

THE CHALLENGES OF A SMALL MEDIUM ENTREPRENEUR IN MELAKA HUB HALAL TO PENETRATE THE EXTERNAL MARKET

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ABSTRACT

Nowadays, the government's plan to make Malaysia a global Halal center has created a new environment where Muslim SMEs are much preferred to participate. SME entrepreneurs have also been exposed to halal certification that will further convince consumers about their halal products. In Malaysia, The availability of halal product certificates, including food products, has enjoyed added value in this industry. Halal food industry market has grown tremendously. So, most retailers, food and beverage manufacturing operations are motivated to apply for halal certificates for their products. This method had also become an important component of the food industry. Small and medium-sized (SMEs) and mainly Malaysian-owned SMEs dominate this industry. Fisheries, meat, beef, coffee, fruits and vegetables, and functional / health food products are the major sub-sectors for the processed food and beverage industry.

Keyword: SME, entrepreneurs

CABARAN USAHAWAN KECIL SEDERHANA HUB MELAKA HALAL UNTUK MENEMBUSI PASARAN LUAR.

ABSTRAK

Pada masa kini, rancangan kerajaan untuk menjadikan Malaysia sebagai pusat Halal global telah mewujudkan persekitaran baharu di mana PKS Muslim lebih diutamakan untuk mengambil bahagian. Usahawan PKS juga telah didedahkan dengan pensijilan halal yang akan lebih meyakinkan pengguna tentang produk halal mereka. Di Malaysia, Ketersediaan sijil produk halal termasuk produk makanan telah menikmati nilai tambah dalam industri ini. Pasaran industri makanan halal telah berkembang dengan pesat. Oleh itu, kebanyakan peruncit, operasi pembuatan makanan dan minuman bermotivasi untuk memohon sijil halal bagi produk mereka. Kaedah ini juga telah menjadi komponen penting dalam industri makanan. Kecil dan sederhana (PKS) dan kebanyakannya PKS milik rakyat Malaysia menguasai industri ini. Perikanan, daging, daging lembu, kopi, buah-buahan dan sayur-sayuran, dan produk makanan berfungsi/kesihatan adalah subsektor utama bagi industri makanan dan minuman yang diproses.

Kata kunci: PKS, usahawan

INTRODUCTION

Small and medium industries (SME) are recognized as manufacturing SMEs or SMEs that provide manufacturing related services with annual turnover of not more than RM25 million and have a staff of not more than 150 employees (Norsyafiqah, 2010). In Malaysia, the SMEs are involved in a variety of industries, and represents the majority of total businesses in a various sectors contribution in terms of GDP (Gross Domestic Product) (Dzuljastri, Moha Asri & Arif, 2018). By that token, SMEs (Small and medium enterprises), are coordinated by the ministry which is responsible for coordinating the development of Bumiputra entrepreneurs. There are various SME-venture opportunities that have been supported by the government in Malaysia. One of them is from the food processing sector.

The activities included are in the classifications of economic activities involving SMEs which are primary agricultural, manufacturing, services, mining and quarrying, and construction (Dzuljastri, et. 2018). Nevertheless, currently SMEs have been challenged with many issues such as access to financing, lack of human capital, infrastructure, innovation and technology, legal and regulations and access to marketing (Dzuljastri, Moha Asri & Arif, 2018). According to Hashim and Abdullah (2000) SMEs in Malaysia are categorized by four parameters as follows: (1) it is actively managed by its shareholders, or in other words, 'owner-managed and family business,' (2) it is highly personalized (i.e. with the preferred management style of an owner), (3) it is largely local in its area of operation, and (4) it depends largely on internal sources of capital to fund its development.

In the context of this study, the Halal Hub in Melaka was chosen because it is one of the most prominent halal hub in Melaka. Besides that, Melaka is also one of the states with a lot of small and medium industry businesses especially in the food field. Melaka Halal Hub (MHH) is now in the process of expanding its business empire to the Melaka Halal Hub members in supporting their company's goals. Melaka Halal Hub is the first halal industrial hub in Malaysia. Entrepreneurs who are located in Melaka Halal Hub operate in producing halal products (MHH Sdn Bhd, 2016). In this regard, the Melaka State Development Corporation (PKNM) act as state government company which mandated Melaka Halal Hub Sdb Bhd (MHHSB) to operate the Melaka Halal Hub (MHH) at Serkam Melaka serves as anchor and provides training, guidance and Islamic Manufacturing Practice (IMP) as well as marketing and employment opportunities to entrepreneurs who will be responsible for halal production aspect. Other than that, the main purpose the researcher choose Halal Hub in Melaka because Melaka one of the most prominent tourist destination, many tourist come to Melaka. Besides that, Melaka is also one of the states with a lot of small and medium industry businesses especially in the food field.

PROBLEM STATEMENT

The following model of research shows this study's theoretical framework describing the relationship between independent and dependent variables. There are two (2) independent variables under challenges namely management and with it dimension skill, R&D, branding and financial. The second independent variable is marketing with it dimension non-access to international marketing, marketing standard and regulation and networking. In other word, government supports could moderate the relationship between challenges towards external market penetration among SMEs. Meanwhile, external market penetration among SMEs is dependent variables in this study.

BACKGROUND OF STUDY

Financial

The Financing of small business also has become one of the main challenges that negate small business success in Nigeria. The capital to invest is critical to the growth of small businesses sustenance and survival. Gbandi and Amissah (2014) found the failure of small businesses to access long-term financing as the main source of small business failure in Nigeria. Similary, Akinola and

Iordoo(2013) asserted inadequate funding of small businesses remain their barrier with Nigerian capital markets. For the survival of SMEs, access to funding is very important. This is due to their need for business expansion. At the initial stage, however, capital is usually made up of such personal savings and family members from internal funds but is very small. Because of the high risk of failure of SMEs, lenders are unable to provide funding. If they want to borrow, lenders will enforce collateral as a condition of approval that many are unable to afford (Hasnida 2016), due to higher risk profile, SMEs will be charged high interest rates. Others may even have to close their company because they are unable to meet their bills for financing. Financial assistance is seen as the most serious obstacle that SMEs in Turkey face (Nurrachimi, R et al).

Marketing Network

Other than that, Dzuljastri Abdul Razak, Moha Asri Abdullah and Arif Ersoy, (2018) also informed that SMEs in Malaysia also lack informations about the marketing channel and fail to develop marketing networks. They also identified that the main challenges' faces by SMEs in Malaysian to penetrate the external market are the lack of knowledge about marketing techniques, exporting, branding, customer loyalty and also the lack of good contact with the local and international enterprises company. The researcher also reported that the losses of SMEs are also due to poor design, poor quality of finished products due to the use of raw materials of poor quality and lack of quality control, lack of skills in labor and after-sales service. In addition, the difficulties of seeking an export market are also due to a number of external factors such as exporting countries, raw price increases. Malaysia also faces issues related to the development of technology. Most SME workers do not have a high educational degree. Therefore, in the labor market they found it difficult to obtain well-paid jobs. None of them have earned a tertiary certificate (Dzuljastri Abdul Razak, Moha Asri Abdullah and Arif Ersoy, 2018).

Saleh A.S. et.al (2006) have described many challenges faced by small Malaysians and medium-sized enterprises as high levels of bureaucracy in government agencies hampering efficient business growth, difficulty in seeking funds from both financial institutions and government, lack and expense, qualified and technical staff, high levels of international competition due to globalization; including competition from AFTA member countries, from MNCs or rapidly developing new competitors (e.g. enterprises from China and India), and limited and low skills access to better technology and ICT.

Finally, the World Bank (2011) identified a range of constraints affecting the business performance of SMEs more commonly found in East Asia, including access to financing, lack of labor and education skills, policy uncertainty, lack of infrastructure, macroeconomic instability and many other internal and external factors, but did not classify them into categories. In summary, while past studies have provided a broad understanding of the challenges faced by SMEs in Malaysia and East Asia in general, they have been carried out without strong empirical foundations. This research fills this void through a detailed empirical analysis of the major challenges facing SMEs in Malaysia and their market efficiency.

Access International Marketing

Global Marketing is the application of marketing concepts to meet the diverse needs and desires of various people across national borders. It also establishes a global mechanism of preparing and enforcing international marketing practices for selling, promoting, exporting concepts, goods and services to create markets that satisfy individuals and organizations at national and international level (Paluku Kazimoto, 2014). It was generally expected that the international market will take place when the production process becomes more centralized in order to advance other variables that are peculiar to specific locations. Kottler (2012). King and McGrath (2002) demonstrated that there are tactics that can be implemented by businessmen to enter the international market, such as exports, joint ventures and direct international investment. Abonyi (2003) advised that SMEs should have and retain significant capabilities across the value chain of the industry, including production, design, distribution, branding and marketing, to participate effectively in global markets.

International Marketing Standards and Regulations

Governments should constantly upgrade the climate to facilitate the international growth and development of SMEs by proactively looking for international business opportunities, improving legal institutions and administrative and financial institutions, and formulating effective policies (Fariza, 2012). Marketing and awareness are two of the export concerns that include a lack of knowledge of foreign market business practices and strategic approaches, a lack of sales management techniques, a lack of percentage points to be a major barrier to SME exports in developing countries (Siringoringo, Prihandoko, Tintri, and Kowanda, 2009). Li (2004) provides evidence that the awareness of international marketing depends on the importance and scope of the company's marketing information. Karatas et al. (2008) finding inadequate supply of micro-credits is a major issue, particularly where business creators are unemployed, women or ethnic minority members.

Therefore, promoting the provision of micro-credits is not just a matter of entrepreneurship and economic growth, but also of social inclusion. The argument is that both internal and external problems are faced by SMEs. Internal barriers include limited information to locate and analyses markets, inefficiencies of human resource management with regard to internationalization, lack or insufficiency of finance with regard to internationalization, pressures imposed by external forces on adapting the elements of the company's product and pricing strategy, barriers associated with the distribution, logistics and promotion aspects of in foreign markets. External problems include: aspects of foreign business transactions, acts or inaction by the domestic and foreign government in relation to its indigenous SMEs and exporters, consumers and competitors in foreign markets, the foreign market's economic, political-legal and socio-cultural environment(s), export restrictions and internationalization imposed by the government.

Government Support to SMEs

Despite existing financial support policies for small businesses, when they need it, very few SMEs receive financial assistance. Mambula (2002) find that 72 percent of entrepreneurs he studied in Nigeria considered lack of financial support as number one constraint in developing their business. While banks are required by law to set aside a certain percentage of their profits for small business loans in some countries, many banks would prefer to pay a fine instead of making what they consider is a high-risk loan to SMEs (Mambula, 2002). Akwani (2007) suggests that basic physical infrastructure, such as good roads, adequate power supply, and good rail and river transport facilities, are required for economic development. In addition to the issues listed above, in most African countries, the information and communication infrastructure is poor. Cogburn and Adeya (2000) regard access to information technology as a prerequisite for widespread socio-economic development in this era of globalization and information economy SMEs and other small African businesses have challenges to enter the foreign market and sell their goods on their home market. When designing financial support strategies for small businesses, Honohan and Beck (2007) propose that banks' interests should be taken into account. Governments will collaborate with lending institutions to reduce the risk of defaulting loans. Though governments need to play an important role, consideration should be given to other sources of support for small businesses, such as venture capitalists

Skill of Employee

There are many and varied challenges facing SMEs and small medium-sized enterprises in other countries; lack of financial support, weak economic infrastructure, and lack of policy coherence, and lack of business support. TNA Report (2010) indicates that sales and marketing are considered to be the most important areas of expertise to be developed, followed by innovation and technology, leadership and production management. The study also notes that the method of acquiring and consolidating competitive advantage involves a variety of skills and expertise relevant to evolving market characteristics. In practice, this means that preparation for SMEs and other business support programs should have a major leverage impact and improve competitive advantage by encouraging and promoting their efforts.

External Market

Nonetheless, in the global economy, SMEs are still largely underrepresented. SMEs contribute only one-quarter to one-third of manufacturing exports and account for a very small proportion of foreign direct investment (FDI) (Schreyer (1996), Hall (2002), Sakai (2002)). SMEs in most national economies make up more than 95 percent of market participants and contribute about 50 percent of direct added value or production. Why are SMEs contributing much less value-added on global markets and why are less SMEs participating on global markets? This is clarified in many ways. Global operations expose SMEs to a more complex and uncertain business environment in which SMEs are mostly inexperienced and less well-resourced than larger companies. Governments should resolve some of these challenges and uncertainties as they relate to the various government-generated legislative, institutional and policy environments. There are significant potential benefits that could result from the creation of a more enterprise-friendly, more competitive economy at international level. If SMEs were to increase their contribution to the international economy to levels that approximate their contribution to national or local economies, the benefits would be very significant.

METHODOLOGY

Method of collecting literature

This paper relies on critical literature/document review. Literature review is the use of secondary data (Amin, 2004) to justify the particular approach to the topic, the selection of methods, and demonstration that this research contributes something new (Hart, 2001). The review of literature has been discovered to be reliable in conducting desk research which is central to this paper. In addition, Randolph (2009) explains that conducting a literature review is seen as a means of demonstrating the author's knowledge about a particular field of study. This implies that an academic discussion devoid of literature analysis backed by theory is no more than personal impression, anecdote or conjecture.

Research Instrument

Questionnaire is a way of collecting data that is very appropriate when the researchers know exactly what they need and how to ensure the variables they want to study (Uma Sekaran, 2003). The questionnaire form is a set of questions developed and distributed to the respondents to answer. In designing the appropriate tool for this analysis, many issues need to be addressed in order to determine the necessary information. First of all, the key consideration should be given to who should be asking the questions. Because the respondents are among the company's top management, terminology and wording should be approximate to the level of understanding and relevant to the respondents' behaviors, expectations and feelings (Sekaran, 2010). Consequently, the questions proposed had to be in simple words and easy to answer by the respective respondents, and English Language was thought to be the language deemed most suitable. In fact, Salkind (2003) stressed that the instrument of survey should be clear-cut with the aim of gaining a good response and data.

In this study, the questionnaire was conducted through face-to-face methods. The purpose of this method is to collect the data that has been analyzed to achieve the objectives of this study. For this study, a set of questionnaires formulated two main sections, section 1 for company profile and section 2 for management, marketing, government support and external market penetration. It consists of 37 questions comprising various questions.

RESULT AND ANALYSIS

The focus of the discussion in this chapter is on the analysis of respondents' personal information and respondents' perceptions on some aspects of the study as derived from the information filled by the respondents in the survey form. This information is processed using the Statistical Packages for the Social Science (SPSS) computer software. The analysis is categorized into several sections, including the first one about the company's profiles, the number of employees, the number of years involved in the business, job position, average monthly turnover, business plan, the capital resources earned for

*The Challenges Of A Small Medium Entrepreneur In Melaka Hub Halal
To Penetrate The External Market*

*Dziela Muhamad Parid, Siti Mahera Ahmat Amin,
Hartini Adenan & Dina Syamilah Zaid*

the business, types of workers and gran from government. Furthermore, for the second part, analysis was conducted on the problems faced by the respondents. Problems faced by the respondents are divided into three types which were the management, marketing and government supports.

Reliability Coefficient

Until evaluating the study's objectives and research issue, internal reliability testing was performed. The reason for conducting the reliability test is to generate the knowledge about how much consistency there is in all the data collected among the ratings provided by the respondents. Cronbach's Alpha Coefficient value is one of the most widely used measures of internal efficiency in quantitative calculation. The value of the alpha coefficients was calculated using version 24 of the Social Sciences Statistical Package (SPSS). According to Samouel, 2007, the maximum Cronbach Alpha coefficient value ranges from 0 to 1, with the higher values being closed to 1 reflecting higher reliability of the element in the scale. Table 4.0 demonstrates the Cronbach-Alpha value laws.

Therefore, internal reliability tests were conducted using the Cronbach alpha method for section 1 and 2 of the instrument. By looking at Table 7, Section A's alpha coefficient value is the challenges raised by the 2-dimensional (management and marketing) sub-dimension (skills, R&D, branding, political, international marketing access, marketing standards, and specifically, the management produced coefficient values of 0.771. For marketing, produced high coefficient, 0.808. Section B measures government support also generates coefficient values of 0.813. Ryan (1995) suggested that, values above 0.60 are considered acceptable and suit to pursue with further analysis.

Reliability Coefficients for each of the Questionnaire

Section	Questionnaire	No. of Items	Cronbach's Alpha	Result
A	The challenges Management Marketing		.771 .808	Good Very Good
B	Moderating effect of government support for external market penetration		.813	Very Good

No. of respondents (n) = 182

Descriptive of Analysis

A series of descriptive analyses was conducted to respond to the study's research goals and query by looking at the respondent's mean scores at each element. Separate sections were divided in analyses (3). The first section analyses the total elements in Section A of the questionnaire that include sub-dimensional management, R&D, branding and financial management.

Section A: Management

Reported Mean Scores for Management

Items	n	Mean (M)	S.D
Less efficient in management	182	1.55	.627
Don't have a specialization	182	1.66	.610
The management does not have any experience	182	1.66	.702
Unproductive workers	182	1.30	.600
Monopoly competition problems from large SMEs that dominate the market, have high technology and make pricing	182	1.68	.667
Small quantity of purchase	182	1.65	.701
High cost of research and development	182	2.77	.626
The failure of SME entrepreneurs to provide updated accounts and documents required by the bank	182	1.47	.689
Manufacturing machinery is not enough	182	1.12	.929
The manager of the company able to fully the requirements of the external market	182	3.04	.605

Scale: 1: strongly disagree, 2: disagree, 3: natural, 4: agree, 5: strongly agree

Looking at Table 8, the magnitude mean (M) scores ranged from 1.12 to 3.04 indicates that SMEs top management disagree with the items probed in this section. As such, they disagree that manufacturing machinery is not enough is where the highest result (M=1.12, Mn IX) and the top management also disagree that sometime in SMEs company the top management doesn't have experience (M=1.66, Mn III). Followed by Mn VI, M= 1.65, Mn VIII, M=1.47, Mn V, M=1.68, Mn I, M=1.55, Mn X, M=3.04 and Mn IV, M=1.30.

*The Challenges Of A Small Medium Entrepreneur In Melaka Hub Halal
To Penetrate The External Market*

Dziela Muhamad Parid, Siti Mahera Ahmat Amin,

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Section B: Marketing

Reported Mean Scores for Marketing

Items	n	Mean (M)	S.D
Good do not achieve quality standard	182	2.29	.627
Not being a member of business associations	182	1.91	.610
It is difficult to get the expert advice that is truly an expert in the desired field	182	1.93	.702
It has to rely on the existing sales system because there is no good marketing network.	182	1.54	.600
Difficult to form understanding and mutual trust with non-bumiputera entrepreneurs	182	1.63	.667
Being a passive member in a joint venture	182	1.15	.391
Quality of good does not reach international standard	182	1.44	.626
Little knowing the international market opportunities	182	2.01	.689
Competition with imported goods forces entrepreneurs to focus more on maintaining local markets	182	2.58	.929
The company is able to produce the product according to market demand	182	1.67	.505

Scale: 1: strongly disagree, 2: disagree, 3: natural, 4: agree, 5: strongly agree

Looking at the Table 9, the magnitude mean (M) scores ranged from 1.15 to 2.58 indicates that SMEs top management disagree with the items probed in this section. The highest mean score in this table shows Mkt IX, M=2.58 than followed by Mkt I,M=2.29,Mkt VIII, M=2.01, Mkt III,M=1.93, Mkt II,M=1.91, Mkt X,M=1.67, Mkt V,M=1.63, Mkt IV,M=1.54, Mkt VII,M=1.44 and Mkt VI,M=1.15.

Section C: Government support

Reported Mean Scores for Government Support

Items	n	Mean (M)	S.D
Having a certificate such as ISO, HALAL is very important to the company.	182	2.00	.622
Participation in government sponsored courses can give entrepreneurs serious in business ventures and can produce a very quality products.	182	2.17	.980
Training assistance provided by government agencies does not help boost the company's economy	182	2.31	.754

Organizing programs such as MAHA, Karnival Usahawan Desa, Bazaars can help SME to promote their product to the external market	182	2.12	.881
Training provided by the government will not give more confidence to the management of SME SMEs to move forward in the external market	182	1.87	.780
Grants from the Government will not afford financial disabilities of SME	182	2.02	.739

Scale: 1: strongly disagree, 2: disagree, 3: natural, 4: agree, 5: strongly agree

Looking at the Table 10, the magnitude mean (M) scores ranged from 1.87 to 2.31 indicates that SMEs top management disagree with the items probed in this section. The highest mean score in this table is Gs III, M=2.31 then followed by Gs II, M=2.17, Gs IV, M=2.12, Gs IV, M=2.02, Gs I, M=2.00, and Gs V, M=1.87.

CONCLUSION AND RECOMMENDATIONS

From the findings in this study, several suggestions were raised to solve the problems that existed. In general, the main questions studied in this study are to describe the problems faced by the respondents and how far the problems affect the respondents' business. Based on the results obtained in chapter 4, this chapter highlighted the research overview, the finding updates, and the conclusions are discussed. Often discussed are the theoretical and operational consequences, drawbacks and opportunities for future research.

Limitation and Recommendation for Future Research

Any empirical studies undertaken were bounded to face several limitations during the conduction of the study. The first limitation is dealing with lack of available on statistics on SMEs in Melaka Halal Hub to penetration to external market. The second possible limitation is associated with the research approach. Since this study is using quantitative approach, the answers received were only restricted as it totally based on the questions created or adapted by the researcher. In other word, there is no additional answers could be provided by the tourists. Thus, for future research, the mixed method which combining the survey questionnaire and interview could be undertaken as it would provide more in depth information of the issues investigated. Finally, it is suggested to the future research could use different sampling method that is more specific according to a particular state and area to get more reliable result.

Conclusion

In terms of marketing challengers, first, good should achieve the quality standard to attract external company to buy your product. Then they must to be a member of a business associations. Quality of good is most important thing to reach their SMEs to international standard, but they also must knowing the international market opportunities to compete with others SMEs. Study findings show that SMEs lacked the government support for the companies to penetrate external market. More findings show that SMEs face challenges in accessing international marketing oblivious of regulations and standards, with poor understanding of the needs and services of customers, lack of critical entrepreneurial skills and inadequate networking mechanisms to enter international marketing. In addition, they lack funding and loan provision leading to poor economic development of SMEs. The study therefore recommends improving information available to small and medium-sized enterprises;

*The Challenges Of A Small Medium Entrepreneur In Melaka Hub Halal
To Penetrate The External Market*

*Dziela Muhamad Parid, Siti Mahera Ahmat Amin,
Hartini Adenan & Dina Syamilah Zaid*

providing government and other stakeholders with access to financial facilities with a fair rate of return, promoting more publicity and Use of up-to-date business and international marketing standards technology through entrepreneurship seminars and training sessions and networking structures for the export and import of goods and services. The study also recommends that the government support small and medium-sized enterprises to ensure that they play their role in helping to improve the economy and the country's gross domestic product (GDP). Like other industries, small and medium-sized enterprises (SMEs) have gone through various globalization and internationalization activities. However, SME entrepreneurs does not realize their own unique capabilities to meet the needs and demands of global consumers.

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*The Challenges Of A Small Medium Entrepreneur In Melaka Hub Halal
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*The Challenges Of A Small Medium Entrepreneur In Melaka Hub Halal
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*Dziela Muhamad Parid, Siti Mahera Ahmat Amin,
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