The Impact of Entrepreneurial Orientation and Halal Orientation toward Organizational Performance of Micro-Sized Enterprises

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Abstract—This study investigates the impact of entrepreneurial orientation and halal orientation towards organizational performance among the micro-sized of food and beverages enterprises. Past literature showed a lesser amount of involvement of these enterprises that have been investigated so far towards their organizational performance. Therefore, this study aims to introduce and provide coverage related to entrepreneurial orientation and halal orientation among micro-sized enterprises. This study applies a quantitative method with a cross-sectional survey among the owners of the micro-sized enterprises located in the northern area of Kedah. Collection of data was done through a survey questionnaire via simple random sampling technique. The data were processed with SPSS (v.23). The results of reliability test and multiple regression analysis have shown that entrepreneurial orientation and halal orientation are indeed dissimilar in their effects on organization performance, but at the same time, they are connected to each other. It can be summarized that both of entrepreneurial orientation and halal orientation are important business strategies, but need to be investigated further. Since this is a pioneer study, more empirical works need to be done to clarify and generalize the population of micro-sized enterprises involve in halal F&B businesses in other states in Malaysia.

Keywords—Business, entrepreneurial, food, halal, orientation, micro-sized enterprises.

1. Introduction

Malaysia is a developing country with a population of approximately 32 million and most of its economic development driven by the contribution of several industrial scales and one of them are Small and Medium-Sized Enterprises (SMEs). The progression of SMEs in contributing to the Malaysian gross national productivity (GDP) is very important. At the moment, the Malaysian industrialization is a monopoly by SMEs which amounted up to 98.5% and these business establishments responsible for 65.3% of the total country’ employment and 36.6% for the country’s GDP including 18.6% for the value of exports (Department of Statistics Malaysia, 2018). In addition, SMEs also support the nation by reducing the rate of poverty and decreasing some of the economic disproportions. The government of Malaysia considered SMEs as the backbone for the nation’s development not only for GDP development and export trading [1], but also for job opportunities creation which balances the wealth distribution among the country’s population.

Currently, the further agenda for SMEs has been prolonged into a program known as National Transformation (TN2050) which is a new set vision to produce more entrepreneurs especially youth’s generation with new ideas, approaches, and business innovation. According to SME Corporation (2017), SMEs must strengthen in domestic markets and then be prepared and ready to join the global market and gain some competitive advantages across all sectors that increase wealth creation and contribute to social well-being. The majority (76.5%) of SMEs in Malaysia are contributed by micro enterprises as compared to small (21.2%), and medium-sized enterprises (2.3%). The importance of microenterprise in the development of all sectors in Malaysia proposes that an indulgent of the success factors is essential to the steadiness of Malaysia’s economic progression towards V2020 and TN2050 [2].

1.1 Issues and Challenges

As suggested by Anuae et al. [3], among the inferior issues among the micro-businesses is related to insufficient expert skill to drive business performance which has been detected several years ago. One of the reasons was related to the interest of fresh graduates to work in large business companies
and also in the public sector and leave the business without potential innovators and pro-activeness. Meanwhile, micro-sized enterprises also have very limited resources in terms of strategic thinking and strategic planning including innovative ideas that supposed to be cultivated by top management [4]. In addition, micro-sized enterprises have faced challenges in managing their accounts and audit management including managing financial – poor performance in collecting debt and forecasting that brought into deeper problems in getting loans for business improvement.

According to SME Corporation [5], in Malaysia, it was found that a higher number of SMEs indicated a worse performance in the first quarter of 2016 as compared to 2015. Indeed, the micro-sized enterprises also facing a high rate of failure among the new firms entered into businesses which are approximately within the 5-year period of their operations [3]. Presently, the lack of capacity to serve the world halal markets is one of the problems faced by SMEs. Although the world halal markets are expanding at a fast rate, where the market value was worth more than $3.6 trillion in 2013, the value will be more than $5 trillion in 2020 [6]. To be precise, the halal food market is around $1.6 trillion in 2018 and is estimated to be growing faster than the conventional food market with a disparity of 17%. Thus, to ensure Malaysian SMEs can be a part of the exporters and remain competitive in the halal market, a fresh strategy needs to be addressed. One of the strategies is to adopt the halal orientation based strategy which is Shariah compliance apply along the supply chain network. Currently, besides the halal certificate issued by JAKIM, the Department of Malaysian Standard (MS) has issued a few codes that adding some values such as the MS1500:2004, prescribes the general guidelines in the production, preparation, handling, and storage of halal food. Constructing on these guidelines, Slack et al. [7] categorized halal orientation strategy into four categories, namely staffing, materials, production process, as well as storage and transportation. While the halal market offers a huge opportunity for SMEs to explore it, due to their resource limitations, informal strategies, flexible structures, and lack of strategic planning processes may have contributed to their failures [8]. Therefore, the purpose of this paper is to determine the impact of Entrepreneurial Orientation and Halal Orientation on Organizational Performance among microenterprises located in Kedah, Malaysia.

2. Literature Review

The whole concept about entrepreneurship is a multi-faceted one and it can be functional by choices of an individual in the entrepreneurial activities by spending capitals into ventures that bring something on returns [9]. Moreover, entrepreneurship also focuses on the significance of another passage for business development alluding to the procedure of imaginative, innovative, creativity and motivation annihilation for the development of the entrepreneurial orientation (EO) [10]. Islam is a religion that provides everything for his followers and not only guidelines for spiritual matters but also through the practicality including the way to do business transactions. The principles are for leaders and entrepreneurs who are eager to implementing leadership strategy and entrepreneurship orientation are guided by Shariah laws. The role of entrepreneurial orientation in business strategy includes the innovation, pro-active and risk-taking [11]. This study focusing on the relationship between the EO and the halal orientation (HO) toward the organizational performance (OP) among the SMEs in Malaysia. In particular, the study wanted to know the impact of EO and HO towards the organizational performance among the micro-sized enterprises in the halal F&B industry.

2.1. Entrepreneurial Orientation

The important matters in developing business to be successful must come from the entrepreneurial competency owned by the owner of the microenterprise. This competency can be knowledge, skills, interpersonal character, style of leadership and communication skills [12]. The observation of an entrepreneur as an innovator is based on the model where the entrepreneur can identify some opportunities and employs the innovation application tool for developing a successful new business [13]. Bear in mind that proactive is the readiness to take actions which would enforce competitors’ reaction, a proactive approach reflects the participation of the organization in the market of emerging industries, a constant search for and use of market weak signals to a quick reaction to the changing trends in the organizational environment [14]. According to Lumpkin and Dess [11], the risk is about taking propensity as a reflection of activities of entrepreneurial such as an enormous resource commitment, in the interest of
getting high returns by seizing opportunities in the marketplace.

### 2.2 Halal Orientation

Presently, the acceptance of halal based products and services becomes the obligation for Muslim society and the supply chain members to promote the standardization of halal certification and halal trademark as according to Shariah Law in a global arena [15]. The elements of HO have included the decision making for business strategy implementation that must be complied with Shariah Law. Therefore, the F&B manufacturers must aware of the halal guidelines that involve quality, safety, and cleanliness including during the transportation and warehousing activities. Presently, there are about 5,700 F&B manufacturers including 1,158 SMEs have participated in producing halal products in the F&B sector [16]. To ensure that Malaysia remains competitive in the global arena for halal food products, a strategic operations strategy, namely, the HO must be the business strategy and executed for Malaysian halal food business firms. This strategy will enable the firms to focus on the important resources and capabilities by looking at the present environment [17]. In addition, HO itself is one of the plausible strategies that may help the halal firm to comply genuinely with the requirements for halal that goes along the Malaysian Standard (MS); MS1500:2009 (F&B) and MS2400:2010 (Transportation & Warehousing) [18]. In addition, halal integrity is really important to the Muslim consumers which started at the halal sourcing via the supply chain networks until be consumed by the consumers that must be Shariah compliance [19]. The elements of HO measurements are comprised of two; halal integrity and halal analysis and critical control points (HACCP) and all of them are adapted from Talib et al. [17], Zulfakar et al. [20], Zailani et al. [18].

### 2.3 Organizational Performance

Previous studies have found that effective entrepreneurship with skills and experiences will lead to a higher innovation as well as competitiveness in the organizational performance [21]. Other factors such as marketing information and entrepreneurial personality including strategic locations are a key factor for SMEs success [22]. In addition, business experience, education, and training appear to have a positive correlation with business success [23]. Other studies have found that personal characteristics of leadership, high level of energy, passion, vision, and risk-taking are positively correlated with business success [24]. In addition, in the present circumstance of business related to environmental concerned, green practices become a vital issue that needs to be implemented. According to Musa and Muruga [25], green practices is important for SMEs to have a more competitive advantage nationally and internationally. The adaptation of green practices may well promote the positive development of employees and also enhance the productivity and profitability of SMEs for long-term survival. The organization performance consists of the real output or results of an organization as measured against its intended outputs like objectives or aims of the organization. This research applies two categories of organization performances which were adapted from Arham et al. [26]; the growth likes financial growth, business growth and competition, and customer’s sides such as customer’s complaints and best service for product consumption. Thus, based on the literature review and the hypotheses, this study comes up with a theoretical framework as presented in Figure 1. This is a structure that supported by theories of entrepreneurial and halal orientation strategy and also to be a guideline for researchers to answer such research questions.

**Figure 1. Theoretical Framework**

Based on the literature and theoretical framework, two hypotheses were developed.

**H1:** The organization’s halal orientation (HO) have a significant impact on its organizational performance (OP).

**H2:** The organization’s entrepreneurial orientation (EO) have a significant impact on its organizational performance (OP).
3. Methodology

The constructs used in the study are measures adapted from the literature to suit the objective of the study. The EO measurements were taken from Lumpkin and Dess [11], George and Marino [27], and Arham et al. [26]. There are three main elements; innovativeness, pro-activeness and risk-taking. Each of the elements consists of three measurements. On the other hand, the construct of HO was adapted from Talib et al. [17], Zulfakar et al. [20] and Zailani et al. [18] works. The HO consists of six items measuring the halal integrity and the HACCP. Finally, the OP measurements were adapted from Arham et al. [26] and Wan Mohd Nasir et al. [28]. The measurement scale used in the study consists of 7-point (Strongly Disagree to Strongly Agree). The number of SMEs involved in a study are collected from the SMEs F&B sector in Kedah. A total of 250 survey questionnaires were distributed to the participating SMEs by emails. The respective participants’ details are derived from the online database provided by SME Corp. Specifically, the targeted respondents were coming from micro-sized enterprises. During the data collection process, the owners of these selected SMEs were contacted by mail and informed about the nature of the study; they were requested to complete and return the survey questionnaire in a self-addressed, stamped return envelope. From the 84 of returned survey questionnaires, only 50 were considered completed and can be analyzed in SPSS (v.23).

4. Data Analysis

The profile of the respondents is shown in Table 1. There are 30 males (60%) and 20 females (40%) involved in the study with the majority of them hold SPM/STPM certificates (56%), diploma (32%) and the highest education level are only holding by six respondents (12%). The majority age of them was below 29 years (32%) and between 30 to 39 years (40%). Most of the respondents participating in the study were business owners which about 66% and 33% were positioned as managers. In term of ethnicity, most respondents were Malays (94%), followed by Chinese (4%) and Indian (2%).

<table>
<thead>
<tr>
<th>Items</th>
<th>F</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td>Female</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Race</td>
<td>47</td>
<td>94</td>
</tr>
<tr>
<td>Chinese</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Indian</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Age</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>Religion</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Degree</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Masters</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Owners</td>
<td>33</td>
<td>66</td>
</tr>
<tr>
<td>Manager</td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>Below 29</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>30-39</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>40-49</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>50-59</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>60 Above</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

4.1 Reliability Test

Cronbach’s alpha (CA) was developed by Lee Joseph Cronbach as a method for determining the reliability of educational and psychological tests [29]. This study has adopted CA to evaluate the internal consistency of the scale for the measurement items which represent variables under study (i.e. EO, HO, and OP). Table 2 shows the CA values are ranging from 0.703 to 0.924 which exceeding the minimum value of 0.7 as suggested by Jum C. Nunally [30].

<table>
<thead>
<tr>
<th>Variables</th>
<th>No. of Items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halal Orientation (HO)</td>
<td>6</td>
<td>0.703</td>
</tr>
<tr>
<td>Entrepreneurial Orientation (EO)</td>
<td>9</td>
<td>0.924</td>
</tr>
<tr>
<td>Organizational Performance (OP)</td>
<td>5</td>
<td>0.709</td>
</tr>
<tr>
<td>Total Items</td>
<td>20</td>
<td>0.867</td>
</tr>
</tbody>
</table>

4.2 Regression Analysis

Regression analysis was used to determine the impact of Halal Orientation (HO) and Entrepreneurial Orientation (EO) on Organizational Performance (OP). Two hypotheses were formulated and all the variables retain after testing the reliability. The proposed hypotheses were tested using multiple regression analysis. The results of the regression indicated the two predictors explained 15.8% of the variance (R2 = .158, F (2, 47) = 4.42, p<.05). Table 3 shows the results of the multiple regression analysis.
In assessing the impact of EO and HO on OP, critical value (t-value) together with the significance level value (p-value) were observed. For the impact to be statistically significant, t-value readings need to be greater than ±1.96 at a significance level of p < 0.05 (or greater than ±2.575 at p < 0.01 significance level). It was hypothesized that all relationships between the variables would be positively significant; however, one insignificant relationship was found. There was no significant relationship between HO and OP (β = .099, t = 0.723, p>.1). On the other hand, as hypothesized; EO has shown a significant relationship with OP (β = .367, t = 2.691, p<.01). Thus, the H1 hypothesis; the organization’s halal orientation (HO) have a significant impact on its organizational performance (OP) was not supported. On the other hand, the H2 hypothesis; the organization’s entrepreneurial orientation (EO) have a significant impact on its organizational performance (OH) was supported. This regression analysis also revealed that both independent variables (i.e. EO and HO) have explained 15.8% of the dependent variable (i.e. OP) (R² = 0.158). In the area of human-related behavior inherently has much more unexplainable variability, and for example in the business environment such as performance, strategy, orientation, and marketing, the value of R² is normally below than 50% [31]. Hence, obtained R² from this regression analysis (R²=15.8%) can be considered as sufficiently good to explain the proposed model. In addition, any R² value that is more than 10% (or 0.10) is considered to be deemed adequate [32].

5. Discussion

Based on the regression analysis, it was found that EO had a significant impact on OP (β = .367, t = 2.691, p<.01). This finding is supporting the prior research works [26, 33]. According to Hair et al. [34] in their research, the innovation is one of the reasons why economic can growth and the revenue will increase and compete with another competitor because organization upgrade what they produce and always give the difference product to their customer. Along with that, the results are supported by Arham et al. [26] where pro-activeness and risk-taking are important element skills and behavior of entrepreneurship. The study also found that the majority of the owners have capabilities to become innovative, pro-active and risk-takers in making alternatives to alter their competitive situation to improve the organization’s performance. A line with suggestions by Mohamad Radzi et al. [12] and Eggers et al. [33], owners are brave to face rapid and extreme market condition based on the situation where they are accompanied by ICT applications and desire to satisfy their loyal customers. Another reason is about the willingness of the owners which majority of them are less than 40-year olds to make use of the ICT. Absolutely, they are easy to accept the idea of how ICT can change the way businesses operate. So they have Facebook, Instagram and easy communication tools with Telegram and WhatsApp’s to share information, communicate and penetrate new markets easily and effectively and at the minimum cost. Indeed, by participating in ICT, it could facilitate them in gaining cost-effective operations. Even some of them have accounts with Alibaba.com, one of the largest suppliers’ networks that helps business to expand exponentially.

On the contrary, the impact of HO on OP is not significant (β = .099, t = 0.723, p>.1) which indicates that HO has no impact on the micro-sized enterprises’ performance. There are several factors that have been identified as for why this is happening. First, although the majority of the owners are Muslims and they fully understand on halal and illegal matters regarding the process of providing F&B products, most of them did not have halal certificates issued by the JAKIM. This result showed that they are lacking awareness on how halal certificate can impact the business progression. This is in line with previous researchers [20, 35], where halal awareness becomes one of the obstacles for many businesses that producing halal products. At the same time, this also shown that these small business owners have very high confidence in producing halal products even not be recognized. Moreover, they are actually have shown a low level of integrity in producing halal products as stated in last studies by [36], [37]. Halal integrity is related to halal certification, auditing standards, halal research and efforts for halal training. Most of them have a very minimum standard of halal integrity in order to produce halal F&B products.

Second, in term of HACCP as proposed by JAKIM, the owner of halal products must ensure that the integrity of the halal standard remains of the utmost quality which will meet the demands of Shari‘ah principles. Based on their response, the majority of

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Std. Beta</th>
<th>Std. Error</th>
<th>t-value</th>
<th>Sig. (p-value)</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>HO</td>
<td>0.099</td>
<td>0.167</td>
<td>0.723</td>
<td>0.473</td>
<td>Not Supported</td>
</tr>
<tr>
<td>EO</td>
<td>0.367</td>
<td>0.113</td>
<td>2.691</td>
<td>0.010</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Table 3. Regression Analysis
the respondents did not understand what HACCP meant by JAKIM. This shows that they have limited information or them only focus on day-to-day operations and do not see how HACCP is able to make a bigger impact on their business in the future. As suggested by Alford and Page [38], small businesses are lacking integration planning from processes that may cause business owners to have lesser hesitation for the marketing technology and product strategy plan. The study also found that business owners are not familiar with HACCP’s principles. They do not have a proper approach to identify and monitor their procurement (e.g., raw material, logistics) at critical control point (e.g., farm, ports, cargo/container/transports) at every level of the processed food network could be a tool for ensuring halal processed food quality and reducing halal quality uncertainty for the Muslim customer. The results are consistent with other research that has been done in small enterprises where the owner have incompatible of halal processing and standard of halal policies along the HACCP [39].

Perhaps, it might have another factor that affected the organization performance which can be categorized; externally and internally. Externally factors may come from government, the private sector and other agencies that related to support such micro-sized enterprises. JAKIM and Halal Development Corporation (HDC) are two government agencies at now are aggressively upkeep the business enterprises to get halal certifications, information and motivation to retain continuing produce more innovative F&B halal products [40]. Although this study found out that the HO has less significant to improve the OP, but the strong approach by external factors may change the scenario [41]. Internal factors that originate from organizations itself such as motivation, bonuses, and family insurances may influence employees to improve the organization’s revenues. As supported by [42], besides the motivation in their staff which also important but other stuff like high salary, bonuses might be good compensation factors.

6. Conclusion

This study investigates how the role of entrepreneurial orientation and halal orientation toward business performance among the micro-sized of F&B enterprises. A significant conclusion that can be made from the research is EO has a significant positive effect on OP between micro-sized of F&B enterprises. In other word, it can be said the increase of EO lead to an increase in the level of organization performance. As suggested by Eggers et al. [33], the owner of the business is able to manipulate and maximize the organization’s resources (e.g., knowledge, skills, equipment) even the style of leadership as a tool to achieve business success. Directly the owners’ personality and attributes can drive motivation and positively impacting how the organization should be reacting and adapting to the business environment [43]. The study has confirmed that the EO applied by the business organization can influence business performance among micro-sized enterprises. Although this research was stated that the EO as the primary aspect that influences the business performance, additional research is needed to explain why HO was not supported. For further research, new research can be explored about EO and HO in other fields such as halal ingredients, halal logistics, and halal F&B procurement among the SMEs.

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