

ACCEPTANCE AND APPLICATION OF ISLAMIC FINANCIAL PLANNING AMONG SMALL AND MEDIUM ENTERPRISES HALAL OPERATOR IN PENINSULAR OF MALAYSIA

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Abstract

Halal Industry in Malaysia has created employment opportunities especially among Small, medium-sized enterprises (SMEs). High demand for Halal products especially from Islamic countries has put Halal industry as one of the national agenda priorities. In the Eleventh Malaysia Plan (11MP), the halal industry had been given special emphasis by the Prime Minister to ensuring the halal industry is highly and persistently competitive. In Asia, Malaysia has been considered as a leader in the development of the Halal hub center. However, halal industry is not only about halal food production, but also it covers Islamic finance services which prohibit interest (riba), uncertainties (gharar) and gambling (maysir). Islamic financial planning is one of the important parts of Islamic finance because it plays a big role in providing Shariah compliant funds and investment opportunities especially for SMEs halal operators. The holistic approach to halal industry should also cover not only halal food production, but also Islamic financial planning which includes activities such as how to create, increase, purify and to protect wealth from Islamic perspective. Therefore, this study examines the relationship between acceptance of Islamic finance and the application of Islamic financial planning among SMEs halal operators in Peninsular Malaysia. The findings of this study reveal that the acceptance of Islamic finance was significantly correlated with the application of Islamic financial planning among SMEs halal operator. These finding indicated the important of integration between acceptance on the Halal industry with Islamic financial planning activities. SMEs Halal operators should be able to accept the Islamic finance principles. This relationship recognises the importance of acceptance and practice of Islamic financial planning among halal SMEs operators in promoting halal products and services and boost demand for Malaysian halal products at the international level.

Keywords: Halal Industry, SMEs Halal operator, Islamic Financial Planning.

1. INTRODUCTION

Small, medium-sized enterprises (SMEs) in Malaysia are expected to contribute more than 40% to the country's gross domestic product (GDP) by 2020. High demand for halal products and services further increases the role of SMEs in the economy. Thus, SMEs is urged to get halal certification to seize lucrative opportunities in the global halal sectors. To ensure that the whole production process is halal, SMEs halal operators are to apply Halal Standards in their sales production process. There is still a gap in applying Islamic financial planning in their business activities such as financing and investing activities which involve prohibited elements such as *riba*, *gharar* and *maysir*.

Halal Standards (HS) set by government authorities such as a Halal Development Corporation (HDC) and Department of Islamic Development Malaysia (*Jabatan kemajuan Islam Malaysia* or JAKIM) are responsible to conduct halal certification and auditing processes which are based on good quality, value, safe, and trust as a precondition to achieve HS in implementing strategies for the development of the industry. HS is also capable of enhancing the good governance in sectorial, business activities, halal supply chain and halal experts. These terms of HS are crucial in promoting Malaysia as a global halal hub center. The halal development can also contribute to the good business environment such as existing business-friendly ecosystem and greater collaboration between agencies. Therefore, to achieve a holistic view of Halal standards, there is a need to integrate Halal industry with Islamic finance.

2. SMEs HALAL OPERATORS

The definition of SMEs is mainly based on annual sales turnover and total number of full time (Hashim and Abdullah, 2000). According to Hashim (2000), SMEs in Malaysia can be segregated into three main sectors such as general business, manufacturing and agriculture. In Malaysia, according to Small and Medium Enterprises Corporation Malaysia, enterprises that employ between 75-200 full time employees are considered as medium while those that employ between 5-75 are called small and less than 5 are considered as micro enterprises (<http://www.smecorp.gov.my/index.php/en/small-and-medium-sized-enterprises>). Mohani Abdul (2009) suggests that many incentives have been formulated to encourage more businesses to go halal and financial institutions have targeted SMEs¹ in particular to achieve halal certification (Mohani Abdul, 2009). Table 1 shows statistical information obtained from the 2011 Economic Census (Profile of Small and Medium Enterprises) about sources of financing. In 2010 more than half of the SMEs use their own internally generated funds or funds raised from shareholders to finance their business operations. 21.9 % of SMEs obtain funding from financial institutions such as banks, micro-credit and development finance corporations. Financing obtained from other sources such as grants or funding from government agencies and financial cooperatives was at 28.5 %. Based on the size of organizations, it reveals that funding from financial institutions forms a major source (51.7%) of financing for medium-sized SMEs. However, small and micro-sized enterprises relied mainly on internally generated funds. Only 17.4 % of micro-sized organizations had secured financing from a financial institution.

The development of halal industry will become more competitive with the involvement of the Islamic finance and banking industry. Although the Islamic finance and banking in Malaysia has been established as early as in the 1960s, the system is not yet integrated with halal industry. Today, there are many views of halal experts and political leaders to integrate halal products and Islamic financial system. This information is relevant to be used as to show the importance of expanding the Halal concept to cover the planning for financing also. The concept of Halal products and Islamic financial planning should go hand in hand. This concept of integration between acceptance on the Halal industry with Islamic financial planning as such term in the Quran: *"O you who believe, enter into Islam completely [and perfectly] and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy."* (1: 208). Thus, Halal concept should also integrate the sales operation and also the financing and investing activities of a business firm. From the investing activities, SMEs Halal operators should aware and have knowledge on how to save, finance and invest money based on Shariah requirement which prohibits interest, *gharar*, gambling activities and production of prohibited products.

Daud Vicary Abdullah, Chief Executive Officer of the International Centre of Education in Islamic Finance (INCEIF) states "To ensure that the whole production process is Halal, the source of financing should also be from a Halal source, i.e. by using Islamic banking services" (issuu.com/the-halal-journal/docs/thj_06_3-may). These spirits become a reality through the SMEs halal operators in Malaysia via the 11th Malaysian Plan. In fact, the government seriously supports toward development of SMEs that in 2007, financial

¹ SMEs are a major factor for the growth of the Gross Domestic Product (GDP). SME's has established aims to help the government in increasing the state's income generally. It's also plays important role to reduce poverty among the people.

institutions has been channelled RM114.2 billion to 625,167 SMEs entrepreneurs (Noor Azman Ali and Fauziah Mahat, 2009). According to Rodziah Abdul Taib (2002), Bank Islam Malaysia Berhad (BIMB) has channelled its financing to bumiputera entrepreneurs through financial assistance Fund and it has a positive impact on the development of SMEs sector.

If all SMEs halal operators are required to apply Islamic financial planning in their business activities, it will guarantee a sharp increase in the demand for halal products and the halal industry will continue to grow as it resembles a holistic view of halal standards in Islam.

Table 1: Sources of Financing For Smes By Size, 2010

FINANCIAL RESOURCES	BANKING , MICRO-CREDIT AND DEVELOPMENT FINANCE INSTITUTIONS	INTERNALLY GENERATED	FRIENDS AND FAMILY	OTHER SOURCES
PROFILE COMPANY				
Total	21.9	56.1	14.3	28.5
Micro	17.4	58.1	15	27.5
Small	33	49.8	12.8	31.4
Medium	51.7	47.8	8.7	32

Source: 2011 Economic Census (Profile of Small and Medium Enterprises): Department of Statistics, Malaysia.

3. THE ISLAMIC FINANCIAL PLANNING

Islamic financial planning is defined as the process of meeting life goals through the management of finances in accordance with the Shariah such as how to increase, create, protect, purify and distribute wealth based on Shariah guidelines. Shariah rules and principles are incorporated into the process of financial planning and form the core position in the application of Islamic financial planning (Lahsasna, 2010). Hence, Shariah decree has to be observed and adhered throughout the process. Lahsasna (2010) further defines Islamic financial planning as a process of determining their financial goals and priorities and the resources to meet them optimally within the parameters of the Shariah. The crux of Islamic financial planning is the planning itself in pursuit to meet the goals of the individuals through execution of the financial plan and monitoring of it. Islamic teachings always urge Muslims to plan and take necessary actions to ensure success in life.

Thus, every individual would set their financial objectives and strive to meet their objectives. However, the intention to conduct financial planning based on Shariah and its underlying principles of permissible (*halal*) transactions distinguish the implementation measures in both practices. To protect wealth, Muslims are to use *Takaful* scheme and to finance business operations halal business operators are to use financing products offered by Islamic financial institutions or get micro financing from Islamic pawn broking, *Ar Rahn*. In addition, wealth should be kept and invested in Islamic financial institution products and services. Nowadays, Islamic financing product has become very competitive throughout its transactions, namely Shariah transaction principles, including *al-Wadiah*, *al-Mudharabah*, *al-Musharakah*, *al-Tawarruk*, *al-Ijarah* and others (M.D.Awang, 2014).

To purify wealth, SMEs Halal Muslim operators should pay Zakat on wealth. Zakat is very important in economic development process of the Muslim *ummah*. According to Shofian, and Amir Husin (2002), the Wisdom of zakat or alms can be categorized into two main aspects; social and economic. From the social views it can purify the soul of the owner from being arrogant, stingy, individualistic, purify and letting it grows, building close relationship in the community as well as producing individuals who are gracious and generous. Zakat also play an important role in the community as agents of social security. Economically, the zakat can increase purchasing power of society. Zakat is the only form of welfare that is pure where the owner gives them sincerely without expecting anything in return other than the consideration of God Almighty (Shofian and Amir Husin, 2002). This form of sincerity produces healthy activity in the economy as there is no oppression, fraud, usury, monopoly etc. In addition, zakat is a mean of social security, and is not meant to gather properties but re-distribute them for immediate assistance to the needy or to those who are eligible to

receive it.

Ajzen and Fishbein,(1980) and Amin et al. (2011) in Jaffar and Musa (2013) suggest that attitude towards the behavior refers to the individual's favourable or unfavourable evaluations of the behavior and state that attitude is positively related with the intention to use Islamic personal financing and the attitude is measured using 5 determinants of attitude i.e. awareness and knowledge, religious obligation, cost benefits, business support and reputation which may influence entrepreneurs' behavioral intention to adopt Islamic methods of finance in business, respectively.

4. DATA AND METHODOLOGY

The primary data for this study are obtained from survey questionnaires that are distributed to 200 SMEs halal operators in Peninsular Malaysia using random sampling technique. At the same time, the survey has conducted several entrepreneurship programs to attract people join and fulfill the questionnaire form directly. This program makes our research become easier in data collection. Social Package of Social Science (SPSS) is used to analyze the relationship between acceptance of Islamic finance and application of Islamic financial planning among SMEs halal operator.

Reliability means an ability to measure an instrument how far its consistency. According to McMillan and Schumacher (2006) level reliability of certain research tool can be projected use five methods namely deciding stability, equivalence, stability and equivalence, internal consistency and agreement.

Almost of researcher used the reliability test based on value coefficient Cronbach Alpha as the validity of the data as accordance to McMillan and Schumacher (2006). According to Cates the validation process that the data should be achieve > 0.85 , however this number sometimes is very difficult to get for the particular study, therefore coefficient with r value > 0.60 is acceptable (Cates, 1990). On the other hand, coefficient value between $0.6 - 0.8$ it's can be considered as acceptable reliability test. Table 1.1 below show the reliability analysis of scales the study.

Table 1.1: Reliability Analysis of Scales

Scale	Number of Item	Cronbach Alpha
Acceptance	31	0.90
Application	22	0.83

To enable analysis parametric been carried out, statistical data must be in normal distribution (Bhasah, 2007). In this study researcher use test Kolmogorov Smirnov and Plot Normal Q-Q to determine whether study data in normal distribution or not. According to Gravetter and Wallnau (2000) and Bhasah (2007), certain data where considered scatter by normal if its distribution where not significant and the Kolmogorov Smirnov test showed value that exceeded 0.05. This study achieved the acceptable value that exceeded 0.05 as the normal distribution as shown in 1.2.

Table 1.2: Test of Normality

Variable	Kolmogorov-Smirnov ^a		
	Statistic	df	Sig.
Acceptance	.116	200	.000*
Application	.062	200	.061

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

To decide direct contact between variables, researchers use Pearson Coefficient to seek relationship between two variables. Majid (2000) measurement scale intervals from the lowest (0.00) to the highest (1.00) are used in this study. Pearson's coefficient measurement is to determine type and strength of mutual

relationship between acceptance and application variables. Positive Pearson Coefficient value shows two variables studied have direct correlation while negative value shows an inverse relationship (Majid, 2000). Strength of relationship between two variables is determined using Majid (2000) as shown in table 1.3 below.

Table 1.3: Strength of Relationship According to Correlation Value

Correlation Index Value	Interpretation
0.00 – 0.20	Very weak
0.21 – 0.40	Weak
0.41 – 0.70	Medium
0.71 – 0.90	Strong
0.91 – 1.00	Very strong

Table 1.4 Correlations

		Acceptance	Application
Acceptance	Pearson Correlation	1	.619**
Application	Pearson Correlation	.619**	1

** . Correlation is significant at the 0.01 level (2-tailed).

The Pearson correlation (r) and significant value sig. r (p) for this study are shows in Table 1.4.

H1: The knowledge of Islamic finance has significant and positive relationship with application of Islamic financial planning among SMEs Muslim halal operator.

The statistical findings show that the proposed hypothesis is supported. The acceptance of Islamic finance is positively and significantly correlated with the application of Islamic financial planning among SMEs halal operator (r = 0.619, p = .000).

5. CONCLUSION

This study has successfully achieved its objectives that there is a significant relationship between acceptance level on Islamic finance by SMEs with the SMEs Islamic financial planning application. Thus, acceptance of Islamic finance is important to SMEs in order to implement Islamic financial planning process. However, not all SMEs halal operators apply Islamic financial planning in their business management. This has led to the implementation of this study to give general exposure to SMEs that acceptance of Islamic finance is an important part of Halal food production industry. The policy makers such as government agency; JAKIM and Halal Development Corporation (HDC), should give more exposure to SMEs in the form of training or courses on Islamic finance or Islamic financial planning because of the integration between the acceptance of Islamic finance and application of Islamic financial planning is strongly and positively correlated. This study also suggests that the Malaysian government should conduct a number of workshop and training to integrate the Halal food production concept with Islamic finance acceptance to enhance Halal operators of SMEs understanding about the holistic view of halal certification concept. This study also recommends that Islamic financial planning should be practiced by everybody especially Muslim businessman. Thus, policy maker such as the Ministry of Education and the authority such as HDC and JAKIM should enhance their roles in promoting the awareness and knowledge among SMEs Halal operators in order to fully integrate the Islamic finance system and Halal product and service industry.

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