

Challenges in MSMEs Sustainability: Halal Product, Marketing Strategy and Financial Literacy

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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v13-i11/19639> DOI:10.6007/IJARBSS/v13-i11/19639

Published Date: 27-11-2023

Abstract

Micro, small, and medium enterprises (MSMEs) Sustainability, from a business point of view, refers to the ability of a company to continue to exist and successfully grow in the face of intense competition in the market. This study focused on the challenges that are faced by MSMEs because MSMEs are the backbone of economic growth in every nation and the

number of MSMEs in Malaysia is expanding at a fast pace. The abilities of MSMEs to effectively manage challenges that influence their performance is a crucial determinant of their sustainability. The challenges that might be essential to the sustainability of MSMEs are discussed in this conceptual study through a review of the relevant academic literature. Halal products, marketing strategies, and financial literacy are the challenges that MSMEs face in order to survive. In order to continually sustain and achieve success in the competitive market, MSMEs need to adapt to the changes that will occur in the business environment as a result of COVID-19 and implement the proper strategy and planning.

Keywords: MSMEs, SME, Sustainability, Marketing, Financial Literacy, Halal Product

Introduction

Micro, Small and Medium Enterprise (MSMEs) has been a hot topic to discuss related to the business especially in Malaysia. It directly involved in Malaysia's economic growth and provide job opportunities to population. Prior studies have demonstrated the significance of MSMEs for economic growth and job creation in both developed and developing countries (Mabhungu & Van Der Poll, 2017). This is consistent with Sustainable Development Goals 8 (SDG8), which is decent work and economic growth that aim to encourage entrepreneurship and job creation for all women and men by 2030.

Development of small and medium-sized enterprises (SMEs) in Malaysia began on May 2, 1996, when a dedicated agency was formed to promote SMEs business to growth through the provision of necessary infrastructure, funding, advisory services, access to markets, and other forms of assistance (Omar et al., 2021).

The definition of MSMEs was released by the SME Corp. which is it cover all the sector namely services, manufacturing, agriculture, construction and mining & quarrying (SME Corporation Malaysia, 2019). Furthermore, the definition for every sector was classify based on the two criteria namely sales turnover and number of the full-time employee. Therefore, it is necessary for the company to fulfill the criteria in order to ensure that it falls under the appropriate industry category either manufacturing sector or service and other sector. Table 1 below shows the definition of MSMEs by sector.

Table 1

The definition of MSMEs

Categories	Criteria	Micro	Small	Medium
Manufacturing	Sales turnover	< RM300,000	RM300,000 to < RM15 million	RM15 million ≤ RM50 million
	Full-time employees	< 5	5 to < 75	75 ≤ 200
Services and other sector	Sales turnover	< RM300,000	RM300,000 to < RM3 million	RM3 million ≤ RM20 million
	Full-time employees	< 5	5 to < 30	30 ≤ 75

According to Table 1 above, sales turnover for small size in the manufacturing sector ranges from RM300,000 to less than RM15 million or full-time employees from 5 to less than

75; and sales turnover for medium size ranges from RM15 million to not exceeding RM50 million or full-time employees from 75 to not exceeding 200. For service and other sector, sales turnover for small size ranges from RM300,000 to less than RM3 million or full-time employees from 5 to less than 30; and sales turnover for medium size ranges from RM3 million to not exceeding RM200 million or full-time employees from 30 to not exceeding 75. While, for micro size, sales turnover not exceeding RM300,000 or full time staff less than 5.

In addition, as stated in Guideline for SME Definition “if a business fulfills either one criteria across the different sizes of operation, then the smaller size will be applicable. For example if a firm’s sales turnover falls under microenterprise but employment falls under small, the business will be deemed as a microenterprise” (NESDC, 2020). Based on data from the Malaysia Statistical Business Registry (MSBR), it can be shown that 1,226,494 MSMEs registered by 2021, with the majority being microenterprises at 78.6% (964,495 firms), followed by small businesses at 19.8% (242,540 firms), and medium-sized businesses at 1.6% (19,459 firms). Compared to a total of 1,086,533 MSMEs in 2016, the number of MSMEs is increasing by nearly 140,000 companies. This indicates that the number of businesses in Malaysia continues to rise even after the epidemic has had a severe economic impact on the majority of the population. This is as a result of the COVID-19 epidemic, which caused 140,608 people to lose their jobs between March 2020 and August 2021 (Rosli, 2021). Thus, many people decide to start their own informal or small businesses to maintain their standard of living. However, most of the Malaysia MSMEs entrepreneurs especially from micro and informal business was unable to sustain over the long term, face problem and failure within five years (Amin, 2021; Perera, 2016). Thus, the objective of this study is to examine a number of challenges experienced by MSMEs entrepreneurs.

Literature review

MSMEs Sustainability and Challenges

Micro, Small and Medium Enterprises (MSMEs) acted as the backbone of the national economy are still categorized as vulnerable to the development of their businesses (Lumbanraja et al., 2021). Sustainability in the business world refers to an organization's capacity to endure and prosper in a complex, diverse, and competitive commercial environment (Jayasundara et al., 2019). The variables of sales turnover, profit, capital and employment were employed by Alqassabi (2020) as SMEs sustainability measurements. In addition, their study analyses a number of challenges encountered by SMEs in Oman, including 78.7% rules and regulations, 73.1% competition, 72.6% lack of financial access, 69.2% customer interaction, 69% lack of skilled workforce, 60.5% technology change, and 53.5% supplier management.

To accomplish the highest performance and maintain market competitiveness, the entrepreneur's ability to effectively manage the business is essential. This is the ultimate goal of any entrepreneurial effort. Owner/manager commitment, employee commitment, business planning, innovation, cost management, management of customers, suppliers, information, revenue, competitors, sources of financing, enterprise's pool of resources, and compliance with regulations were identified as some of the crucial sources that influence the success and survival of MSMEs (Mabhungu & Van Der Poll, 2017).

Due to the globalization, MSMEs faced challenges from the technological adoption, lack of financial management, inadequate fund and capital, lack of management capability, demographic, digital marketing, changes in market demand and lack of accessibility. In the SME Masterplan 2012-2020, the government of Malaysia has outlined six of these challenges: human capital development, access to financing, market access, infrastructure, innovation

and technology adoption, and legal and regulatory environment (Mustafa & Yaakub, 2018). In addition, Yoshino and Taghizadeh-Hesary (2016), found several reason behind the slow growth among SMEs such as limited access to finance, lack of a database, low research and development (R&D) expenditures, undeveloped sales channels, and a low level of financial inclusion. Many small and medium-sized businesses today are confronted by challenged by the difficulties of acquiring clients, their inability in innovation, and their incapacity to build market strategies (Eze et al., 2021; Suryani et al., 2022). Nevertheless, the purpose of this study is to review three challenges, namely halal products, financial literacy, and digital marketing strategy.

Halal Product and MSMEs Sustainability

Since the number of Muslim population in Malaysia is a dominant and with the COVID-19 pandemic issues, consumer highly concern about health lifestyle and products. According to Kurniawati & Savitri (2020), the larger number of Muslim population has created higher demand on halal markets for the food, beverage, cosmetics, medicine, fashion, banking and tourism industries. Indonesia consumer relate halal product with cleanliness, quality, health product and hygienic product (Kurniawati & Savitri, 2020). In addition, non-Muslim consumer consider halal product is high quality, safe and hygienic (Arifin et al., 2020). Therefore, the concept of halal product with halal certificate and labelling is very important to society and it increasingly needed to compete competitively with foreign products (Arifin et al., 2020). A halal logo plays a very essential part in branding and the growth of businesses all over the world. It is crucial for the success of businesses and the public's understanding of halal products. Hence, every entrepreneur in MSMEs should be aware of the significance of having a halal certificate and logo on their products or services, as it can boost consumer confidence and pleasure Mustakim *et al* (2023) discovered that halal certification can be a factor in boosting the income of MSMEs and instilling consumer confidence. This consistent with Adawiyah and Adhitya (2021) findings that halal certification is one of the strategies for MSMEs to maintain and increase their sales. This suggests that halal certification is able to assist MSMEs in achieving economic growth and the development of their business in a sustainable manner.

Financial literacy and MSMEs Sustainability

Financial is the main component to start the business, without adequate fund and capital, the business cannot be run and entrepreneurs cannot roll the capital (turnover). Most MSMEs in Malaysia unable to sustain in the market for the long period because of inadequate financial resources that will led to business cannot proceed to another procedure such as packaging, branding, marketing, advertising, research and development (R&D), innovation and accounting software. According to Hamdan *et al* (2021), one of the reason MSMEs fail within the first five years of operation is poor financial management which is mainly because of poor financial literacy. Gawali and Gadekar (2017) found that there is a significant, crucial and critical relationship between efficient financial management practices with survival, growth and profitability of MSMEs. Accounting and financial knowledge, competencies in interpreting financial statement and owner-manager involvement in financial aspect affects the success or failure of MSMEs. According to Maran (2022), due to insufficient collateral or an absence of financial records, SMEs in Asean have limited access to finance institutions for borrowing and traditional lending. It was a devastating blow to the growth of micro, small, and medium-sized enterprises. Abd Rashid *et al* (2022) found that financial literacy had significant relationship between financial literacy and MSME's sustainability. Many prior

studies also found that financial literacy had positive and significant effect to MSMEs business sustainability and performance (Aribawa, 2016; Hapsoro & Iswara, 2019; Widayanti et al., 2017; Wijayanto et al., 2020; Ye & Kulathunga, 2019). Therefore, it is very important to all MSMEs to improve financial literacy skills or financial knowledge in supporting the sustainability of their business.

Marketing Strategy

The term "marketing" refers to the whole system of business operations that focuses on the planning, pricing, promotion, and distribution of goods and services (Jatmiko et al., 2021). Marketing skill is one of the most critical factors for sustainability (Gyimah & Adeola, 2021). Therefore, all MSMEs entrepreneur have ability and skill to market the product or services. Covid-19 outbreak has cause many entrepreneurs unable to continue the business physically. As a result, conducting business online through the many applications of social media has become a popular platform on which to advertise and promote products. The application such as Facebook, Instagram, TikTok, WhatsApp, Telegram, Twitter and YouTube can give a huge impact because nowadays, people always spend a lot of time with social media. According to study conducted by Al Adwan (2019), Facebook is by far the most influential and popular social media site, with over 2.23 billion active users on the platform on a monthly basis. Purba *et al* (2021) found that MSMEs that can endure a pandemic are those that can market their products or services using digital marketing or social media. Their research revealed that digital marketing has a significant impact on the sustainability of MSMEs. As a result of the COVID-19 epidemic, vendors are being forced to diversify into new market categories, among which are MSMEs, due to the operational agility and flexibility of these businesses, as well as their aggressiveness towards globalisation and sustainability (Eze et al., 2021). However, Gao *et al* (2023) found that digital marketing strategies and MSMEs sustainability were insignificant among Bangladeshi MSMEs. This is because; the study revealed that Bangladeshi MSMEs do not exploit digital marketing technique and required a proper training and education on digital marketing tools.

In Malaysia, several organizations play a significant role in supporting MSMEs with marketing strategies. SME Corp Malaysia is a government agency that focuses on the development of SMEs in the country. They provide various programs, training, and advisory services to assist MSMEs, including those related to marketing strategies. MATRADE, the Malaysia External Trade Development Corporation, offers support for Malaysian businesses, including MSMEs, in their export marketing efforts. They provide market intelligence, trade promotion programs, and assistance in participating in international trade exhibitions. MDEC, the Malaysia Digital Economy Corporation, promotes digital transformation and adoption among businesses, including MSMEs. They provide resources, training, and initiatives to help MSMEs leverage digital marketing strategies and technology to grow their businesses. Additionally, the SME Association of Malaysia represents the interests of SMEs in the country and offers various services and programs to support their growth. They organize workshops, seminars, and networking opportunities that focus on marketing-related topics. MSMEs are encouraged to explore the services and programs offered by these organizations to leverage their expertise and support in marketing their products or services. By tapping into these resources, MSMEs can enhance their marketing capabilities, sustain their businesses, and achieve long-term success in the competitive market landscape.

Conclusion

This study has determined that the sustainability of MSMEs has three challenges, namely halal products, financial literacy, and marketing strategy. Each of these challenges may be deemed

to be crucial. The study also made an effort to demonstrate the influence that each of these challenges has in enhancing the MSMEs' capacity to remain sustainable. There are so many possible challenges that could affect the long-term sustainability of MSMEs that no single study could identify all the possible challenges. However, the challenges identified in this study necessitate a holistic approach that combines effective marketing strategies, consideration of halal principles, and strong fiscal knowledge, which can contribute to the development and sustainability of MSMEs. By addressing these aspects, MSMEs can enhance their request competitiveness, make client trust, optimize fiscal operation, and pave the way for long-term success in the dynamic business geography. Although, the study does not claim to have identified all of the potential challenges that may impact on the long term sustainability of MSMEs, monitoring, controlling and mitigate the challenges highlighted in this study may go a long way towards guiding MSMEs towards sustainable growth.

Acknowledgement

This research work is supported and funded by the Ministry of Higher Education (MOHE) under Fundamental Research Grant Scheme (FRGS) FRGS/1/2022/SS01/UNISHAMS/02/1)

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