

Shariah-related Information Disclosure and Characteristics of Enterprise among SMEs in Malaysia

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Abstract

Introduction: In Malaysia, SMEs are the potential and future growth to the economy of the country. However, they have not been given enough attention as the various researchers have been biased towards larger and listed enterprises in Malaysia.

Objective: to examine the extensiveness of Shariah-related information disclosure among SMEs in Malaysia and to evaluate the relationship between Shariah-related information disclosure and Performance of SMEs.

Methods: The study involved a self-developed questionnaire that was personally distributed to employees. In total, 150 questionnaires were distributed and 120 employees who work in various positions in different types of industries from North and East Malaysia participated as respondents of this study.

Keywords: Shariah-related information disclosure, Performance of SMEs, Characteristics of enterprise, Product and service, Financing, Earnings and expenditure, Social functions.

I. INTRODUCTION

The current trend of economic growth and the rapid industrial development has made Malaysia as one of the most open economies in the world. In conjunction with the Ninth Malaysia Plan (2006-2010), the government is devoting and designing the Small Medium Enterprise (SME) development plan to assist the SMEs to meet the new business challenges in the competitive global business environment (Zulkifli and Corresponding, 2010). According to Hashim (2000), the SMEs are expected to contribute 50 percent of the gross domestic product (GDP) in 2020. The exporters in SMEs are mainly located in the manufacturing sector (57.6%), services (40.6%) and agriculture (1.8%). Based on the statements made by various organizations and ministries over the past decades, the total SMEs could be in the range of 10,000 to 30,000. Recognizing the SMEs potential and future growth to the economy of the country, the government of Malaysia has initiated greater efforts in encouraging SMEs involve in international business (Chelliah, Sulaiman, and Yusoff, 2010). In recent years, the Malaysian annual national budgets have also given considerable allocations to the development of SMEs. Various efforts were implemented to facilitate financing and market access for small businesses. Focus was also given to capacity building and talent development. Performance of SMEs plays a vital role on the development of the industry. Information disclosed from the characteristics of the industries effect the performance of SMEs.

When an organization disclose their information to customers such as in the category of products and services, financing, takaful, stocks, and hotel business they have the trust to involve in it. Information disclosed must be based on mandatory disclosure and voluntary disclosure. According to Ousama & Fatima, 2010, it has stated that mandatory disclosures are items that companies must disclose because of statutory regulations therefore; it is the minimum level of information to be disclosed in the annual reports. Meanwhile, voluntary disclosure is defined as that which is not mandated, thus it constitutes information additional to statutory requirements (Ousama and Fatima, 2010). As such, an organization voluntarily disclosed information to guarantee stakeholders that it is a decent organization.

Knowing whether the information disclosed is implemented according to the shariah principles, stakeholders and the manager should take action according to the Shariah Supervisory Board. The Shariah is the Islamic law of human conduct that regulates all matters of Muslims' lives. The Qur'an prescribes mankind to engage in activities that are lawful and good and also prohibit those that can harm and dispute in the society (Mohd-Sanusi, Ismail, Hidayati, and Harjito, 2015). Most organizations that depend on Islamic concept must take after the shariah principles with a specific end goal to persuade Islamic clients on the product itself.

The Shariah approved companies are those whose activities are in compliant with the principles of Shariah. On the other hand, the non-approved companies entail those involved in activities that contradict with the principles of Shariah for instance, gambling (maysir), debt interest (riba) and producing or selling prohibited products or services (Mohd-Sanusi, Ismail, Hidayati, and Harjito, 2015). This research is to study the importance of information disclosure based on Shariah Compliance among SMEs in Malaysia and the effect towards performance of SMEs.

II. LITERATURE REVIEW

2.1 Product and services and performance of SMEs

Shariah-related information disclosure on products and services are based on the information on the content, the quality of each product, the safety and the usefulness of the products. When disclosing information on these items, it is to ensure that the related information does not contradict with Shariah principles where it should not have any non-halal ingredients and the services should not have interest (riba'), uncertainty (gharar) or gambling (maysir). One of the effects of the disclosure towards the financial performance is when the content is not thoroughly disclosed, it will bring a feel of uncertainty towards the product as so it will reduce the amount of demand from Muslim customers. Therefore, it should be that the more extensive the information is being disclosed, the stronger the financial performance of SMEs.

SMEs consumers' confidence on the product and service is dependent on the criteria as in the operations of the business must fully comply with Shariah principles and the consequential wealth and financial progress of the SMEs operators need to be disclosed.

According to Ousama & Fatima, (2010), as to when an SMEs is not offering any products and services prohibited by Shariah, all products and services should be in a good quality and condition. Thus, SMEs are expected to disclose information about the quality. Usefulness and safety of their product and services to show their accountability and transparency to the society. Therefore, their results show that they had the highest mean of disclosure which indicates that Shariah-approved Companies prefer to disclose information on products and services as their findings were similar to Kin's, (1990).

H1: There is a significant relationship between Shariah-related information disclosure of products and services and performance of SMEs.

2.2. Financing and Performance of SMEs

For SMEs to survive and to prolong their business, having a strong financial position is a must as it helps in strengthening the business activities. Shariah-related information disclosure on the source of financing must be disclosed as to whether the source is from Shariah financing or non-Shariah financing. These disclosure of information financing are to show that the capitals of the industry are from halal and legal financing as it will avoid any gain of interest and doubtful activities. Therefore, disclosing on Shariah-related information does effect the performance of SMEs.

According to Azmi, Ab Aziz, & Muhamad, 2016, it is only recently that the literature started to focus on the Shariah disclosures of Shariah-compliant companies which can be related to SMEs. For a Shariah-compliant company, Ullah et al. (2014) listed the items in the required category that are similar to the screening requirements, adopted by users of the Shariah screening method to determine the Shariah-compliant status of companies. Interest paid for loans and received from the savings are not allowed from a Sharia perspective. From reports on Che Azmi et al., 2016, study, they define accounting-related disclosures as disclosures that will affect the way items in the financial statements are presented, such as a distribution of the profit/revenue of the company that is based on halal and haram activities. From their interviews, it shows that managers from Shariah-compliant companies are willing to disclose information related to Shariah as their specific purpose of informing readers about their involvement in Islamic financial practices

H2: There is a significant relationship between Shariah-related information disclosure of financing and performance of SMEs.

2.3. Earnings and Expenditure and Performance of SMEs

Earnings and expenditure are the cash flows of an enterprise. Information on the earnings and expenditure must be disclosed as when it involves in screening the annual reports, the auditor must know on to whether it is disclosing according to Shariah or not.

H3: There is a significant relationship between Shariah-related information disclosure of earnings and expenditure and performance of SMEs.

2.4. Social functions and performance of SMEs

Social functions are the social act from the industry as in terms of donations, giving zakat as part of their financial cleansing and waqaf to those in need. Some industry may not have any waqaf as some had just started their business. Donations can be given as to when there are asked for and zakat must be paid at every year as in cleansing of their financial. For zakat, there are calculations in calculating the amount of zakat to be given. For example, the payable zakat is 2.5% time by the percent owned by the zakat times the net current asset.

H3: There is a significant relationship between Shariah-related information disclosure of social functions and performance of SMEs.

III. RESULTS

Based on the sample collected through the distribution of questionnaires, most of the respondents are the owner of the enterprise. The majority of the respondents are Owner (53.5%) followed by Manager (17.8%), Executive Officer (10.9%), CEO (3.0%) and director (3.0%).

From Education Level, the respondents' education is most likely lower than Diploma which is SPM with (41.6%) followed by Degree Holder (28.7%), Diploma (24.8%), PHD (3.0%) and Post-graduate (2.7%). This indicates that the level of studies of the respondents are average.

In terms of working experience, most of the respondents have work 5 years or less (57.4%), followed by 6 to 10 years (22.8%), 11 to 15 years (15.8%), 21 years and above (3.0%) and the least is 16 to 20 years with (1.0%).

As for the years of operation for the company, most of the company have just been operated within 5 years or less with (54.1%) followed by years been operated 6 to 10 years with (25.7%), 11 to 15 years with (10.8%), 21 years and above with (6.8%) and the remaining (2.7%) is 16 to 20 years.

The results of the survey also showed that 58.6% of the company have employee less than 5. While 31.1% have employee between 5 to 20. The company that have employee between 21 to 40, between 41 to 60 and more than 80 is 5.4%, 1.4% and 5.4% respectively.

Results from the respondent for industry shows that those under Agro-based industries is the majority with (53.5%) followed by Manufacturing industry and Primary agriculture with (13.90%), Services (11.90%), Manufacturing related services (5.0%) and Information & Communication Technology with (2.0%).

		Frequency, N	Percentage, %
Position	Owner	54	53.5
	Director	3	3.0
	CEO	3	3.0
	Manager	18	17.8
	Executive officer	11	10.9
	Other	12	11.9
	Total		
Education	PHD	3	3.0
	Post-graduate	2	2.0
	Degree Holder	29	28.7
	Diploma	25	24.8
	Others	42	41.6
	Total		
Working experience	21 years and above	3	3.0
	16-20 years	1	1.0
	11-15 years	16	15.8
	6-10 years	23	22.8
	5 years or less	58	57.4
Total			
Operation	21 years and above	6	5.9
	16-20 years	3	3.0
	11-15 years	14	13.9
	6-10 years	25	24.8
	5 years or less	53	52.5
Total			
Employees	More than 80	4	4.0

	41-60	4	4.0
	21-40	4	4.0
	5-20	31	30.7
	Less than 5	58	57.4
Total			
Industry	Manufacturing	14	13.9
	Manufacturing related services	5	5.0
	agro-based industries	54	53.5
	Services	12	11.9
	Primary agriculture	14	13.9
	Infotmation & Communication Technology	2	2.0
Total			

1. Measures of Central Tendencies and Dispersion.

Descriptive statistic of mean and standard deviation for independent and dependent variable of the study is obtained and the results are shown in the table below.

	N	Minimum	Maximum	Mean	Std. Deviation
Product and Service	99	1.75	5.00	4.2020	.84642
Financing	99	1.00	5.00	3.7197	1.11476
Environment	99	1.33	5.00	3.9293	.83879
Earnings and expenditure	99	1.00	5.00	3.7828	.99914
Social Functions	99	1.00	5.00	3.8552	1.14401
Performance of SMEs	99	1.00	6.00	5.1313	.97453
Valid N (listwise)	99				

From the Table above, based on the results, the mean value of all the independent variables in the study falls between 3.0 and 5.1. In general, we can say that, the mean for the entire table are about or more than the average. The mean of Shariah Information Disclosure indicates that most of the industries are disclosing information related to Shariah Information. The minimum of 3.00 on the other hand indicates that some of the respondents in the industries does not disclose information related to Shariah; while the maximum value of 5.10 show that the industries disclose information related to Shariah.

Standard deviation shows how scattered your sample from the mean or the variability in the data (Sekaran, 2003). Generally, a standard deviation of 0 indicates that every data point is equal to the mean sample. Hence standard deviation value that is close to zero indicates that the data is very close to the mean value thus making it more reliable. In other words, there is very little volatility in the sample. Based on the survey conducted, the standard deviation score falls between 0.8 to 1.2, indicate that there is little dispersion of data and that the data is much reliable and concentrated.

	Product and Service	Financing	Environment	Earnings and expenditure	Social Functions	Performance of SMEs
Product and Service						
Financing						
Environment						
Earnings and expenditure						
Social Functions						
Performance of SMEs						

Product and Service	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	99					
Financing	Pearson Correlation	.196	1				
	Sig. (2-tailed)	.052					
	N	99	99				
Environment	Pearson Correlation	.468**	.476**	1			
	Sig. (2-tailed)	.000	.000				
	N	99	99	99			
Earnings and expenditure	Pearson Correlation	.193	.652**	.416**	1		
	Sig. (2-tailed)	.055	.000	.000			
	N	99	99	99	99		
Social Functions	Pearson Correlation	.163	.451**	.433**	.435**	1	
	Sig. (2-tailed)	.107	.000	.000	.000		
	N	99	99	99	99	99	
Performance of SMEs	Pearson Correlation	.066	.240*	.061	.164	.049	1
	Sig. (2-tailed)	.513	.017	.546	.105	.632	
	N	99	99	99	99	99	99

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table. Correlations statistics

From the results, based on Cohen’s (1992) interpretation of correlation coefficient, we see that all the independent variables (Products and Service, Financing, Environment, Earnings and expenditure, Social Functions) are positively correlated to dependent variable (Performance of SMEs). However, not all of the independent variables are significant towards the dependent variables. Financing is reported to have the highest Pearson’s value at $r = 0.240$. This analysis demonstrates that only financing have a significant relationship towards the performance of SMEs. While the other four independent variables (Products and Service, Environment, Earnings and expenditure, Social Functions) give less influence on the disclosure of Performance of SMEs.

IV. CONCLUSION

Shariah-related information disclosure of the characteristics of SMEs effects the performance of the industry. Given the information disclosure is transparent and this suggests a reliable commitment to improve its practices regarding the issue. Insights drawn from this study suggest the need to enhance Shariah-related information disclosure in the annual reports and to further strengthen the performance of SMEs in Malaysia. Therefore, this study is adapted from previous research on the

transparency of relevant disclosure of Shariah compliance information in the annual report of Shariah compliance companies. It also raises concern that the more extensive the information is disclosed the more it affects the performance of SMEs.

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