

**THE NEW ROLE OF THE MUSLIM
BUSINESS UNIVERSITY STUDENTS IN THE
DEVELOPMENT OF ENTREPRENEURSHIP
AND SMALL & MEDIUM INDUSTRIES
IN MALAYSIA**

SAAD AL-HARRAN*

1. INTRODUCTION

The Malaysian corporate sector is booming because of various factors, especially sound economic and financial policies in the country and political stability. Malaysia has learnt some lessons from the Japanese experience in the development of small and medium-sized industries (SMIs). It is argued that for the country to be fully industrialized, SMIs have to be well managed, and they have to be efficient and competitive in the world market. It is not the abundance of money that makes SMIS successful and competitive in the world market, but rather it is the management of funds, and that is indeed a real challenge that faces the entrepreneurs in the new world economic order.

2. HISTORICAL BACKGROUND

Before Malaysia gained independence in 1957, the Malays (or Bumiputera, the two will be used interchangeably) were only involved in agriculture and rural farming and had little exposure to the new commercial activities in the towns and cities, whereas the Chinese had tin mining experience as early as the sixteenth century, albeit on a small scale. With the discoveries of new tin mines, the expansion of Chinese mining settlements was rapid. The Indians, on the other hand, were involved in the rubber estates.

* Saad Al-Harran is Assistant Professor, Faculty of Economics and Management of International Islamic University, Malaysia.

This phenomenon was reinforced by the British colonial policy to strengthen and maintain their power and influence in the Straits settlement.

The above scenario has played (and will continue to do so far many years to come) a major role to shape the role of entrepreneurship in Malaysia, that is, a large number of Malays are afraid to involve themselves in business, to avoid the risk of failure. Alternatively, they were trained to be government officers in the public sector. The Chinese were however trained to be in business to face the challenge of success or failure. The government, through the New Economic Policy (NEP) of 1971-1990, has played a major role in assisting small and medium-sized Bumiputera companies to be successful. Yet the success rate is relatively low compared with the support that they have been receiving since the introduction of NEP.

3. RECENT DEVELOPMENTS

The concept of entrepreneurship is indeed a new phenomenon in the Malaysian society. It was recently introduced by the Government with the assistance of corporate leaders in the private sector as part of the privatization program which the former has undertaken.

This entrepreneurship phenomenon is not only new to the culture of the society but also the terminology which came with it, is not well understood by many people. This kind of confusion of the concept of entrepreneurship and its terminology is not only in the context of Malaysian experience but is also on international level. This shows that although there is much interest in the subject, much of the material is fragmented and highly controversial.¹

This is why the government has paid attention to developing the entrepreneurial culture in the whole society rather than parts of it. This shows that there is a gradual change in the Malaysian government policy toward SMIs, from one of neglect to one of promoting SMIs in recognition of their vital role in the overall economic development.² The task that the government has initiated is not an easy one. The financial and technical support which it has extended to a large number of SMIs has been encouraging. Today, many active Malaysian students become entrepreneurs (once they graduate from the University) instead of getting a job in the public sector. It is truly a positive development in the culture of the society. Indeed, the government is determined to make the new phenomenon of entrepreneurship successful because the leadership has a long-term vision to achieve and that is to make

Malaysia a fully industrialized nation by the year 2020. How far has the government succeeded in its mission to change the culture of the society, the behaviour and the perception of the people? It is rather difficult to pass judgement in such a short period. For any committed entrepreneur who has made up his mind, has no alternative but to commit himself to a long-term mission rather than short-term gains. A commitment means to stay in the market and to be competitive rather than to be forced out of it due to various factors, mainly the quality of the product, price and service standards. To improve the quality of production means that the entrepreneur has to work harder himself and with others. The "others" could be the innovative and creative students who will advise (and be the future partners, once they graduate) the entrepreneur. He has to trust them and learn from them the concepts of strategic management, marketing research and project financing to enable him to be competitive in the market. The students should gain precious experience from the entrepreneur and cooperate with him to make the enterprise successful.

4. CHARACTERISTICS OF THE MUSLIM BUSINESS STUDENT

The Muslim business university student is a mission-oriented person, inside and outside the university. His role and mission in life is different from those of others due to the belief, commitment and responsibility towards the Creator, who made him a vicegerent on earth to serve Him (in this life) and mankind. Allah says in Al-Quran:

"He it is that made you inheritors in the earth".³

5. LEADERSHIP

Various studies in Islamic management were conducted which support the argument that to be successful leaders certain characteristics need to be adopted. Among these are: mission orientation, ambition, creativity, and long-term goals.⁴ In order to realize these objectives, the leader needs to know the economic social and political environment surrounding him to enable him to build grass root foundation. In Islam, grass root foundation is fundamental in order to build a solid society based on ethical and moral values. Allah says in Al-Quran:

Which then is best? He that layeth his foundation on piety to Allah and his pleasure? Or he that layeth his foundation on an

undermined sand-cliff ready to crumble to pieces? And it doth crumble to pieces within him, into the fire of hell. And Allah guideth not people that do wrong.⁵

The Prophet Mohammad (pbuh) was indeed a successful leader in terms of effective planning and organization of the Islamic state. His strong character, moral behaviour, humble attitude and love for others made him popular not only among the Muslims but also among the non-believers.

Allah says in Al-Quran: "Ye have indeed in the messenger of Allah an excellent example for him who believes in Allah and the final day, and who remembers Allah much".⁶

6. TRUST (AMANAH)

Our life is an *amanah* (trust). Allah has sent us (the human beings) as His Vicegerents or trustees of Him on earth. We are responsible and accountable for whatever we do in this life. Therefore, integrity and trustworthiness in dealing with others, especially in financial transactions, is fundamental in Islam. The new role of the MBUS should enhance the concept of trust in dealing with others.

"We should not make harm to others while others should not make harm to ourselves".

Undoubtedly, the current corporate culture due to the deterioration in moral and ethical values need an urgent Islamic input. Trust in dealing with others has become a scarce resource in society. The students who are mission-oriented in this life can play an important role in this direction.

7. MORAL VALUES

Islam has stressed the importance of the moral and ethical values in the society without which no progress can be made. Indeed, the moral and ethical values are to be considered as prerequisites for the grass roots of any society to prosper. It has clearly been stated in the Al-Quran:

Seest thou how God set forth a parable? A goodly word like a goodly tree, whose root is firmly fixed, and its branches (reach) to the heavens. It brings forth its fruit at all times, by the leave

of its Lord. So God sets forth parables for men, in order that they may receive admonition.⁷

There is no doubt that as long as we are living in a world of moral decay the problems will persist. There will be no prosperity and security in society even when the nation has achieved higher level of economic development and rapid industrialization. The current financial crisis in Japan (and other parts of the world) supports this argument. Many writers in the Western world have expressed their concern about the moral decline in the American society. Every day we hear stories about business impropriety, employee theft and drug use, government scandals, teenage pregnancies and a host of other problems associated with lack of morals and ethics.⁸

8. SHARING AND CARING

In the world today, people, both the business people and the consumers, are becoming more selfish, more individualistic, and are worshipping wealth rather than Allah who has created it. We even neglect our parents, spouses and children in our pursuit for material gains. This kind of life has made us miserable with ourselves and towards other human beings. Therefore, there is no more care for others in the society. Even the relationship between the employer and employee is based on exploitation, unfair wages and hatred rather than fairness and justice.

With this unhealthy financial world, we are of the opinion that the MBUS should play important role in the corporate sector by introducing the Islamic concept of sharing and caring for others. They should be mission-oriented contributors rather than sleeping partners. Their mission should be active participation in the affairs of the society. Therefore, the MBUS should undertake an applied marketing research (under the supervision of their professor) to understand what the consumer needs and wants. Undoubtedly, applied marketing research would help the entrepreneur learn from his previous mistakes. It will also assist him to make sound planning and undertake monitoring for his line of production and give him feedback on any product that is not marketable. He has to know whether it is because of poor quality of production, uncompetitive pricing, poor management or something else. Indeed, it is only through sharing and caring that the two parties (the student and the entrepreneurs) will learn.

9. PROBLEMS OF THE SMIs

In the course of our discussion, we have to examine why SMIs in Malaysia have not been as successful as expected. There is no doubt that there are many problems confronting the Bumiputera entrepreneurs in the business of which the main ones are listed below:

9.1 Finance

In Malaysia, surveys of SMIs were conducted in 1975 which show that most SMIs complain of inadequate finance and lack of access to commercial bank credit. Three main reasons were given for lack of working capital: problem in obtaining loans and other types of credit facilities from commercial banks; the problem of collecting trade debts; and the shortage of internal funds arising from a low level of profit.⁹ It is possible that chronic shortages of working capital may be symptomatic of poor production planning or other serious management deficiencies. Whatever the reasons behind lack of access to credit, a number of small firms complain that they do not have enough cash to buy raw materials or to pay wage bills until they have sold their existing stocks. Since most SMIs had to raise the initial capital on their own, the amount which they could raise is quite limited. Consequently, they generally did not have enough capital to start with. There is difficulty in getting loans from commercial banks due to the need for collateral, guarantors or preparation of financial statements.

From the above analysis, we must conclude that in the past SMIs were left behind when government and financial institutions only extended credit to large businesses due to their creditworthiness. But since the late 1980s, after the government introduced its privatization program, the emphasis has changed. Nowadays, SMIs are receiving continual financial assistance from various government agencies. But the Bumiputera entrepreneurs still have a long way to go before they can manoeuvre themselves into a position of greater competitiveness in the marketplace.¹⁰

We observe that although, in the past, lack of capital placed an important constraint on the growth of small firms, this was not the only factor working against their ability to improve their efficiency. The overall picture seems to be rather complex. Even today there are many small enterprises, particularly in rural areas, which suffer from lack of access to much needed finance. At the same time there are others, mainly located in urban areas,

whose access to capital since the late 1980s has improved, but who lack the ability to effectively utilize their financial resources. For the latter the real challenge is how to put these newly available resources to efficient use.

9.2 Skilled Labour

There is a serious shortage of skilled labour, especially skilled metal tradesmen and maintenance tradesmen. The problem affects small industries very severely because small firms are often unable to compete with their large counterparts for skilled labour. The problem arises because government-sponsored training schemes are inadequate to meet the demand for skilled workers. Many establishments, especially the larger ones, have their own apprenticeship training courses but three factors appear to limit their usefulness:

- 1) the limited time given to train the apprentices;
- 2) the lack of experienced trainers and difficulties in diverting the trained workers from production lines; and
- 3) the lack of formal education among many of the trainees.

When discussing the issue of skilled labour shortages, a number of factors should be considered. First, the problem of skills shortage almost always goes beyond the issue of the narrow technical skills that workers must have. More often, the real issue is the shortage of workers with "appropriate experience".

There are a few skills on which the vitality and competitiveness of every industry depend. These skills include strong entrepreneurial, managerial and marketing abilities, particularly in international markets. There is always a great demand for these skills which cannot be easily developed in the classroom or formal training institutions. New approaches to dealing with the scarcity of these types of skills thus need to be developed.

9.3 Culture

The culture and the tradition of the society often directly influence an entrepreneur in his day-to-day work. The culture of avoiding business venture due to fear of failure need to be changed. It is indeed contrary to what Islam has advocated us to do: be in business rather than escape from it. It is, therefore, important to introduce the concept of entrepreneurship into the

culture of the Bumiputera society, and it is here that the MBUS can play an important role.¹¹ By proper identification and selection of the project (among other factors) success will come if proper monitoring and follow up are made by both the MBUS and entrepreneurs. Allah says in Al-Quran:

Never will Allah change the condition of a people until they change what is in themselves.¹²

Islam encourages us to go into business and nine out of ten of *rizq* (wealth) will come from the business transactions. On many occasions, Allah demanded that once prayer time is finished, people may disperse throughout the land to go about their business. And they who seek of the bounty of Allah and remember him frequently shall prosper. Indeed, it is time to make changes in the Bumiputera culture and we are of the opinion that the MBUS can be agents of change in their society.

9.4 Lack of Ideas

The current Bumiputera entrepreneurs lack creativity and innovative business ideas because of various factors, mainly the lack of proper education and exposure to other people. The lack of exposure in a manufacturing environment causes more damage than a lack of capital. One must know the industry well, the production techniques and the market before venturing into the manufacturing sector. Due to these factors many Bumiputeras tend to follow others rather than to lead others. This kind of attitude has caused them to be left behind others in terms of improvement and development of projects.

9.5 Other Problems

Other problems facing SMIs are related to marketing, competition, management and technology. Marketing problems include seasonality of demand, customer problems, delivery and keen competition. A number of small firms have problems marketing their products because of factors such as poor designs which are both inefficient and inartistic, poor quality of finished product due to the use of poor quality raw materials and inadequate quality control, and lack of precision due to inadequate equipment and shortage of skilled personnel. For example, Malaysian batik producers need to improve the quality of their products, especially in dyeing and printing. This is vital if Malaysian batik is to be marketed overseas. A Japan Export Trade Organization (JETRO) report on the marketability of Malaysian batik showed

that the variety of batik cloth was limited, patterns were too local, printing was neither elaborate nor accurate and dyeing was uneven.¹³

Other small firms lack knowledge of market opportunities, both local and foreign, and of modern marketing techniques. Small firms also complain of unfair competition from their large-scale rivals. Unfair competition may arise from certain government policies which tend to favour large rather than small firms. It may also arise from volume discounting, horizontal market power, mass advertising, control of supplies and prices, discriminatory pricing and the overwhelming resources of the large firms.

Management problems arise mainly because in many of SMI firms the entrepreneurs have a relatively low level of formal education with limited training or professional qualifications. Thus they have a limited exposure to modern management principles and practices.¹⁴

The technology used by SMIs is often outdated. Some of them do not trust modern technology while others are unable to afford it. Thus many of them rely on traditional technology which, in many cases is, inefficient.

10. THE NEW ROLE OF MBUS

To enable us to solve the problems that face the Bumiputera entrepreneurs, the policy makers and the corporate leaders should realize that we are living in a world of rapid changes. If SMIs (and Malaysia as a whole) want to survive in this competitive world, then they should ask themselves questions such as these:

- a) How far have SMIs succeeded in penetrating the world market?
- b) Have they really undertaken any marketing research to understand the real needs of their local consumers?¹⁵
- c) What kind of marketing strategies have they adopted so far, if any?
- d) Why have the local entrepreneurs managed to compete only with each other in the country, rather than business in the outside world?

These challenging questions reveal some of the problems facing the SMIs today and in the future. We feel that serious efforts need to be made to change our educational curriculum in the business and economic courses to suit the corporate sector needs to realize the leadership's Vision 2020.

In this context the most important consideration is that the students, after they have acquired the theoretical foundation of important subjects, such as marketing, management, Islamic banking, etc., should be brought into direct contact with business in the real world (see Figure 1).

The relevant professor should have an open dialogue with selected entrepreneurs, especially those who want to improve their firms and become more competitive in the market. The open-minded entrepreneurs will accept the inputs from students who will be their future partners in the business. An agreement should be reached between the relevant professor and the entrepreneurs for 12 months' practical training of the students, with their duties and rights clearly stated in an agreement. Such an agreement or a memorandum of understanding (MOU) is indeed vital to protect the rights of the students now and in the future when they become partners in those firms later on. The MOU should clearly stipulate the following terms of references between the two parties (the students and the entrepreneurs of those SMI firms):-

- a) The students should spend 12 months in practical training with a reputable SMI firms.
- b) The student will be closely monitored by the two parties (the respective new employers and their professors) about the conduct of their work during the practical training.
- c) Confidential reports must be submitted every quarter by the management of the firms to the professors about the performance of the students.
- d) The MOU should clearly state that if a student's performance during the 12 months is outstanding, he would be considered for partnership in that firm once he completes his studies successfully.

Undoubtedly, once a student realizes that he may become a partner in the firm that he is currently helping out,¹⁶ he will commit himself to the firm's success; while the firm will realize (later on) that their decision was the right one.

The MBUS should then return to their campus and complete their final or fourth year of studies, where they should to be given the opportunities and the responsibilities to make some presentations about their 12-month practical experience. Their respective professors should give them the responsibility to conduct case studies, practical workshops and seminars under their supervision.

For students to be responsible is something new and awesome, they would need to be encouraged. It means that their respective professors would be moulding them indirectly into future corporate leaders that the Malaysian leadership is looking for, that is exemplified by the second companion of the Prophet Mohammad (pbuh), Umar bin Al-Khattab, who developed "Leader among the Leaders". This kind of practical inputs from the university business students is urgently needed. Their inputs after 12 months of practical training and experience will have important policy implications not only for the higher learning institutions but also for the whole nation whose leader wants to make Malaysia fully industrialized. The question should be asked as to how far is the current educational system relevant to the corporate sector's needs and whether it is the right time to make some changes and modifications. The culture of trust, faith and honesty in dealing with others is urgently needed in the contemporary corporate sector and we are of the opinion that the Muslim business university graduates can play an important role in bringing changes in the corporate culture, which has suffered many setbacks because there has not been any moral and ethical values to control the human conduct. Malaysian leaders have realized that we are living in the age of computers, information technologies and globalization which means that the number of competitors with a world-wide reach is increasing, and markets that were traditionally considered impenetrable are slowly opening up to competition from other countries.

11. CONCLUSION AND RECOMMENDATIONS

In view of the above discussion, there is an urgent need to formulate new education curricula for the business (and engineering) university students. We are living in the age of globalization and corporation, and how far the Malaysian entrepreneurs will be able to penetrate the world market is indeed questionable. This is why the Minister of International Trade and Industry indicated recently that the main problem facing the SMIs in Malaysia is the lack of research and development. We believe, the Muslim business university students can play an important role in marketing research by changing the direction of the local entrepreneurs. Truly, we are living in the age of corporate world, and business competition has become a weapon not only on national level but also on the international level. Therefore, the local entrepreneurs will have to face the reality of the new economic order by working harder with others, based on trust, honesty, sharing and caring for the society and the strategic partnership alliance. The partnership should not only be at the national but also at the international level.

NOTES AND REFERENCES

1. J. Cunningham and Joe Lischeron (1991), "Defining Entrepreneurship", *Journal of Small Business Management*, 29 (1), pp.45-46.
2. C.P. Lim, (1986), "Study and Evaluation of Existing Fiscal and Financial Policies and support for Small and Medium Businesses in Malaysia" pp.57-58, in K. James, and Akrasanee (eds.), *Small and Medium Business Improvement in the ASEAN Region: Financial Factors*, Field Report Series No. 16, ASEAN Economic Research Unit, Institute of Southeast Asian Studies.
3. Qur'an: (35:39). Throughout English translation of the meanings and commentary by The Presidency of Islamic Researches, IFTA, Call and Guidance, Al-Madinah, Saudi Arabia, 1410H, has been used.
4. A. Abu San (1986), *Administration in Islam*, Dubai, UAE: Modern Publisher, pp.111-117.
5. Qur'an: (9:109).
6. Qur'an: (33:21).
7. Qur'an: (14:24-27).
8. M. Yousefi, and K. McCormick (1993), "An Assessment of Ethical Attitudes towards Wealth Accumulation". Paper presented at the Third International Conference on Ethico-Economics, Sydney, Nova Scotia, Canada: University of Cape Breton, pp.1-2.
9. C.P. Lim (1986), *Small Industry in Malaysia*", Kuala Lumpur: Berita Publishing, p.39.
10. R. Ali (1993), "Enter a New Breed of Bumi Traders", Kuala Lumpur, *New Straits Times*, p.12.
11. S. Al-Harran (1993), "Partnership Financing: Helping the Poor to Help Themselves", Malaysia: *The Bankers Journal*.
12. Qur'an: (13:10-11).
13. *New Straits Times*, March 23, 1984.
14. C.P. Lim (1986), op.cit. pp.47-48.
15. S. Al-Harran (1993), "Islamic Consultancy House: Missions and Objectives", unpublished paper.
16. S. Al-Harran (1993), "Islamic Finance: Partnership Financing", Petaling Jaya, Malaysia, Pelanduk Publications, pp.337.

Figure 1: New Curricula for Muslim Business University Student - 4 Year

