

## Business Networks in Halal Food Industries in Malaysia (*Jaringan Perniagaan dalam Industri Makanan Halal di Malaysia*)

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### ABSTRACT

*The processed halal food industry has been identified as a potentially economically important export industry in Malaysia, but the production of a final product is still at the infant stage compared to developed countries. A business network is one of the aspects that firms need to focus upon to ensure such a product can be successfully marketed. Utilizing 220 samples of halal firms from Peninsular Malaysia, the present study analyses the role of networking in expanding export of halal products at the global market. The discussion of the present paper focuses upon the effectiveness of firms' competitiveness, especially in relation to business networks which was based upon the strategic alliances concept. The underlying logic of alliance formation is premised upon strategic needs and opportunities. When engaging in strategic alliances, firms combine their assets and capabilities in a cooperative policy to achieve competitive advantages. Several factors are identified that affect success when building entrepreneur networks, such as trust, commitment, selection choices, information technology, intermediary support, and the conduciveness of the external environment. The study finds that halal food firms in Malaysia are still weak in forming business networks, especially marketing networks, in order to penetrate the global market. This is due to problems faced by entrepreneurs, including the lack of trustworthiness and commitment; the lack of information technology; socialization problems; the failure to identify or select of business networks; and the role of agencies, such as institutions and the governmental sector. In order to fulfill the ambition of the Malaysian government to emerge as the regional halal hub, the present research suggests policies to increase firm's competitiveness through the establishment of effective business networks.*

*Keywords: Business networks; global market; halal food industries; competitiveness*

### ABSTRAK

*Industri pemprosesan makanan halal dikenal pasti sebagai industri eksport penting yang mempunyai potensi untuk dibangunkan. Namun hasil industri ini masih diperingkat awal berbanding dengan negara maju. Jaringan perniagaan merupakan salah satu aspek yang perlu menjadi fokus firma bagi memastikan produk mereka dapat dipasarkan dengan jaya. Dengan menggunakan 220 sampel firma dari Semenanjung Malaysia, kajian ini menganalisis peranan jaringan perniagaan dalam mengembangkan produk halal ke pasaran global. Perbincangan kertas ini fokus kepada keberkesanan daya saing terutamanya berkaitan dengan jaringan perniagaan berasaskan konsep pakatan strategik. Logik asas pembentukan perikatan strategik diasaskan kepada keperluan strategik dan peluang. Apabila terlibat dalam pakatan strategik, firma menggabungkan aset dan keupayaan mereka dalam satu dasar kerjasama bagi memperolehi faedah bandingan. Terdapat beberapa faktor yang dikenal pasti mempengaruhi kejayaan dalam membina jaringan perniagaan pengusaha. Ianya termasuk amanah, komitmen, pemilihan pilihan, teknologi maklumat, sokongan pengantara, dan kesesuaian luaran yang kondusif. Dalam konteks jaringan perniagaan, kajian ini mendapati industri makanan halal di Malaysia masih lemah dalam membangunkan jaringan pasaran dalam usaha menembusi pasaran global. Ianya berpunca dari masalah yang dihadapi oleh pengusaha termasuk kurang kepercayaan dan komitmen; kekurangan teknologi maklumat; masalah sosial, kegagalan mengenal pasti atau memilih jaringan perniagaan; dan peranan agensi seperti institusi dan sektor kerajaan. Dalam usaha memenuhi cita-cita untuk muncul sebagai hab makanan halal di rantau ini, kajian ini mencadangkan dasar-dasar bagi meningkatkan daya saing firma melalui penubuhan jaringan perniagaan yang berkesan.*

*Kata kunci: Jaringan perniagaan; pasaran global, industri makanan halal; daya saing*

### INTRODUCTION

Entrepreneurship is a series of activities whose ultimate goal is the creation of economic value. The attainment of this goal depends on both the resources and capabilities of

a firm, which include capital, infrastructure, information technology and entrepreneurship personality. Further relevant intangible resources include the business networks established with customers, suppliers, workers, competitors and other related business partners.

Therefore, the competitiveness and performance of firms not only depends on the resources and capabilities of the firm, but also depend upon the relationship between the firms and other organizations through business networking at either the domestic or international level.

The rapid expansion of globalization has transformed the nature of firms' operations. In a global economy, competitiveness is highly dependent upon the capabilities of a firm in building business networks with other entities, whether in a formal or informal manner. In the contemporary business environment, business networks play an important role in the development and performance of firms in several ways, including opportunity and resources; customer feedback; reputation; image; and market share. In the global market, organizations are typically pressured to produce high quality innovative goods to meet the needs of their customers. A firm needs trustworthy partners in order to meet such requirements. Firms often have inadequate know-how and resources to offer higher quality goods. However, firms can acquire knowledge and resources by cooperating with other organizations and forming business networks. The main positive impact of a business network for a firm entering a foreign market is that the business network can provide support and information about the target market (Seppo 2007).

As a modern, progressive and politically stable Muslim country, Malaysia has an opportunity to establish itself as a regional and global hub for halal production, logistics and trade. According to the CEO of Halal Industry Development Corporation Malaysia (HDC), the halal industry is currently dominated by countries such as Australia, Thailand and Brazil. However, few industry players are based in Muslim majority countries, which is why efforts should be made to enhance Malaysia's position as a halal hub. Such a target, however, requires good business networking.

#### THE IMPORTANCE AND PROSPECTS OF MALAYSIA PROCESSED HALAL FOOD INDUSTRIES

The processed halal food industry has been identified as a potentially economically important export industry in Malaysia. The Malaysian government has invested considerable effort in promoting the local halal food industry. Market demand for halal products consists not only of the world Muslim population, but also includes portions of the non-Muslim population. With the rapidly growing world population exceeding 6 billion people, the demand volume for halal food is very high (US\$346 billion per annum). Malaysia intends to maintain the level of halal product exports in 2013, valued at approximately RM35.4 billion. If the existing local firms are able to attain 5% of the global market, national income will increase

by US\$17 billion. Official estimates value the total global halal food and beverage industry at US\$641 billion per annum. However, the worth of the overall global halal industry is said to be US\$2.3tril (RM7.59tril) and includes pharmaceuticals, herbal products, cosmetics, healthcare and other fast moving consumer goods (FMCGs); Islamic investment, banking and takagul insurance; and tourism (Ng 2011). In 2012, the halal industry set a target for 10%-15% growth in exports. With this percentage, halal exports would amount to RM30 billion-RM33 billion. In order to assist the halal industry, the Malaysian External Trade Development Corporation (MATRADE) is participating in more halal-related events; and plans to have between 47 and 50 companies supplying halal food to the Middle East (The Star Online 2012).

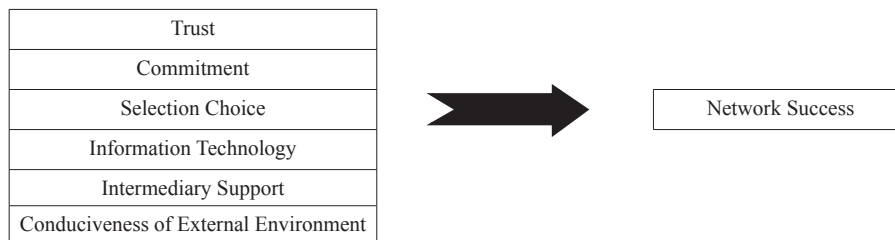
Even though the demand for halal food in the global market is high, a majority of local firms only market their products within the domestic market. This is due to the failure of these firms to build global business networks. Moreover, the majority of these firms are small and medium scale enterprises (SMEs), which tend to possess low capital and limited resources. The failure of such firms to expand business networks is associated with the nature and the reputation of these firms (Kogut & Zander 1992; Gulati 1998).

#### RESEARCH FRAMEWORK AND METHODOLOGY

Networking can be defined as a process of building relationships, as well as expanding entrepreneur relational networks, through a set of long-term contacts between individuals or organizations. Networking is performed in order to get information and acquire resources consisting of financial or non-financial benefits (Dollinger 1996; Johns 1986).

There are three types of actors in entrepreneurial networks: social, supporting and inter firm (Premaratne 2001). Social networks refer to informal networks that consist of actors, such as relatives, friends, and acquaintances. Social networks are important tools for entrepreneurs in establishing and developing businesses. Social networks are considered critical to entrepreneurship as the networks help to generate trust and social capital within the network (Lechner & Dowling 2003). By generating trust, entrepreneurs and members within a network have lower transaction costs and can obtain products or services below market prices in subsequent interactions (Birley 1985; Starr & Macmillan 1990; Gulati 1998). Supporting networks consist of supporting agencies, such as banks, government agencies and non-government organizations, while inter firm networks include other enterprises, both large and small.

Social and informal exchanges among participants are particularly important to small firm networks. The theoretical framework of the present paper draws upon



Source: Sherer (2003)

FIGURE 1. Factors Leading to Perceived Success of Business Networking

theories concerning the strategic alliance concept. Strategic alliances, which are cooperative strategies in which different firms combine their resources to create competitive advantages, are the principal form of cooperative strategies. Research on strategic alliances in the past few decades suggests that strategic alliances can enhance competitiveness. Irrespective of whether a joint venture is equity based or non-equity based, strategic alliances assist in ensuring economic value addition, multi-dimensional inter-firm networks and inter-organizational coordination (Mohammed & Bilkis 2011). In the age of globalization, some form of partnership is required in order to be successful in business and survive in the long run. Thus, the strategic alliance theory is relevant in examining the role of business networking in the halal food industry in Malaysia.

Sherer (2003) identifies several factors that are important to the success of building entrepreneur networks. As shown in Figure 1, the factors include trust and commitment, which are central to the entrepreneurial process. Partner characteristics, such as partner reputation and similarity, also affect trust, which reflects the importance of selection choice. The role of information systems; the importance of an intermediary; and the external environment also contribute to the success of SME networks. According to Mohammed and Bilkis (2011), mutual trust and interdependency are becoming increasingly important in cooperative efforts. Firms recognize the value of partnering with companies known for their trustworthiness. Firms can maximize the utilization of resources in a cooperative relationship when mutual trust exists.

In the present study, several elements are considered during the analysis of the networks of halal food firms in Malaysia. The elements include the firm's relational networks, particularly the firm's marketing network; the entrepreneur's perception of networking, particularly in light of globalization; the entrepreneur's methods of building and expanding business networks; the types of business networking utilized by the entrepreneur in the halal food industry; and the problems faced by the entrepreneur. The present analysis also focuses upon the perception and the characteristics of the entrepreneur necessary for formulating a successful business network that increases business performance. The data utilized

in the present study is obtained from a survey of food processing firms that engage in halal food production. In total, 220 firms located throughout Peninsular Malaysia were interviewed utilizing a set of questionnaires.

### RESEARCH BACKGROUND

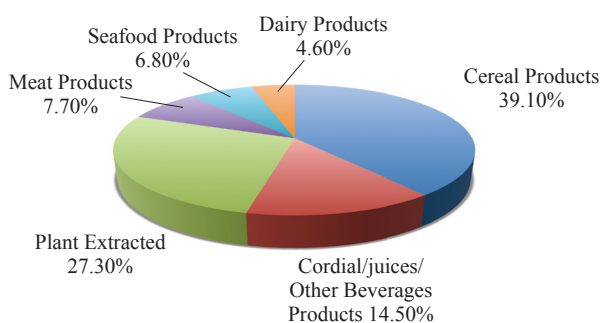
The questionnaires, which were designed and tested prior to data collection, make inquiries regarding the firm's background; the personal background of the owners or entrepreneurs; and the content and form of the firms' relational networks. As shown in Table 1, the firms are located in the state of Selangor (43.2%); Wilayah Persekutuan Kuala Lumpur (15.9%); Pulau Pinang (11.4%); Kelantan (9.1%); Melaka (4.5%); Perak (3.2%); Johor (3.2%); Terengganu (3.2%); Pahang (2.7%); Negeri Sembilan (1.8%) and Kedah (1.8%).

All firms interviewed are involved in halal food processing, which is categorized into six categories. Figure 2 presents six categories of firms that are disaggregated according to the nature of the goods produced by each firm. The six categories consist of cereal products (39.1%); plant extracted products (27.3%); cordial, juices and beverage products (14.5%);

TABLE 1. Distribution of Firms by State

State	Frequency	Percentage
Kedah	4	1.8
Pulau Pinang	25	11.4
Perak	7	3.2
Selangor	95	43.2
W. P. Kuala Lumpur	35	15.9
Negeri Sembilan	4	1.8
Melaka	10	4.5
Johor	7	3.2
Pahang	6	2.7
Terengganu	7	3.2
Kelantan	20	9.1
Jumlah	220	100.0

Source: Survey 2009



Source: Survey 2009

FIGURE 2. Distributions of Firms by Product Category

meat products (7.7%); seafood products (6.8%); and dairy products (4.6%).

As shown in Table 2, the 220 firms examined in the present study are owned by four different ethnic groups: ethnic Malays (45.0%); ethnic Chinese (49.5%); ethnic Indians (4.1%); and other ethnicities (1.4%). According to SMIDEC (2004), SMEs are defined as firms that consist of not more than 150 full time employees. All firms surveyed in the present study comply with the definition, as 81.8% of the firms have less than 50 employees; 10.9% have between 51 and 100 employees; and 7.3% have between 101 and 150 employees. Additionally, the majority of the firms surveyed (45.0%) generate low annual sales, amounting to between 0.1 million to 0.5 million Ringgit Malaysia.

TABLE 2. Firms Characteristics

Item	Frequency	Percentage
<b>Race :</b>		
Malay	99	45.0
Chinese	109	49.5
Indian	9	4.1
Others	3	1.4
Total	220	100.0
<b>Labour :</b>		
< 50	180	81.8
51 – 100	24	10.9
101 – 150	16	7.3
Total	220	100.0
<b>Annual Sales (RM, 2002)</b>		
0.1 – 0.5 million	99	45.0
0.6 – 1.0 million	30	13.6
1.1 – 1.5 million	9	4.1
1.6 – 2.0 million	20	9.1
2.1 – 2.5 million	3	1.4
2.6 – 3.0 million	13	5.9
> 3.0 million	46	20.9
Total	220	100.0

Source: Survey 2009

### BUSINESS NETWORKS AND ITS IMPORTANCE TO SMEs HALAL FOOD INDUSTRIES IN MALAYSIA

Different categories of business networking exist that influence firms' performance, such as marketing and distributional networking; capital networking; production networking; and internetworking. Based on the survey utilized in the present study, 83.2% of the entrepreneurs agree that the most important type of business networks are the marketing and distributional networks. Similarly, Mohammed and Bilkis (2011) emphasize that firms share their excess and/or complementary capabilities and resources with others to create new entities in order to gain competitive advantages by developing strategic alliances. Participating firms can gain several benefits that ultimately increase profitability when alliances are effectively managed.

TABLE 3. Importance of Business Networking in Globalization Era

Item	Frequency	Percentage
Marketing & Distribution	183	83.20
Capital	24	10.90
Production	9	4.10
Information Technology / Internet	1	0.50
Others Networking	3	1.30
Total	220	100.00

Source: Survey 2009

### APPROACH TO FORM BUSINESS NETWORKING

Entrepreneurs when forming business networks apply various types of approaches. Such approaches include informal socialization with friends, family members and business partners; agency; participation in business trips and trade expositions; participation in business associations; and the internet. New entrepreneurs are particularly dependent on personal networks formed through existing social linkages among friends, business partners and family members to form their business networking. The present study finds that 75.4% of the interviewed entrepreneurs are engaged in social networks, which ensures a higher and more stable supply of resources (as shown in Table 4). However, the reliance upon social networks, as the main tool to expand business networks, consequently limits the marketing scope of new entrepreneurs in the domestic market. In order to penetrate the global market, 21.4% of the entrepreneurs attempted to expand their business networks through by utilizing agents, an approach which is found to be costly by most participants of the survey. According to the survey, only 1.4% of the entrepreneurs used the internet

TABLE 4. Methods to Expand Business Networking

Item	Frequency	Percentage
Business Partner, Friends, Family Members	103	75.40
Agency	47	21.40
Trip Exposure / Trade Exposition	2	0.90
Participation in Association	2	0.90
Internet	3	1.40
Total	220	100.00

Source: Survey 2009

as a tool to expand their business networking. Meanwhile, participation in business trips, trade expositions and business associations are found to be less popular among the entrepreneurs as a tool to form business networks.

Although the participation rate of business associations was high(77.7%),44.5% of the entrepreneurs tend to use such associations as an information channel rather than a means to form business networks, as demonstrated in Figure 3.

MARKETING NETWORKS

Table 5 shows the marketing activities of halal food processing firms. The research finds that 47.3% of the firms are excluded from export activities and concentrate solely upon distribution within the domestic market. Although 52.7% of the interviewed entrepreneurs are involved in exports, most only export a smallportion of their products to the global market. For example, only 14.5% of firms in the interview sample export more than 51.0% of their products.

The majority of the firms that are involved in exports tend to concentrate solely on exporting within

TABLE 5. Firms Export

Item	Frequency	Percentage
Non Export	104	47.3
< 10%	16	7.3
11 – 20 %	25	11.4
21 – 30 %	19	8.6
31 – 40 %	12	5.5
41 – 50 %	12	5.5
> 51 %	32	14.5
Total	220	100.0

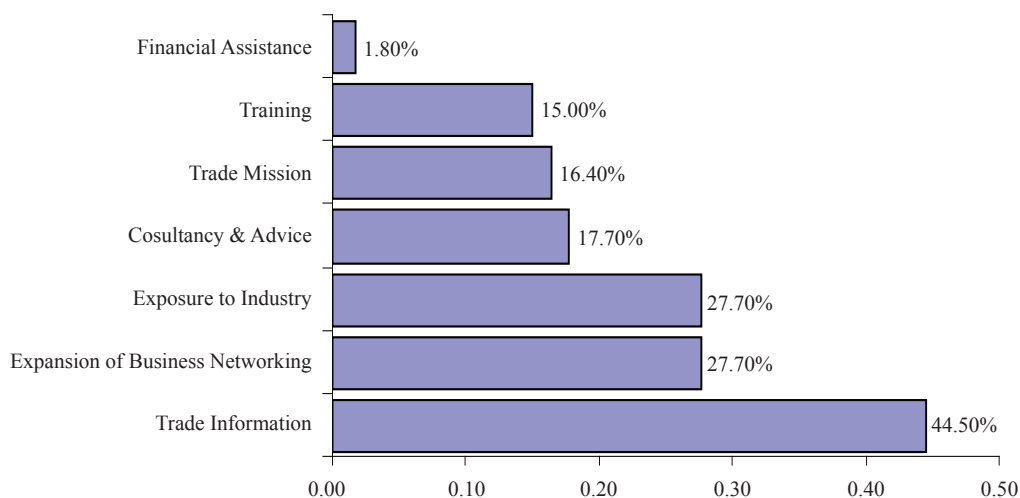
Source: Survey 2009

the ASEAN market. Table 6 demonstrates that 20.9% of the firms export to ASEAN markets, while only 5.9% of entrepreneurs export to non-ASEAN countries. On the other hand, the research finds that 25.9% of the entrepreneurs export to both ASEAN and non-ASEAN markets. The finding indicates that local entrepreneurs have not yet exploited the global market despite increasing demand for halal food within the global market.

TABLE 6. Marketing Destination Year 2002

Item	Frequency	Percentage
Domestic Market	104	47.30
ASEAN Market	46	20.90
Non ASEAN Market	13	5.90
ASEAN & Non ASEAN Market	57	25.90
Total	220	100.00

Source: Survey 2009



Source: Survey 2009

FIGURE 3. Benefits Gained from Participation in Associations

PRODUCT PROMOTION TECHNIQUES

The successful marketing of products depends highly on the promotion techniques employed. As shown in Figure 4, local entrepreneurs apply several promotion techniques to promote their products. The most popular technique of promotion is through business relationships (81.8%). The finding indicates that business networking plays an important role in the penetration of the products into both the domestic and global markets. Entrepreneurs also apply other promotional techniques, such as word of mouth (69.5%); exhibitions (46.4%); shopping centers (40.50%); incentives (35.0%); media advertisements (34.5%); electronic media (22.3%); internet (20.0%); and through business associations (15.0%).

Based on the findings, the promotional techniques employed by local entrepreneurs are found to limit the marketing scope, especially in regards to accessing the global market. For instance, local entrepreneurs prefer word of techniques (69.5%), which limits the marketing scope to a narrow consumer group. Information technology and internet play an important role as the best promotion medium to expand the marketing scope of an entrepreneur, particularly since e-commerce is considered the most economical and fastest method for entrepreneurs to market their products. Firms are also suggested to obtain their own web site as a means to prepare for the globalization eras and effectively channel all relevant information to potential markets.

INFORMATION TECHNOLOGY AND BUSINESS NETWORKING

Table 7 indicates the level of technology application among the interviewed firms. The present research finds that 59.5% of the firms utilize computers and internet

TABLE 7. Application of Information Technology

Item	Percentage
Internet	59.50
Internal Networking	34.50
Management	35.50
Accounting	79.10

Source: Survey 2009

in their organizations. Meanwhile, 34.5% of the firms apply internal networking in their organization. Most firms use computer for management purposes, such as accounting (79.1%).

Based on the discussion of technology, promotion techniques and methods to expand business networking, entrepreneurs are found to tend to ignore the importance of information and communication technology (ICT) as a useful tool in expanding the business networking. ICT includes e-mail, telecommunications and the Internet; and involves the use of computer, telephones, fax machines and copiers, and a variety of mobile communication devices. The term also refers to electronic documents and other content; video communication; software; and external drives. This finding is similar to a study by Modimogale and Kroeze (2011) in South Africa, which finds that the SMEs in Gauteng, a province in South Africa principally use traditional tools to stay competitive rather than utilizing ICT. Three principal factors inhibit the use of ICT: a lack of knowledge about the strategic uses of ICT; a lack of necessary IT skills-base; and the ever-changing ICT environment. Irrespective of size, SMEs need to take advantage of the power of ICT in order to compete in the domestic or global markets. Both traditional methods and the ICT tools are important for the competitiveness of a firm. ICT provides business

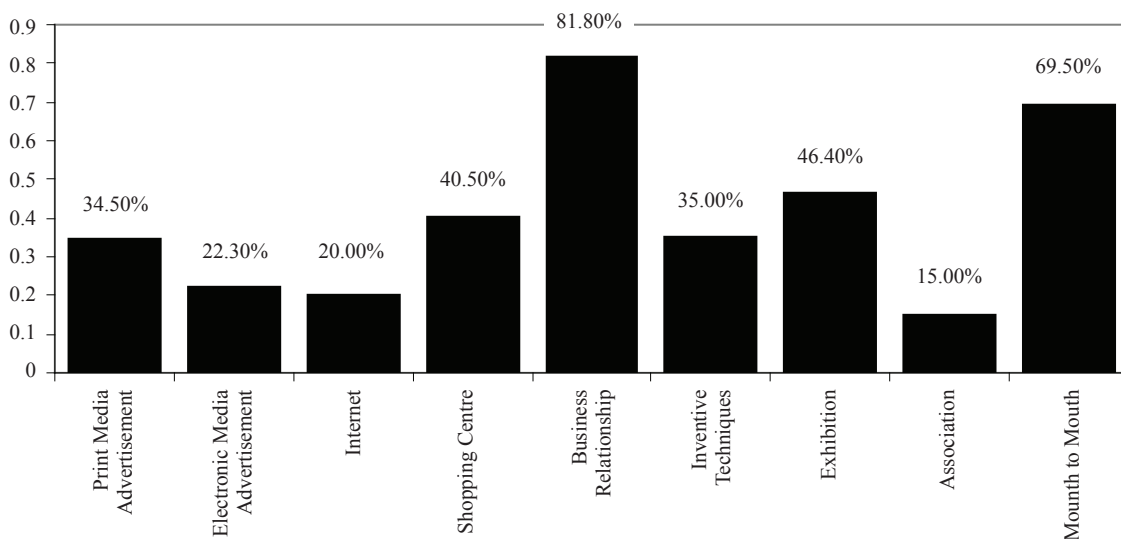


FIGURE 4. Promotion Techniques

Source: Survey 2009

communication avenues crucial to remain competitive in local and global economies.

For the halal industry, companies must use websites to provide ordering information and online product listings that allow monetary exchange with customers in order to compete in the global market place. To maximize the benefits of ICT in business communications, businesses should incorporate proper infrastructure and employee training to produce proficient workers capable of monitoring and interpreting feedback, as well as understanding the uses of e-commerce and software.

#### SELECTION AND FORMING OF BUSINESS NETWORKING

The selection of business networking by entrepreneurs is based, to a large extent, on the reputation and the importance of such organizations to the respective firms (Kogut & Zander 1992, Gulati 1998). The present study examines firms owned by various ethnic groups, consisting of ethnic Malays (99), ethnic Chinese (109), ethnic Indians (9) and other ethnicities (3). Table 8 shows the analysis of integration among the different ethnic groups of entrepreneurs. The research finds that a lack of integration exists between the business networks of different ethnicities. The lack of integration is particularly evident in relation to ownership, production, marketing and capital. For example, the cross-tab in Table 8 shows that only 46.46% of ethnic Malays establish marketing networks with entrepreneurs of a different ethnicity. Furthermore, the percentage for production networks is also quite high, i.e 29.29%.

TABLE 8. Business Networks Selection

Type of Networks	Race			
	Malay	Chinese	Indian	Others
<i>Ownership Network:</i>				
Bumiputera	57.56%	11.00%	11.11	33.33
Non Bumiputera	22.22%	77.06%	88.88	-
Foreigner	7.07%	18.35%	11.11	66.67
<i>Production Networks:</i>				
Bumiputera	55.55%	22.94%	11.11	-
Non Bumiputera	29.29%	76.15%	88.88	33.33
Foreigner	9.09%	16.51%	-	33.33
<i>Capital Networks:</i>				
Bumiputera	52.53%	10.09%	22.22	33.33
Non Bumiputera	24.24%	76.15%	88.88	-
Foreigner	5.05%	15.60%	11.11	33.33
<i>Marketing Networks:</i>				
Bumiputera	78.79%	65.14%	66.67	100.0
Non Bumiputera	46.46%	87.16%	88.88	66.67
Foreigner	24.24%	55.05%	22.22	100.0

Source: Survey 2009

#### PERCEPTION AND PERSONALITY

Extant research shows that the perception of an individual plays an important role in the profit generation and performance of firms (Miller 1983, Covin & Slevin 1988). Perception refers to how the individual perceives the world around them. Individual characteristics, such as being proactive; being innovative; ability; communication skills; positive thinking; never giving up; and capability to take risks. Table 9 shows the analysis of the interviewed entrepreneurs on perception. The entrepreneurs are asked whether they themselves possess these qualities. In other words, they see themselves as possessing these traits. Based on the Likert scale analysis, the majority of the entrepreneurs possess positive characteristics that will contribute to the success of their business.

TABLE 9. Importance of Perception

Item	Average Score
Business associations contribute to my firm's expansion	3.1
Usage of ICT increase firm's operation cost	2.29
Usage of ICT will not help to the efficiency of firm	2.2
Command of English language very important in global economy	4.34
Command of others language play an important role to the success of business personal	4.21
E-commerce not important for marketing a product	2.35
Foreign business partners are required to expand my firm	4.02
Communication skills very important in business world	4.35

Source: Survey 2009

#### RELATIONSHIP BETWEEN SALES PERFORMANCE AND MARKETING NETWORKS

In order to analyze the importance of marketing networks to sales performance, Table 10 shows a cross-tab between firms' sales performance and various marketing networks. The research shows that firms that are unable to expand their marketing networks tend to generate low sales. Based on the research, entrepreneurs prefer to build their business networks within the same ethnic group, which consequently generates low sales. For example, ethnic Malays (51.5%) and ethnic Chinese (60.9%) entrepreneurs that limit their business networks to their respective ethnic group only generate annual sales between RM0.1 – RM0.5 million. However, firms that expand their marketing networks to include different ethnic groups stand a better chance to gain higher sales.

TABLE 10. Sales and Various Marketing Networks

Sales (RM, juta)	Marketing Networks					
	(1) Bumiputera Only	(2) Non Bumiputera only	(3) Bumiputera and Non Bumi- putera only	(4) Bumiputera and Foreigner	(5) Non Bumi- putera and Foreigner	(6) All
0.1 – 0.5	60.9%	51.5%	46.2%	75%	18.7%	32.8%
0.6 – 1.0	13.0%	18.2%	19.2%	-	18.7%	7.5%
1.1 – 1.5	8.7%	3.0%	1.9%	-	6.3%	3.0%
1.6 – 2.0	6.5%	6.1%	5.8%	-	6.3%	16.4%
2.1 – 2.5	2.2%	3.0%	1.9%	-	-	-
2.6 – 3.0	2.2%	3.0%	5.8%	-	18.7%	7.5%
> 3	6.5%	15.2%	19.2%	25%	31.3%	32.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Survey 2009

Based on Table 10, 32.8% of such firms able generate annual sales up to RM3 million. The finding shows that marketing networks affect firms' sales performance.

#### FIRMS' PROBLEMS

The research shows that the majority of the entrepreneurs face various problems in forming their business networks. Only 8.6% of the interviewed entrepreneurs successfully formed their business networks smoothly. As shown in Table 11, 91.4% of the entrepreneurs failed to form their business networks due to various obstacles. Research finds that 54.1% of the entrepreneurs face problems relating to cultivating trustworthiness; lack of commitment; and difficulty achieving a mutual understanding among their respective business groups. Furthermore, the research also finds other problems affect the formation of business

TABLE 11. Major Problems in Forming Business Networks

Item	Frequency	Percentage
No problems in expanding business networks	19	8.6
Trustworthy / Honesty / Mutual Understanding / Commitment	119	54.1
Conflict	16	7.3
Communication problems	20	9.1
High agency cost	15	6.8
Difference in Culture / Language / Politic / Standards	13	5.9
Lacks of networking knowledge	3	1.4
Personality weaknesses	15	6.8
Total	220	100.0

Source: Survey 2009

networks, such as communication problems (9.1%); conflict (7.3%); high agency cost (6.8%); personality weaknesses (6.8%); differences in culture, language, politics and standards (5.9%) and a lack of knowledge concerning networking (1.4%).

#### POLICY IMPLICATIONS

The research finds that halal food processing firms in Malaysia are still weak in regards to forming business networks, particularly marketing networks that will facilitate the penetration of the global market. Research also finds that marketing networks affect firms' sales performance. Firms that are able to expand their marketing networks tend to increase their annual sales. However, the serious problems faced by firms in relation to establishing such networks include a lack of trustworthiness and commitment; the lack of information technology; socialization problems; inability to identify and select a business networks; and the role of supporting agencies, such as financial institutions in relation to loan support. The problems indicated above limit the export of local halal products into the global market, despite the existence of increasing demand for halal products. Therefore, in order to fulfill the government's aim to emerge as the regional halal hub, the research hereby suggests a few policies to increase firms' competitiveness through the establishment of effective business networks.

#### ACCUMULATION OF INFORMATION

The accumulation of information is important for firms desiring to expand into the global market in the contemporary globalization environment. Entrepreneurs are advised to increase their experience, as well as upgrading or equipping themselves with relevant



information, in order to exploit potential opportunities (Meyer & Skak 2002). A lack of information may prevent firms from penetrating the global market due to issues relating to differences in areas such as culture, language, trade regulations, consumer tastes, product trends and product standardization. In this context, business associations and supporting agencies play an important role in forming knowledge networks to facilitate local firms in capturing a share of the global market. For instance, experienced entrepreneurs are encouraged to share their experiences with others in their business group.

#### EXPLOITATION OF INFORMATION TECHNOLOGY

One of the channels to obtain information is through a website or the internet. Such a means of providing a flow of information is important due to the worldwide expansion of ICT. Therefore, gathering information becomes an important task to facilitate firms in forming business networks. Internet acts as a medium to provide firms with the capability to implement e-commerce systems that will provide various benefits to the firms, including the expansion of business networks at the global level; and the decrease of transaction and marketing costs. I suggest that Malaysian firms in the halal food industry should take advantage of ICT facilities provided by the Malaysian government and participate in ICT programmes. For example, the Halal Industry Development Corporation (HDC), together with Microsoft and other key partners, has developed an ICT system for the halal industry. The system is comprised of three main components: a halal product exchange centre, which is a one-step internal portal for global halal trading; a halal research knowledge centre, which will serve as a repository of information on the halal market and related market intelligence; and a remote halal certification, which is a centralised web-based system to facilitate international halal certification.

#### THE ROLE OF SUPPORTING AGENCIES

In the formation of business networks at the global level, Mattsson & Eastson (2000) find that government agencies play an important role as supporting agencies in the promotion of international trade by conducting international entrepreneurship programmes; preparing consumer networking platforms from which local firms may engage in the export of products; and conducting trade missions which benefit all firms, not just those firms participating in the halal industry. Moreover, these supporting agencies, government agencies and private sector, must take the opportunity to promote the local industry by providing all information and promoting the firms' capabilities to produce high quality products.

Supporting agencies, such as MATRADE, the Ministry of International Trade and Industry (MITI), the Small and

Medium Industries Development Corporation (SMIDEC) and the Federal Agriculture Marketing Authority (FAMA), play an important role in expanding local industries' marketing networking to the global market. For example, such agencies may find opportunities to deal with overseas business partners, in the context of franchises, to promote local halal products in the shopping arcade of business partners within such networks. This effort will help to expand local industries' marketing networks and potential markets.

Additionally, the Malaysian government should also upgrade the Islamic Advancement Department of Malaysia (JAKIM) to enable the agency to provide more efficient services to the halal industry, both at the domestic and the international level. One of the agency's current responsibilities is to determine whether food products and restaurants in Malaysia meet halal standards and issue halal certifications that inform the public that the products meet religious requirements for consumption by local Muslims and at international level.

#### PRO-ACTIVE ACTIONS

Empirical research shows that the personality and characteristics of entrepreneurs play an important role in increasing firms' performance. In the context of business networking, entrepreneurs should possess proactive and innovative characteristics in order to be able to exploit all potential opportunities in their business environment (Meyer & Skak 2002). For example, entrepreneurs who are sensitive to market trends will be more successful compared to those who lack such characteristics. Therefore, social networks created by the entrepreneurs can act as a stepping-stone for them to expand their businesses. Entrepreneurs should exploit their social networking to increase the reputation of their products in the market (Lechner & Dowling 2003). Therefore, entrepreneurs should realize the importance of product brand name along with the expansion of business networking activities.

Additionally, in order to build networking, halal SMEs are also encouraged to take part in the Malaysia International Halal Showcase (MIHAS). MIHAS is the focal point for global traders, entrepreneurs and manufactures in the promotion and launching of their halal products and services. Through MIHAS, halal SMEs can have business opportunities and networking for various halal industry players worldwide.

Part of the HDC's responsibilities is to nurture the halal industry in Malaysia with up-to-date and accurate information on business and consumer trends. In order to achieve the goal, the HDC has established high-end professional consultancy services for SMEs and entrepreneurs to assist in the enhancement of halal businesses. With the current trend of vastly growing halal markets, SMEs and business owners are known to face considerable challenges in penetrating the

international market. The key challenges normally faced are the existence of a highly competitive market; the fact that few SMEs have products with export potential; price competition; and increased vulnerability to price fluctuations in commodities.

In order to penetrate global market, halal products should have HACCP and GMP certifications only a few companies in the Malaysian halal food industry utilize hazard analysis and critical control points (HACCP) and good manufacturing practice (GMP) during production. HACCP is a systematic preventive approach to food safety that addresses potential allergy; chemical; and biological hazards in production processes that can result in the finished product being unsafe. HACCP system design measurements assist in reducing such risks to a safe level. GMP is a production and testing practice that helps to ensure a quality product. Firms that have HACCP and GMP certifications can easily penetrate the global market. Realizing the problems, the HDC is currently providing consultancy services relating to halal compliance advisory services; international organization competency development; establishment of halal development system; and supply chain business process improvement. The government should ensure that entrepreneurs are given enough information about the HDC programmes.

#### CONCLUSION

The processed halal food industry has been identified as a potentially economically important export industry in Malaysia. The ambit of the Malaysian government is for the Malaysian halal food industry to emerge as the regional hub for the halal food industry. The main objective of the present study is to examine issues that affecting the competitiveness of the Malaysian halal processed food industry in relation to business networks. Networking is about creating, building and nurturing relationships; gaining credibility and trust; and demonstrating professionalism, knowledge and expertise. Business networks play an important role in the development and performance of firms.

Based on the research of 220 samples of halal food processing firms in Peninsular Malaysia, the present study finds that a majority of the firms face problems in forming marketing networks, especially at the global level. The situation will limit marketing opportunities at the global level even though prospects are high. The determinant factors in forming business networks in the halal food industry in Malaysia are found to parallel the factors proposed by Sherer (2003), consisting of trustworthiness; commitment; selection; information technology; the role of supporting agencies; and a few external factors, such as technological changes. Moreover, a majority of the firms in the halal industry tend to expand their business network through social networks, typically through association with friends, business partner and family members. The research identifies several obstacles in forming business

networks, such as the difficulty of cultivating mutual understanding and trustworthiness among business partners; incurrence of high agency costs; personality weaknesses; a lack of information; and communication problems.

As a conclusion, in the era of globalization, networking is a powerful marketing tool and can be very beneficial for a business. The present study focuses on business networks in the processed halal food industry in Malaysia. The study shows how important networking is to firms in the industry. In order to expand the marketing prospects of local halal products, this research suggested that halal firms should upgrade their business networks by taking these actions: firms should collect information; upgrade with latest knowledge; exploit information technology; and utilize supporting firms as information and marketing channels to penetrate the global market.

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