The Influence of Religiosity Leaderships Practices towards the SMEs Business Performance in Food and Beverages Industry

Ezanee Mohamed Elias¹, Norlila Mahidin², Ahmad Yusni Bahaudin³ School of Technology Management and Logistics, College of Business Universiti Utara Malaysia, 06010 Sintok, Kedah, MALAYSIA ezanee@uum.edu.my¹, 3dnorlila@gmail.com², b.yusni@uum.edu.my³

Abstract - The objective of the study is to examine the influence of religiosity leadership's practices among the top management people of halal food and beverages SMEs towards their business performance. Previous studies have shown that religiosity practices among the leaders or top management people in the enterprises has contributed a significant impact to the business performance. Some results show these people, which influenced by religiosity has motivated their colleagues and workers to perform job very well that contribute to improve business performance. This study applied a quantitative design with a simple random sampling and survey questionnaire were distributed to 370 respondents by emails. The obtained data were analyzed by Smart-PLS. The findings of the study have a different result as it was hypothesized. The results of this study show that the characteristics of religiosity practiced by SMEs in Malaysia has been insignificantly affected the SMEs' performance. This indicates that religiosity practices among the top management people are not a driver or a factor that can be relied on to improve their business performance either from financial or non-financial aspects. Perhaps the future study can collaborate with other variables such as entrepreneurial orientation (EO). Thus, it might give a different result since the (EO) is a significant factor to increase the SMEs' business performance.

Keywords - beverages, business, food, performance, religiosity, SMEs

1. Introduction

Small and Medium Enterprises (SMEs) can be described as the engine of economic development in any country with at least of 95% of the total registered companies in producing products and services [1]. According to [2], SMEs also played important roles in the development of social, increasing the employment rate, source of income generation, fostering in creativity and innovation as well as the cradle of future market orientation. In Malaysia, these enterprises are categorized into two sub-sectors; manufacturing and services including

International Journal of Supply Chain Management
IJSCM, ISSN: 2050-7399 (Online), 2051-3771 (Print)
Copyright © ExcelingTech Pub, UK (http://excelingtech.co.uk/)

others [3]. Two criteria are used to differentiate those sub-sectors which are sales turnover and the number of full-time workers. In the manufacturing sector, SMEs are defined as enterprises with sales turnover not exceeding RM50 million or number of full-time employees not exceeding 200. On the other hand, for service and other sectors, SMEs are defined as enterprises with sales turnover not exceeding RM20 million or number of full-time employees not exceeding 75. And those two-subsectors are divided into other three criteria; micro, small and medium which further explained in the table 1.

Table 1. SMEs definition Malaysia's context

Sub-	Manufacturing	Services and
Sectors		Other Sectors
/Criteria		
	Sales Turnover:	Sales Turnover:
Medium	RM15 million ≤	RM3 million ≤
	RM50 million	RM20 million
	OR Workers:	OR Workers:
	From 75 to ≤ 200	From 30 to ≤ 75
	Sales Turnover:	Sales Turnover:
Small	RM300,000 ≤	RM300,000 ≤
	RM15 million	RM3 million
	OR Workers:	OR Workers:
	From 5 to ≤ 75	From 5 to ≤ 30
Micro	Sales Turnover: <	Sales Turnover:
	RM300,000	< RM300,000
	OR Workers: < 5	OR Workers: <
		5

So far, SMEs is covering 98.5% of the total business community in Malaysia which amounted of 907,605. Service is the largest sector with 809,126 enterprises followed by the second place which is manufacturing sector (47,689). Other sectors such as construction, agriculture, and mining are 39,154, 10,218, and 865 respectively. As overall, SMEs has contributed more than one-third of the Malaysian economy. In 2018, SMEs contributed RM521.7 billion to the economy even with a decline in gross domestic product (GDP) rate of 6.2% as compared to 7.1% in 2017 with RM491.2 billion. This shows that SMEs contribution to the country's GDP rose to

38.3% in 2018 from 37.8% in 2017, which led by expansion in the services and manufacturing sectors together with SMEs exports. SME employment also grew at 3.4% during the year, resulting in SMEs contributions to overall employment at 66.0% an increase from 65.3% in 2016. Despite recording an increase in the export value from RM155.1 billion in 2016 to RM167.4 billion in 2017, SME contribution to the total exports was lower at 17.3% (2016: 18.6%) due to the higher export growth by large enterprises [4].

However, the SMEs sector in Malaysia is still considered not in a position of high capacity to meet the GDP requirements which targeted to have a contribution of over 50%. Countries such as Japan, Korea and Taiwan each has contributed SMEs to their nation's GDP by more than 51%. They also assume that SMEs sector has a very critical role in supporting the local big corporations. The same mechanism has been done in Malaysia to support local companies, but it still lags behind because there are some important factors that need to be studied and the improvements should also be made from time to time in a consistent ways. Previous studies have confirmed that SMEs top management people are lacking in term of managerial knowledge when conducting their businesses [5] [6]. The leadership practice also plays important roles in supporting and managing their workers behavioral as well as the operations [7].

In addition, [8] [4], found that Malaysian SMEs have encountered other critical problems such as financial, operational and managerial aspects including the leadership skills. Leaders or top management people consisting a lot of positions in SMEs such as owners, general managers, chief executive officers and others are the main contributors to provide the direction, implement strategic planning and motivating workers for achieving the profits, reputation and long term sustainability [9].

According to [10] [11], leadership practice plays an important driver among SMEs and significantly influences the day to day operations and finally improve their business performance in order to be sustainable in the marketplace. Thus, leadership practice is a concept where the top management people manages their enterprise's resources including assets, workers, time and the context of communication (upwards and downwards) in carry strategically orders to be performed. A study by [12], found that two types of leadership practices that have the impact of SMEs business performance. They claimed that the transformational and the transactional have influenced the top management people to behave positively and increase workers outcome that lead to higher enterprise performance.

On the other hand, top management people with religiosity leadership practices also enhancing the SMEs performance.

A study by ref. [13] found out the significant in direct impact of the applying religiosity leaderships (among the top management people) in the workplace towards the enterprise's business performance. In addition, workers with high influenced by religiosity practices (driven by the top management people) have a positive impact to their job performance and directly expedited the enterprise business performance. In this study, the empirical findings related to religiosity leadership practice are important because there has been previously lacking of research linking them to business performance related to SMEs in Malaysia [4] mainly in the halal food and beverages (F&B) industry [14]. Therefore this study is intended to examine the influence of religiosity leadership practice applied by the top management people in the SMEs involving the halal F&B products in Malaysia towards their business performance. The study was guided by major research questions as follows:

RQ1: Does the religiosity leadership practices (extrinsic) have a significant relationship with SMEs business performance?

RQ2: Does the religiosity leadership practices (intrinsic) have a significant relationship with SMEs business performance?

2. Literature review and hypothesis

2.1 Religiosity leaderships

The term religiosity can be defined as a practice carried out by an individual who has faith in something that he/she accept as a truth which based on the institutionalized belief. It is symbolizing the individual identification and commitment to the values and principles of a religion [15]. As an example, an individual's believed on metaphysical or apprehensive with a ground and persistence to be worshipped known as a god [16].

Religiosity also related to human nature in believing something towards ethical behavior and attitude [17]. Religiosity applications (e.g., in the response, observation, thinking, feelings, and obedience to the sacred ones) performed by the managerial levels in the companies can be associated with an impact in enhancing the employees and their teamwork motivation. Leaders or top management people such as managers' kindness, fairness, honesty, trust and concern for their employees directly will improve the business performance. The collaboration between leaders or managers and their employees in performing religiosity applications will directly

increase the strategic decision making that has a significant impact to companies' reputation, profitability and sustainability [9].

According to [18], a religiosity that applied by leaders can be categorized into two orientations; extrinsic and intrinsic. Extrinsic religious orientation was a person's religious to show cooperation or affiliation with others to seek perfection for self-practice. Extrinsic orientation shows affiliation with others, it later will be known how the effect of leadership on employee commitment [19].

2.2 SMEs business performance

According to [20] [21] there was a significant relationship between religiosity and the business performance. The more religiosity applications by the managerial level in any companies will bring more significant impact and improve the overall performance. Meanwhile, [13] found out there was a significant impact of religiosity applications by the top management people towards their employee's job indirectly improve the company's performance. Studies done by [22] [23] also confirmed that top management people which influenced by religiosity has motivated their employees to perform a quality and efficient works. Therefore, the potential effects of religiosity application by the managerial level could emphasize in the SMEs business performance. Thus, the following hypothesis is:

H1: Religiosity leadership practices (extrinsic) has a significant relationship with SMEs business performance.

H2: Religiosity leadership practices (intrinsic) has a significant relationship with SMEs business performance.

Figure 1 illustrates the conceptual theoretical framework. As shown, religiosity leadership practices (extrinsic and intrinsic) are the independent variables while SMEs business performance is the dependent variable.

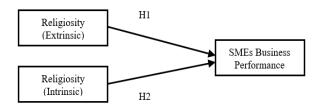


Figure 1. Conceptual theoretical framework

3. Research methodology

3.1 Data collection method

Purposely for this study, a survey questionnaire was adopted from previous research that have done in the field of religiosity and business performance among the SMEs. The questionnaires were sent by email accompany by the intermediary of Google Form to the SMEs listed on the online database provided by JAKIM. It was clear that the questionnaire must be answered by top management people or high level managerial position in order to provide an accurate information regarding the business of SMEs.

3.2 Sampling technique

This study is using a selection of subjects who are most favorable placed or in the best position (among the top management people) in the companies to provide the required information [24]. The companies' data are derived from the listed SMEs in Malaysia that provided by SME Corporation online databases. And from the total estimated of 47,698 companies in the list, a cross-selection was made for the halal F&B companies which was limited to 5,556 that retrieved from the Halal Malaysia Official Portal (www.halal.gov.my). However, only 1,158 companies were identified as SMEs category. Instead of taking 370 samples, as suggested by [25], by adding up 30% more will enhancing the chances to get a better response rate. Then by using the random number generator in Ms. Excel, a selected of 507 companies was emailed with a survey questionnaire via the Google Form.

3.3 Questionnaire development

The survey questionnaire consists of two parts. The first part contains 7 items of respondents and company backgrounds. The second part contains 17 items of religiosity and 12 items related to SMEs business performance. A five-point Likert scale was used to measure the two categories of structures, namely religiosity; intrinsic and extrinsic and the business performance; non-financial and financial. All items were measured by scales ranged from "1" strongly disagree to "5" strongly agree. The five-point Likert scale is a valid and appropriate measurement due to many previous studies have used to measure the SMEs business performance [26] [27].

In this study the religiosity dimensions (intrinsic – 8 items and extrinsic – 9 items) was measured by adopting indicators recommended by [28] [16] [29] [30]. Meanwhile the SMEs business performance item measurements were adopted from [7] [31]. The business performance consists of two categories; 7

items in non-financials and 5 items in financial (e.g., ROI).

3.4 Respondent profile

Respondents for this study have consisted of top management people which categorizing of owners, managing directors and general managers. The total of survey questionnaire emailed were 507, and 118 were valid to be used, which is a 23.27% response rate. All respondents are coming from SMEs that involved in the producing halal F&B products. Table 2 presents the respondents and company backgrounds.

Table 2. Respondent and company background

SMEs	Halal Food	Frequency	(%)
Category	and	(118)	100
	Beverages		
Age	Less than 25	13	11.01
	26 - 45	49	41.53
	More than	56	47.46
	46		
Race	Malay	68	57.63
	Chinese	33	27.97
	Indian	7	5.93
	Others	10	8.47
Gender	Male	76	64.41
	Female	42	35.59
Ownership	Enterprise	53	44.92
-	Sdn. Bhd	65	55.08
Number of	Less than 5	13	11.02
Muslim	6 - 15	28	23.73
Staff	16 - 30	41	34.75
	31 - 50	26	22.03
	More than	10	8.47
	51		
Number of	Less than 5	25	21.19
Products	6 - 10	46	38.98
	11 - 15	27	22.89
	16 - 20	14	11.86
	More than	6	5.08
	21		
Other	HACCP	45	38.14
Certificates	MeSTI	112	94.92
	GMP	96	81.36
	International	15	12.71

3.5 Descriptive statistics

An overview of the respondents' enterprise background was provided by the descriptive statistics. The average scores for religiosity (extrinsic), religiosity (intrinsic) and SMEs business performance are 4.060, 4.017 and 4.300 respectively.

4. Data analysis

This study is using the Smart-PLS software, data from the respondents were analyzed and bootstrapping was conducted to test the significance level of the t-value (t-statistic). Table 3 presents the results of the factor loadings (FL), reliability analysis (CA), composite reliability (CR), and average variance extracted (AVE). Cronbach's alpha values higher than 0.80 mean that the instrument used has good reliability, values within 0.70 mean acceptable while below 0.70 mean weak reliability [32]. For AVE, the value must be > 0.50. Concisely, the Table 3 demonstrates that the instrument used to measure each variable was highly reliable such as religiosity (extrinsic and intrinsic) had Cronbach's alpha of 0.895 and SMEs business performance is 0.844.

Table 3. Reliability measurements

Variable (s)	FL	CA	CR	AVE
Religiosity				
Extrinsic	0.750	0.895	0.771	0.628
Intrinsic	0.833			
SMEs				
Business				
Performance		0.844	0.712	0.566
Non-financial	0.556			
Financial	0.907			

4.1 Hypothesis testing

The significance of the structural model and the relevance of the path loadings between the constructs was examined by using computed tstatistics (t-value). The value of t-statistics were obtained after the path analysis on the structural model was conducted via bootstrapping using 500 bootstrapping samples in Smart-PLS. Table 4 presents the results of path coefficients (beta or β), standard deviation, t-statistics, and the hypothesis results. The absolute and significant value of t-value must be 1.96 or higher (two-tailed) [32]. Thus, based on the bootstrapping procedure, Table 4 shows an insignificant relationship between religiosity and SMEs business performance with a *t*-value of 0.279. The insignificant relationships found indicate that the hypotheses of the study were rejected.

Table 4. Hypothesis testing

Н	Path	β	Std	t-	Decision
			Dev	value	
H1	R→				Not
& H2	BP	- 0.023	0.083	0.279	supported
П					

 $\begin{array}{cc} H-Hypothesis & BP-Business\ Performance \\ R-Religiosity \end{array}$

5. Conclusion and managerial implications

The objective of this study is to examine the influence of religiosity leadership practices among the top management people towards the SMEs business performance in the Malaysian halal F&B industry. The results of the present study have important implications for owners and related managers. Based on the results, the implementation of religiosity applications has not influenced themselves as well as their workers perform a better work in order to improve business performance. This finding is consistent with a study in U.S population where they are practicing the religiosity activities to improve economic growth/income among the U.S population, but it was not significant [33]. In addition, this study has confirmed the findings by [34] as well as [35] where the some parts of religiosity practices have discouraged the entrepreneurial activity as well as to improve the economic performance among the business companies. This particular study also has provided a new input to knowledge in the field of religiosity.

There are several implications of this study. Owners and related managers that try to adopt some changes in term of (workers) behavioral in multicultural enterprises via the integration of religiosity need to address some major concerns. Incorporating religiosity practices may necessarily bring some benefits for the whole enterprise but may not to improve business performance. Moreover, Malaysia has different cultures which devoted by many races and a culture of respect for a variety of beliefs and faiths should be cultured in the enterprise by implementing codes of conduct such as values of tolerance, respect, and empathy.

To date, the halal F&B product market issued by SMEs manufacturers in Malaysia has met most of the domestic market demand. They also have customers who are confident about the quality and assurance of its authenticity in terms of Shariah law and yet all of these products have a valid JAKIM's halal logo. This could also be related to the expansion of awareness and increased of knowledge towards law enforcement especially halal and haram (illegal) in terms of the use of F&B products among the Muslim customers. At the same time, SMEs entrepreneurs and their employees have also been exposed to various channels of Shariah law while in the process of making F&B products that also be extended across the supply chain.

Therefore, this may be a reason why religiosity practices are not a factor or a driver of improvement in SMEs' business performance especially for the halal F&B product industry. Maybe it is because each of them (manufacturers and the customers) knows that the process of producing the F&B

product must comply with all the regulations set by JAKIM and the relevant authorities. This also means that the practice of religiosity is a common to Malaysian society and does not have a significant impact on business performance (SMEs) but it gives a great value to the humanity.

6. Limitation and future research

This study has contributed an empirical findings to the existing literature, however the results cannot be generalized to the SMEs industry as overall. Future studies should be implemented by using a lot of other models among the different type of SMEs in order to generalize the findings. The other limitation of this study is that questions related to religiosity and the SMEs business performance are answered by the same respondents which are owners and higher ranking managers. Maybe in future, the survey questionnaires can be filled out by different respondents to prevent same-source bias. In addition, the future study must be considered to perceive the impact of moderating variable such as entrepreneurial orientation that might show different results.

References

- [1] Elias, E.M., Yaacob, N., & Othman, S.N. (2018). Enhancing Business Performance through Religiosity Leaderships Practice among the Small and Medium Enterprise. *International Journal of Supply Chain Management*. 7(2), 89 – 94.
- [2] OECD (2019). OECD SME and Entrepreneurship Outlook 2019. https://www.oecd.org/publications/oecd-sme-and-entrepreneurship-outlook-2019-34907e9c-en.htm
- [3] SME Corp (2019a). SME Definitions. http://www.smecorp.gov.my/index.php/en/policies/2015-12-21-09-09-49/sme-definition
- [4] SME Corp (2019b). SME Annual Report 2017/2018. Resources and Publication. http://www.smecorp.gov.my/images/SMEAR/SMEAR2017/ENG/FULL.pdf
- [5] Nanjundeswaras, T.S. & Swamy, D. (2015). Leadership practices and quality of work life in SMEs. Management Science Letters, 5, 65– 78
- [6] Garzon, S. (2015). Leadership issues in SMEs focused on services An analysis for the Ecuadorian Market. Master Thesis. Master of Science in Electronic and Electrical Engineering with Management. https://pdfs.semanticscholar.org/310d/8529e0 329ef91a8ed6c4f23b299e9a67cf19.pdf
- [7] Arham, A., Sulaiman, N., Kamarudin, F., & Muenjohn, N. (2017). Understanding the links between transformational leadership and

- entrepreneurial orientation in Malaysian SMEs' in Nuttawuth Muenjohn & Adela McMurray (ed.) The Palgave Handbook of Leadership in Transforming Asia. Palgave Macmillian, LONDON, UK, 541 558.
- [8] Abdul Rahman, N., Yaacob, Z., & Mat Razi, R. (2016). The Challenges among Malaysian SME: A Theoretical Perspective. World Journal of Social Sciences. 6(3), 124 – 132.
- [9] Elias, M.E., Mohd Nawi, M.N., Ahmad Pozin, M.A. Yaakob, M., Ahmad, & Mahidin, N. (2019). Improving 3rd Party Halal Local Service Providers in Halal Logistics: The Driving Factors for Malaysian F&B Manufacturing Perspectives. *International Journal of Supply Chain Management*. 8(7), 644 – 652.
- [10] Yousif A.Y., Hossan, C. & McNeil, N. (2015). Evaluation of Leadership Practices in the Construction Sector of UAE. *International Journal of Business and Management*. 10(12), 1833 – 3850.
- [11] Randeree, K. & Ghaffar Chaudhry, A. (2012). Leadership – practice, satisfaction and commitment. *Engineering, Construction and Architectural Management*. 19(1), 61 – 85.
- [12] Hashim, A., Che Omar, C.M.Z., Hamzah, M.S.G., & Umar, A. (2018). Leadership Behaviour, Entrepreneurial Orientation and Organisational Performance in Malaysian Small and Medium Enterprises. *International Business Research*, 11(9), 37 50.
- [13] Zahrah, N., Abdul Hamid, S.N., Abdul Rani, S.H., & Kamil, B.A.M. (2016). Enhancing Job Performance through Islamic Religiosity and Islamic Work Ethics. *International Review of Management and Marketing*. 6 (Special Issue 87), 195 – 198.
- [14] Tahir, P.R., Hanaysha, J., & Sultana, M. (2016). Level of success of halal SMEs in Malaysia. Asian Journal of Scientific Research. 9, 214 – 218.
- [15] Olowookere, E.I. (2014). Influence of Religiosity and Organizational Commitment on Organizational Citizenship Behaviours: A Critical Review of Literature. Advances in Social Sciences Research Journal. 1(3), 48 – 63.
- [16] Hage, J., & Posner, B.Z. (2015). Religion, Religiosity, and leadership practices: An examination in the Lebanese workplace. *Leadership & Organization Development Journal*. 36(4), 396 412.
- [17] Kutcher, E.J., Bragger, J.D., Rodriguez-Srednicki, O., & Masco, J.L. (2010). The Role of Religiosity in Stress, Job Attitudes, and Organizational Citizen Behavior. *Journal of Business Ethics*. 95(2), 319 337.

- [18] Allport, G.W., & Ross, J.M. (1967). Personal religious orientation and Prejudice. *Journal of Personality & Social Psychology*. 5(4), 432.
- [19] Awuni, M., & Zaidan Tanko, M. (2019). Organizational Citizenship Behavior and Religiosity at the Workplace. *International Journal of Contemporary Research and Review.* 10(05), 21501-21514.
- [20] Schouten, M.D.D., Johan, G., & Muel. K. (2013). Religiosity, CSR Attitudes, and CSR Behavior: An Empirical Study of Executives' Religiosity and CSR. *Journal of Business Ethics*. 123. 437 – 459.
- [21] Pramono, H.A., & Wiwiek, R. A. (2018). The impact of religiosity, environmental marketing orientation and practices on performance: A case of Muslim entrepreneurs in Indonesia. *Journal of Islamic Marketing*. 9. 10.1108/JIMA-09-2016-0067.
- [22] Montenegro, T.M. (2017). Religiosity and corporate financial reporting: evidence from a European country. *Journal of Management, Spirituality and Religion*. 14(1), 48 80.
- [23] Sulaiman, R. (2019). The Role of Religiosity in Ethical Decision-Making: A Study on Islam and the Malaysian Workplace. PhD Thesis. Massey University, Manawatu, New Zealand. https://mro.massey.ac.nz/handle/10179/14486
- [24] Sekaran, U., & Bougie, R. (2016). Research Method for Business: A Skill-Building Approach. 7th Edition. John Wiley & Sons. New York.
- [25] Israel, G.D. (1992). *Determining Sample Size*. IFAS Extension. University of Florida. https://www.tarleton.edu/academicassessment/documents/Samplesize.pdf
- [26] Othman, R., Arshad, R., Abdul Aris, N., & Mohd Arif, S.M. 92018). Exploiting Resources for Competitive Advantage of Cooperative Organizations in Malaysia. Asian Journal of Behavioural Studies. 3(12), 63 71.
- [27] Yoo, Wang-Jin, Choo, H.H., & Lee, S.J (2018). Study on the Sustainable Growth of SMEs: The Mediating Role of Organizational Metacognition. *MDPI Sustainability*. 2 17.
- [28] Darvyri, P., Galanakis, M., Avgoustidis, A.G., Pateraki, N., Vasdekis, S., & Darviri, C. The Revised Intrinsic/Extrinsic Religious Orientation Scale in a Sample of Attica's Inhabitants. *Psychology*. 5, 1557 – 1567.
- [29] Mansor, M., Akmal, F., Harun, N.A.B. @, Rashid, N., & Ibrahim, R.M. (2018). The Impact of Human Resource Practices, Leadership Practice and Religiosity on Cyber Deviance. *International Journal of Academic Research in Business and Social Sciences*. 8(11), 1283 – 1293.
- [31] Popaa, S., Soto-Acosta, P., & Perez-Gonzalezb, D. (2018). An investigation of the effect of electronic business on financial performance

of Spanish manufacturing SMEs. *Technological Forecasting and Social Change.* 136, 355 – 362.

- [30] Sachitra, V., & Siong-Choy, C. (2019). The Moderating Effect of Religiosity on Resource-Capability-Competitive Advantage Interaction. *International Journal of Social Economics*. 46(5), 722 740.
- [32] Hair, J.F., Hult, G.T.M., Ringle, C.M & Sarstedt, M. (2017). *A Primer on Partial Least Squares Structural Equation Modeling* (PLS-SEM). 2nd Edition. Sage Publishing. Los Angeles.
- [33] Chase, G. (2015). Religiosity, Attendance of Religious Activities and Economic Growth in the US. *Journal of Business and Economics*. 6(12), 2072 2079.
- [34] Noland, M. (2005). Religion and economic performance. *World Development, Elsevier*. 33(8), pages 1215 1232.
- [35] Galbraith C.S., & Galbraith D.M. (2007). An Empirical Note on Entrepreneurial Activity, Intrinsic Religiosity, and Economic Growth. *Journal of Enterprising Communities People and Places in Global Economy.* 1(2), 188 201.