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(AIJBES)**www.aijb.com**THE CONCEPTUALISATION OF HALAL CERTIFICATION
ADOPTION MODEL AMONG SMALL AND MEDIUM-SIZED
ENTERPRISES (SMES) IN MALAYSIA**

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Abstract:

This is a conceptual paper for a future study based on the review of the literature related to Halal certification adoption and the role of Resource-Based View (RBV) theory. Despite the Halal industry showing potential for a strong market both locally and globally, the number of Halal-certified Small and Medium-Sized Enterprises (SMEs) remains relatively low. This is partly due to challenges in meeting certification requirements, which are seen as complex and costly, as well as a lack of awareness and concern. Additionally, the Ministry of International Trade and Industry (MITI) has identified various challenges faced by Malaysian manufacturers, including a lack of competitiveness in areas such as processing technology, research and development, distribution networks, product quality, and branding. To address these issues, this study aims to investigate the reasons behind SME owners' reluctance to adopt Halal certification for their food products, and to develop an enhancement model and measurement instrument based on the Resource-Based View (RBV) theory. The paper went on to analyse the issues, concepts and objectives for the forthcoming study through several literatures of various disciplines. The conceptual paper signifies to supplement literatures for academics as reference for their research. The result of this future research may provide information to SMEs on factors and the significance of Halal certification adoption to enhance SMEs' performance. It will also be relevant to policy-makers who design support mechanisms and schemes to promote the creation and growth of small firms.

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**Keywords:**

Halal Certification, Small and Medium-Sized Enterprises, Resource-Based View (RBV) Theory, Adoption, Awareness, Food and Beverages Industry

Introduction

Muslim countries including Malaysia views that Halal certification for products is very significant and producers particularly from food and beverages industries must have Halal certification to convince the general public that their products are reliable. In addition, Halal certification cultivates and fosters confidence of consumers and they believe that the product has gone through Shariah compliance. In Malaysia, Jabatan Kemajuan Islam Malaysia (JAKIM) introduced the Halal certification of food products since 1974. JAKIM as authority body will only award Halal certification for Halal food industry if they are satisfied with the inspection that cover all aspects of slaughtering, processing, preparation and handling storage, logistics and transportation, cleaning and distinction and also management practices. Besides that, in 2005, JAKIM became responsible for implementing the Halal certification system, as well as observing and administering Halal compliance.

To date, this Malaysian Halal certificate is the only one, which is supported by the government as an internationally standardized certification and logo system approved to be used by all Muslim nations. For this reason, a number of multinational firms have established their own food processing facilities in Malaysia, with the intention of distributing their Halal products within the local and Asian markets. For instance, since it was first established in early 1970s, Nestle Malaysia which is one of Nestle Swiss subsidiaries has conformed to Halal best practices with all of their product lines currently certified by JAKIM. Currently food producers are not going global without Halal status. On top of that, despite from multinational firms, the Small-Medium Enterprises (SMEs) also play significant roles in Halal industry. The SMEs are considered as an important segment that contributes to economic growth and make up the vast majority of businesses in most countries including in Malaysia. According to SME Corporation Malaysia (2019), Nestle Malaysia is supporting the growth of SMEs in Malaysia by sharing its knowledge and expertise in the local Halal food industry in adding value and raise their standards to enable them to compete in the global market and at the same time win consumers' confidence. Apart from that, the Malaysian government has already recognized the importance of Small and Medium Enterprises (SMEs), by implementing various policies; action plans and also introduced Halal related courses to assist the SMEs. Through this program, it is hoped that there is an increasing trend towards awareness and perceptions on the importance of Halal certification adoption among SMEs.

Though the Halal industry has a very promising market potential both locally and globally, the percentage of Halal certified SMEs is still begging the small percentage. Among the reasons is that they have issues in fulfilling the requirement for Halal certification, which they also believe that the processes are expensive and complicated to become a Halal certified company. In the same vein, Hamid et al. (2017) stated that the low level of awareness and lack of concern about the implementation of the Halal industry are the two major factors that justify the scenario of many manufacturers, especially Bumiputera who are still reluctant to apply for Halal certification. Moreover, according to Ministry of International Trade and Industry (MITI) among the problems faced by the local manufacturer in Malaysia is they are lacking of

competitive edge compared to advanced nations in terms of processing technology, research and development, distributor network, product quality and also brand building (MITI, 2014). In addition, the process of Halal certification adoption is dynamic and cyclical, due to hypersensitivity, hyper-interactivity and environmental factors that influence Muslim perceptions of what is Halal become another reluctant of SMEs to adopt Halal certification.

Halal is a global issue. In Indonesia, for example, Halal certification is expected to have a positive effect on SMEs (Majlis Ulama Indonesia). In line with a study by Hasyim (2019), mentioned that the smaller SMEs in Indonesia, like the street food vendors are not ready to comply with the regulation requiring businesses to possess the Halal certificate, because they see that the Halal certificate could create complications for them while not really add any new value to their businesses. This scenario is similar with what happening in Malaysia where Halal certification is easily accepted by the established and medium sized SMEs but not the micro enterprise. Apart from that, Halal Industry Development Corporation (2014), mentioned that there are 34% Halal certified companies owned by Bumiputera, whereas 66% of the companies are the non-Bumiputeras. Therefore, it is clearly explained that the Muslim consumers must consume only Halal products and the SMEs, especially that owned by the Muslim must find a way how to adopt Halal certification for their products to cater the Muslim consumers. In general, once consumers aware on Halal products means it is a great power to educate manufacturer to acquiring Halal certification. This is supported in a study by Nooh et al. (2016), the SMEs should be ready to be a Halal certified company, because it is contributing factor in consumer decision and the failure to be Halal certified would be a competitive disadvantage for the SMEs at the current and future market.

In 2010, Perlis have been selected by Malaysian government as one of the Halal hubs for food production under JAKIM supervision. However, compared to other states, the statistic currently shows that Perlis still contributes to the low percentage of Halal food production. This is supported by statement made by Raja Muda Perlis where he urged the entrepreneurs in Perlis to adopt Halal certification in order to penetrate into global market. Thus, this study wants to explore on the issues related to Halal certification adoption among SMEs in Perlis by focusing on the effective and efficient of the firm performance use their resources to adopt Halal certification. The resource-based view (RBV) theory is compatible to be used as the core of this study and at the end, this study will identify and propose new enhancement towards this theory. We believe that the entrepreneurs of the SMEs in Perlis must utilize their resources in the organization in order to cater business opportunities and must expand the market for Halal products by sharing their issues on Halal certification awareness and adoption.

Research Objectives

RO1: To identify the problem related to Halal certification adoption among SMEs manufacturing food product.

RO2: To relate and categorize the factors related to reluctant of SMEs owner in applying the Halal certification.

RO3: To develop the model and measurement instrument for adoption and awareness.

Literature Review

Halal is a credence quality attribute, i.e., a product characteristic that cannot be evaluated or ascertained by the individual consumer, even upon or after consuming the goods (Golnaz Rezai et al., 2012; Kamilah et al., 2017). Consuming halal food is one of Muslim's obligations as Allah announces: O mankind! Eat of that which is halal (lawful) [food which is good on earth],

and do not follow the steps of Satan (devil)... (Quran chapter 2, verse 168). Obedience and devotion have made halal as a universal indicator for product quality assurance and living standards (Gillani et. al., 2016). The availability of halal products is an important requirement for Muslims. Therefore, it has become a necessity for the government to provide halal products, especially for countries with a majority Muslim (Anwar et. al., 2018). However, there is neither a worldwide authority on halal nor is there a consistent "Halal" trademark with over 15 halal logos in the world market although harmonization efforts have begun (Minkus-Mckenna, 2007). Thus, Muslim populations are making their presence felt socially and politically and are requesting for halal labelled food products (Riaz & Chaudry, 2004). The way of life for all Muslims regardless of where they live, are based on Islamic principles. For food, Islam decodes that food must be fit for human consumption in accordance with "halal" requirements of Syariah. However, how "halal" is assured requires the involvement of the country's regulations and regulating bodies under the jurisdiction of the country's law.

A Halal Certificate is an official document awarded to a food producer who has adhered to Islamic law and criteria in the manufacture of Halal meals (Alharbi, 2015). Halal certifications are used to make Halal production more transparent (Van der Spiegel et al., 2012). Furthermore, Halal certificates are required to demonstrate consumers and purchasers that items are made using Halal production procedures and to assist them in selecting Halal-compliant products (Majid et al., 2015; Van der Spiegel et al., 2012). Throughout the case of international export, a Halal certificate can strengthen the product's marketability, particularly in Muslim nations, resulting in increased sales and revenue for the company (Khan & Haleem, 2016). As a result, Halal production must be validated and certified to verify that food firms have satisfied the requirements in creating Halal goods (Van der Spiegel et al., 2012). Previous study by Ahmad et al. (2017) looked at many aspects on Halal implementation, such as top management commitment, information and knowledge, proper assistance, training and education, supplier management, customer management, employee attributes, policy and procedures were all acknowledged as essential components in the Halal adoption. The impetus to establish Halal food certification, according to Ab Talib et al. (2015), comes from within an organisation. Several incentives for implementing Halal certification were highlighted, including managerial commitment, competitive advantage and firms, market expansion, customer demand and pressure, and so on. However, various obstacles to applying this standard have been discovered, including a lack of employee enthusiasm, a high cost of implementation, complex manuals and processes, a lack of knowledge, and so on (Ab Talib et al., 2015).

Regardless of the fact that SMEs dominate the Malaysian food industry, most of them are still hesitant to apply for Halal certification. Anecdotal evidence from press reports suggests that many SMEs are hesitant to apply for certification because the process is costly, time-consuming, and burdensome to the business. Despite strict regulations by the Malaysian authorities on Halal Labelling, incidences of false labelling could mark the credibility of the Halal Label adopted by the relevant authority chiefly, JAKIM (Talib et al., 2010). Hamid et al. (2017) mentioned that the low level of awareness and lack of concern about the implementation of the Halal industry are the two major factors that justify the scenario of many manufacturers, especially Bumiputera who are still reluctant to apply for Halal certification. Among the reasons is that they have issues in fulfilling the requirement for Halal certification, they also believe that the process is expensive and complicated to become a Halal certified company. According to Ab Talib et. al., 2016, Halal certification will affect the growth of the consumer's base, increase the numbers of consumers, and also increase the revenue of the firms. Ngah et al. (2017) discovered organisational readiness, customer pressure, and perceived benefits have

significantly related with intention to adopt halal warehousing services and these elements have been identified as the drivers of adoption.

The ability to manage resources effectively and efficiently in order to achieve organisational goals can have a significant impact on a company's performance. An organization's performance will be judged based on its operational effectiveness and efficiency, which is critical for both employees and the organisation (Neely et. al., 1995). As a result, the 'Resource-Based View' is compatible with the internal control highlighted by the researchers as the study's core. Materials, techniques, including halal food standards, quality and safety, mechanical, and human controls are all part of the internal control system. The application of "Resource-Based Theory" is projected to fill a gap in existing research and serve as a guide for models based on existing investigations. The Resource Based View as mentioned by Barney (1991) means the firm's internal characteristic and performance will determine that the firm achieves sustained competitive advantages. Firm's resources include of three categories; physical capital resources (plant, equipment and others), human capital resources (training, experience, intelligent and others) and organizational resources (reporting structure, planning, controlling, coordinating systems among others). The resource-based theory has considerable influence, especially in understanding the competitive advantage of the organization while maintaining the advantages compared to other organizations (Barney, 1991; Fahy, 2000; Ellinger et al., 2008). Sirmon et al. (2007) and Grant (1991) are of the opinion that it is valuable if it is supported by the system, organizational processes, skills, capabilities, and knowledge. Next, Amit and Shoemaker (1993) considered that this theory assumes that the organization has several sources, and a variety of resources can be distributed in the firm. Thus, an effective control organization is an image of the organization's capabilities through the organization and control of own resources based on trust, experience, knowledge and ideas by the group or groups. For Muslim consumers, halal food is an important part of the quality attributes. Halal certification and Halal quality marks play a significant role in helping Muslim consumers choose food (Nakyinsige et al., 2012). Because of the global supply chain, the authenticity of Halal products at the time of consumption is a subject of concern. Therefore, a clear understanding of Halal certification and factors that influence its implementation is needed.

Conclusion

In conclusion, Halal certification is an important consideration for Small and Medium Enterprises (SMEs), particularly those operating in the food manufacturing industry. The adoption of Halal certification is relatively high in countries with significant Muslim populations, such as Malaysia, where Halal certification is necessary for businesses to serve Muslim consumers. SMEs in these countries may seek Halal certification to meet consumer demand, access new markets, comply with government regulations, gain a competitive advantage, and build their brand image. The adoption of Halal certification among SMEs may also depend on factors such as the target market, regulatory environment, and business goals of the SME. In some cases, the cost of certification may be a barrier to adoption, particularly for smaller SMEs. However, the benefits of Halal certification, including increased market access and customer loyalty, may outweigh the costs for many SMEs. This study is significance as it is in line with the government's Shared Prosperity Vision 2030 under KEGA 6 which related to Halal and Food Hub in promoting Malaysia as the world hub of Halal industries. Therefore, it might assist the Malaysian Government especially Jabatan Kemajuan Islam Malaysia (JAKIM) to identify the factors that causes SMEs manufacturing food product to apply for Halal certification. From there, JAKIM can take some proactive steps and actions to ensure that their objectives are achieved. In summary, Halal certification can be a valuable tool

for SMEs in the food manufacturing industry to grow their business and meet the needs of their target market. With the growing global demand for Halal products, SMEs that obtain Halal certification may be better positioned to take advantage of new market opportunities and increase their competitiveness in the marketplace.

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