

THE EFFECTS OF ENTREPRENEURIAL RESOURCES ON THE PERFORMANCE OF MALAY-OWNED SME IN THE HALAL FOOD INDUSTRIES IN MALAYSIA

¹ Tengku Rethwan Tengku Mansor
Universiti Utara Malaysia, Kuala Lumpur Campus
² Zulkiflee Daud *
Universiti Utara Malaysia, Sintok
zulkiflee@uum.edu.my

Abstract: *This article discusses the Malay owned Halal Food SMEs in Malaysia entailing their contribution towards the nation's economy and factors affecting their performance. The gap in the literature that prompted this research was also deliberated. Though previous studies have shown the relationship between resources on organization performance, there exist inconsistency in findings regarding entrepreneur resources in relation to performance. This study test this relationship by using random sampling techniques with 297 samples. This paper explores the effect of entrepreneurial resources and SME organization performance of Malay owned SMEs in the halal food industries. Based on the gaps identified, the research proposition is presented. The findings show that there are significant relationship between entrepreneurial resources and organizational effectiveness; as well as with organizational growth of Halal Food industries SMEs, both being measurement of organizational performance.*

Keywords: *SME; Entrepreneur Resources; Halal Food Industries; SME Performance*

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Introduction

SMEs represented 99% of all enterprises in the countries of the Organization for Economic Cooperation and Development (OECD) and contributed between 50% and 60% towards the industrial and commercial value-added chain (SME Annual Report 2018/2019). In terms of global market conditions for SMEs and entrepreneurship, there has been steady progress since the financial crisis of 2008/2009, guided primarily by global investments and a recovery in business confidence. Despite recent signs of tightening, bank lending to SMEs has been increasing at a moderate pace across countries reflecting lower demand for traditional bank financing by SMEs that have restored their profit margins, internal financing capacity and improved the business profiles to attract alternative financing sources. At the same time, difficulties in accessing finance continue with creative business models for micro-enterprises, start-ups, and ground-breaking projects (SME Annual report 2018/2019). Year 2018 / 2019 saw many changes in the SME policy front in line with the new administration and direction of the Government. Among which include efforts to provide greater emphasis on entrepreneurship development, namely establishment of the Ministry of Entrepreneur Development (MED), formulation of the National Entrepreneurship Policy 2030 (National Entrepreneurship Policy –DKN, 2030) and the Shared Prosperity Vision 2030. The targets, goals and programmes under the Plan aim to create an environment that would drive the SME segment as the new growth engine.

Malay Owned Halal Food Industries SMEs in Malaysia

In Malaysia, the dominance of SMEs in the food processing industry is clearly evidenced by the fact that they represent more than 80% of Malaysia's total number of business establishments (Mohamad & Backhouse, 2014; Yusuff, 2017). In reference to the number of establishments, Malaysian SMEs are seen to be the main players in the halal food industry as compared to larger corporations, making up to about 87% of the total holders of halal food certifications (Aidi-Zulkarnain & Ooi, 2014).

Currently, continuous efforts are being heightened to promoting Malaysia as a hub for the halal food industry. This process includes providing many assistance and business opportunities to the local producers, particularly the SME. However, despite various government assistance the local producers are still facing many problems and challenges (Said & Hassan, 2014). Among other things, these entrepreneurs are also found to be lacking in knowledge of acquiring halal certification and information about registration requirements for intellectual property ownership (Che Omar & Anas, 2014).

Presently, there are rigorous efforts being undertaken by the Malaysian government in developing the halal-based industry as evidence in the objectives of the HDC. However, despite various and diverse incentives given to the Malay entrepreneurs under the New Development Plan (1990 - 2020) and its predecessor, the New Economic Policy (1970 – 1990), the low participation and the lack of performance in all areas of trade and commerce among Malay owned-companies as compared to the Chinese-owned companies in Malaysia is still a major concern to the government and the policy makers (Tenth Malaysia Plan.2011). Similar trend is seen in the development of the Halal Food entrepreneurs as indicated from the JAKIM statistic that out of the total certified halal food companies in Malaysia only 32% are Malay-owned companies.

In the quest to strengthen the Halal SME performance growth, the Malaysian government created HDC which was established in 2006. Improve halal standards enhanced commercial and industry development. The Malaysian government has also implemented Halal Industry Master Plan (2008-2020), setting a blueprint for a country as the global leader in innovation, production and trade within several halal-related sectors, including speciality processed foods, cosmetics and personal care, pharmaceutical ingredients, livestock and the services sector (particularly logistics, tourism and healthcare). As mentioned earlier, many challenges exist such as lack of expertise and enforcement, high cost in implementation of the lawful (*halal*) and good (*toyyiban*) process, and lack of training and trainers. However, efforts have been intensified by JAKIM especially to assist the SME owners and managers to overcome the challenges. Despite enhancing efforts to develop Malaysia as the leader in the Global Halal Market sector, the participation of Malay-owned SME in the halal industry must also be promoted in tandem with the government development agenda and policies in developing Malays and native (*Bumiputra*) entrepreneurs in all sectors of the economy (11th Malaysia Plan.2016).

Problem Statement

The Government of Malaysia is determined to improve the performance of small and medium-sized enterprises (SME Annual Report, 2017), as its contribution to business establishment, employment and GDP growth was important (SME Corp Annual Report, 2018/2019; Normah, 2006). SMEs have a crucial part to play in the Malaysian economy (Muhammad, Char, Yaso'a'

& Hassan, 2010; Saleh & Ndubisi, 2006; Woff & Pett, 2006). A report published by SME Annual Report (2018/2019) shows that in 2018 the contribution of SMEs to Malaysia’s Gross Domestic Product (GDP) was around 38.3%, to the country’s employment was 56% and towards the country’s share of export was 19%.

This contribution of 38.3% of GDP is relatively small compared to that of SMEs in other countries (Nambiar, 2009). For example, SMEs contribute about 53% in Germany, 53% in Japan, and 51% in the United Kingdom. In fact, when compared to the neighboring countries, Malaysia’ SMEs contribution to GDP is far lower. For example, the SME in Singapore contributes about 49% (Yusuff, 2016). Hence, in this situation, there is a good opportunity for SMEs in Malaysia to increase their competitiveness in order to survive and grow (Pierre & Delisle, 2006).

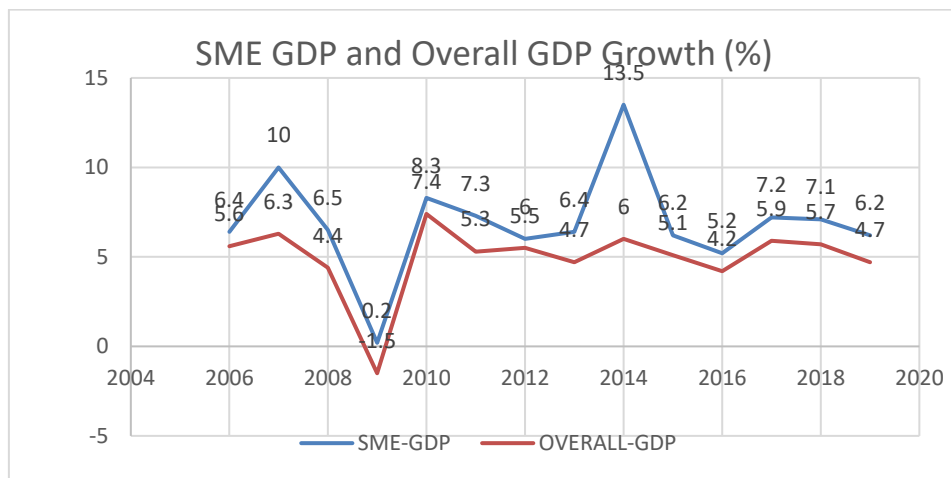


Figure 1: SME GDP and Overall GDP Growth Chart

Source: Department of Statistics Malaysia and SME Annual report 2018/2019

Table 1: SME GDP and Overall GDP Growth (%)

YEAR	SME-GDP	OVERALL-GDP
2006	6.4	5.6
2007	10	6.3
2008	6.5	4.4
2009	0.2	-1.5
2010	8.3	7.4
2011	7.3	5.3
2012	6	5.5
2013	6.4	4.7
2014	13.5	6
2015	6.2	5.1
2016	5.2	4.2
2017	7.2	5.9
2018	7.1	5.7
2019	6.2	4.7

Figure 1 and Table 1 portray that in 2010 the SME contribution to GDP growth was 8.3 %. Since then the growth declined to 7.3% in 2011 and further down in 2012 at 6% and 6.4% in

2013 respectively. In 2014 the increase from 6.4% to 13.5% happened because SME categories was redefined. In 2015, the trend went down further to 6.2% in 2015 and 5.2% in the year 2016. Even though in 2018 the growth increased but the growth trend expected to be at 7.1 %. In 2019, the trends of Malaysian SME performance has dropped to 6.2%.

If we examine the contribution to the national development, Malaysian SME which represent 98.5 % of the business population only contributes 38.3% to GDP (SME Annual Report, 2018/2019), was lower than 41% that was targeted in 2020 (SME Annual report 2018/2019). The Malays in Malaysia are mainly all Muslims, but non-Muslims apparently dominate the Halal Food Industries indicated by the statistics from the Halal Hub Division of the Department of Religious Affairs, Malaysia (JAKIM). Low involvement and absence of performance among Malay-owned companies in all fields of trade and commerce relative to the Chinese in Malaysia remains a significant problem for government and policy makers (Tenth Malaysia Plan 2011) despite a variety of incentives provided to Malay businessmen under the New Development Plan (1990 – 2020) and its predecessor (New Economic Policy (1970 -1990). Similar trend is also seen in the growth of Halal food entrepreneurs as clearly shown from the JAKIM statistics that only 32% of Malaysia's total licensed halal food businesses are Malay-owned firms (Bumiputra).

Thus, SMEs need to take initiatives towards long-term growth and review their performance from time to time (Najmi, Rigas & Fan, 2005; Yusuff 2015). Hence, this research intends to examine the possible effect that can influence performance particularly the effect of entrepreneurial resources amongst Malay SME companies and by studying how performance of Malay SME can contribute to SME businesses and the economy of Malaysia in general (Chelliah, Sulaiman & Yusoff, 2010; Hashim, 2000; Kim & Kim, 2005; Yusuff, 2016). Yusuff (2016) also suggested that the studies on the performance of SME as a major economic driver must also be extended to the Halal Industries. Therefore, it can be quoted that Malaysian SMEs are facing problems with their performance (Nambiar, 2009; Yusuff 2015, New Development Plan (1990 – 2020).

Hence, a conducive and comprehensive entrepreneurial ecosystem to making Malay-owned SME in the Halal Industries must be put in place to ensuring of their growth, success and sustainability. According to Che Omar and Anas (2014), Bohari et al. (2013) and Abdul Rahman and Mohamed (2011) lack of capital, limited resources, poor market knowledge, stiff competition from larger companies, employing low level of technology, slow to penetrate into the international markets, and weak networks are common problems faced by Malaysian SMEs. These exist ample evidence from literature and findings of past studies that suggest entrepreneurial resources have a strong impact to firm performance (Wu, 2007), therefore, this study explores the important and effect of entrepreneurial resources influencing Halal food industries performance in Malay SME in Malaysia.

Organization Performance

Organizational performance is a metric for assessing the capacity of an organization to achieve its goals (Li, Ragu-Nathan & Rao, 2006; Ventkatraman & Ramanujam, 1986). Organizational success represents a degree of measure for an organization to achieve its financial objectives (Penrose, 1995). Sustainable production is a crucial factor for the survival of SMEs. To ensure its sustainability, organizations need to assess their output from time to time because of rapid changes in the environment (Cocca & Alberti, 2010; Najmi, Rigas, & Fan, 2005). It has been widely accepted that there are performance differences between various organizations

(Stoelhorst & van Raaij, 2004). In reference to SMEs, it is important to analyze what makes SMEs perform better in the competitive environment.

Entrepreneurial Resources

Obtaining needed resources is crucial to establish and grow a new business venture and subsequently to ensure its future success and competitiveness (Barney & Clark, 2007). Ample evidence from literature and findings of past studies suggest that entrepreneurial resources have a strong impact on firm performance (Wu, 2007), however there is no consensus in defining them. Dollinger, (2008) in his book “Entrepreneurship: Strategies and resources” explains firm resources from the perspective of businesses own by entrepreneurs.

According to him firm resources can be classified into six distinct types of resources: financial, physical, technological, reputational, human and organizational resources. Clearly, Dollinger’s effort on resource typology reflects and expands earlier work by Barney, (1991) who classifies firm resources into physical resources, human resources and organizational resources. Grant’s, approach however differentiates firm resources into tangible and intangible resources.

Focusing on intangible entrepreneurial resources, Mosakowski (1998) defines intangible resources as “the propensity of an individual to behave creatively, act with foresight, use intuition, and be alert to new opportunities” (p. 625). Grant (1991) highlights the importance of skills, knowledge and other competencies as crucial intangible assets for firm success and competitiveness. To become a successful entrepreneur, the availability of appropriate resources is vital. Entrepreneurial resources includes assets (tangible and intangible), finance (for example lines of credits and capital investment) and abstract dimension such as knowledge and network contacts. These resources are important in contributing and supporting the organizational growth. This result shows that the greater social competence the entrepreneurs has, the more income they will gain. This explains why some entrepreneurs are more successful compared to other entrepreneurs. SME entrepreneurs who are involved in day-to-day running of their businesses that demand face-to-face interaction with customers need high social skills (Wiklund & Shepherd, 2005). This is so because they have to read and understand the needs of their customers individually. Entrepreneurs must show more expressiveness where they have to create enthusiasm and develop motivation among their employees. Employees or human resource are the important capital for entrepreneur which demands their competency and skills.

Objective of Study

The objective of this study is to determine whether there is an effect of entrepreneurial resources on Malay owned SME performance in Halal food industries in Malaysia.

Research Framework

Figure 2. Illustrates the research framework of the study.

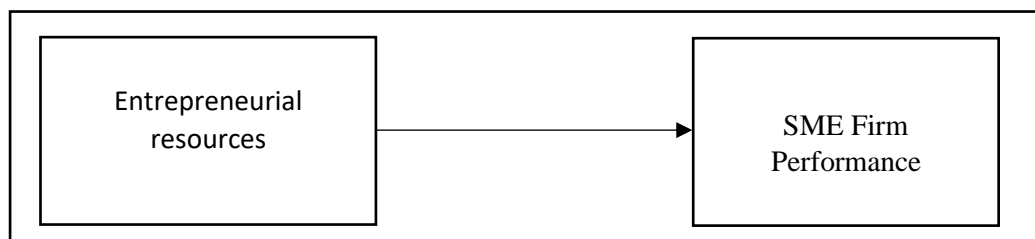


Figure 2: Proposed Research Model

Methodology

Sampling

The population involved in this study is obtained from the Halal Hub Division of JAKIM, which is the Department of Religious Affair, Malaysia. Statistics from this division showed that a total of 5,726 companies had received Halal certification from Department of Islamic Development of Malaysia (Jabatan Kemajuan Islam Malaysia - JAKIM) in 2015, and only around 1,832 were Malay-owned companies.

Using probability random sampling method procedures and according to Saunders, Lewis, and Thornhill (2009) for sampling, the appropriate sample size for such population is 322. This research manage to collect 297 samples which is 16 % which is enough as reported that in Malaysia, it was reported that the response rate from mail mode survey ranges from 15% to 25% (Sarachek & Aziz, 1983; Rozhan, 1991; Kanapathy & Jabnoun, 1998; Murjan, 2012). Since the questionnaires from this study is distributed by the mail mode, a total of 1832 questionnaires comprising of the entire sampling frame were distributed to all Malay-owned Halal SMEs in Peninsular Malaysia. The unit of analysis for this study is organization with the owners and managers are respondents as they are the key informants and they know about the business they were in, and they are in the appropriate position to respond to the study (O' Cass & Ngo, 2007; Heide & Weiss, 1995; Weerawardena, 2003).

Measurement

The instruments used in this study were developed from prior research and previously tested for reliability. Some of the questions was adapted so the make sure the relevancy for purposed of this study.

Table 2: Instrument of the study

Variables	No of Items	Sources of Instrument
Entrepreneurial Resources	7	Wu (2007) and Mosakowski (1998)
Entrepreneurial Performance	9	Butler, Phan, Saxberg and Lee (2001)

Multiple Regression Analysis

Table 3: Multiple Regression Analysis Result

	Firm Performance	
	Organizational Effectiveness	Organizational Growth
Entrepreneurial Resources	.299*	.214*
F value	6.061*	
R²	0.425	

From the above table, the F value is significant at $p \leq 0.05$. The significance of F value brings a meaning that the model is significant. R^2 value indicated that entrepreneurial resources indicated 42.5% of the firm performance. From the β value, the multiple regression analysis result has revealed that entrepreneurial resources significantly affected 29.9% organizational effectiveness and 21.4% organizational growth respectively.

Discussion

Many studies have measured firm performance by using various dimensions, for example, financial profitability, operational efficiency, and growth (Thomas & Ramaswamy, 1996). This study has adopted measurement of firm performance constructed by Butler Phan, Saxberg and Lee (2001).

The result from factor analysis in this study (refer table 3) has exhibited two reliable dimensions of firm performance, namely firm effectiveness and firm growth. This result is in line with the dimensions indicated by Butler Phan, Saxberg and Lee (2001) who indicated that firm effectiveness and growth are the indicators for future performance and Wood (2006) indicated financial result which becomes the gauge for firm effectiveness is one of the firm performance yardsticks. Hence, firm effectiveness and firm growth exhibited in this study represent firm's financial result and future performance respectively.

Organizational Effectiveness

Firm Effectiveness is the level of results from the actions of employees and managers. These actions include quality improvement and improvement on capability of employees and managers who demonstrate effectiveness in the workplace help produce high quality results (Kelly, 2008). Relating to the operational definition to this research warrants that the firm effectiveness is a measurement of firm performance by increasing its sales volume by aggressive marketing efforts as well as enhancing the firm's reputation using branding strategy and innovations and increase customer's satisfaction by offering good quality product with the right price. Hence, this study illuminates that the Halal entrepreneurs can enhanced their performance through firm effectiveness.

Organizational Growth

Firm growth is measured using financial and non-financial yardstick. Increase in sale and revenue depends on funding and financing. According to business dictionary.com (<http://www.businessdictionary.com/>), business growth is the process of improving some measures of an enterprise's success. Business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or service income or increasing the bottom line or profitability of the operation by minimizing costs. According to Investopedia, growth company refers to any firm whose business generates significant positive cash flow or earnings, which increase at significantly faster rate than the overall economy. A growth company tends to have very profitable reinvestments opportunities for its own retained earnings. Thus, it typically pays little to or no dividend to its shareholders.

Other researchers postulated that, growth can be measured using a range of different indicators, the most frequently suggested being sale, employment, assets, physical output, market share and profits (Ardishvili et al., 1998; Davidsson, & Delmar ; Weinzimmer, Nystrom & Freeman, 1998; Wiklund, 1998). The Malaysian government has implemented Halal Industry Master

Plan (2008-2020). Included in the Halal Industry Master Plan is a blueprint for the country to become a global leader in innovation, production and trade within several *halal*-related sectors, such as speciality processed foods, cosmetics and personal care, pharmaceutical ingredients, livestock and the services sector (particularly logistics, tourism and healthcare). Though many challenges exist such as lack of expertise and enforcement, high cost in the implementation of the *halal* and *toyyiban* process as well as lack of training and trainers, however, efforts has been taken by JAKIM especially directed towards the SME assisting owners and managers to address these demands and difficulties.

Conclusion

This is a testimony that entrepreneurial resources when appropriately utilized can contribute positively towards firm effectiveness and firm growth. This study has capitalized entrepreneurial resources suggested by Wu (2007) who said that entrepreneurial resources include entrepreneur's know-how, financial capital and managerial abilities contribute to the theory and practice in the area of organizational performance. It also contributes to the understanding of the factors that explain SME performance. Specifically, it provides additional insight into how entrepreneur resources affect the performance of SMEs in the Halal Food Industry in Malaysia. In addition, this study extends the additional insights to suggest that more resources need to be included that can give impact to the firm effectiveness and firm growth of SMEs in the Halal Food Industry in Malaysia.

Good entrepreneurial knowledge and skills may directly affect continuous business innovation. The innovation in business becomes initial requirement for entrepreneurial orientation. Entrepreneurial orientation demands consideration from entrepreneurs in accessing and deploying their internal and external resources effectively. Dynamic capability of innovation is contributed by entrepreneurial resource deployment, relational support and decision support. Thus, besides deploying expertise in executing business, solving business problems and building relationship with customers, entrepreneurs must also maintain good skills in planning business strategies, solving internal problem and building good communication with employees. Besides maintaining internal capabilities, entrepreneurs must also have enthusiasm to discover new opportunities for the sake of business development.

From the discussion, it is known that entrepreneurial skills, financial resources and managerial skills are the crucial resources for entrepreneurial development. Hence, this study utilizes three dimensions in measuring entrepreneurial resources, namely specialized know-how, financial capital and managerial capability.

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