Developing the Concept of Firm Success among Muslim SMEs in Malaysia: a Study of Islamic Religion Practices as Moderator

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Abstract

This paper intended to develop the concept of firm success among Muslim SMEs in Malaysia. The researchers used entrepreneurial orientation multidimensional as independent variable (innovative, risk and proactive) to examine the relationship of these dimensions towards the success of Muslim SMEs by using Islamic religion practices as moderator. It is about developing the concept of Islamic success factors, as the failure of Muslim SMEs is alarming and the empirical references to Muslim SMEs success focusing on Islamic religion practices are limited. There were many attempts to connect entrepreneurial orientation to the Resource-Based View of firms. Resource-Based View, as underpinning theory, helps to describe the proposed research theoretical framework. Recent studies related to firm success have shown that entrepreneurial orientation is composed of innovation, risk and proactive having significant relationship with the firm success in the develop countries. However in Malaysia, there was only one study has documented the conceptual religiosity that influence relationship between entrepreneurial orientation and business success of entrepreneurs among the Malay community. The methodology for this study uses quantitative analysis, specifically, the Partial Least Squares Structural Equation Modelling (PLS-SEM) in processing the data. The population of the study is 2,286 PUNB (Perbadanan Usahawan Nasional Berhad) firms in Malaysia. Finally, this concept finding is able to facilitate future research proposals and to fill the knowledge gap in Resource-Based View concerning the relationship of Resource-Based View towards firm success. This study also contributed to the Resource-Based View literature on the perspective of Islamic religion practices as moderator.

Keywords: Firm Success; Muslim SMEs; Islamic Religion Practices; Malaysia

1. Introduction

Entrepreneurship is a global issue that is widely discussed and keep enhancing especially in the success of the entrepreneur’s firm. Scientific discussions and efforts toward finding positive relationships in entrepreneurship in firm’s success keep increasing. To implement entrepreneurial activity, Small and Medium Enterprises (SMEs) plays an important role in leading the economy of a country (1-4). However, SMEs faced pressure to win business competition and market opportunities that exist. This pressure affect the success of the firm in particular (5). The interest to remain competitive in the market leads to the success of the firm. Previous studies mostly defined success as not only in terms of finance but also non-financial. A primary concern of Muslim entrepreneurs in Malaysia is because entrepreneurship in Malaysia has seen many opportunities among Muslim entrepreneurs as the majority of people in Malaysia are Muslims - 60% of the total population. Muslim entrepreneurs viewed as able to develop the economy, should the entrepreneurs have successful firm with positive psychological and physical factors. Miller (6) has introduced a framework of entrepreneurial orientation. Entrepreneurial orientation is a variable that is used by previous researchers to examine the relationship between entrepreneurial orientation and firm success (7). Entrepreneurial orientation is used as a measure and are judged by a firm trend in the practice of innovation, risk-taking and proactive (8). According to the study, few researchers suggested that study to be made on the level of religious practices among the firm entrepreneurs (4,9-10). However, (11) argued that the influence of religious practices as a source of power to a human being. Yield strength is said to perform religious practices can affect the personality traits and positive attitude towards the success of the firm among Muslim entrepreneurs (12-13).

1.1 Problem Statement

Statistics report released in 2012 by the Companies Commission of Malaysia (SSM), showed that the number of companies winding-up and the cancellation of companies is increasing, and the number is considered high by the SSM (14). While the figures for renewing a business license category reported a decrease of 58% (15). This situation as illustrated by the Companies Commission of Malaysia (SSM) were companies that fall into this category that do not exhibit improve in performance, leading to failure. Previ-
ous studies have found entrepreneurial innovation variable gives mixed results and is not consistent. For example, researchers like Gilbar (17) disagreed that innovation is a key factor in firm’s success, particularly among Muslim entrepreneurs. This occurs because the Muslim entrepreneurs are said to be less exposed to these factors. However this opinion contradicts the notion, which argued that the high failure rate is due to entrepreneurs who do not apply the underlying science and innovation in their firms (17). But then there were also researchers who support innovation factor as firm success factors (18-20). Here, there are mixed opinions on the role of risk factor on the firm success. It has been said by previous researchers that when too much attention given to the risk variables, it can cause negative relationship to the environment and the success of the firm (21). Similarly, if entrepreneurs do not spend time thinking about the business to be taken in developing the firm, the entrepreneur will feel comfortable with the current situation and will try not to take the risk (22). Moreover, previous researchers like (18-19) found that entrepreneurs who take risks, make more profitable deals from the customers. Similar to the proactive variable that has mixed opinions. Faizal et al., (23) found that proactive entrepreneurship is becoming increasingly vulnerable among Muslim entrepreneurship as a proactive attitude incompatible within Muslim entrepreneurs. This happens especially when entrepreneurs do not want to make efforts to win the competition and just be in the comfort zone. While earlier researchers such as (4,19) noted the importance of proactive support that makes firms more competitive and able to increase productivity. Previous studies also have found that the Muslim countries increasingly do less religious practices in the firm that used to be the pillar of Muslim entrepreneurs (23). These findings are also supported by Grine et al.,(24) whom found the entrepreneurial activity among Muslim women entrepreneurs is weak. Furthermore, there was a study that has found the important of entrepreneurial activities in improving the performance of SMEs in Malaysia (4). Based on the above discussions, the researchers proposed to conduct a review of the performance of entrepreneurs among Muslim entrepreneurs in Malaysia. Three internal variables representing the orientation of the existing entrepreneurship, innovation, and proactive risk; chosen to represent the model of the factors that influence the success of Muslim entrepreneurs. Religious practices have also been selected as a moderator to the frame of the study (25). This study will use quantitative method, using a questionnaire that will be distributed among Muslim SMEs in Malaysia.

2. Literature Review

2.1. Success Entrepreneur Firm

Measuring the success of SMEs Muslim firms is a non-monetary (non-financial) that connect directly to the definition of success and success factors in view of the entrepreneur (3-4, 26-27). The successful firm is based on a number of definitions of entrepreneurs performance measurement. Success is defined as a business firm survival (survival), profitability and growth (28). The objective of the SME owners are often associated with Muslim personal goals and have entered into a formal business plan (business plans). Each firm has different perceptions according to the objectives set by the entrepreneur (5,29). Several previous studies have identified success criteria most often discussed is through a feeling of achievement, recognition, the joy of job well done, job satisfaction and satisfaction of owning a business (28).

2.2. Entrepreneurial Orientation

Entrepreneurial orientation comprises of innovative, proactive and risk. Innovative, proactive and risk are said to have become important constructs for the survival, growth and superior performance especially for SMEs in the modern era (21). This statement agreed too, by previous researchers like (30-38). Entrepreneurial orientation role is to facilitate the development and growth of small firms that are new and need help in improving the entrepreneurial activities and ensure long-term success of the firm (4,6,7,39-40). Entrepreneurial orientation is said to contribute to the improvement of firm success in times of economic crisis. The activity of the entrepreneurial orientation has helped entrepreneurs to explore opportunities inherent and raced ahead of their competitors in turn put them in a strategic position (21). Figure 1 illustrates the conceptual framework for this study of Firm Success among Muslim SMEs in Malaysia and looking at Religion Practices as Moderator.

**Figure 1: Conceptual Framework**

The study will conduct quantitative analysis and use the Partial Least Squares Structural Equation Modelling (PLS-SEM) in processing the collected data. The population of the study involved 2,286 PUNB (Perbadanan Usahawan Nasional Berhad) firms in Malaysia.

3. Theoretical Framework Development

3.1. Innovation

The innovation factor is the most important factor and can be used as the main predictor of business success. The entrepreneurial process cannot take place with or without the existence of factors of innovation, particularly in the process of forming an organization, product or service. While the firm organization should always apply and implement innovation behavior in any entrepreneurial action. The next innovation to enhance the ability of SMEs firm in the face of market environment variable (18,21,41). Firms that innovate will be focused on ways that will facilitate the growth of new firms by offering products with high profit potential and ensuring the success of the firm is able to compete on the market (18). Firms need to find and identify opportunities in the market through innovation (42). Through this opportunity, the firm may be in a strategic position because the firm has the first move advantage (pioneer) in the market and able to take advantage of new market opportunities. At the same time, innovation can help firms to establish long-term strategy to change the old method to the new method (19). Firms innovate to solve the needs of society by generating creative ideas, creating opportunities in order to improve productivity and performance (20). In general, entrepreneurs adopting innovation will have the skills and knowledge that are constantly generated and developed according to the policies they set. The innovation policy that is built is to develop core competencies in order to grow their businesses and
improve their business performance. Therefore, for this study, the researchers hypothesised that:  
**H1:** Innovation has a positive significant relationship with the Muslim SMEs success

### 3.2. Risk

Entrepreneurs of successful firms have a much more optimistic view compared to the entrepreneurs of ordinary firms. When conducting business activities, the entrepreneurs demonstrated the confidence to take advantage of the opportunities that exist. The successful firm will set the pattern of their business based on the characteristics of entrepreneurial firms and the capacity to decide to face the uncertainties and risk-taking practice (6,43). A firm that wants to be successful in their industry, exceeding the norm, it is necessary to take the risk of investment that offer a high income return (44). Methods of risk-taking that is often taken by the entrepreneur is like introducing new products or services and are likely to participate in new markets (21). Categorised risk into three types which is the risk finance, risk and risk-based communication services (45). Therefore, the researchers hypothesised that:  
**H2:** Risk has a positive significant relationship with Muslim SMEs success

### 3.3. Proactive

Proactive behaviour of entrepreneurs in the business will contribute to the success of SME firms. Proactive entrepreneurial attitude is also said to be able to solve the problem performance even in an economic crisis (4). Therefore, by taking proactive initiatives, firms can expect and pursue new opportunities. Entrepreneurs who practice proactive described, as it is a fast business in introducing new products or services. This is suggested by Miller whom testified about running a business that has a proactive entrepreneurial ability to lead the market and able to compete (44). The study of entrepreneurship and often equate between proactive and aggressive firms where managers tend to use existing resources rather than to develop procedures, technology, new products or services (43). Although closely associated with aggressive competition, there are important differences between aggressive and proactive. Proactive refers to how a business will take advantage of the market in the process of producing a new product or service. Proactive activities conducted by firms to seize opportunities that arise through fostering initiatives and “establish the environment,” to influence the next trend in racing to create demand. While the outlook for non-aggressive competition, scholar referred to the firm competitive by responding only to current trends and demand that already exists on the market (19). Therefore, the researchers hypothesised that:  
**H3:** Proactive has a positive significant relationship with the Muslim SMEs success

### 3.4. The Religion Practices as Moderator

Tiliouine (11) stated that religion is a human strength. While western researchers (9-10) also argued that the study be made on the level of religious practice among the entrepreneurs. Both statements indicated support for the study of Muslim entrepreneurs. The results of previous studies (4) stated that the entrepreneurs have religious practices showed personality traits and attitudes that are often associated with the success of the firm. When a religious high, the human condition is much healthier and have a better spiritual value as compared without religion. High religious values can provide individuals with a high resistance to overcome obstacles (46). However, until now, still less study on the Islamic practices and its impact on entrepreneurship (47). In Islam, scholars regarded the business sector as the most preferable to undertake. Business is one of the best source of income (48). This assertion is supported by the hadith of the Prophet s.a.w agreement that the best outcome is the result of work undertaken by a man. S.a.w hadith narrated by al- s.a.w Miqdam that the Prophet said:  
“And the one who eats from food better than what was set by his own hand. The Messenger of Allah Dwud a.s. eat from products made by his own hands.”

Religious practices certainly spiritual aspects carried out by Muslims. With regards to the Quran, Muslims worship must carry out the statement of shahada, prayer (prayers), fasting (fasting), charity and pilgrimage to Mecca (at least once in a lifetime). Meanwhile, in Islam, seeking forgiveness is an encouraged religious practices (Al a’tw), which indicated the act based on trust and believe in God, subsequently remembering Allah (49). The practice of Islam provides many benefits to the Muslims. In addition to health benefits through fasting, religious practices also have some psychological effects including security, tranquillity and minimise hostility or discord. It can lead to better live (50). Religious practices can also strengthen one's relationship with God and make the results of the work positive to yourself. Positive feelings toward the effort that has been done, can lead to environmental quality firm. Practice forgiveness also described individuals who have good intentions toward others, fear of God, have tenderness to forgive those who hurt them and are delighted with the success of others (Al-kahtani, n.d.). Therefore, the researchers hypothesised that:  
**H4a1:** Religious practices have the positive effect of moderating between innovation and the Muslim SMEs success  
**H4a2:** Religious practices have the positive effect of moderating between risk and the Muslim SMEs success  
**H4a3:** Religious practices have the positive effect of moderating between proactive and the Muslim SMEs success entrepreneurs

Figure 2 illustrated the hypothesise development in the relation between variables:

![Theoretical Framework](image)

**Figure 2:** Theoretical Framework

### 4. Conclusion

After discussing the highlights of the work, the success factors innovative, risk and proactive as independent variable, can be related significantly with the firm success and Islamic religion practices ability to show impact as a moderator. Based on the highlights of the work, RBV underpinned the combination of success factors innovative, risk, proactive and Islamic religion practices to the role of moderator of the relationship between entrepreneurial orientation and Muslim SMEs success in a single theoretical framework (Figure 2). The relationships may have implications for improving the Muslim SMEs success. The study of developing this concept able to facilitate future research proposals and to fill the knowledge gap in Resource-Based View concerning the relationship of success factors towards Muslim SMEs success. Additionally, his study also contributed to the Resource-Based View literature on the perspective of Islamic religion practices as moderator.