

## **THE ROLE OF ISLAMIC BANKING INSTITUTION IN ASSISTING MUSLIM ENTREPRENEURS IN MALAYSIA**

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### **Abstract**

This paper aims to discuss the role of Islamic banking institutions among Muslim entrepreneurs in Klang Valley, Malaysia. The problem to be solved in this paper is how the Islamic banking institutions to play their role in helping Muslim entrepreneurs in Malaysia. Usually, the problems faced by Muslim entrepreneurs which are difficult to obtain financing from banking institutions to start a business or expand an existing business. This study was conducted to four (4) Islamic banking institutions; Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Malaysia Berhad (BMMB), Small Medium Enterprise Bank (SME Bank) and Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) to see the true role of Islamic banking institutions that assist Muslim entrepreneurs through financing products that have been offered by four (4) Islamic banking institutions as mentioned. As we know, in Malaysia, all of the banks have been offered various Islamic financing products including personal financing and business financing such as Letter of Credit-i, Trade Working Capital Financing-i, No Front-i, Bills of Exchange Purchased-i, Refinancing of Credit Export-i, Promotion, Shipping Guarantee-i, Bank Guarantee-i, Standby Letter of Credit-i, No. -bil Collection-i, Letter of Credit-i and transfer Letter of Credit-i, Rural Economy Funding Scheme, Micro Financing-i scheme, Micro Business Financing, Graduate Entrepreneur Fund.

Thus, based on this statement, the entrepreneurs have no problem in obtaining the Islamic financial products, theoretically, but not practically. Therefore, this study aims to identify the actual problems that is faced by entrepreneurs and the Islamic banking institutions in Malaysia. This study used in-depth interview method from six bank officers as informant and eight Muslim entrepreneurs as respondent for the data collection process. The finding of this study showed that Islamic banking institutions played an important role in helping the Muslim entrepreneurs. In addition, it was also found that the Muslim entrepreneurs were lack of financial management knowledge. Thus, this study has outlined some recommendations to improve the knowledge in financial management among the Muslim entrepreneurs as a strategy to uphold their involvement in Malaysia.

**Keywords:** Islamic banking institution, Muslim entrepreneur, Islamic Bank

## **1. INTRODUCTION**

Islamic Banking institution (IBI) was successfully introduced in Malaysia since 1983 with the establishment of Bank Islam Malaysia Berhad (BIMB). Nowadays, IBI has been offering its products and services for more than 30 years. Thus, how far does the IBI play their role in the development of Muslim entrepreneurs in Malaysia? Therefore, this research was conducted with an empirical study to answer this question. This study focuses on the role of IBI in the development of Muslim entrepreneurs in their businesses such as capital resources, training activities, and marketing approaches. The current issue of Muslim entrepreneurs is how to get the Islamic funding to expand their businesses. The IBI has introduced competitive products for business financing to fulfill customer requirements, especially for customers that are pursuing into the Islamic financial system. The Muslim entrepreneurs believe that using the Islamic products are a part of the religious obligation and will be rewarded by Allah. Thus, IBI and Muslim entrepreneurs should work together on the development of Islamic economy, especially in the development of the Islamic businesses and Muslim entrepreneurs. Hence, Malaysia will become a model to other countries in the development of Islamic entrepreneurship.

## **2. BACKGROUND OF STUDY**

In Malaysia, the problems faced by Muslim entrepreneurs are getting financing from banks. It's because imperfect business documentation, they have problems with past funding and very high commitment with other financial institutions. IBI has introduced the Islamic competitive products for business financing to entrepreneurs in Malaysia. These products can be divided into two types which are the SME and corporate business. Basically, it has been shown that the role of Islamic banking institutions assists entrepreneurs to start their businesses. The question here is, how far is the role of Islamic banking institutions in improving the business of Muslim entrepreneurs in Malaysia? This study has been conducted through an empirical approach using in-depth interview method as mentioned detail in research methodology section. The interview was conducted involving six bank officers as informants and eight Muslim entrepreneurs as respondents. The findings of this study will be explained in the next section, especially about the role of Islamic banking institutions in helping Muslim entrepreneurs in the Klang Valley and the achievement of Muslim entrepreneurs in their businesses.

## **3. LITERATURE REVIEW**

This topic will discuss about some of previous studies regarding development of SMEs in Malaysia. Its also expresses the role of Islamic banking institution in providing trade financing to Muslim entrepreneurs.

According to AB. Mumin (1999), financial infrastructure and Islamic financial products have played important roles as the physical infrastructure. An efficient financial infrastructure and transparency are important in building a business. Thus, Islamic contracts were introduced in terms of capital financing and debt financing. Most banking institutions are being reluctant in giving loans or financing entrepreneurs because they the entrepreneurs do not have performance records and backup plans to cover their loans. He adds that based on a study in 2007 made in Malaysia by Japan Bank for International Cooperation Institute that among the purposes of small entrepreneurs to apply a financial budget from different financial institutions were as follows;

- to provide as supplement for the shortage of working capital (32%),
- to purchase machinery and equipment (30%),
- to build buildings and real estate finance (16%),
- to conduct research and development unit (11%),
- to refinancing (5%), and
- to be used for other necessities (6%).

According to Rodziah Abdul Taib (2002), BIMB has channelled its financing budget to Bumiputera entrepreneurs as financial assistance fund and this initiative brought a positive impact to the development of the SMEs sector. According to Habshah Bakar et al. (2002), 93.5% of the respondents were women entrepreneurs who had knowledge about the schemes and facilities provided by the Government and banking institutions to SMES, but only 22.6% of the respondents obtained financing budget from the mentioned institutions.

Hazmi Dahlan et al. (2008) studied the perception of SME entrepreneurs towards the Islamic financial institutions in Labuan, Sabah, Malaysia. This study discussed on the level of knowledge of SME

entrepreneurs and the level of their awareness on Islamic and conventional financing. The study found that 80% respondents had low understanding of knowledge about Islamic finance. M.D. Awang (2014) categorised the level of understanding about Islamic banking system (IBS) among Muslim community into three, good understanding with a scoring mark of 10%, moderate understanding (60%–80%), and low understanding (10%–35%). The study found that the level of understanding about IBS in Malaysia was low, yet, the Muslim community still chose the IBS as their banking system.

According to Noor Azman Ali and Fauziah Mahat (2009), the government passionately has supported the development of SMEs that in 2007, RM 114.2 billions from the financial institutions were been channelled to 625,167 SMEs entrepreneurs.

Mohammed Farhan Akhtar et.al (2011) discuss the role of the Islamic bank is a financial intermediary, such as trainer, adviser and supporter. Bank itself also become as a trusted corporate depositors, business partners and investors. Therefore, in achieving its role as sustainable banking institution that Islamic banks needs to monitor liquidity risk refers to the certain instrument to meet the Shariah principles.

According Nur Amalina binti Saidan and Abdul Ghafar bin Ismail (2013). Their study found that a majority of Islamic banking are more attracted long term product compared to short term product in increasing the profit. Therefore, the study has conducted on certain analysis with looking at the character of bank depositors, evaluate the structure of the composition of their assets, provisions to face all possibilities, such as customers defaults, the deposit run and so on. In addition, to reduce the risk of insolvency, the bank must find clear information about the current market situation before making a long term investment. In directly, Islamic banking institution contribute in entrepreneur development especially as the Islamic financing provider.

#### **4. RESEARCH METHODOLOGY**

The interview is a method for collecting data by interviewing informants from among the bank officials involved with handling financial products business in the bank. In addition, researchers also interviewed Muslim entrepreneurs who have acquired the product business financing from banks. The interview was conducted to obtain information verbally from an informant or respondent to talk face to face. All interview data obtained would be transcribed verbatim for analysis using NVivo software to facilitate researchers to analyze and discuss the findings to answer all the objectives that have been determined.

The sampling for this study covers two categories; they are four bank officers as informants and eight Muslim entrepreneurs as respondent. For the category of bank officials, it was to get the accuracy of the information and data related to business financing products offered by Islamic banks. In addition, it is also to achieve the objectives of this study were to identify the problems faced by Muslim entrepreneurs in obtaining financing from Islamic banks.

Data analysis methods interview was conducted using NVivo software to determine in advance the themes and codes for data interviews conducted over four informants (bank officers from BIMB, BMMB, SME Bank and Bank Rakyat) and eight respondents (Muslim entrepreneurs). Researchers using NVivo software to analyze the information obtained from a survey. Vivo Software is a software used to analyze information with respect to research using qualitative methods such as interviews. Here are the stages in the process of analyzing the data that begins from an interview that lasted until the emergence of the themes of the study.

Any information obtained is recorded using a voice recorder. The recording was retyped into one transcript to be analyzed using NVivo software to make coding. The categories that appear either differences or similarities will be examined to establish the appropriate themes that are the result of research done. NVivo software is used because it can quickly analyze data and make it easier for researchers to realize the themes of the transcript of the interview. According Ozkan (2004), VIVO software facilitates researchers do coding on an idea and combined into a theme related. According Bazeley (2007), VIVO software can also show the relationship between ideas obtained in the form of a graphical model of its own and submitted a report from the analyzed data.

#### **5. ANALYSIS ON THE ROLE OF ISLAMIC BANKING INSTITUTION (IBI) TOWARDS MUSLIM ENTREPRENEURS AND ACHIEVEMENT OF MUSLIM ENTREPRENEURS**

Generally, the role of Islamic banking in helping entrepreneurs is very crucial for the development of the Muslim entrepreneurs. Basically, the role of IBI is to offer business financing products to the entrepreneurs in accordance to their respective businesses. However, IBI has set an operation standard in order to approve

its financing application to its customers, as it is a good governance implementation.

## 5.1 THE ROLE OF IBI TOWARDS MUSLIM ENTREPRENEURS

The role of IBI is to provide various financing products to entrepreneurs as a business capital revenue. The IBI also has offered competent financial products throughout its Syariah-based transactions that include al-Wadiah, al-Mudharabah, al-Musharakah, al-Tawarruk, and al-Ijarah (M.D. Awang, 2014).

This study has proven that IBI played an important role as a financial provider in helping Muslim entrepreneurs. This can be seen through the surveys and interviews that was conducted throughout this study. The result is shown in Table 1.

**Table 1. The role of Islamic Banking institution.**

ITEM	FREQUENCY	PERCENTAGE (%)
Bank Monitoring	25	62.5
Development activities	10	25
Promotion of Financing Business	5	12.5
Total	40	100.0

Based on the results shown in Table 1, the 'Monitoring' aspect obtained the highest score for the role of IBI (62.5%) followed by 'Development activities' aspect (25%), and 'Promotion of financing business (12.5%).

The 'Monitoring' aspect includes consultation, advice, trainings and courses, and promotion. The customers should be honest in the 'Monitoring' process because it can solve their problem in terms of payment with the bank or the other way that the bank may have to contact their customers in order to solve the problem. It is also important to ensure that the business complies the Syariah requirement accordingly. Syariah requirement or syariah compliance is the principles of syariah in Islamic banking is no usuary, no gambling and no matter contrary to Islamic law in the sale and purchase, financing and so on. If the activities were against the Syariah, the customers will be advised to divert in other businesses as a last resort. Other important matter in the 'Monitoring' process was the customers or entrepreneurs should be honest in showing their annual reviews in order to provide information on how they operate their accounts to the bank. All of these are very important in 'Monitoring' aspect to help the Muslim entrepreneurs to be successful.

## 5.2 ACHIEVEMENT OF MUSLIM ENTREPRENEURS

This part of study aims to examine the achievements of Muslim entrepreneurs in their businesses after they obtained trade financing from the Islamic banking institutions. With the cooperation from the banks, interviews with the entrepreneurs were successfully been conducted

**Table 2. Achievements of Muslim Entrepreneurs**

ACHIEVEMENT ITEM	FREQUENCY	PERCENTAGE (%)
Ownership of building/factory	5	62.5
New branch opening	1	12.5
Business target achieved	2	25
Total	8	100.0

The findings showed that the achievements of Muslim entrepreneurs were categorised into three matters which were; 'Ownership of building or factory', 'New branch opening', and 'Business target achieved'. The achievement on the 'Ownership of building or factory' has the highest score (62.5%) followed by the 'Business target achieved' (25%), and 'New branch opening' (12.5%). The 'New branch opening' has the lowest score probably due to the high cost of setting up a new branch. Most of the successful entrepreneurs achieved in having their own building or factory might be due to no enhancement of rental price.

## 6. RECOMMENDATION

Based on the discussed analysis, there are a few suggestions to improve the role of Islamic banking institutions and achievements of entrepreneurs and are stated as below;

The IBI should initiate enhancement programs and trainings for Muslim entrepreneurs. The IBI should also provide detailed information about its operation and products in order to enhance the understanding of knowledge on the Islamic financial products.

This study suggests that all agencies should play their role together in the development of a research centre in solving the entrepreneurs issues as well as to be consistent with the academic work. Therefore, universities and related institutions can play their role in achieving the discussed objectives.

## 7. CONCLUSION

Generally, IBI has provide an excellent contribution in the development of Muslim entrepreneurs in the Klang Valley, Malaysia due to extend the financing as a capital revenue. Based on the research findings, it is proven that the 'Monitoring' process from the bank institutions is a crucial matter. It covers the needs of the customers such as consultation, advice, trainings and courses, and promotion. The cooperation between IBI and entrepreneurs become a main factor in the 'Monitoring' process. Meanwhile, the 'Ownership of building/factory' became the highest achievement among the Muslim entrepreneurs (60%). Hence, the IBI and Muslim entrepreneurs need to be mutually responsible in developing entrepreneurship in the country from time to time.

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