

# INTERNATIONALIZATION OF HALAL FOOD FROM THE MALAYSIAN SMALL-MEDIUM ENTERPRISE PERSPECTIVES

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## ABSTRACT

*Internationalization of small-medium enterprises is seen to be essential as it contribute most to the country's income. Despite all the government effort in aiding SMEs to go global, there are still SMEs that hesitate to follow the trend. Therefore, this paper seeks to investigate hindering factor of Malaysian SMEs from going global. The study adopted in-depth interview of 14 SMEs entrepreneurs from various industry in Southern region of Malaysia. Results indicate that five common barriers arise are Halal certification, entrepreneurs' attitude, cross-cultural marketing, lack of resources government initiative and inefficient supply chain. The results of the study can be used as a guidelines for a better SMEs internationalization policy.*

**Keywords:** *Keywords: Internationalization; halal food; small and medium enterprises.*

## 1. INTRODUCTION

In the overview of SMEs sector in Malaysia, CEO of SME Corporation Malaysia in 23 September 2013 mentioned that SMEs account for 97.3% (645,136) of all establishment in Malaysia. From this huge portion, SMEs have contribute to 19% for country's export, 57% to the employment rate and 32.5% to our Gross Domestic Product (GDP) (SME Corporation Malaysia, 2013b). However, with the emerging globalization concept that enable cross-border trading become easier and less costly, local SMEs entrepreneurs is at the disadvantage positions as the consumers

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have more choices. The static local market will shrink and lead to more pressure for local SMEs entrepreneurs to find outside market, whether they like it or not. Malaysia, as a Muslim country are having huge opportunity through Halal product market. With the Muslim population worldwide that is forecast to grow at twice rate from 1.8 billion in 2010, the potential market for Halal product will also expand as per say (Halal Industry Development Corporation, 2012). Though all factors support the path to internationalization, SMEs still hold themselves from going global. Thus, an exploratory research by the means of interview involving SMEs entrepreneurs was conducted to see the real factors that hindering them to go global.

## **2. LITERATURE REVIEW**

In Malaysia, effectively from 1 January 2014, small-medium enterprise in this country is classified as company that gain sales turnover not exceeding RM50 million OR own full-time employees not exceeding 200 workers (for manufacturing) and sales turnover not exceeding RM20 million OR own full-time employees not exceeding 75 workers (for services and other sectors) (SME Corporation Malaysia, 2013). Currently, Malaysia are now at the two overlapping stages of the Masterplan which is between SME Masterplan (2012-2020) which aim to promote the creation of business ecosystem for SMEs and 3rd Industrial Masterplan (2006-2020) which focus on global competitiveness through innovation. The gap between the Masterplan aim and the current achievement of 8.5% Gross Domestic Product (GDP), 5% employment rate and 6% country's export indicate that Malaysian SMEs need to work hard to achieve government's aspiration. One way to increase Malaysian export rate is by exploiting world halal market as halal producer. With the belief that Halal is not merely a way of life - it is a global industry, Halal Industry Development Corporation (HDC) have successfully facilitate 800 Halal companies go global through capacity building, market access, branding and promotion and access to financing. By a forecasting halal export amounted RM 99.5 million in 2020, SMEs have gigantic chance to be included in picture.

## **2.1 Halal certification**

In 2013, Muslims account for around one-fifth of the world's population (Pew Research Center, 2011). This indicates the big promise in the demand of halal products from entire world. Surprisingly, Khan (2014) reported that more than 80 percent of the world halal trade is done by non-Muslim countries including India, Thailand, China, Brazil, Australia, US and Europe. Bowling (2014), in reasoning the enthusiasm of Australian in getting halal certificate for their product stated that getting halal certification gives manufacturer or producer more opportunities for selling their product globally. The halal-exporter statistics make us wonder about our position as one of the Muslim country which is supposed to tap the export opportunities quicker and successful than the non-Muslim countries. Among the reasons are the issues of getting local halal certificate. Rios, Riquelme, & Abdelaziz (2014) confirmed the statement by opposing the fact that government halal certifications are cumbersome to get. In 2007-2008, the approval of halal certificate from JAKIM is among the lowest (Badrudin et al., 2012).

## **2.2 Entrepreneurs' attitude**

From internationalization perspective, having a global mind set would be an additional attitudes required from entrepreneurs. One of the future requirements and barriers in the field of international marketing barriers to a firm's international marketing success is self-absorption/isolation of mentality and lack of ability to adapt/global mind set which constitute 16% of total barriers (Czinkota and Pinkwart, 2013). The same point also shared by Kyvik, Saris, Bonet, & Felício (2013). It is believed that entrepreneurs who do not possess global mind set are far from thinking about bringing their firm to international market. On the other hand, motivation will force them to go global (Nik Abdullah & Mohd Zain, 2011). From organizational behaviour field, entrepreneur who score high in extraversion, agreeableness, conscientiousness and openness to experience (based on Big Five Personality dimension) are more likely to have innovated ideas that will contribute to the internationalization process (Omri & Becuwe, 2014).

## **2.3 Cross-cultural marketing**

Satisfying customer needs with broad product lines and tailored product offerings requires careful consideration of local market differences such as physical environment, the stage of economic development, cultural characteristics, the stage of the product lifecycle, competition,

distribution systems, advertising media, legal restrictions, and balance between local autonomy and central coordination (Buzzell, 1968; Kotabe, 1998). Powers & Loyka, (2010) believed that the marketing mix was adapted based on differing influences where the product area of the marketing mix was influenced by market factors (cultural differences and consumer preferences), price was influenced by market factors (consumer preferences) and industry factors (level of competition), promotion was influenced by market factors (cultural differences and product use conditions) and distribution was significantly influenced by company factors (subunit acquiescence and subunit cooperation). Some cultures are concerned on the product labelling (Ireland & Rajabzadeh (2011) and some are concern on the sensitivity issues through promotional tools (Fam, Waller, & Erdogan, 2004).

#### **2.4 Lack of resources**

Lack of resources is rank number three of all international marketing barriers with a score of 14% (Czinkota and Pinkwart, 2013). These resources include capital, human resources and so on. This is also a leading reason for non-internationalization (OECD, 2009); Shaw and Darroch, 2004). With regard to the smaller size of SMEs, the lack of capital always be a major barrier to fulfil not only international demand but also domestic demand. As stated by Ziyu (2014), a strong constraint faced by SMEs is that they have a very low adequacy of owned capital and some do own capital but only at the minimum point that is needed by the regulations. Even when there are opportunity to go global, some SMEs entrepreneurs feel that their obligation to fulfil the domestic market outweigh the internationalization opportunity (Kyvik et al., 2013; Calof, 1994).

#### **2.5 Government initiatives**

A study conducted by Wilkinson & Brouthers (2006) found that the available export promotion programs (in this case trade mission, trade shows and identification of agent/distributors) provided by the state bring greater export success to SMEs in US. This implication also align with study on SMEs in developing country by Durmuşoğlu, et al., (2012) that proved all four export performance measured by financial goal achievement, stakeholder relationship goal achievement, strategic goal achievement and organizational learning goal achievement are higher for firms that used at least one export promotion instrument. Nevertheless, providing a lot of government initiative does not ensure

grow of SMEs locally and internationally. For instance, Syed et al. (2011) find in their survey of 166 food manufacturers in Malaysia that bureaucratic obstacles come second only to financial barriers as an impediment to growth among local SMEs.

## **2.6 Inefficient supply chain**

An effort to bring SMEs in developing countries into the global value chain has become a serious matter when it is discussed in The Global Review held at World Trade Organization in Geneva (Pak, 2013). This indicate the importance for the SMEs to be a part of a value chain in internationalization process. To realize this, SMEs need to have a good relationship with all parties especially supplier. In the study conducted on a successful small retail and services operator by Mirani & Muhammad Shah (2012), findings direct that one of the factors of success is because they are having a good relations with suppliers. By these, they relish timely deliveries of supplies which lead to faster respond to the customer.

## **3. METHODOLOGY**

This study use cross-case synthesis by Yin (2003) whereby it involve carrying multiple-case study simultaneously. A total of 14 SMEs entrepreneurs were interviewed. An appointment was set prior to their agreement and an hour interview session is conducted. They purpose of the study and data treatment was told before asking the major questions. Due to the objectives set, semi-structured interview consisted three general questions were asked. The major questions are on the establishment of the company, problems occur and their internationalization experience. The whole interview session was then recorded as proof. The data from the interview was analysed using two types of processes; summarising and categorisation of meanings as suggested by Saunders, Lewis and Thornhill (2009). In this case, we use simple excel form to piling related units of data. In the end, we got a set of excel table consist of units of specific categories which guide the way we write our findings.

#### 4. FINDINGS AND DISCUSSION

Table 1 below shows the summary of fourteen case description being interviewed. Six barriers of globalization were identified namely difficulty in awarding Halal certificate, entrepreneurs' attitude, lack in cross-cultural marketing, lack of resources, lack of government aids and ineffective supply chain.

**Table 1:** Summary of the Case Description

Case	Internationalize	Barriers						
	Yes	No	Halal certificate	Entrepreneur's attitude	Cross-cultural marketing	Lack of resources	Government	Supply chain
C1		/				/		
C2		/				/		
C3		/	/	/	/			
C4	/			/	/			
C5		/	/					
C6	/			/	/			
C7		/				/		
C8		/		/		/		
C9		/	/				/	/
C10	/		/	/		/	/	/
C11		/		/		/	/	/
C12		/		/		/		
C13	/					/		
C14		/		/		/		

##### 4.1 Halal certification

MS1500:2009 (a revised version from 2004) is established as a guideline for halal certification requirement which look at eight critical areas including premises among others. As reported by a participant: *"It is very difficult to get the HALAL certificate because the authorities look at very technical and small things like the building. We have apply for the certificates long ago but still have not get it."*(C5). This complaint is not new to the public (Badrudin et al., 2012) highlight the smaller approval rate of Halal certificate applications in 2007 and 2008. The difficulty to obtain Halal certificate make some of the Muslim entrepreneurs do not dare to market their product abroad. Another participant highlight the

unstandardized world HALAL certificate by saying: *“We once asked our supplier to gives us the HALAL certificate from the producer country. But then, we are required to apply for Halal certificate by Malaysian authorities.”* (C3). The different basis of Halal award by different country force company who have intention to go abroad to repeat the application process every time they want to enter different market.

#### **4.2 Entrepreneurs’ attitude**

Omri & Becuwe (2014) dictate that entrepreneur who score high in extraversion, agreeableness, conscientiousness and openness to experience (based on Big Five Personality dimension) are more likely to have innovated ideas that will contribute to the internationalization process. As expressed by some participant: *“We are not only selling product but we sell concept and ideas. This is what makes our product unique. And it’s required a lot of creativity”* (C11). In addition, experience gain through working with others also aids to the courage to open up business as in the case of one participant: *“I have bachelor in architecture and start my career as landscape architect. Then, I was offered to work as playground designer and later as playground marketers. The experience I earned involving in this area really help me to prepare myself to open up my own business”* (C11). *“I failed many times before. I have tried open up bundle shop, selling mineral-salt, burger, women accessories. I learned a lot from the failures”* (C12).

According to Setyawati et al. (2011), the good entrepreneur realized that he/she should always want to develop for a betterment. As expressed by some participants: *“I do not want to focus on frozen roti canai only because by having own restaurant, we can earn more. We cannot just at this level forever. We want more”* (C14). Factors like age, bad past experience and geographical barriers also influence the reaction pace. Some participant say that: *“The government always claim that they have huge amount of financial assistance to help SMEs but my application have been rejected twice.”* (C8). *“Government do conduct training related to internationalization procedures but it is conducted in Kuala Lumpur. It cost me time and money to travel there.”* (C6).

#### **4.3 Cross-cultural marketing**

Doing businesses globally create an issue in firm’s product policy. A decision on producing a standardized product or customized it to fit the local market should be made. Based on experience, a participant is



reported to say: *"We have experience exporting our product. At first, we just deliver the product as it is. However, due to the different climate, our product couldn't survive longer. So we change the packaging. Later, we found that the packaging is also not suitable, thus we have to do more changes."* (C6). *"We have to design different packaging for export to ensure the freshness of our product once it arrived at their destination"* (C4).

SMEs entrepreneurs' facing dilemma in ensuring they work within affordable cost without scrutinize the uniqueness and quality of product to be able to enter global market. As stated by some participant: *"Our bread use unbleached flour which is healthier than the normal one. However, the price is higher plus there are not many supplier aware of it"* (C10). In protecting the quality, a participant happily do everything manually. As expresses by her: *"My sister used to give me slicing machine but the output is useless. My fried-onion must be separable from one another so that it have a better look and stay crunchy for a longer time. I rather sacrifice my finger than sell poor quality product to my customer"* (C13). As for promotional issue, one participant say *"We do have plan to distribute our product to neighbour countries but introducing unknown product will involve high advertising cost. Especially when everybody are using celebrities as spokesperson"* (C7).

#### **4.4 Lack of resources**

Shaw and Darroch (2004) found that the limited financial resources, high costs, limited access to capital, limited market knowledge, and lack of government assistance are perceived to be major barriers to internationalization for entrepreneurs. In terms of limited capital and land, some participants was recorded to say: *"I asked my neighbors to plant the trees around their house and sell the berries to me after my berries which I plant around my house are not enough. Yet, we still have not enough supply. We don't have money to buy or lease a land to grow them"* (C2). Operating with small numbers of workers create a problem of insufficient output. As stated by some participant: *"I have received a few orders from Brunei and India. I only have 7 workers. How can I accept the orders?"* (C8). *"I seldom have ready-made stock because the limited quantity produce. Normally I make-per-order. There are times people do walk-in purchase. Moreover, there is only me and my husband to do everything"* (C13).

#### **4.5 Government initiatives**

Despite all initiatives done by government, some entrepreneurs' still have a problem with its implementation. As stated by some participant:



*“Government have allocate a lot for the SMEs development but sometimes they give the allocation to the wrong person with the wrong reason.” (C9). The changing rules also give entrepreneurs a hard time. As expressed by participant: “This new requirement by MPJB make me go up and down wasting my time and cost me about RM2 thousand. Moreover, the time taken to get the final result is high because I need to bring the design from printing company to MPJB for approval before printing it out. If they did not approve, then I have to ask the printing company to redesign it. That is very time consuming” (C10).*

#### **4.6 Ineffective supply chain**

A broken relationship between supplier and retailer will create negative impact to the smaller company. For example, as stated as a participant: *“After helping my supplier to enter US market (California, San Diego, Oklahoma, and Minnesota), they stop giving supply to me. I cannot do anything because we did not have supplier-agreement before” (C9).* In the case of Halal product, as at now, the biggest problem is there is no structured Halal supply chain exist in Malaysia. As stated by a participant: *“To apply for Halal certificate, we must make sure that raw materials also have Halal status. In addition, there are not many Muslim wholesaler in this area. Even there is one exist, the choices are limited” (C10).*

## **5. DISCUSSION AND SUGGESTIONS**

From the interview conducted, we conclude that all the elements mentioned cumulatively contribute to the SMEs decision not to go global. The biggest problem of Halal certification and government aids is the lack of knowledge about the overall process; from the assessment to the decision making process. Not to the entrepreneurs' knowledge, the related agencies like JAKIM and MATRADE do provide that particular guidelines in their website but it is not being utilized by them. We believed that the root problem is not the absent of Halal certification guidelines and the always-changing government requirement but rather it is the medium of transferring information that is not suitable and SMEs entrepreneurs' lack of technological skills that cause the information failed to derived at its target audience i.e SMEs entrepreneurs. Entrepreneurs' should be developed from early stages as they can always bring positive attitude with them.

From the supply chain perspective especially for world Halal market, we suggest that SMEs entrepreneurs to establish and strengthen the relationship with other constituent in the chain namely global suppliers and customer. Relationship with other Muslims suppliers and competitors can turn to alliances if we are serious in becoming World Halal Hub. Of course, good quality product is easy to get accessed and this can only be done through research and development. The research and development effort need to be speed up. A small joint venture with universities can be a good start for SMEs. Apart from allocating a whole sum of money on SMEs development, government must not forget to deeply think on changing the negative impression on their policies that have long within SMEs entrepreneurs. Sincerity is not done by policy but rather the implementation. The combination of online and offline communication is still the best especially in developing countries. For instance, giving a basic business kit contains guidelines in conducting business in Malaysia, information on government's current policies and initiatives and Halal certification guidelines at the time they register their company can be one of the way. At the same time, SMEs entrepreneurs have to change their attitude and mind to survive in this sector. The 'sit and received' culture can no longer work in this globalization era. Obstacles should be view as opportunity. After all, every cloud have silver lining.

## **6. CONCLUSION**

This study concludes that six common barriers namely halal certification, entrepreneurs' attitude and aptitude, cross-cultural marketing, lack of resources, government issues and lack of effective supply chain prevent Malaysian SMEs from going global. Through the study we are able to see the current business in Malaysia from SMEs entrepreneur's' view. We can conclude that the slow pace of SMEs internationalization are due to the internal restraining factors that is entrepreneurs 'own attitude. Nevertheless, we cannot blame the entrepreneurs because such attitude may be built in effect of our culture. We hope all parties can cooperate to instil a new proactive culture in order to keep pace of the business world changes.

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