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Research Article

Level of Success of Halal Small and Medium Entrepreneurs in Malaysia

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Abstract

The importance of Small Medium Enterprises (SMEs) for the economy has been realized and identified and the Malaysian government will have to play a crucial function in generating an enabling conducive scenario for SMEs. In 2010, a total of 354 programs with an assurance of RM 6.02 billion were under implementation for the development of high-performing and elastic SMEs. The administration will continue its pursuit of developing policies, initiatives and programs that would intensify support for the local SMEs. However, as they are designed to assist SMEs in general, it is imperative to see if the same applies to SMEs operating in the halal environment. In this study, we examined what variables constitute the level of success and also the characteristics of halal entrepreneurs. Results show that most of the respondents perceived that they are stronger than their competitor in all items except the export market. More than 80% of the respondents also agreed that they possess the personal characteristics that constitute halal entrepreneurs. Therefore, it can be concluded that, specific attention should be given to the outcome of this study in which SMEs operating in halal environment have a different set of environmental variables that can promote success if the country is serious on building successful halal SMEs to compete in the global market.

Key words: Success level, halal SMEs, entrepreneurship

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INTRODUCTION

The important role of SMEs in the development of Malaysian economy has been central to nation building. In line with the efforts of the Malaysian government to develop SMEs, the country has urged SMEs to take participation in the 12 National Key Economic Areas (NKEAs) sectors, which have successfully been identified as driving financial enlargement. SMEs will also be capable of finding the correct solutions which will help in transforming their input to the Gross Domestic Product, which has been forecasted to be about 50-60% by 2020.

The minister also said that the private sector will drive the growth of the country in the latest model of economics and that SMEs will be considered as the driver of this financial development.

Since, the importance of SMEs for the economy has been realized and identified, the government will have to play a crucial function in generating and enabling conducive scenario for SMEs. In 2010, a total of 354 programs with an assurance of RM 6.02 billion were under implementation for the development of high-performing and elastic SMEs. The administration will continue its pursuit of developing policies, initiatives and programs that would intensify support for the local SMEs.

Over the past few years, the Malaysian government has been promoting the idea of entrepreneurship to its citizenry through various training and support programs. For several years, various bodies, such as the Council of Trust for the Bumiputera-an agency under the Ministry of Rural and Regional Development and better known as Majlis Amanah Rakyat (MARA) as well as the former Ministry of Entrepreneurship and Cooperative Development (MECD) and Multimedia Development Corporation (MDeC) have been assigned roles to enhance entrepreneurship activities and to develop entrepreneurs.

Ever-changing business environment makes it necessary for organizations to employ effective plans of action and business strategies. However, those measures alone are not enough. To maintain their competitiveness and corporations, they should be able to respond to environmental changes. A key concern was given to halal SMEs as they contribute significantly to the economic development of the country and have greater implications on both employees and customers. The estimation for the halal global industry is dependent on many factors and the cost or the worth of the industry was summed as USD two trillion¹. The potential of halal industry can be measured by the increase in Muslim population accompanied by the surge in

demand for halal products. Realizing the importance of the industry, the Malaysian government has embarked on various initiatives to transform the country into a major halal hub.

In this study, the central theme is the uniqueness of the halal SME and the definition of level of success is considered appropriate as it reflects novelties, which have already been carried out by the halal SMEs, instead of relying on factors that are inclined towards success which requires more comprehensive measures. This is because attempts were made to introduce the concept of SMEs success, however the nearest resemblance and most relevant to this study is to define success in consideration of the environment confronting the firms and possible future changes in the environment². Changes may occur due to actions taken by competitors, whereby strategy changes by any one firm may lead to reactive changes by competitor. Therefore, in this study, the level of success of halal SME success is defined.

The level of success is perceived by the entrepreneurs themselves with regards to their nearest competitors in various aspect of halal business that may facilitate the achievement and realization of the entrepreneur's objective.

The main purpose of this study is to examine the level of success and inspect the characteristics of halal entrepreneurs in Malaysia. From a theoretical perspective, this study has several features that distinguish it as a new study worth conducting. It is expected to contribute to the development of the success model by implementing a realistic and practical approach. The key findings of this study are expected to highlight the unique environment in which halal SMEs operate and which is different from that of the general SMEs. It will also not only contribute to the existing literature on SMEs and their success, but also advance the welfare of halal SMEs. It should further strengthen the contention of many halal SMEs that most existing theories are insensitive to the unique elements of the halal environment and need to be interpreted and applied with caution.

With the exception of a few studies that used small medium entrepreneurs without distinguishing whether they are halal or not, little attempt has been made in the area of halal environment in the mainstream publications. Similarly, there are only a few published studies that relate to the influential factors that drive the success of Malaysian SMEs.

Senik *et al.*³ conducted a study to investigate the influential factors and identify the most important aspects that drive Malaysian SMEs to internationalize. The study further revealed that the most influential factor is networking. Similarly, Ahmad and Haron⁴ examined the perception towards halal environment in Malaysia. It was established that there is a need to study the perception of SMEs since they are

the key players in the economy. Therefore, it is imperative to examine the reasons for them to choose or not to choose Islamic system. Findings indicated that the halal environment face a different, even unique, set of environmental factors. Those unconsidered disparities have ended in sure inconsistencies in organization styles, practices and presentation.

According to Ariff⁵, halal concept plays a significant role in developing, improving and growing SMEs and economic GDP in Malaysia. Burgmann⁶ reported that the concept of halal is not only limited to food or diet product, but also it can be applied to non-food categories such as: Cosmetics and medicines, hygiene and diet complements, art and culture, finance and marriage. Previous studies demonstrated that halal concept has received different reviews that can be assessed based on religious enthusiasm and sincerity. Moreover, several practitioners indicated that following the concept of halal in daily businesses denotes a clean and healthy lifestyle for the society. Ariff⁵ maintained that halal concept is only led by customer's desires to conform to the religious beliefs that are also accepted by the community, while others use halal concept as a tool to increase business globalization.

Kuratko and Hodgetts⁷ described an entrepreneur as a person who is willing to take risks for the purpose of enhancing business performance using different resources. According to Thurasamy *et al.*⁸, the government of Malaysia has devoted numerous funds to support the creation of sufficient infrastructure to facilitate e-commerce framework.

A number of technology based corporations, such as Multimedia Development Corporation (MDC), Malaysian Biotechnology Corporation (MBC) and Malaysian Technology Development Corporation (MTDC) in collaboration with SMIDEC have been able to help SMEs in Malaysia to benefit from the international supply chain through technology adoption.

Benzing *et al.*⁹ reported that honesty and empathy are very important characteristics that SMEs entrepreneur acquire to enhance the success of their business. On the other hand, certain scholars^{10,11} revealed that SMEs success can be measured through the value of objective criterion in comparison to the subjectivity as used by multiple researchers. The objective measures include the gains that are achieved in financial terms, such as sales and revenue. On the other hand, subjective measures represent the financial and non-financial satisfaction of owners. Specifically, the financial dimension is based on profitability, sales turnover and market share, whereas the non-financial measures cover several aspects, such as career progress, customer satisfaction, employee

retention, relationship between employees and their supervisors and study life balance. Furthermore, Moen *et al.*¹² reported that successful entrepreneurs have several characteristics in common, such as: Imagination, greater study effort, deliberation and personal characteristics to change the behaviour of their employees to achieve organizational goals. Hashim and Wafa¹³ also suggested that greater focus should be directed toward determining the factors that could drive the success of SMEs using the right measures.

MATERIALS AND METHODS

The instrument selected for this study is questionnaire survey. Survey instrument is referred to a form that is composed of structured questions asked from the sample of 94 participants including female and male respondents. The questionnaire mainly included self-designed questions and the survey instrument was developed to suit the targeted respondents in the present study. Since, the target respondents are the SMEs, it should be noted that they are perceived as simple and non-cumbersome. As such, the language and format of the questionnaire was developed to suit the respondents for its simplicity and user-friendliness. The language used in the questionnaire was both Bahasa Malaysia and English because of their respective status as the national and business jargons in Malaysia.

To validate the questionnaire, the excerpts from the transcript of personal interviews were derived using "Case like" structure through the interpretations of certain selected responses. They were carefully explained to the respondents and reviewed by them. This procedure was very important before distributing the final questionnaire. The validation of respondents was proved to be very useful for halal SMEs as they showed their agreements on better ways of addressing success through the measurement of the level of success. To enhance the validity, the expert opinions of 2 formal authority figures from Pahang State Development Corporation and Pahang State Entrepreneur Training and Development Unit were consulted. Both agreed on the possible usage of excerpts in the final report as the transcripts were derived from actual personal interview with the respondents. This is indeed vital in order to synergize with the description of entrepreneurship education and training types.

RESULTS AND DISCUSSION

The initial section consisted of profile information and demographic characteristics of the study participants, followed by their perception about the level of success as

Table 1: Level of success of halal entrepreneurs

| Levels | Strongly disagree 1 | Disagree 2 | Neutral 3 | Agree 4 | Strongly agree 5 | Total |
|------------------------------|---------------------|------------|-----------|---------|------------------|-------|
| Sales | 0 | 0 | 24 | 50 | 20 | 94 |
| Profit | 0 | 3 | 14 | 53 | 24 | 94 |
| Market share | 2 | 4 | 17 | 51 | 20 | 94 |
| Labour productivity | 2 | 5 | 26 | 47 | 14 | 94 |
| Increase in No. of employees | 1 | 3 | 33 | 35 | 22 | 94 |
| Increase in No. of customers | 0 | 0 | 11 | 48 | 35 | 94 |
| Customer satisfaction | 0 | 0 | 10 | 56 | 28 | 94 |
| Customer loyalty | 0 | 0 | 10 | 53 | 31 | 94 |
| Export market | 31 | 5 | 13 | 31 | 14 | 94 |

Source: Field work

Table 2: Characteristics of halal entrepreneurs

| Characteristics | Strongly disagree 1 | Disagree 2 | Neutral 3 | Agree 4 | Strongly agree 5 | Total |
|------------------------------------|---------------------|------------|-----------|---------|------------------|-------|
| I am able to face risk | 0 | 2 | 9 | 38 | 45 | 94 |
| I am a creative and innovative | 0 | 2 | 14 | 59 | 19 | 94 |
| A strong interest to be successful | 0 | 2 | 9 | 49 | 36 | 94 |
| I am an optimist | 0 | 2 | 16 | 49 | 27 | 94 |
| High level of confidence | 0 | 0 | 7 | 54 | 33 | 94 |
| High needs for achievement | 0 | 1 | 8 | 44 | 41 | 94 |
| Honest and friendly | 0 | 0 | 10 | 43 | 41 | 94 |
| High level of commitment | 0 | 0 | 9 | 46 | 39 | 94 |

Source: Field work

compared to their nearest competitors using 5-point likert scale. Then the participants were asked to rank the statements in the 2nd and 3rd part of the questionnaire based on contextual conditions associated with each factor that measures success by the participants. These statements were ranked using 5-point likert scale represented by 1-strongly disagree to 5-strongly agree (Table 1).

The score for the level of success for each respondent was derived by averaging the above 9 items. Results show that most respondents agreed that they are stronger than their competitor in all items except the export market. However, this does not necessary mean that the halal SMEs are weak in export, but because export is a significant feature of success for halal SMEs as described in previous chapters, many of the SMEs have not developed their business up to the export market. A greater support was reported in the study of Bohari *et al.*¹⁴ who indicated that SMEs in Malaysia do not have enough capabilities to export their products effectively. Moreover, Hin *et al.*¹⁵ revealed SMEs in Malaysia are lacking in the infrastructure and resources that are necessary to obtain sufficient information required to deal with changing and highly dynamic environment. Therefore, in order to succeed and stay competitive in particular market, the entrepreneurs of halal SMEs have to make environmental scanning frequently. Such activities would enhance the performance and competitiveness of SMEs and enable them to overcome any issues that may arise at any time.

The score for personal characteristics of SME owners of each respondent was derived by averaging the above 8 items.

The results showed that more than 80% of the respondents agree that they possess the personal characteristics that are identified above in Table 2. In line with study of Hashim and Wafa¹³, the success of SMEs in Malaysia highly depends on the entrepreneur characteristics and external environment. The author indicated that the entrepreneurs of halal SMEs in the country have the personal characteristics for managing their businesses effectively. Moreover, Alam *et al.*¹⁶ discussed the personal values and characteristics among SME entrepreneurs in Malaysia and found that they have the self-efficacy and entrepreneurship orientation. This means that SME entrepreneurs acquire the personal characteristics that are very important for managing successful SMEs in the country.

Based on the findings of this study, it can be suggested that from the managerial perspective, interest mainly lies in the implementation process itself. Understanding the success is perhaps one of the most critical concepts, not only by the business owners but also employees, policy makers and other private and public stakeholders. Findings with regards to the determinants of success are also expected to provide valuable insights towards improving the performance of halal SME as well as the halal SME owners. It is eminent to mention here that one of the basic purposes of management is to ensure that the organization succeeds in implementing various procedures in the utmost possible manner, which allows movement towards success. On one hand, the concerned managers are required to ensure that the procedures used for implementation of halal SMEs are rightly understood and

executed and on the other hand, the same is also required to make sure that business is being operated in the right environment and appropriate situation. This implies that while the managers are required to have proper information and knowledge regarding the various procedures as well as their implications, they are also required to make sure that the favourable results are obtained.

In this study, only the owners of the SMEs in East Malaysia that are registered under the halal industry programme were used as respondents because of the unique environment in which halal SMEs are located. They were also chosen due to the aggressive and proactive effort made by some of its own SMEs who are concerned of their own development. It is important to note that this study are not just SMEs that originally started their business in the halal environment but also those existing SMEs that have operated in the past as general SMEs but have since moved to halal operations due to the opportunities, privilege and support that exist in the halal market¹⁷.

CONCLUSION

The future studies are expected to make sure that all the aspects of Malaysian industry are highlighted and at the same time, comparison with other areas and countries is also presented. The comparison would not only allow the concerned individuals to bring about positive changes but at the same time, it would also lead to improvement and betterment in the business conditions prevailing in Malaysia. Specific attention should be given on the outcome of this research finding if the country is serious on building successful halal SMEs to compete in the global market. It should be noted that the benefits and advantages of halal SMEs are well known and the same has also been highlighted at various instances, thus focusing on the importance of the system and the need to conduct proper researchers in the same field.

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