficulties in attracting and retaining highly trained workers since they are unable to provide competitive remuneration, perks, and

prospects for career growth as compared to larger corporations (Rahman et al., 2016; Wasiuzzaman, 2019; Lim & Teoh, 2021; Au et al., 2023). According to Rahman et al. (2016), Malaysian small and medium-sized firms (SMEs) sometimes face difficulties in attracting and retaining highly trained employees since they are unable to provide competitive compensation, perks, and possibilities for career growth as compared to larger organisations. Wasiuzzaman (2019) argued that companies that are bigger and have greater resources are able to offer more appealing compensation packages and well-defined career trajectories, which are more attractive to highly trained workers. As such, Lim and Teoh (2021) contended that the discrepancy between the two leads to difficulties in attracting and keeping talented individuals for small and medium-sized enterprises (SMEs), hence hindering their ability to rival the benefits provided by larger corporations. Consequently, small and medium-sized enterprises (SMEs) may have constraints in developing a highly competent workforce, which can have a detrimental effect on their commercial achievements and expansion prospects. Thus, it is necessary for small and medium-sized enterprises (SMEs) to implement inventive human resources (HR) methods and alternative approaches in order to effectively attract and retain skilled individuals (Rahman, Yaacob & Radzi, 2016; Wasiuzzaman, 2019; Lim & Teoh, 2021; Au et al., 2023).

Incorporation of *Taqwa*

This study explores into the multifaceted influence of *taqwa* on various aspects of SME performance, including competitive advantage, ethical practices, and sustainability. Scholars like Ahmad and Seet (2009), Ahmad et al. (2010), and Al Mamun et al. (2021), argued that *taqwa* has a great emphasis on ethical behavior and responsibility contributes to the success and resilience of small businesses.

According to Ahmad and Seet (2019) the incorporation of *taqwa* into business operations is a notable and distinctive element, particularly in Malaysia, a nation where Islamic principles play a key role in the social fabric. This integration offers a compelling chance to examine the harmonious interaction between religious principles and corporate prosperity, a connection that is becoming more pertinent in the contemporary global business landscape.

As for Al Mamun et al. (2021), *taqwa* fundamentally, encompasses elements of moral behaviour, accountability, and awareness of God, which are essential to Islamic doctrines. When these concepts are integrated into corporate strategy, they have the capacity to transform how firms function, make choices, and interact with their stakeholders. According to Ahmad et al. (2010), by incorporating *taqwa* into business processes helps bolster corporate governance, guaranteeing that organisations function with transparency, accountability, and social responsibility. Adopting this strategy helps promote the adoption of sustainable business practices by fostering a mindset that prioritises long-term considerations and ethical decision-making, rather than pursuing short-term profit maximisation tactics that could have negative consequences in the future (Tira, 2023; Fathimah et al., 2024; Wahab et al., 2024).

In short, the incorporation of *taqwa* into corporate strategies in Malaysia presents a fertile field for investigation and comprehension. This emphasises the correlation between religious principles and the enhancement of economic prosperity, resulting in advantageous consequences for the business, its customers, employees, and the wider community. This strategy promotes a reconsideration of conventional business paradigms, shifting towards a model that is both morally principled and financially sustainable.

Research Problems

There are two research problems on the impact of *taqwa* on competitive advantage and ethics in Malaysian SMEs, namely the impact of *taqwa* on competitive advantage and the incorporation of business ethics into performance of SMEs.

The first research problem is on the ambiguous influence of *taqwa* on competitive strategies of small and medium-sized enterprises (SMEs). The impact of *taqwa*, an Islamic ethical framework, on the competitive strategies and overall performance of Malaysian SMEs is still not fully understood, making it a fascinating topic to explore (Mhd. Sarif, 2019; Mhd. Sarif, 2020; Abdul Manaf et al., 2022). While it is well recognised that ethical behaviours play a vital part in achieving commercial success, the precise influence and significance of *taqwa* on these practices remain ambiguous and poorly comprehended (Mhd. Sarif, 2016; Mhd. Sarif, 2019; Mhd. Sarif, 2020; Hasan & Tanakinjal, 2020; Abdul Manaf et al., 2022). The lack of clarity in understanding how *taqwa* impacts crucial business elements including decision-making, marketing, resilience, and competitiveness poses a significant obstacle.

The lack of information in this area is especially urgent when it comes to small and medium-sized enterprises (SMEs), as their ability to quickly adapt to changes and maintain high ethical standards is crucial for achieving success (Rahman et al., 2016; Wasiuzzaman, 2019; Lim & Teoh, 2021; Au et al., 2023). Hence, there is an urgent want for thorough examination to unravel and clarify the manner in which this ethical framework intersects with and influences competitive business practices. The objective is to explore how *taqwa*, serving as a moral compass, has the ability to rethink competitive frameworks in small and medium-sized enterprises (SMEs), providing a distinct viewpoint on the convergence of ethics and commercial effectiveness.

The second research problem is the challenge to explore the incorporation of *taqwa* into business ethics and performance. This component of the study is similarly captivating, since it aims to comprehend the extent to which *taqwa* is deeply rooted and influential in several aspects of SME operations in Malaysia (Mhd. Sarif, 2016; Mhd. Sarif, 2019; Mhd. Sarif, 2020; Hasan & Tanakinjal, 2020). The current comprehension of how *taqwa* synergizes with and influences ethical practices, employee well-being, and overall company sustainability in SMEs is significantly restricted. The lack of this necessary element poses a major obstacle to the formulation of strong corporate plans that align with Islamic ethical principles, which is a critical consideration in the mostly Muslim environment of Malaysia (Mhd. Sarif, 2020; Hasan & Tanakinjal, 2020; Abdul Manaf et al., 2022). The absence of extensive research in this field emphasises the urgent requirement for thorough investigation into the successful incorporation of *taqwa* into the ethical principles and functioning of small and medium-sized enterprises (SMEs). This inquiry is expected to yield revolutionary insights into how *taqwa* might improve not just the ethical aspect, but also the performance and sustainability of SMEs.

The study seeks to explore the research problem in order to enhance our understanding of the significance of Islamic ethics in business. This might potentially result in a fundamental change in how ethical values are integrated into the fundamental aspects of company operations.

Research Questions

There are two research questions. These research questions are exploring different but interconnected elements of the impact of *taqwa* on small and medium-sized firms (SMEs) in Malaysia.

The first research question explores the influence of *taqwa* on the competitive advantage and ethical behaviours within small and medium-sized enterprises (SMEs). The question is “What is the impact of *taqwa* on the competitive advantage and ethical practices of small and medium-sized enterprises (SMEs) in Malaysia?” This inquiry aims to thoroughly examine the relationship between *taqwa*, an Islamic ethical framework, and its impact on the commercial acumen and ethical orientation of these firms. It goes beyond mere exploration and wants to provoke deeper analysis. The subject of this investigation is both timely and crucial, given the changing dynamics of the contemporary business landscape, where ethics and competitive advantage are becoming more and more interconnected.

The second research question centres on the incorporation of *taqwa* into corporate strategies and sustainability. The question about the various methods in which *taqwa*, in a fascinating manner, is included into the plans, marketing orientation, and general sustainability of Malaysian SMEs. This investigation seeks to explore the implementation of *taqwa* in the context of corporate strategy and sustainability. The question aims to examine the integration of Islamic principles, namely *taqwa*, into several aspects of corporate operations, including strategic planning, marketing strategies, adaptability, and long-term viability.

Research Objectives

There are two research questions. Firstly, to explore the role of *taqwa* in sustaining a competitive advantage with ethical practices among Malaysian small and medium-sized enterprises (SMEs). The inquiry arises from a profound curiosity about how *taqwa*, as an Islamic moral framework, influences the competitive environment for these small and medium enterprises. The aim is to thoroughly investigate the impact of *taqwa* on the competitive tactics and ethical choices of small and medium-sized enterprises (SMEs).

The second research question is to investigate the incorporation of *taqwa* into the practical aspects of small and medium enterprises (SMEs) in Malaysia. The purpose of this investigation is to gain a thorough understanding of how *taqwa* is integrated into the operations of small and medium-sized enterprises (SMEs), and how it impacts many aspects such as strategy development, marketing approach, resilience, and sustainability. The aim is to elucidate the diverse ways in which Islamic ethical values are evident in the commercial world. Undertaking this investigation is considered essential for a comprehensive comprehension of the influence of *Taqwa* on the practical and long-term aspects of small and medium-sized enterprises (SMEs). The study aims to elucidate the intricacies of how *taqwa*, a guiding ethical concept, influences several facets of corporate management and decision-making. By doing this, it aims to offer valuable perspectives on the sustainable and ethical practices of business that match with Islamic principles. This contributes to the ongoing discussion about the relationship between religion, ethics, and business in the diverse and ever-changing Malaysian economy.

When examining the importance of ethical practices and their contribution to competitive advantage, Ahmad and Seet (2009) underscore the crucial role of ethical and socially responsible (SR) practices in the success of small businesses in both Australia and Malaysia. *Taqwa*, with its emphasis on ethical conduct and responsibility, becomes a driving force that underscores the significance of ethical behavior within small businesses, thereby enhancing their competitive edge. The alignment between *taqwa* and ethical practices is crucial in sustaining the competitive advantage, making it a central argument in this context.

In their study on SMEs in Malaysia, Ahmad et al. (2010) explored the challenges faced by small and medium-sized enterprises, as well as the strategies employed for their development. *Taqwa* has been viewed as a valuable strategy, advocating for the operation of businesses with

integrity and honesty. However, the connection between *taqwa* and business strategies within the context of SMEs appears to require further exploration, indicating the necessity for additional research to elucidate this relationship explicitly.

When investigating the effects of participation in development initiatives on the competitive advantage, performance, and sustainability of micro-enterprises in Malaysia, Al Mamun et al. (2021) acknowledged that the role of *taqwa* in such initiatives remains somewhat ambiguous. While Islamic values inherently promote social responsibility, the specific impact of *taqwa* in this context necessitates further empirical investigation. The nominal adverb "ambiguously" underscores the need for clarity in understanding *taqwa*'s role in micro-enterprise sustainability.

In their examination of the influence of Islamic culture and values on family firm ethical behavior, Alrubaishi et al. (2021) acknowledge that *taqwa*, though not explicitly mentioned, constitutes a fundamental element of Islamic ethics. The review suggests that further research into the direct relationship between *taqwa* and ethical behavior within family firms is warranted. Here, the nominal adverb "fundamentally" emphasizes the foundational nature of *taqwa* in Islamic ethics and its potential significance in the behavior of family firms. As for Basir and Musa (2022), they argued from an Islamic perspective on agripreneurs' motivation, emphasizing *taqwa*'s role in motivating entrepreneurs to adhere to ethical practices and responsible business conduct. Furthermore, Hamzah et al. (2023) investigated the relationship between entrepreneurial marketing orientation and small business growth in Malaysia. While *taqwa* is not explicitly mentioned, its influence on marketing strategies and ethical marketing practices may represent a potential avenue for further research. In their exploration of factors influencing the survival and failure of small firms in Malaysia, Hall and Wahab (2007) suggested that the role of *taqwa* in resilience and adaptation during challenging times, as well as its impact on competitive advantage, warrants further exploration.

In examining the nature of the relationship between an entrepreneurial marketing orientation and small business growth, Hamzah et al. (2023) provided evidence from Malaysia that substantiates the significance of an entrepreneurial marketing approach. In addition, Hall and Wahab (2007) argued on multifacet factors influences the survival and failure of small and medium enterprises in Malaysia. Furthermore, Kassab et al. (2023) investigated the driving factors behind SMEs' performance in Malaysia, emphasizing the need for businesses to not only survive but thrive.

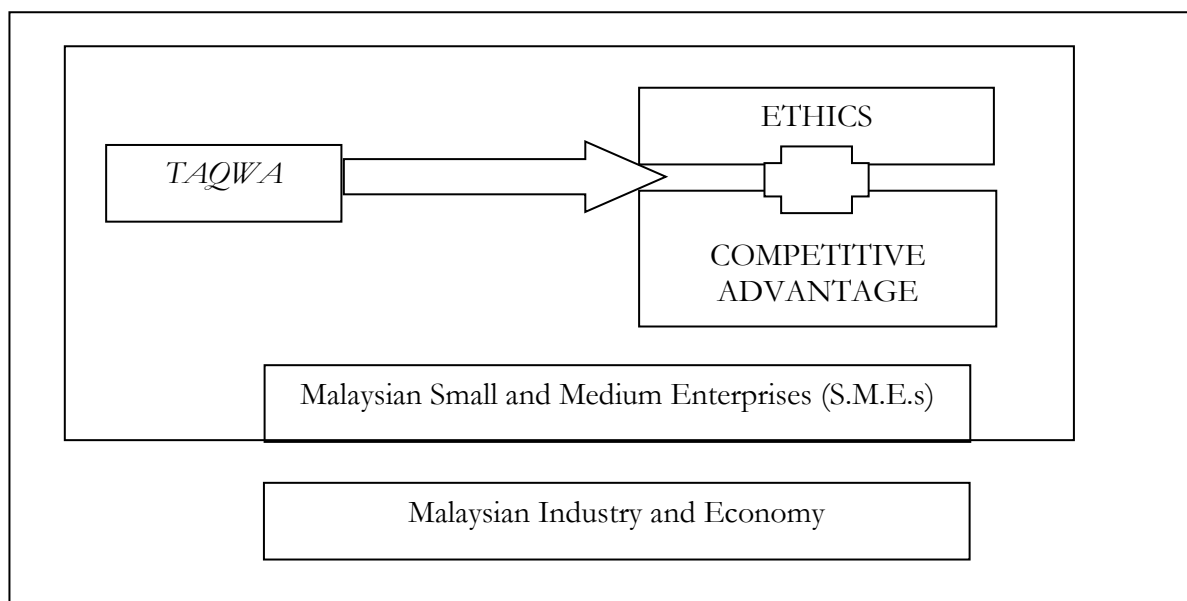
Maham (2019) explored the impact of *taqwa* (Islamic piety) on employee happiness within Pakistan's banking sector. The research distinctly contributes to understanding the intersection of Islamic values and employee well-being in a specific industry. As for Mhd. Sarif (2015, 2016, 2020) that investigated the influence of *ta'awun* (mutual cooperation) and *taqwa* (piety) on various aspects of business sustainability and philanthropy. The research provided a holistic view of how these Islamic concepts impact different dimensions of business practice. In addition, Mohamad et al. (2018) argued on the interactive effects of entrepreneurial orientation, Islamic values, and business success. Likewise, Palanimally (2016) investigated the growth of small and medium enterprises in Malaysia, focusing on private limited companies in Perak. The research focused on the specific region and type of businesses studied, offering a targeted perspective on SME growth within Malaysia. Moreover, Rowden and Ahmad (2000) explored the relationship between workplace learning and job satisfaction in small to mid-sized businesses in Malaysia. The study emphasized the complexity of this relationship and how it intricately weaves together elements of learning and job satisfaction within small businesses.

Sulaiman et al. (2015) analyzed the influence of spirituality and responsibility on business leadership effectiveness, offering an empirical examination of these factors. They emphasized the evidence-based approach to understanding the impact of spirituality and responsibility on

leadership. In addition, Utomo (2020) examines the effect of Muslim religiosity and innovation capability on firm survival, particularly during the COVID-19 pandemic. The study underscored the unique circumstances of the pandemic and its relevance to the study, which delves into the challenges and opportunities faced by small enterprises in this specific context. Moreover, Zainol and Al Mamun (2018) explored entrepreneurial competency, competitive advantage, and performance among informal women micro-entrepreneurs in Kelantan, Malaysia. The study focused on informal women micro-entrepreneurs, offering specific insights into this often-understudied segment of the business population. Indeed, Zin and Adnan (2016) developed a conceptual framework that explores how intellectual capital and Islamic values relate to small business performance. The study accentuated the nature of their work as a conceptual framework, providing a theoretical foundation for understanding the interplay between intellectual capital and Islamic values in the context of small businesses.

In investigating the role of *ta'awun*-based social capital in enhancing business resilience for small enterprises, Mhd. Sarif (2015) contributed significantly to our understanding of how collaborative and cooperative networks within the business community can foster resilience. In addition, Mhd. Sarif (2016)'s work explored the influence of *taqwa* on sustainable capacity building within businesses. Likewise, Mhd. Sarif (2020) argued that *taqwa* (piety) approach's role in sustaining Islamic philanthropy for social businesses. In addition, Mhd. Sarif et al. (2023) investigated the influence of *ta'awun* (mutual cooperation) in sustaining innovation alliances. In another collaborative effort, Mhd. Sarif and Ismail (2023) examined the influence of *ta'awun* (mutual cooperation) in sustaining creativity and innovation among entrepreneurship development centers of universities in Malaysia.

Based on the literature review, this study posited a research framework. The research framework places “*taqwa*” as a key independent variable, representing mindfulness and ethical behaviour in Islamic theology. This paradigm suggests that *taqwa*, a concept related to mindfulness and consciousness of Allah, is a fundamental factor that has an impact on several aspects of the business environment. Hence, a thought-provoking idea emerges: the degree or existence of *taqwa* in Malaysian Small and Medium-sized Enterprises (SMEs) could profoundly influence the operational and competitive environment of these enterprises. This research framework highlights the potential revolutionary influence of religious beliefs on corporate operations and tactics. Following that, the research framework establishes ethics and competitive advantage as the variables that are influenced by *taqwa*. Business ethics include a wide range of practices, from being honest in transactions to implementing broader corporate social responsibility efforts. Competitive advantage refers to the qualities that allow a business to outperform its competitors, either by having better production or cost efficiency, resulting in increased sales or profit margins (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023). This aspect of the framework suggests that there is a clear connection between ethical behaviour, which is supported by *taqwa* (piety), and the competitive position of a company in the market. Moreover, this study specifically examines small and medium-sized enterprises (SMEs) in the Malaysian industry and economy, which makes it highly captivating. Small and medium-sized enterprises (SMEs), particularly in a developing economy such as Malaysia, play a crucial role in the country's economic structure, since they stimulate growth, foster innovation, and generate employment opportunities (Hamzah et al., 2023; Kassab et al., 2023; Mhd. Sarif et al., 2023). Figure 1 depicts the research framework of the study.

Figure 1: Research Framework

METHODOLOGY

There are two research questions. Firstly, to explore the role of *taqwa* in sustaining a competitive advantage with ethical practices among Malaysian small and medium-sized enterprises (SMEs). Secondly, to investigate the incorporation of *taqwa* into the practical aspects of small and medium enterprises (SMEs) in Malaysia. Based on these research objectives, this research employed qualitative research due to its ability to offer comprehensive explanations (Bougie & Sekaran, 2019; Allan, 2020; Creswell & Baez, 2020; Staller, 2022).

In order to accomplish this, the researchers conducted face-to-face interviews with the proprietors of five small and medium-sized enterprises (SMEs). The interviews enabled a comprehensive insight into the practical use of *taqwa* in different business situations. Additionally, the respondents provided insights on how *taqwa* can redefine competitive strategies from an ethical standpoint.

The researcher's active involvement and participation in the research process contribute to this phenomenon (Hennin et al., 2020). In fact, qualitative research allows researchers to comprehend intricate phenomena and delving deeply into concerns, particularly ones that are not readily quantifiable (Merriam, 2002; Merriam & Grenier, 2019; Merriam & Baumgartner, 2020). Furthermore, it explores individuals' experiences, attitudes, and motivations, providing abundant context and intricate details (Merriam & Clark, 1993; Merriam, 2002). This was done through face-to-face interviews with the proprietors of ten small and medium-sized enterprises (SMEs). Qualitative research plays a crucial role in developing theories, shaping policies, and amplifying the voices of participants, particularly those from marginalized communities (Hennink et al., 2020; Allan, 2020). Its high adaptability in diverse sectors renders it an essential instrument for acquiring a sophisticated comprehension of human experiences and societal processes.

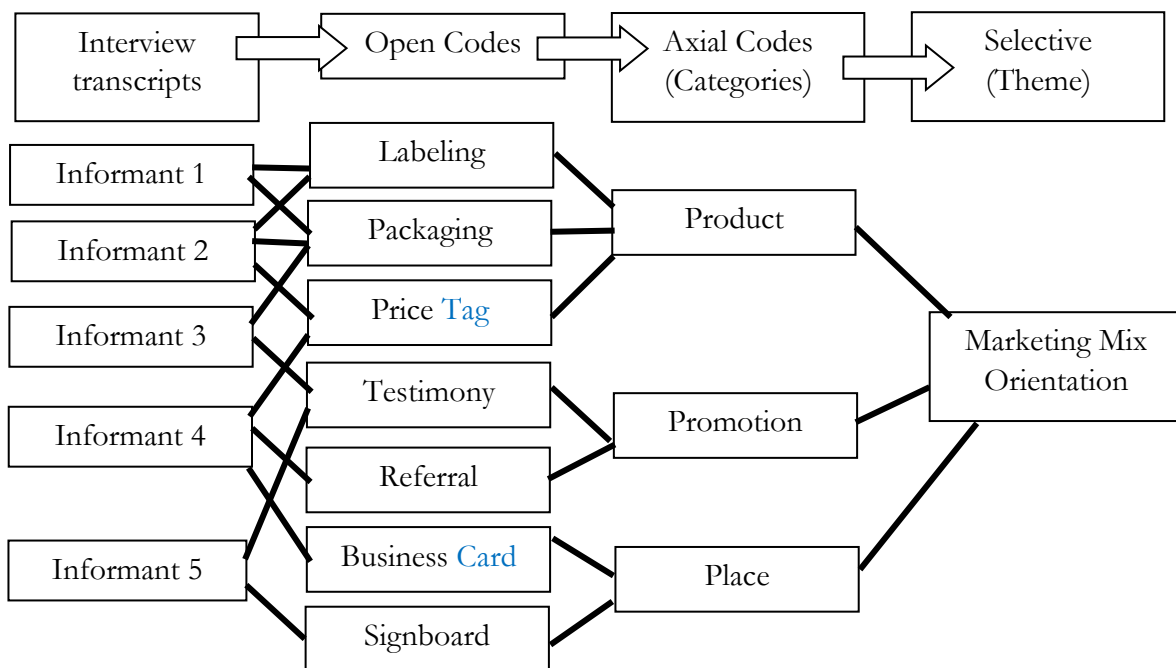
The research used personal interviews because the researchers were motivated by the objective of collecting the experiences and viewpoints of respondents in a manner that was both direct and engaging when conducting the interviews (Merriam & Grenier, 2019; Merriam & Baumgartner, 2020). As a means of ensuring accuracy and showing respect for the respondents'

contributions, the researchers utilized a note-taking strategy throughout the entirety of these interviews.

To select respondents, the team utilized a preference for convenience sampling, making use of their existing relationships to make participant recruiting easier. By using this strategy, it was possible to more easily access participants who were immediately available and eager to participate (Merriam & Grenier, 2019; Hennink et al., 2020; Allan, 2020). The researchers made certain that informed consent was gained from each respondent before conducting the interviews. This was done by the ethical norms to be followed in research.

The duration of each interview was roughly thirty minutes, which allowed us sufficient time to maintain concentration and efficiency while conducting in-depth explorations of the respondents' perspectives. Immediately after the interview, the researchers conducted thematic analysis from the notes. Thematic analysis is a commonly employed method in qualitative research that involves the identification, analysis, and reporting of patterns or themes within the data (Merriam & Grenier, 2019; Merriam & Baumgartner, 2020). The process entails fully engaging with the data, recording first thoughts, and subsequently categorizing the material in a methodical manner to emphasize elements that are pertinent to the research inquiries. Subsequently, the researchers categorize these codes (See Figure 2) into themes, with each theme representing a noteworthy element of the data.

Figure 2: Coding Process in Thematic Analysis



The topics undergo a process of evaluation and improvement to ensure their relevancy and logical consistency. This procedure entails a meticulous examination of each theme and its correlation to the data. The last stage involves composing a report that combines the analysis with concrete data illustrations and contextualizes it within the current body of literature, thereby effectively tackling the research issue.

FINDINGS AND DISCUSSION

This section presents the findings based on the face-to-face interviews with the proprietors of five small and medium-sized enterprises (SMEs). They were asked questions to answer two research objectives: (a) to explore the role of *taqwa* in sustaining a competitive advantage with ethical practices among Malaysian small and medium-sized enterprises (SMEs), and (b) to investigate the incorporation of *taqwa* into the practical aspects of small and medium enterprises (SMEs) in Malaysia. The interview question is: “Please explain how the principle of *taqwa* impacts your business decision-making process and aids in maintaining a competitive edge while upholding ethical standards within your enterprise.”

For Owner A, *taqwa* is related to *‘ibadah* (worship) and *ikhlas* (sincerity). Owner A said: *“As a Muslim business owner, I am sure that my religion and my work are deeply connected, since both are forms of ‘ibadah,’ or worship. In Islam, ‘ibadah’ refers to all parts of life, must have ‘ikhlas (sincerity) in the ‘ibadah. It guides us not only in religious ceremonies but also in our daily lives and business deals. This all-around method comes from the idea that both need ‘niat’ (intention), ‘rukun’ (pillars), and ‘tertib (order). In ‘solat’ (prayer), there are three dimensions: ‘qauli’ (words), ‘fi’li’ (actions), and ‘qalbi’ (heart). In business, these dimensions are also indispensable.*

Based on this statement, Owner A is related *taqwa* with Islamic business practices that is closely connected to religion, as both involve sincerity, intention, pillars, and structure, which influence daily life and business practices (Tira, 2023; Sarhan & Ab Aziz, 2024; Sahabuddin et al., 2024; Wahab et al., 2024).

Owner A further explained:

In business, ‘Qauli’ means being sure that what I say and offer my partners and clients is true and honest. ‘Fi’li’ refers to the things I do in my work that are in line with Islamic principles. ‘Qalbi’ means having a pure heart and being honest. I make sure that my goals in business are not only to make money, but also to help others and serve Allah. I believe that this all-around attitude shows ‘taqwa,’ which is a deep awareness of Allah in all areas of life. Regarding making choices that are morally sound, ‘taqwa’ is the principle that guides me. It forces me to put truth and justice first in every business deal I make.

Moreover, Owner A also explained that within business, honesty in communication should be translated into actions and guided by the Islamic beliefs, by maintaining purity of heart (Tira, 2023; Wahab et al., 2024). Goals that go beyond financial gain to include serving Allah and others, embodying 'taqwa' for ethical decision-making (Sarhan & Ab Aziz, 2024; Wahab et al., 2024).

In addition, Owner A said:

This focus on doing the right thing builds trust and dependability among my partners and clients, which helps me keep a strong customer base. This way of doing things has helped me build strong, meaningful relationships with my clients, who appreciate the honesty and morals I uphold in my work. So, this gives my business a unique edge over its competitors in the market. As far as I'm concerned, the real key to success as a Muslim entrepreneur is not just making money, but also making the world a better place and following the ideals that Islam teaches us.”

In addition, Owner A argued that *taqwa* impacted in fostering trust and establishing a loyal customer base (Tira, 2023; Sarhan & Ab Aziz, 2024; Wahab et al., 2024). Then, the

enterprises will oblige themselves to adhere to honesty and Islamic values that focusing on achieving success through both financial gain and making a meaningful impact on society (Sarhan & Ab Aziz, 2024; Wahab et al., 2024).

Owner B is prioritizing *taqwa* in business to cultivate trust by adhering to ethical principles and promotes enduring sustainability, harmonizing faith with business ethics to achieve success ((Tira, 2023; Sarhan & Ab Aziz, 2024; Wahab et al., 2024). Owner B mentioned:

"We put a lot of importance on following taqwa in our business because we think that it makes sure that all of our financial dealings are open and honest. It turns out that this practice of taqwa is more than just a guideline; it has also helped build trust within our team and among our outside partners. Our investors, suppliers, and partners have a lot of faith in our business because they know we are honest and follow the rules of ethics."

Owner B argued that *taqwa* has impacted the enterprises in assuring transparent, ethical dealings, building trust among team, partners, and investors, who value the company's honesty and ethical standards (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023; Wahab et al., 2024).

Owner B mentioned:

"Trust is a big part of what makes our business special. We are committed to long-term survival, even though we are a small business. We are well aware of the problems that companies our size face, especially when they try to keep running with small profit margins and big goals. We deal with these problems, though, with the idea that morals and good management are more important than short-term profits. This business is a job, but for me this job is more than just a way for me to make money; it's also a way for me to live in a way that fits with my values."

Owner B contended that *taqwa* has a significant influence in fostering trust, ethical management, that are aligning with personal values prioritize long-term survival over short-term profits, distinguishing our small business despite challenges (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023; Wahab et al., 2024). Owner B uttered:

"My way of life depends on how much money I make; if I make less, I have less to live on. Not only that, but having less doesn't mean we have to give up our duties, like solat (praying) and paying zakat. We have always been careful about paying zakat because we see it as an important way to show Allah our thanks (syukur) and loyalty (taat). We show our taqwa through these acts of worship and kindness, which are also the core values of our business."

Owner B also posited that income with *taqwa* impacts lifestyle; yet, maintaining religious duties like *solat* and *zakat* demonstrates gratitude and loyalty to Allah, reflecting the business's core values of worship and kindness (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023).

Owner B said:

"We think that following taqwa in business is more than just following religious rules. It's about making these values a part of everything we do, affecting every choice we make and every contact we have. We think that this balanced mix of religion and business ethics will help us not only survive but also thrive in today's tough business world, while also staying true to who we are and making a positive impact on the community."

In essence, Owner B argued that *taqwa* in business transcends religious adherence, embedding values in all decisions and interactions, fostering survival, authenticity, and positive community impact amidst tough competition (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023).

Owner C argued that by applying *taqwa* in the business promotes morality and social responsibility, improving the standing in the market, and is in line with Islamic ideals for overall success. Owner C pointed out:

“Engaging in socially responsible behaviours is an integral part of incorporating taqwa into our enterprise model. In addition to conducting business, we see our enterprise as a "medan" or platform where people can do "amal soleh" (good deeds) and "amal jamaie" (collective actions). We run our enterprise in accordance with these Islamic principles, which go beyond just generating a profit. With every action, we strive for 'mardatillah,' or Allah's pleasure. Several facets of our company operations reflect this dedication to taqwa. Our commitment to social responsibility is reflected in our efforts to ensure that our activities are both legally compliant and ethically sound. Our company is committed to fair trade, treating people fairly, and making a positive difference in the community. Our commitment to environmental preservation, charitable work, and fair labour practices all stem from our faith in Islam's inherent justice and compassion.”

Taqwa motivates SME owners to maintain the utmost quality standards, promoting customer confidence and enhancing market standing through ethical conduct and exceptional performance (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023; Wahab at al., 2024). Owner D said:

“Taqwa is the guiding principle of our business, and it drives us to keep the highest standards for our products. This pledge isn't just about quality control; it shows that we follow moral standards in every part of the production process. We make sure that every step, from getting the supplies to making the products, is done in a way that is honest and responsible. This way of doing things comes from the Islamic idea of greatness, or 'Ihsan'; which pushes us to do our best in everything we do.”

Integrating *taqwa* into our business practices results in enduring, morally sound decision-making, guaranteeing the longevity of our operations and earning admiration in the industry for our principled approach (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023; Wahab at al., 2024). Owner E mentioned:

“Adding taqwa to our business model has completely changed how we make decisions.” In line with the Islamic principle of thinking about how our acts affect others, we now make decisions based on how they will affect us in the long run. When we use this method, we think carefully about how the choices we make will impact not only our immediate work environment but also the community as a whole and future generations. This plan is more than just looking at the money effects. When we do something, we think about how it will affect people, society, and the world. By doing this, we make sure that our business practices are sustainable and ethical, which has a good effect beyond our company.

Open coding and axial coding were applied to the verbatim interview transcripts of Owners A, B, C, D, and E in order to conduct the thematic analysis. Owner B was affiliated with two open codes, whereas Owner A was linked to three. C, D, and E, as owners, each possessed three open codes. The feedback was categorized into three distinct groups during the axial coding phase, which entailed categorization: “faith-driven business,” “ethical & integrity,” and “responsibility & sustainability.” Table 1 summarizes the open codes and axial codes in the thematic analysis.

Table 1: Open Codes and Axial Codes in the Thematic Analysis

Respondents/Owners	Open Codes	Axial Codes
A	Integration of faith and business Ethical business practices	Faith-driven Business Mindfulness and righteousness

	Social responsibility and service	Greatness and excellence
B	Ethics Sustainability	Moral integrity Integration of faith and business Integration of Islamic principles in business
C	Integration of Islamic principles in business Business as a platform for positive actions Ethical and socially responsible operations	Ethical & Integrity Moral and ethical standards Sustainable and responsible Ethical and honest Ethics Ethical business practices Business as a platform for positive actions
D	Mindfulness and righteousness Greatness and excellence Moral integrity	Responsible & Sustainability Sustainability Social responsibility and service
E	Moral and ethical standards Sustainable and responsible Ethical and honest	Ethical and socially responsible operations

Thus, the answers to this question, “Please explain how the principle of *taqwa* impacts your business decision-making process and aids in maintaining a competitive edge while upholding ethical standards within your enterprise,” is that *taqwa* impacts the five owners of SMEs in ethical business making and maintaining competitive advantage through “faith-driven business,” “ethical & integrity,” and “responsibility & sustainability.” Business ethics, ranging from transaction honesty to corporate social responsibility, are linked to competitive advantage—qualities enabling a business to surpass competitors in production efficiency or cost, thus increasing sales or margins (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023). This relationship, influenced by *taqwa* (piety), affects a company's market position ((Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023; Wahab at al., 2024). The study focuses on Malaysian SMEs, vital in developing economies for driving growth, innovation, and employment, offering a unique perspective on how ethical practices impact these enterprises' competitive standing.

IMPLICATIONS

The study significantly transforms the field of corporate ethics theory (Mhd. Sarif, 2020; Kassab et al., 2023; Mhd. Sarif et al., 2023; Wahab at a1., 2024) when it explored the significant impact of Islamic principles, specifically *taqwa*, on business ethics and the ability to gain a competitive advantage. This study not only enhances theoretical comprehension but also establishes a strong foundation for future investigations into the incorporation of religious principles into business ethics (Tira, 2023; Wahab et al., 2024). As a result, it prompts a new and creative change in theory, encouraging more academic investigation in this field. Furthermore, the study explicitly supports the use of an interdisciplinary approach. Remarkably, it connects the frequently divided areas of religion studies and corporate management theories, which is particularly relevant in the context of developing countries.

The research also has significant implications for practitioners working in small and medium-sized enterprises (SMEs) in terms of including *taqwa* into the structure of decision-making procedures. This integration acts as a guiding principle for enterprises, ensuring that their activities conform to higher ethical standards while maintaining competitiveness. This notion is revolutionary, providing a practical foundation for ethical corporate behaviour. Moreover, the study holds considerable ramifications for Corporate Social Responsibility (CSR) programmes.

From a policy standpoint, the research offers vital knowledge for policymakers, namely in the field of small and medium-sized enterprise (SME) growth. Adopting policies based on this research could successfully promote and motivate ethical practices in small and medium-sized enterprises (SMEs). Implementing such regulations will not only encourage the adoption of strong ethical values and social accountability, but also potentially lead the way in establishing national benchmarks or certifications for firms that uphold the principles of *taqwa*.

CONCLUSION

The study has a significant advancement in the field of corporate ethics. The study explored the significant impact of Islamic principles, particularly *taqwa*, on corporate ethics and competitive advantage. This not only enhances theoretical comprehension but also establishes a strong basis for future academic endeavours. Indeed, the study has brought into a focus on an interdisciplinary approach, combining religion studies (*taqwa*) with corporate management theories, is especially innovative in the context of developing economies. This contribution enhances our comprehension of company dynamics by seamlessly integrating ethical and economic perspectives. The incorporation of *taqwa* into decision-making processes has significant implications for practitioners in the SMEs. This approach enhances corporate activities to conform with ethical standards, promoting a harmonious relationship between moral integrity and competitive advantage.

The implications encompass Corporate Social Responsibility (CSR) initiatives, indicating a comprehensive and socially aware business approach. In terms of policy, the study provides policymakers with important information necessary for the development of small and medium-sized enterprises (SMEs), promoting policies that encourage ethical behaviour. Implementing such regulations has the potential to cultivate a culture that upholds robust ethical principles and social accountability, which could ultimately result in the establishment of national benchmarks or accreditation for enterprises that adhere to *taqwa* principles. In conclusion, this study serves as a guiding light for small and medium-sized enterprises (SMEs) in the corporate world, leading them towards ethical excellence and competitive success. It also establishes a standard for future studies and the development of policies in the field of business ethics.

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