

## THE CHALLENGES ENCOUNTERED BY ZAKAT RECIPIENTS ENTREPRENEURS

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**Abstract:** *Zakat recipients can develop the family economy and get out of poverty by engaging in entrepreneurial activities. This entrepreneurial activity needs support from many authorities and concerned parties. This paper discusses the issues and opportunities faced by micro-size business entrepreneurs who have received assistance from the Kedah Zakat Authority through the Jayadiri Assistance program. The findings of this study were obtained through semi-structured interviews and observations of 49 asnaf entrepreneurs in the state of Kedah that engaged in micro-size business as an effort to earn for living. The findings show an increase in their income since engaging in entrepreneurship activities. However, there are some issues such as lack of skills and knowledge in business management especially financial aspects, operation of production and marketing activities. Most interviewees have problems growing their business due to lack of equipment, labor-intensive, lack of capital, lack of focus on a product, limited space, hygiene issues, and many more. They have the opportunity and the potential to grow their business as they have regular customers and products that meet the needs of their customers' demand and taste. Marketing strategy using online marketing can be implemented only if the entrepreneur can meet demand by increasing production capacity. It is suggested that careful monitoring, skills development, and knowledge interventions from those involved in this Jayadiri program can increase the potential for these aspiring entrepreneurs to become zakat payers in the future.*

**Keywords:** Zakat recipients' entrepreneurs, entrepreneurship, business support.

### INTRODUCTION

Issues of poverty in Malaysia are still being discussed despite the increase in household income. The average income for households in Malaysia according in 2016 was RM6958 (Department of Statistics Malaysia, 2017). However, the average household income in Kedah is RM4971 with median RM3811 and was second-lowest to the rest of Malaysian states and the average income for the B40 group was RM2848 in 2016. This data shows that B40 in Kedah far below-average income and required assistance to increase their income level. The responsibility to

assist this group is not only on the government's support but must be shared by all parties including the zakat payers.

The collection and distribution of zakat in Kedah is managed by Lembaga Zakat Negeri Kedah (LZNK). This paper will discuss the recipients of zakat that involve in entrepreneurship activities as part of the effort to income for living. It will discuss the challenges and opportunities faced by zakat recipients entrepreneurs based on a qualitative research approach that used interview data of forty nine asnaf entrepreneurs who have obtained business assistance in the Jayadiri assistance program. The Jayadiri Assistance Program organized by LZNK supports the zakat recipients (asnaf) by giving machines and equipment that help them in the production of goods for sales. The findings of this study are limited to the case study participants and may not be generalized for the entire population of B40 in Kedah. The challenges and problems that are studied based on business management aspects such as finance, production, marketing, and human resources. The findings of this study can help LZNK and stakeholder who want to make the most of their support and help entrepreneurs to grow their business.

## LITERATURE REVIEW

This section discusses the definition of entrepreneurs and entrepreneurship; the differences between entrepreneurs and small traders. This section discusses the challenges and opportunities faced by entrepreneurs, especially micro, small and medium-sized in the Malaysian environment according to previous studies.

### Definition of Entrepreneur and Entrepreneurship

The word entrepreneur origins from the French word (*entreprendre*) which means "between-taker / go between" or middle man. Entrepreneurs are the intermediaries for capitalists to carry out a project or business. The definition of an entrepreneur can be summarized as in Table 1 below.

**Table 1: Definition of Entrepreneur**

Year / Periods	Definition of Entrepreneurs
Early Stage	The Entrepreneur's Early Stage consists of merchants who are also travellers
Intermediate Stage	Entrepreneurs are individuals who handle large scale production projects.
The 17th Century	Entrepreneurs who take the risk to gain profit or loss as a result of contract with the government at fixed prices.
Richard Cantillon (1725)	Entrepreneur is a person who take the risk and different from those who provides capital.
Adam Smith (1776)	Entrepreneurs are considered individual who form organizations for commercial purposes. They have long term vision and are able to identify potential demand for products and services.
Jean Baptise Say (1803)	Entrepreneurs are regarded as individuals who need money and are distinguished from individuals who have money.

Francis Walker (1876)	Entrepreneurs are individuals who benefit from managerial ability and are different from individuals who provide capital and benefit.
Joseph Schumpeter (1934)	Entrepreneur is someone who introduces something new and develops technology that has never been tried.
David McClelland (1961)	Entrepreneur is an energetic and a moderate risk taker.
Peter Drucker (1964)	Entrepreneurs are individuals who maximize opportunities.
Albert Shapero (1975)	Entrepreneurs take initiative, organize social and economic mechanisms and risk failure.
Karl Vesper (1980)	An entrepreneur has different vision from an economist, psychologist, businessman, and politician.
Kets de Vries (1996)	Entrepreneurs are risk creator rather than risk takers because they often invest other people's capital.
Barjoyai Bardai (2000)	Entrepreneurs are people who are more open-minded and always looking for business opportunities. Entrepreneurs have the privilege of enabling them to create investment opportunities and identify projects that are considered profitable.
Donald Kuratko dan Richard Hodgetts (2004)	Entrepreneurs are people who manage, take risks and are able to identify opportunities where others are unaware and see them as a distraction.
Rosli et al. (2010)	An entrepreneur is someone who runs a business to succeed with a motive for profit while adopting strategic practices.
Howard Frederick, Allan O'Connor dan Donald Kuratko (2013)	Entrepreneurs are innovators in business or society where they recognize and seize opportunities; convert opportunities to ideas that can be used / marketed; adding value through time, effort, money or skill; taking risks from competition in the market to implement these ideas; and realizing / receiving rewards from their efforts.

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Source: Norita et al. (2010); Rosli et al. (2010); Frederick et al. (2013)

In short, entrepreneurs refer to individuals who engaged in entrepreneurial activities. According to the definitions discussed in Rosli et al. (2010) according to the classic definition, by Schumpeter, (1934) and Gartner, (1985) entrepreneurship is a new incorporation of firm organizations to produce new products or services, involving new sources or new methods of production; and the process of earning a new organization. Entrepreneurship also refers to the process of creating something worthwhile, involving effort and time, financial, social and psychological risks, accepting financial success, and self-satisfaction and gaining independence (Hisrich & Peters, 2005).

### **The Difference between Entrepreneurs and Small Traders**

The differences between the general interpretations of micro-entrepreneurs and small traders should also be discussed to provide an understanding of the direction the recipients of the support and assistance provided by LKNZ. Small traders are those who conduct business activities for the benefit of personal and family income only. First of all, entrepreneurs are those who set up, lead, run and grow their businesses to fulfill their dreams and achievements

to make a profit while prioritizing contributions and service to the community and nation. The second difference is in terms of risk-taking. Small traders can take low risk, while entrepreneurs can take a moderate or calculated risk. The third difference is in terms of management and leadership methods, small traders use static management methods and have low levels of leadership. Whereas entrepreneurs use the latest management methods and have a high level of leadership. The fourth difference is in the integration of resources, traders combine resources only for business continuity while entrepreneurs **can** integrate resources creatively and innovatively for business development. The fifth difference is in the aspect of setting up a new business, where small business owners are only forming new businesses but the scale of their operations is small and incapable of innovating and creative. Entrepreneurs can create new businesses and always looking for opportunities to grow their business. The difference is in the aspect of business development, where traders find it difficult to grow their business because they are not able to identify business opportunities compared to entrepreneurs who are always looking for and grabbing opportunities to grow their business.

### **Challenges Faced by Entrepreneurs**

Engaging in entrepreneurial activities not only promises high returns but it is worth the effort. The arguments that are often used as motivation to get involved in business based on hadith narrated by Tirmizi "Nine-tenths of wealth (earned) through business" illustrate the rewards they will receive. But this is also reflected the efforts that need to involve, as entrepreneurs have to face various challenges and expectations. Here are some of the challenges entrepreneurs often encounter.

The main challenge is lack of capital and credit facilities either in the initial or expansion stages. This is closely related to the capabilities and management practices of entrepreneurs. Entrepreneurs do not have the assets as collateral, no business track records because they do not have an organized management system. Sometimes an entrepreneur's credibility is also a question and that makes financial institutions difficult to give credit. Entrepreneurs face low sales and profitability problems due to credit sales. Due to capital constraints, small entrepreneurs often rely only on sales before they can continue their business operations, thus making it difficult for them to grow their business (Norita et al., 2010; Che Mohd Zulkifli & Nordiana, 2015).

Micro and small business entrepreneurs often face difficulties in obtaining raw materials due to a lack of capital or competition for limited raw materials. In addition, there may be activities of storage of raw materials by suppliers thus lack of supply. Moreover, micro and small business entrepreneurs face limited infrastructure facilities such as limited spaces that make it difficult to grow their business. This is due to the lack of capital that has forced them to operate in places that are illegal and not at a strategic location where good location selection can help entrepreneurs increase sales, reduce operating costs and increase profits (Sodri, 2017).

They also face a shortage of equipment to increase production which they are more dependent on labor-intensive methods rather than technology. Low production quality due to low

capacity, and product defects. They also face problems of lack of business management skills as well as technical skills (Norita et al., 2010). These entrepreneurs face challenges due to their lack of knowledge and marketing skills including online product marketing skills.

Small entrepreneurs often face the problem of shortage of skilled workers due to their inability to pay salaries and can afford to send workers for training. Sometimes they also unable to take part in training to improve their skills. In the early stages, they had to restrict their recruitment due to a lack of capital (Sodri & Syahira, 2017). Entrepreneurs also face challenges when competitors hire experienced workers by offering more attractive rewards as employees make this small business a place for basic training (Norita et al., 2010).

### **Underpinning Theory**

The underpinning theory of this study is based on the Resource Base View (RBV) theory which proposes that the performance of a business firm is determined by a valuable, rare, imperfectly imitable and not substitutable (VRIN) (Barney, 1991). These sources of finance, physical resources, management efficiency, human resources, and others will contribute to the competitive advantage and determine the performance and sustainability of the business.

### **RESEARCH METHOD**

This study used a qualitative research approach with case study method to explore the challenges faced by the micro-entrepreneurs. This method has been used by Norashidah et al. (2009) who conducted studies on small and medium entrepreneurs. Population and sample are 49 zakat recipients who participates in the Jayadiri program with the objectives to develop their business. This paper is based on the interview findings of 49 asnaf entrepreneurs located in scattered district in the state of Kedah which situated in the Northern part of Malaysia Peninsular. Data were collected through semi-structured interviews using the interview protocol developed based on the literature review. The interview protocol consisted of four sections. Part A on financial issues with three open-ended questions. Part B of the production contains two open-ended questions. Whereas section C is about marketing with two questions and finally section D with three open questions. This question serves as a guideline for the interview. This dimensions in the interview protocol were based on functional management aspects of small business (Sodri & Syahira, 2017).

The data collection was done by the researcher and research assistant. Participants were asked to answer the interview questions by the researcher while the assistance recording the answer together as the triangulation purpose. The semi-structured interview protocol serves as a guide for researchers. Observations were also made on the premises of the respondents to examine the needs and problems encountered. Interview data were recorded by researchers and research assistants. Supporting data such as photos and sales records book by respondents have also been examined. The data were analyzed manually by re-categorizing the interviews according to the dimensions studied.

## **FINDING AND DISCUSSION**

### **Financial challenges**

Participants start a business with a very small amount of capital, from their savings and only three interviewees borrow from their families and friends. In the next stage, many participants made microloan from TEKUN and Amanah Ikhtiar Malaysia as the government agencies micro creditor. This shows that at the beginning of the business, they use only their limited capital. However, they are willing to take risks. According to observations and interviews, all participants had some entrepreneurial traits and potential for success.

The second question is how they manage sales revenue. Almost all of the interviewees had a way of splitting the money into rolling capital and household expenditure. Most of them do not have proper systematic financial documentation as recording. Everyone admits to having no savings. This shows that they have basic financial knowledge but do not know how to systematically manage cash. All interviewees acknowledged the challenge of shortage of capital to increase sales due to limited rolling capital for purchasing raw materials and appliances. Therefore, it is difficult to grow their business.

### **Business Operation Challenge**

When asked how these interviewees are producing the product, most of them use manual and limited machines. Through the Jayadiri program, the asnaf entrepreneurs have been assisted by LZNK according to their needs such as ovens, mixers, and freezers if they are producing food. This equipment have helped the entrepreneurs to increase their efficiency more effectiveness. From the observations, some appliances were not fully utilized, some were damaged only after a few used, and some participants received hardware and equipment assistance from several parties. Some of their operating room are small, unorganized, and poorly clean because operating in their house or kitchen. There is one participant who does not have basic needs such as clean water supply. Most raw materials are purchased in retail because of limited capital.

### **Marketing and Employee Challenges**

All products are innovative and meet customer's requirements. Generally, their products have the potential to be widely distributed if production can be improved. The promotions used are word-of-mouth with local customer, and another promotion medium including social media usage is still limited. Employees are family members, neighbours or friends only. Overall, the findings of this case study are supported by Norita et. al (2007) discusses the challenges of shortage of capital, production, marketing, and workers.

## **CONCLUSION**

Asnaf entrepreneurs have the potential to grow their business and get out of poverty. From observation and conversation, they have the characteristics of entrepreneurs from the early stages of their involvement in the business to support for living. Assistance and support need to be given for them to grow their business and thus increase their household income and to get out of poverty.

The match between needs and supports can contribute to improving their business performance. Therefore, it is very crucial to have preliminary assessments to identify the needs of each recipient based on the individual business problem. Financial support such as microloans through existing agencies can help participants overcome the problem of short-term capital deficits. Basic financial management training, production management, marketing, and employee management should be provided to enhance participants' ability to continue growing their business. Guidance and advice can be provided through coaches or industry mentors as they learn the intricacies of the business and build self-confidence to move forward. Participants need to be exposed to the best practice in their respective fields.

In short, these participants need to be given the knowledge and skills to enhance their business management efficiency and effectiveness through structured entrepreneurship programs. Elements such as physical and financial support, training in the aspects of entrepreneurial functioning, periodic motivation, monitoring, and caring need to be integrated into the program. Such programs can be implemented in collaboration with existing government agencies and communities to help asnaf entrepreneurs get out from the poverty strata and become zakat payers in the future. The challenges these entrepreneurs face, not only need to be addressed, but also an opportunity for many to help this group succeed.

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