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A Review of Hindering Factors for Halal Certification Adoption Among Muslim-Owned Small and Medium Enterprises (SMEs) of Food Industry in Malaysia

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ABSTRACT

Halal certification has become increasingly important in Malaysia due to its majority Muslim population and growing demand for halal products both domestically and internationally. Thus, having small and medium enterprises (SMEs) in the food industry with halal certification is essential, especially among Muslim-owned businesses. However, halal certification is still a problem for Muslim-owned SMEs, and their readiness to obtain halal certification is at a very low level. The factors that motivate SMEs to obtain halal certification have been widely discussed in the literature, but the hindering factor in obtaining halal certification specifically among Muslim-owned SMEs is still limited. The method used in this conceptual study is derived from literature review in the form of journals, proceedings, and related articles. This review was aimed at identifying and analysing the hindering factors contributing to the unwillingness of Muslim-owned SMEs to obtain Malaysian halal certification. Among the factors include lack of knowledge and awareness about the requirements and benefits of halal certification, lack of capital which could lead to misperception about the cost and Muslim entrepreneurs are being comfortable with their status as Muslim.

Keywords: Halal certification, Small and Medium Enterprises (SMEs), Muslimprenuer

1   Introduction

The halal industry in Malaysia has grown significantly over the past few decades, with the government actively promoting the industry and providing incentives to encourage businesses to participate. According to the Halal Industry Master Plan 2030 (HIMP, 2030), Malaysia's halal industry would grow to US$113.2 billion (RM500.34 billion) by 2030 and contribute 8.1% of the country's GDP by 2025. The halal market is predominantly driven by the increasing demand for halal products and services from both local and international consumers. The Malaysian government has taken steps to ensure that the halal industry is well regulated and that halal products are of the highest quality.

Malaysia has become an important point of reference domestically and internationally when it comes to halal certification. This is particularly true in the segment of halal food, in which halal certification is given to applicants who comply with all requirements according to the

Malaysian halal certification system including for example the Malaysian Standard for Halal Food: Production, Preparation, Handling and Storage – General Guide (MS 1500:2009). The businesses must also adhere to the guidelines and regulations for halal food manufacturing in terms of the ingredients utilized, food handling, and food packaging [1].

The food and beverage industry in Malaysia has been dominated by small and medium-sized enterprises (SMEs). SMEs play a significant role in the economy and are involved in the production and distribution of halal-certified products. Nevertheless, a large number of them are still reluctant to apply for halal certification. Studies indicated that there are concerns about the level of perception and awareness, particularly among Muslim companies, towards halal certification. They may not fully understand the importance of obtaining halal certification and the potential benefits it can bring to their business. This may result in a reluctance to invest time and resources in obtaining certification, potentially limiting their ability to expand their customer base and increase profits. Furthermore, the knowledge and understanding of the halal certification process itself among businesses is still low, which could potentially lead to non-compliance issues with the certification requirements.

The willingness of Muslim-owned SME towards halal certification is at a very low level. Compared to non-Bumiputera SME entrepreneurs, the number of Muslim-owned SMEs who have halal certificates is still very low. Generally, non-Muslim entrepreneurs acquire JAKIM halal certificates aim to expand their product market to Muslim consumers [2]. Based on the data from JAKIM, in 2022, JAKIM certified 104,017 halal products, of which 29,125 were Muslim-owned. In 2021, there were 95,398 products with halal certification, with 68,686 being non-Muslim-owned and 26,712 being Muslim-owned [3]. It is highlighted that there are many Muslim entrepreneurs are still not aware of the importance of the halal certification and they even did not have interest in having it. Meanwhile, non-Muslim entrepreneurs view that the halal certificate as the key in upgrading their business to give trust for Muslim consumers in consuming their products and services.

2   Halal Certification in Malaysia

Halal certification has become increasingly important in Malaysia due to the majority Muslim population and the growing demand for halal products both domestically and internationally. Nevertheless, there are challenges associated with it, including the lack of standardisation and the issue of halal fraud. Addressing these challenges will be crucial for ensuring the continued growth and success of the halal industry in Malaysia and the wider global market. Halal certification in Malaysia is generally overseen by the Department of Islamic Development Malaysia (JAKIM) and the State Islamic Religious Department (JAIN) or State Islamic Religious Councils (MAIN). The certification process is to follow the Manual Procedure for Malaysia Halal Certification 2020 (Domestic) established by JAKIM. Any organisation involved in the production or distribution of halal products or services that fulfill all the

requirements stated in the manual procedure shall submit their application online at the MYeHALAL portal. JAKIM will conduct a site inspection or audit to verify that the production process, ingredients used, and handling and storage of the products meet halal certification standards. Then, the JAKIM panel will either approve or reject the application.

3   Small and Medium Enterprises (SMEs) in Malaysia

SMEs involved in halal food businesses, particularly those that have obtained halal certification play an important role in Malaysia's economy in food industry. According to the SME Annual Report 2020, SMEs in Malaysia contributed 38.3% to the country's gross domestic product (GDP) and employed 8.4 million people, accounting for 67.3% of total employment in the country. In Kuala Lumpur and Selangor, SMEs account for a significant portion of the local economy. It is reported that Selangor had the highest number of SMEs in Malaysia, with 238,753 SMEs, followed by Kuala Lumpur with 97,104 SMEs. Among the SME sectors in Malaysia, the food industry is significant, as SMEs in this sector contributed 8.6% to the country's GDP and employed 1.1 million people [4].

Despite the significant benefits of halal certification, it can be very challenging for SMEs due to many factors including financial constraints, and complexity involved [5,6]. To cater this, the government of Malaysia through many sectors has implemented several initiatives to support SMEs in the food sector in obtaining halal certification, including the provision of training and financial assistance. For example, the Malaysia External Trade Development Corporation (MATRADE) provides financial assistance to SMEs for halal certification and participates in international trade shows and exhibitions to promote the halal food industry in Malaysia [7]. In addition, the SME Corporation Malaysia provides training and development programs to support SMEs in the food sector in obtaining halal certification and expanding their businesses [8].

4   The Hindering Factors for Halal Certification Adoption Among Muslim-Owned Business in Malaysia

Many studies reported on the factors that hindered Muslim-owned businesses in Malaysia from applying for halal certification. Oemar et al. (2022) [9] found that SMEs' awareness of halal certification is positively associated with their perception of obtaining certification, while the perceived complexity of the certification process is negatively associated with their perception. Lack of knowledge and awareness about the requirements and benefits of certification may be the main issue faced by SMEs in Malaysia. Many SMEs may not be familiar with the specific requirements of halal certification or may not understand how certification can benefit their business. As a result, they may be less likely to pursue certification, even if they operate in industries where halal certification is increasingly important [5,6].

Hasan et al. (2020) [10] previously highlighted that SMEs are interested in becoming halal certified companies and recognize the role of halal in increasing their competitiveness in the current market. However, strict and complicated application procedures are considered barriers to applying for halal certification. This is consistent with the previous study reported by Majid et.al (2015) [11] which stated that halal certification is difficult to obtain among SMEs due to halal governance hindering the process of certification. Similarly, Aidi-Zulkarnain et al. (2014) [12] identified that the certification process is considered complex with stringent procedures and time-consuming. SMEs may find it difficult to navigate this process without dedicated resources or expertise. Hendayani (2018) [13] mentioned that the problem faced by SMEs in obtaining halal certification can be due to limited access to certification bodies. SMEs located in rural areas or smaller towns may have limited access to halal certification bodies, which can make it difficult for them to obtain certification.

Another significant problem faced by SMEs is the misperception about the cost of certification. SMEs often have limited financial resources, and the cost of certification may be prohibitively expensive for some. SMEs may also need to invest in additional resources such as equipment or training to meet certification requirements [14]. Lack of trust in certification bodies have become another barrier that face by SMEs. Some SMEs may be skeptical of halal certification bodies due to concerns about transparency, consistency, and reliability [15]. Ismail et al. (2016) [16] added the problem faced by SMEs in obtaining halal certification is due to the limited market demand. SMEs may perceive a limited market demand for halal products or services, which can reduce their motivation to obtain certification. Arif et al. (2021) [17] have listed that the challenge that been facing by SMEs in pursuing halal certification includes lack of capital, stringent procedures and complex, failure to understand the halal requirement, lack of support and guidance, as well as misconception about obtaining halal certification.

Saiman and Yusma (2022) [18] revealed that the main problem among Muslim-owned SMEs is being comfortable with their status as Muslims, which means being a Muslim is a guarantee of halal because they are not using non-halal ingredients. "I am a Muslim entrepreneur. Why do I need halal certification? Even without it, I can sell products easily without any doubts from customers". These are the thoughts in the Muslim entrepreneurs' minds. The Muslim entrepreneurs consider every product they produce is halal and it is more critical when the concept of halal is understood when there is no element of pork and the usage of wine in the ingredients and raw materials. It is highlighted that there are many Muslim entrepreneurs who are not aware of the importance of halal certification and are even not interested in having it.

5 Conclusions

Halal certification is an essential component of the halal industry in Malaysia, and a significant driver in the global halal market. While the halal certification process in Malaysia

is rigorous and well-regulated, there are still threats and challenges associated with it. Addressing these factors will be crucial for ensuring the continued growth and success of the halal industry in Malaysia and the wider global market.

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