

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 research problem of this study discussed about the extent of business funding and what can the Islamic banking institutions do in helping Muslim entrepreneurs to develop their business. As we know, in Malaysia, all of the banks have been offered various Islamic financing products including personal financing and business financing. In additional, the existence of Islamic banks such as Bank Islam Malaysia Berhad (BIMB), Bank Mumaalat Malaysia Berhad (BMMB), Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat), and Small Medium Enterprise Bank (SME Bank) that provide Islamic business financing to Malaysian entrepreneurs. 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 problem that is faced by entrepreneurs and the Islamic banking institutions in Malaysia. This study used in-depth interview method 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 business 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 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

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? This study has been conducted through an empirical approach using interview method. 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 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. 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 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%).

4. 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. 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. 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.

6. 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.

7. 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.

8. 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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