

The Effect of Social Network on Malaysian Malay-Owned SME Performance

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ABSTRACT

This paper discusses the Malay-owned Halal Food SMEs, their contribution towards the nation's economy and some issues pertaining to their performance were presented. This paper highlights the gap in the literature that prompted this research. Previous researchers have studied the relationship between social networks on organization performance. However, a review of the past literature suggests that there is inconsistency in findings regarding social network in relation to performance. This study revisits this relationship by using random sampling techniques with 297 samples. This paper explores the effect of social network on SME organization performance of Malay-owned SMEs in the Halal Food industries. Based on the gaps identified, the research proposition is presented. The findings shows that there is a significant influence between social networks and the growth as well as the effectiveness of organizational performance of SME.

Keywords: SME; social network; halal food industries; SME performance

INTRODUCTION

Social network is an abstract and broad construct and has a very wide-ranging definitions and determinants. Aldrich & Zimmer (1986) broadly define social networks as a group of persons with whom the entrepreneur has a direct relationship and those with whom the entrepreneur has indirect relationships through his direct relationships. In more detailed explanation, Brass (1992) defines social networks as a set of actors and a set of linkages between the actors.

According to Aldrich and Zimmer (1986), actors in a social network can be persons or organizations. Network can also be described as a metaphor for a set of connected actors and the relationships that tie these actors together may take many forms, such as those between customers, financiers, intermediaries, partners, suppliers, or government officials and agencies (Zhang, Tansuhaj & McCullough, 2009). At personal or individual level, networking is defined as the management of relationships, alliances or collaborations that the individual has with others in the society (Dubini & Aldrich, 1991). At organizational level,

networks refer to the relationships between two or more organizations that involve durable exchanges and sharing of beneficial resources and activities, and these networks can be of different forms such as industrial clusters, technological collaborations, strategic alliance, joint ventures or licensing agreements (Burt, 1992; Groen, 2005; Levine & Kurzban, 2006). The essential role of networks is widely recognized in entrepreneurship process especially its integral part in explaining small and medium firms' success (Aldrich & Carter, 2004; Conway & Jones, 2006; Cruickshank & Rolland, 2006). Considered as one of the most powerful assets that anybody can possess (Elfring and Hulsink, 2003) suggest that social network not only provides entrepreneurs access to power, privileged information, knowledge and capital, but it also present them with other potential networks as well. Compared to large businesses, most SMEs lack resources and this hinders their ability to recognize and seize opportunities, so more often SMEs entrepreneurs rely on networks to address this shortfall (Tolstoy & Agndal, 2010). Hence, expectedly to SMEs, networks provide many preconditions previously unavailable that are crucial for entrepreneurs and their firms to thrive (Hoang & Young, 2000).

Subsequently, the Malays and other native (Bumiputera) were given particular privileges under the Federal Constitution in order to increase their participation in business related activities. The New Economic Policy which symbolizes a reform policy by the state to reduce cumulative disadvantages has two prominent objectives of eliminating poverty and restructuring ownership among the different ethnic groups. A major implication of these strategic policies was to forward strategies and programmes to

increase the participation of Malays and other Bumiputera entrepreneurs in business related activities in order to make them more competitive with other ethnic groups as well as to enable them to have greater share in the ownership of capital in the country. A thirty percent quota system was introduced to enable the Malays to participate into all sectors including the business and industrial sectors (Third Malaysia Plan, 1976).

It became a daunting task for the state to put through these policies to be successful and effective as there has been claimed that the Chinese entrepreneurs are more business savvy, work harder and usually operate business activities much better than the Malays and other Bumiputera. Some scholars view that the Chinese tradition in business, going back to the period of their ancestors in China and also because of their conventionally major participation in the economic sectors of the state gave them the added advantage. In this relation, it was viewed the Malay entrepreneurs as less competent to endure and develop commercially because they are not experienced, with less exposure to business world, lack of innovation and creativity in comparison with the Chinese. Malay entrepreneurs are viewed as less risk-takers and highly conservative. Consequently, the Malay entrepreneurs also tend to be less efficient in business and entrepreneurial performance in comparison with the Chinese entrepreneurs.

The government assistance in a variety of forms such as financial assistance, management training, technical support and provision of infrastructure became essential at encouraging and promoting entrepreneurship especially amongst the Malays (Third Malaysia Plan, 1976;

Christie. M. 1997). As a result, the emergence of a new breed of Malay entrepreneurs has been made possible through various affirmative actions by the Malaysian government, which was further intensified during the era of the New Economic Policy (NEP). (Fifth Malaysia Plan, 1986). The effort to increase the participation of Malays and other Bumiputras in Commerce and Industry was further impressed upon during the post NEP period.

At the end of the NEP period, the government of Malaysia formulated the New Development Policy (NDP), a 30-year Development Policy targeted at making Malaysia a fully developed nation by the year 2020. The participation of Malays in economic sector were further intensified during the period of the NDP. (Seventh Malaysia Plan, 1996). However, though various incentives, support and opportunity given by the state, the Malays are still grappling to sustain and to continue with their entrepreneurial ventures and existence. With the dynamic business environment and ecosystem as well as the implosion of ICT in the era of 1990s onwards, the impact in the development of Malay entrepreneurs has become even more intricate and challenging. There may be other aspects of the entrepreneurial process of developing the Malay entrepreneurs that may not have been addressed thoroughly. The network success hypothesis has postulated a positive relationship between the network activities of entrepreneurs and their business success (Birley, 1985; Bruderl and Preisendorfer, 1998; Hoang and Antoncic, 2003; Johannison, 1996; Lechner and Dowling, 2003). Through these social network activities, entrepreneurs get two benefits, first, to get resources cheaper than they could be obtained in the market, and secondly to

secure resources that would not be available in the market at all. There benefits are relevant for all industries (Witt, Schoter and Merz, 2008).

As we know, the importance of social network for performance growth is widely acknowledged today (Elfring and Hulsink 2007; Shane and Ventarataraman, 2010). Hence, this thesis will examine other avenues to facilitate the malay entrepreneurial performance and entrepreneurial process, where social networking has become an important aspect of the process. Furthermore, as it is now recognised that entrepreneurs embed their business decisions in social structure and social networking (see Borch, 1994; Hansen, 1995; Larson and Starr, 1993; Reynolds, 1991). Studies also have shown that access to entrepreneurial resources is derived significantly from the level of social network of the entrepreneurs as such influencing entrepreneurial performance as well as entrepreneurial growth and sustainability (Lin, Cook and Burt 2001).

The current thinking is that social relations and the social context can not only influence entrepreneurship but that because economic action is embedded, social networks can affect and influence economic performance and consequently the shape and form of entrepreneurial outcomes (Granovetter, 1992; Ring and Van de Ven, 1992; Snow et al, 1992; Jones et el, 1997; Arrow, 2000; Jack and Anderson, 2002). Hence, this study will attempt to unfold the relationship between social network and Malay entrepreneurial performance.

Problem statement

In 2010, Malaysian SME contribution to GDP growth was at 8.3%. Since then the growth decline to 7.3% in 2011 and further slipped down in 2012 to 6% and 6.4% in 2013. In 2014 the increase from 6.4 % to 13.5 % is due to the redefinition of the SME categories but the trend went down further by 6.2% in 2015 and 5.2% in the year 2016, even though in 2018 the growth is 7.1 %. In 2019, the trends of Malaysian SME performance has decline to 6.2%.

According to Che Omar and Anas (2014), Bohari et al. (2013) and Abdul Rahman and Mohamed (2011) lack of capital, limited resources, poor market knowledge, stiff competition from larger companies, employing low level of technology, slow to penetrate into the international markets, and weak networks are common problems faced by Malaysian SMEs. Studies have indicated that expanding social network will provide greater opportunity for entrepreneurs to obtain diversified resources in enhancing entrepreneurial outcome as well as affecting performance at different stages of firm development (Hansen, 1995; Minai et al., 2012). Therefore, this study would like to explore further on the influence of network size on SME organizational performance.

Organization Performance

Organizational performance is an indicator to measure an organization's ability to achieve its objectives (Li, Ragu-Nathan & Rao, 2006; Ventkatraman & Ramanujam, 1986). Organizational performance reflects to a degree of measure for a firm to achieve financial goals (Penrose, 1995). Having sustainable performance is a critical survival factor for

SMEs. To ensure its survival, organization needs to review its performance from time to time due to rapid environmental changes (Cocca & Alberti, 2010; Najmi, Rigas, & Fan, 2005). It is generally acknowledged that there are variations of performance among different organizations (Stoelhorst & van Raaij, 2004). In SMEs context, it is important to examine what makes SMEs perform so that they can better survive in the dynamic environment.

Social networking

Social network is becoming a popular subject in the entrepreneurship literature and its importance for firm performance is widely acknowledged (Elfring & Hulsink 2003; Shane & Venkataraman, 2000). A network has been described as one of the most powerful assets an entrepreneur can possess as it provides access to power, information, knowledge, capital and other networks (Birley, 1985; Adrich & Zimmer, 1986; Johannisson, 1987; Elfring & Hulsink, 2003). According to Robinson (2011), networks are important to new entrepreneurs and small business owner because the ability to access information, advice and necessary resources is vital to the success of new firms. Studies have found that many businesses especially the SMEs are using networks and cooperation as one of the strategies to adapt to changes in order to survive, grow and be competitive in a dynamic market condition (Watson, 2012). It is also an important and influential tool by which these businesses use in a variety of contacts to help them achieve their business objectives.

Social networking gives entrepreneurs greater access to information, resources, new clients, and people with similar business interests, and

contribute to the creation, expansion and growth of the businesses (Shaw & Conway, 2000; Barnir & Smith, 2002; Hoang & Antoncic, 2003; Westerlund & Svahn, 2008; Partanen et al., 2008; Ascigil & Magner, 2009). It has been suggested that one of the important aspects that Malay-owned Halal SME should focus in order to enhance their competitiveness and performance is to develop and widen their networks (Bohari et al., 2013; Idris, 2013; Che Omar & Anas, 2014). Past studies have postulated a positive relationship between the network activities of entrepreneurs and their business success (Birley, 1985; Bruderl & Preisendorfer, 1998; Hoang & Antoncic, 2003; Johannison, 1987; Lechner & Dowling, 2006). Studies have also indicated a significant positive relationship between networking and both firm survival and growth (Watson, 2007). It is also clearly stated that network can influence business performance (Birley, 1985; Bruderl & Preisendorfer, 1998; Farr-Wharton & Brunelto, 2007; Gulati, Nohria & Zaheer, 2000; Huang & Antoncic, 2003; Tylor & Thorpe 2004).

Therefore, focusing on network structures that includes network size, density and diversity which has been chosen as independent variables in this study as to enhance the Halal Food industries SME performance success.

METHODOLOGY

Sampling

The population involved in this study is all Halal Food SMEs registered with Department of Religious Affairs, Malaysia (JAKIM). Statistic from the Halal Hub division of Department of Islamic Development of Malaysia (Jabatan Kemajuan Islam Malaysia – JAKIM) showed that in 2015, there were a total of 5,726

companies that obtained Halal certification from JAKIM, and out of this figure only about 1,832 were Malay-owned companies.

According to Saunders, Lewis, and Thornhill (2009), the appropriate sample size for such population is 322. This research manage to collect 297 samples which is 16 %, which is enough as reported that in Malaysia, it was reported that the response rate from mail mode survey ranges from 15% to 25% (Sarachek & Aziz, 1983; Rozhan, 1991: Kanapathy & Jabnoun, 1998; Murjan, 2012). Since the questionnaires from this study is distributed by the mail mode, a total of 1832 questionnaires comprising of the entire sampling frame were distributed to all Malay-owned Halal Food SMEs in Peninsular Malaysia.

The unit of analysis for this study is organization. The owners and managers are the main respondents because they are the key informants, they know about the business and they are in the appropriate position to respond to the study (O' Cass & Ngo, 2007; Heide & Weiss, 1995; Weerawardena, 2003).

MEASUREMENT

The instruments used in this study were developed from prior research and previously tested for reliability. Some of the questions used was adapted to make them more relevant for the purposed of the study.

Table 1: Reliability Coefficient of the Study Variables

Variables	No of Items	Sources of Instrument
Social Network:		
Network Size	15	Zhao and Aram (1995) and Kristiansen (2004)
Network Diversity	9	
Network Density	15	
Entrepreneurial Performance	9	Butler, Phan, Saxberg and Lee (2001)

FINDINGS

Multiple Regression Analysis

Table 2: Multiple Regression Analysis Result

	Firm Performance	
	Organizational Effectiveness	Organizational Growth
Network Density	.089*	.558*
External Network (Network Diversity)	.501*	.516*
Network Size	.402*	.139
F value	6.061*	5.415*
R²	0.425	.392

From the above table, the F value is significant at $p \leq 0.05$. The significance of F value brings a meaning that the model is significant. R^2 value indicated that social network indicated 42.5% of the firm effectiveness and 39.20% firm growth. From the β value, the multiple regression analysis result has revealed that network density affected 8.9% of organizational effectiveness and 55.8% organizational growth. External network plays an important role in firm performance where this network contributes 50.10% of organizational effectiveness and 51.6% organizational growth. Finally, network size only effected organizational effectiveness with 40.20% and this factor not significantly affected organizational growth.

DISCUSSION

The essential role of networks is widely recognized in entrepreneurship process especially its integral part in explaining small and medium firms' success. Considered as one of the most powerful assets that anybody can possess, social network not only provides entrepreneurs access to power, privileged information, knowledge and capital, but it also present them with other potential networks as well. Compared to large businesses, most SMEs lack resources and this hinders their ability to recognize and seize opportunities, so more often SMEs entrepreneurs rely on networks to address this shortfall. Hence, expectedly to SMEs, networks provide many preconditions previously unavailable that are crucial for entrepreneurs and their firms to thrive.

As entrepreneurship is often embedded in social networks, increasing their contacts through networking may offer them with faster responses to

opportunities, better mobilization and acquisition of resources and also greater awareness of future challenges. Social networks also provide entrepreneurs with means to minimize risks, reduce transaction and operation costs as well as enhancing entrepreneurs' privileged access to a variety of resources held by others such as business ideas, knowledge, reputational, capital and other types of valuable resources.

The considerable reliance of small and medium firms in particular on networks is well documented. Particularly from the perspective of SMEs, this research has proved that viability and survival of these types of firms is often hindered by lack of financial capital, time, and other important resources. Hence, it is not surprising to note that quite a number of studies have found that small and medium-sized business entrepreneurs regularly rely and make use of social networks when they seek for capital, new business ideas, advice on market conditions, and information to spot and recognize entrepreneurial opportunities.

In summary our findings give support to the recent studies suggesting that the network size influence the Malay Food industries SMEs in Malaysia in term of their effectiveness, these actions include quality improvement and improvement on capability of employees and managers who demonstrate effectiveness in the workplace and help produce high quality results but did not influence the growth of the organization process or improving some measures of an enterprise's success by boosting the top line or revenue of the

business with greater product sales or service income or increasing the bottom line or profitability of the operation by minimizing costs.

CONCLUSION

Networking allows entrepreneurs to gain crucial resources better, widen their knowledge of opportunities, overcome their business obstacles easier, as well as increase the legitimacy of entrepreneurs and standings of their businesses. In is important to note that reliance on social network is not limited to the earlier start-up phase only, but it goes on throughout all other stages such as growth and maturity phases of the firm's life cycle. By developing and maintaining networks, SMEs entrepreneurs can also obtain support for their business activities in exploring new options regarding the ways to enhance performance and gaining competitiveness in both domestic and international markets. Therefore, the ability to network to the social context in which an entrepreneur is embedded is often viewed as one of the most critical entrepreneurial skills by a large body of current entrepreneurship literature. This study contributes to the practice in the area of organizational performance and social networking. This study contributes to the understanding of the factors that explain SME performance specifically, the findings of this study provide additional insight into how network size influence SME performance in Malay-owned Halal Food industries.

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