Determinants on the Obtainment of Halal Certification Among Small Firms

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Abstract: This paper aims to identify the determinants in obtaining halal certification in small firms. A resource-based theory (RBT) is deployed as the basis to analyze those possible factors derived from the human capital and the firm theories. Eight independent variables delineated include business experience, Islamic motivation, Islamic training, Islamic education, Islamic networking, Islamic finance, firms’ age and ownership. The proposed hypotheses mark the relationship between the 8 variables and the obtainment of the halal certification. The sample size (N=370) is a group of small firms owned by Muslims randomly picked from the four regions in the North Sumatera province, Indonesia. The measurements’ justifications are in compliance with shariah principles. By adopting the quantitative deductive-hypothetical method and the logistic regression analysis, the result has revealed that six variables namely business experience, Islamic motivation, education, business training, networking and firms’ ownership are found to have a significant relationship with the obtainment of halal certification, except for the financing and firms’ age factors. The importance in obtaining such certification lies more than convincing customers with the goodness of ingredient or compliance with the religions’ obligations but also it can serve as a strategy that brings a competitive advantage for the firms.

Key word: Halal Certification · Business Strategy · Resources-Based Theory

INTRODUCTION

Islam is a universal and comprehensive religion dedicated to all human kinds on earth which governs all aspects of human life from worship rituals, business, politics, economics and social matters as stated in Al-An’am 6:38, Ash-Shura 42:29, Hud 11:6 and An-Nahl 16:89. In particular, concerning business affairs, the religious guidelines which mention about the permissible and prohibited actions that must be done aims to bring a blessed and better life. For example by introducing the halal products’ certification, it is recognized as a globally accepted certification which emphasizes quality and healthy aspects that must be delivered to all consumers, more than as a process of slaughtering animals or concocting alcoholic ingredients. No doubt that the development of this certification brings positive responses from the markets; however, in most cases, it remains to be considered as a product’s label that has limited functions, scopes and meanings.

As 60% or estimated 1.57 billion of Muslim populations live in Asian countries like Malaysia, Indonesia, Brunei Darussalam, Thailand, Pakistan and Bangladesh, the potential progress on the halal certification should be discernible. There are researchers who discuss on halal certification matters such as Funston [1] who has discovered a growing concern of awareness among Malay Muslims in Malaysia since 1980s and Rosly et al. [2] who reveal that 40% of their respondents are concerned with the halal logo. Meanwhile, Azrina [3] adversely states that Malaysians still have low level of awareness compared to other countries in Indonesia and Thailand. Other studies done by Shahidan and Osman [4] mention the issues of halal certification implementation i.e. the inconsistency of halal definition and interpretation and Hooker [5] points out that Indonesian Muslims perceive that the halal products’ certification is not so important because it relates to a religious concept thus it cannot be mixed with other business actions. Moreover, the low number of

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halal products’ registration could be used as evidence that many Muslims deny their obligations to produce and consume good and healthy products [6]. If those negative feedbacks occur due to the absence in understanding the halal concept, a study by Rahman et al. [7] who refer to their findings based on 300 entrepreneurs in Malaysia mention that most of them learn the Islamic practice concepts and realize the vital role of the halal concept, but the certification’s registration still seems to be underestimated. Actually, it cannot simply be ignored as a product’s control instrument, where some of the contents may be contaminated or mixed up with the prohibited (haram) fixtures.

Moreover, the halal certification is useful as a resource that brings competitive advantage for the firms in order to have better performance. It is also influential enough in the mainstream market, where it can affect and change how the business and marketing are being done [8]. With all the importance of getting halal certification, the intention to adopt it as a business strategy is highly considerable. In regard of the perceived halal certification by small firms in Indonesia, it has not been given the attention it deserves as the applications of such certification involve significant costs, procedures and other requirements that further reduce their chances. This may be a different experience for the established or large firms. Nevertheless, the authorities should promote the access, exposure and encouragement for them to register the certification due to the importance of delivering quality products, thus any related issues may be minimized and the applicants increased. Having related this to the resource-based theory, this study crucially needs to identify the determinant of obtaining halal certification in small firms.

**Literature Review:**

**The Halal Certification:** Halal is a Qur’anic word meaning lawful or permitted. It refers to the food that has dietary standard as mentioned in the Qur’anic verse:

- “O ye who believe! Eat of the good things wherewith We have provided you and render thanks to Alah, if it is He whom we worship” (Al-baqarah 2:172).

Specifically, the unlawful foods are mentioned in another verse in Al-Qur’an:

- “Forbidden to you is anything that dies by itself and blood and pork, as well as whatever has been consecrated to something besides Allah and whatever has been strangled, beaten to death, trapped in a pit, gored and what some beast of prey has begun to eat, unless you give it the final blow; and what has been slaughtered before some idol, or what you divide up in a raffle; (all) that is immoral!” (Al-maidah 5:3).

From these 2 Qur’anic verses, it is clearly mentioned that all the ingredients of foods must be halal, the process of slaughtering animals such as cattle or goats must be according to Islamic manners i.e. using a sharp cutting tool such as knife, or the halal ingredients must not mix with other elements of haram (prohibited) materials during storage, transport and cooking. Other related chapters of Al-Qur’an emphasize on halal products consumption as mentioned in Al-maidah 5:4; 88; 94; Al-baqarah 2:168; 219; Al-an’am 6:121; An-nisa 4:43; An-nahl 16:67; Ar-ra’id 13: 2-4; Al-anbiya 21:79. It must be understood that the production of halal food is not only beneficial to Muslims, but also to the producers by the increased market acceptance on their products.

The Development of Halal Certification: The Islamic halal products take a centerpiece on the global market and are claimed as one of today’s fastest growing markets that are expected to grow at a rate of 7 percent annually with the market volume estimated to be US$580 billion a year [9]. It is confirmed that halal products are no longer confined to a country’s demography and identified by the narrow lines of nationality or ethnicity [10]. However, the application of halal certification has been perceived differently in each country. Some of the Muslim population see it as not as important than just a label where they recognize the way Islamic practices are taught, thus they avoid to invest on it; meanwhile in a minority Muslim places, it should be encouraged due to the surrounding of saleable haram products.

Despite the increase number of the positive responses from consumers, there are reasons behind the reluctance of obtaining the halal certification by Muslim owner-managers. They do not have the interest to develop their own religious standard due to the assumption that such certification cannot capture larger consumers with various religious backgrounds. This pragmatic manners exist when those established certifications have more credible reputation that they are accepted worldwide. They may lack the understanding of the halal concept and its benefits. Unfortunately, in relation to the policy support, in Indonesia for example, the government relies on the Islamic Non-government organizations to act on the awareness of obtaining the
**Halal Certification and Firm Strategy: How does the halal certification relate to a business strategy?**

Schermerhorn [16] defines a strategy as an action plan that identifies the long-term direction of an organization which guides resource utilization to accomplish goals with a competitive advantage, while Porter [17] mentions that a strategy is used as a trade-off option where a firm has to choose some limited offers available or any of the best to be outperformed of their competitors. He proposes on business strategies such as cost leadership, differentiation and market focus. Moreover, previous investigations use quality, low cost and innovativeness [18] and new product development [19] as the firms’ strategies, while Moores [20] mentions that the firms may adopt any of the specific combinations of tangible and intangible resources as a strategy. It means that there are no universal and best strategies that must be employed by the firms. Perhaps, the halal certification is a source of competitive advantage that will carry products’ differentiation and quality.

Wilson and Liu [21] argue that the halal label philosophically covers all constructs such as branding, marketing, products development and it is further related to the management, organizational behavior, anthropology and sociology. It is more than a recognized symbol or sign that is associated with religious obligations. They have also posited that halal certification is a way to inform and reassure the consumers on the products and its shariah-compliant ingredients. The halal range of products is not limited to the common food and financial industries but it expands to new industries i.e. cosmetics, pharmaceuticals, tourism, entertainment [22]. This undermines the contemporary branding constructs by knowing that halal only focuses on aspirational, tacit and intangible components [23].

Conventional businesses use the halal certification as a tool to generate more sales rather than as a religious consideration. Evidence shows the growing demand of halal products in some non-Muslim countries in Europe where they are slowly aware of the healthy products produced by halal processes. Even the McDonalds in Singapore has seen an influx of eight million patrons a year after it had obtained halal certification. Since being certified halal, KFC, Burger King and Taco Bell have all seen an increase mof 20% in customers (p.13) [24]. Given these arguments, the halal certification is strategically important to attract new customers as well as to retain the existing ones where it provides the recognized quality standard of the content of the products.
The Resource-Based Theory: This theory has been discussed in a body of literature. It is defined earlier by Wernerfelt [25] that a firm’s resources at a given time could be defined as tangible and intangible assets which are tied semi-permanently to the firms (p.172). It is recognized as the most influential framework for understanding strategic management ([26]; [27] and is used to operationalize the constructs of competitive advantage. In order to outperform the competitors, the firms need to sustain their competitive advantage. Barney [28] has highlighted that the firms may employ their internal unique resources and capabilities as their strategy. He also posits the four key attributes of a resource that yields sustainable competitive advantage; it must be valuable (worth something), rare (unique), imperfectly mobile (cannot be easily sold) and non-substitutable (not easily copied). In relation to the halal certification, it is recognized as a factor to have better performance in an organization. Meanwhile, Muslim owner-managers should have the resources that can be used to obtain such certification. They include the motivation, education, training, experience, networking and finance.

Theoretical Framework: The paper’s investigation is based on the firm-unit of analysis. In the small firm theory, the owner-manager is synonimous with the firm [29], while to have a broad understanding on the research analysis of this field, it is suggested to explore the factors from the said two theories [30]. Figure 1. below illustrates the theoretical framework of this study:

Factors Associated with the Obtainment of Halal Certification:
Business Experience: The experience of owner-managers is related to the actions in business operations. This element of human capital shapes the individual mindsets where the one that has more experience acts differently compared to those who have less experience; they are able to resolve some challenges associated with the organizations’ matters due to the knowledge received in previous works, in terms of technical or strategic decisions. The experience is the best teacher and it improves our daily lives. Kim and Miner [31] assert that having previous experiences in business planning and management is viewed as an extra advantage that can be deployed in the formation of the next business venture. As such, the owner-managers who have more experiences may look into the importance of obtaining halal certification more seriously, thus, the proposed hypothesis is:

Islamic Motivation: It is based on the al-falah factor, while the conventional commonly has the pull or push factors in running the businesses. Empirical evidence supports both the pull and push theories for venture initiating reasons [32]. The al-falah related to the achievement contains the material and spiritual outcomes. Al-falah begins with the importance of niyyah (good intention) that could derive positive results. Muslim must be aware of the existence of God in his niyyah. This niyyah is considered as an ibadah because it is purposely done for the goodness. Any outcomes will be positive if those behaviors are permitted in shariah and not merely based on rational thinking. Muslims should be motivated to earn the materialistic gain for rendering the duty to Almighty Allah SWT, the duty towards other fellows and all other creations of Allah SWT [33]. This kind of motivation would be realized by attending programmes such as preaches in mosques etc., that will drive towards implementing Islamic practices including obtaining halal certification. Thus, the proposed hypothesis is:

Islamic Business Training: Ali [34] comments that most training programs in the Muslim world rely heavily on Western methods without an adequate explanation on ethical applications. Altalib [35] adds that Islamic training encompasses the moral and spiritual enhancement of man and it is manifested eventually into the physical development. Training and development should also be conducted to increase the faith in God. Besides acquiring skills, the Islamic training method has emphasized on general knowledge that can improve both faith and religious practices of Muslims. It also motivates them to seek perfection and excellence in all that they do.
including in business actions. It is clearly stated that Islam encourages Muslims to attend the training based on shariah, consisting of spiritual and commercial programmes which will influence the obtainment of the halal certification. Thus, the proposed hypothesis is:

- **Islamic business training is positively related to the obtainment of the halal certification.**

**Islamic Education:** The Islamic education’s goal is ultimately to epitomize the perfection of the human soul and salvation. One Hadith reminds believers that “seeking knowledge is obligatory for every Muslim man and woman” [34]. It consists of ethical and moral considerations along with the formal and logical considerations which are totally contrasting with the modern Western education principles. This includes the possession of intuition, creativity and response to the delightfully given intellectual power. By attending Islamic schools/educational institutions, the owner-managers would gain the Islamic knowledge that can be used in business operations which includes the influence of the halal certification. They will learn and understand the Islamic obligations to consumers and produce the halal products. The proposed hypothesis is:

- **Islamic education is positively related to the obtainment of the halal certification.**

**Islamic Networking:** The networking focuses more on building a strong relationship or family ties (ukhuwah) as stated in the Quran (Al-hujurat 49:13; An-nisa 4:1). The idea of strong relationship (sillaturahim) is very highly regarded in Islam, as it aims to build good relationships among human beings that encourage trust, reciprocity and shape the quality and quantity of the interactions purposely for seeking goodness and growth [36]. It is also meant for exchanging information, generating mutual benefits and gaining competitive advantage. Rice and Al-Mossawi [37] state that the Islamic value dimensions such as honesty in communication, good intention, appreciation of the diversity of human race, justice and fairness are applied in the relationships as stated in the Al-Qur’an in Al-hujurat 49:9; Maryam 19:96. One of the possible actions is by joining any trade membership or business associations which has an orientation to the Islamic principles. Through this Islamic networking, the owner-managers are influenced to obtain the halal certification, thus the proposed hypothesis is:

- **Islamic Networking is positively related to the obtainment of the halal certification.**

**Islamic Finance:** Conceptually, the Islamic financial systems aim to fulfill the teachings of Al-Quran and they are opposed to the maximization of financial assets’ returns [38]. The shariah-based financing is established by five main fundamentals namely interest prohibition (riba); excessive uncertainty (gharar); speculation (maysir); risk and return sharing; and interdiction of investing in ‘unethical’ industries. The firms that purchase the Islamic financial products are potentially aware of the impact of taking the riba’ where it could harm the global financial systems as a whole; they understand the right and wrong actions that need to be undertaken. This situation gives an experience to the owner-managers to oblige to another ethical decision by obtaining the halal product certification, thus, the proposed hypothesis is:

- **The Islamic financial products is positively related the obtainment of the halal certification**

**Firm Age:** The firm’s age is a determining factor in small firm research that has been discussed extensively [39]. Agarwal and Gort [40] point out that the older firms have existed in the market for some time and have technically gained more knowledge, abilities and skills in business operations, thus, probably the decision of obtaining such certification is seen to be crucial. The older firms may have the initiative to deliver healthy and quality products to be established for a long period rather than the younger ones who are still finding their ways to stabilize their business operations. As such, obtaining halal certification is a beneficial action for the older firms that would contribute towards better performance, thus the proposed hypothesis is:

- **The older firms are more likely to obtain the halal certification.**

**Firm Ownership:** Abby and Nicholas [41] posit that a firm’s ownership dictates the sources and amounts of funding available which determine the competitive advantage of firms which is associated with more efficient strategies and higher level of firm performance. The enterprises with either non-limited or limited type of ownership have an influence on the decision to obtain the halal certification. The fact is that the enterprises with limited ownership would have stronger capital establishment which enable them to fulfill the
requirements and standards set by the authorities that will render them more qualified to apply for such certification, though the non-limited ones have the same opportunity to do so. As the enterprises’ ownership is closely related to the execution of decisions, the firms with limited liability ownership would probably consider obtaining halal certification more, thus the proposed hypothesis is:

- **Limited liability of firms’ ownership is more likely related to the obtainment of the halal certification.**

**MATERIALS AND METHODS**

A total of 9,835 units of small Muslim-owned firms are engaged in the food industry altogether representing the population of this study and the sample of 370 units [42] was randomly selected from the four strategic regions in the North Sumatera province, Indonesia. This province has a composition of 86% Muslim population out of 13 million people which would potentially contribute to the increased halal products’ market share. A cross-sectional survey of a questionnaire was designed and the two statistical analyses, namely the descriptive and logistic regression analyses were adopted.

**Correlation Analysis:** Table 1 presents the rank order correlation matrix with Pearson Correlation Coefficients among the 8 predictive variables of this study. This was a two-tailed test where a relationship was expected but the direction of the relationship was not predicted. Pearson’s $r$ ranges from -1.0 to 1.0 measuring the strength of the linear relationship. The larger the absolute value of $r$, the stronger is the linear relationship. Pearson correlation coefficients also indicate normality and linearity [43]. It was observed that each variable was significantly correlated with other variables which indicated that it would contribute significantly to the equation formulation. The cutting point of the correlation values is less than 0.50.

**Logistic Regression Analysis:** Table 2 presents results from the model formulated to test H1, H2, H3, H4, H5, H6, H7 and H8. The correlation between Y and X was explained by the likelihood ratio index (just like the R square in the ordinary least square regression). In this analysis the likelihood ratio index was 0.69 or approximately 70 percent. This model explained almost 70 percent of the variance of the contributing factors to the decision of obtaining the halal certification.

<table>
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<tr>
<th>Table 1: Pearson Correlation Matrix of the Independent Variables</th>
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<tr>
<td>Variables</td>
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<tr>
<td>1. Business Experience</td>
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<tr>
<td>2. Islamic Motivation</td>
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<tr>
<td>3. Islamic Training</td>
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<tr>
<td>4. Islamic Education</td>
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<td>5. Islamic Networking</td>
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<td>6. Islamic Financing</td>
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<td>7. Firm Age</td>
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<td>8. Firm Ownership</td>
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**. Correlation is significant at the 0.01 level (2-tailed).**

<table>
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<th>Table 2: Variables in the Equation</th>
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<td>Model 1&lt;sup&gt;a&lt;/sup&gt;</td>
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<tr>
<td>1. Experience (X1)</td>
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<td>2. Motivation (X2)</td>
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<td>3. Training (X3)</td>
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<td>4. Education (X4)</td>
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<td>5. Networking (X5)</td>
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<td>6. Financing (X6)</td>
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<td>7. Age (X7)</td>
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<tr>
<td>8. Limited Liability (X8)</td>
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<tr>
<td>Constant</td>
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<tr>
<td>Omnibus Test Chi-square</td>
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<td>Hosmer and Lemeshow Test Chi-square</td>
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<tr>
<td>-2 Log Likelihood</td>
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<tr>
<td>Cox and Snell Pseudo R&lt;sup&gt;2&lt;/sup&gt;</td>
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<tr>
<td>Nagelkerke Pseudo R&lt;sup&gt;2&lt;/sup&gt;</td>
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<sup>a</sup> Variable(s) entered on step 1: Exp, Motiv, Train, Educ, Net, Fin, Age, Limited. *p < .05. **p < .05
Another two measures that are analogous to $R^2$ in the ordinary least squares (OLS) are Cox and Snell pseudo $R^2$ and Nagelkerke pseudo $R^2$. As shown in the Table below, the model's Cox and Snell pseudo $R^2$ was 0.614 while Nagelkerke pseudo $R^2$ was 0.820.

Meanwhile, The Omnibus Tests of Model Coefficients give an overall indication of how well the model performs, over and above the results obtained for Block 0, with none of the predictors entering the model. This is referred to as a 'goodness of fit' test. For this set of results, it should have a highly significant value (the Sig. value should be less than 0.05. In this case, the value is 0.000 (which really means $p<.005$). Therefore, the model (with the set of variables used as predictors) is better than the original guess shown in Block 0 with a chi-square value of 351.736. For the Hosmer-Lemeshow Goodness of Fit Test, poor fit is indicated by a significance value less than 0.05, so to support the model, a value should be greater than 0.05. In this case, the chi-square value for the Hosmer-Lemeshow Test is 13.997 with a significance level of 0.082. This value is larger than 0.05, therefore indicating the support for the model.

**Hypotheses Test:** The model was created with a decision of obtaining or not obtaining the halal certification as the dependent variable. In hypothesis 1, the variables have a significant value (Sig=0.000). The odds ratio demonstrates that for every one-unit increase in business experience, the odds were almost twice greater that the respondents would choose the decision of obtaining such certification. For the variable ‘business experience’, the value of Exp (B)=1.272, thus H1 is supported. Meanwhile, the variable (X2) in Hypothesis 2 is reported to have a significant and positive value (Sig=0.000). With the coefficient estimate (B=2.424) it allows safe rejection of the null hypothesis. The finding that Islamic motivation will have greater possibility in the decision to obtain halal certification supports Hypothesis 2. The variable of X3 shows a significant value of 0.000 with a coefficient of B=2.188, thus H3 is supported. It is also mentioned that the Islamic training is more likely to affect the decision of obtaining halal certification. Similarly with the variable of X4, a significant value is found (Sig=0.000, B=2.757) further indicating that H4 is supported. It indicates that the Islamic education is positively related to the decision of obtaining the halal certification. Moreover, the remaining variables of X5 and X8 have significant and positive values (Sig=0.000, B=3.288) and (Sig=0.022, B=1.217) respectively, thus H5 and H8 are supported. It establishes that both variables are more likely to influence the decision of obtaining the halal certification.

For hypothesis 6, the coefficient for the variable (X6) is not significant (Sig=0.149), thus it is not supported. It means that having an experience in purchasing the Islamic financial products apparently has no effect to influence the decision to obtain the halal certification. Similarly with hypothesis 7, it is found that the variable (X7) is not significant with a value of 0.309 and thus, is not supported. It indicates that the longer the years of the firm incorporation does not give any impact to the decision of obtaining halal certification.

**DISCUSSION AND CONCLUSION**

The actions of Muslims in their daily lives or specifically at their workplaces must be based on the Islamic teachings. They must also understand the religiosity of the ritual worship, thus, they may be aware on the significant impact of halal products. Obtaining the halal product certification is only one of the many Islamic practices obliged in shariah. Based on the framework of the resource-based theory, the paper also reveals the predicted factors such as business experience, Islamic motivation, Islamic training, Islamic education, Islamic networking and firms’ ownership have an influence in the obtainment of the halal certification, while the factors of Islamic financing and firms’ age are unable to prove the effect towards the dependent variable.

Being part of the highest-populating Muslims in Indonesia, the owners-managers could not depend on their strong Islamic community values but they need to encourage the adoption of such halal qualification standards. Despite the government agencies’ initiatives to encourage this halal product certification, other initiatives need to be considered related to the factors mentioned above i.e. improving the Islamic education systems or attracting Islamic business associations to participate. From the experience of adopting such Islamic practices, the owner-managers have realized their responsibility in delivering quality products by applying for the halal certification. Obtaining the halal certification is not merely a religious obligation but more to the intention to gain competitive advantage that could generate sales and induce better
performance. Nevertheless, other factors still need to be explored in this field to enrich the knowledge and in a larger scope, the Islamic literature.

REFERENCE