

Halal Compliance impact on Organizational Performance: the role of religiosity

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Abstract— The purpose of this paper is to study how the implementation of Halal certification could facilitate successful certification implementation in halal manufacturing company in Malaysia. The paper is based on a thorough review of published journals on the subject of implementation of halal level compliance and performance that moderate by religiosity. In recent years, 70 percent of the Malaysian halal manufacturer being non-Muslim. Thus, it is important to study the hindsight of the halal manufacturer on regard the compliance and performance, since there are lack of study examine the impact if religiosity in the area of operation organizational performance.

Keywords: *Halal certification, compliance, religiosity and organization performance*

1. Introduction

Halal means permissible and lawful and Tayyiban which mean healthy, safe and nutritious. The application for Halal certification is to gain the Halal market and also attracting consumer and making better profit for the company. The Halal certification adoption is based on the Halal-Syariah concept which is known as religious belief, particularly within the food industry and has been recognize as a measure of quality standard. According to [14], Halal is not only related to food, but also imposed on the other product such as pharmaceutical, cosmetics, tourism, logistics and entertainment industry.

It also has been considered by many writer or researcher, that Halal also expanded to other field such as Marketing which focusing on consumer purchase intention [34], customer awareness [32] and consumer willingness to pay Halal product

[40]. In fact, Halal product market now has boosting up and getting more intention globally. The halal market is amounted USD 2.3 trillion in 2019 with the increasing number of consumers around the world estimated 3.1 billion. The halal industry has contributed significantly to the gross domestic product (GDP) and increase export product, provide job opportunities among communities and increasing foreign investors. Halal industry in Malaysia is expected to contribute about 5.8 per cent to the total GDP by 2020 and expected to continue growing at 5 per cent annually.

To enter the halal industry, halal certification is a crucial part to tap into the industry. The product that has certified by halal it carry out a proper halal status and trusted by Muslim consumer and attract non-Muslim consumer in term of halalness, wholesomeness and high quality. As demands for halal is increasing in global, more of the manufacturer are aiming to be halal certified. However, due to the importance impact of halal certification, some of the business owner likely to use fake certification logo and most of the industry use the logo only to grab the business opportunities without actually understand the practices.

Halal certification is crucial due to its impact to Muslim consumer. In Islam, is a must for Muslim to consume halal product. However, along the way to obtain the certification, it is lengthy process and requirement application. At some points, some of the companies has to wait until nine month before certified by the authority's bodies [24]. Along the waiting period time, some of the company are giving up mainly due to the time consuming process and it will interrupt the operation process.

The delay might be postpone the operation process and might increase the cost of storage.

There are cases of halal certification has been revoked from halal production due to the such attitude towards halal conformance by manufacturer. [38] and [40] has reported 9 cases of halal manufacturer licences revoked by JAKIM where 6 of it are the food producer. However, there a lack of study that empirically prove related situation to manufacturer conduct and behaviour in maintaining the halal certification for their facilities. With 68 percent of halal food manufacturer being non-Muslim it is important to understand the view in regards to halal certification and halal compliance. Thus, this study aims to study the impact of religiosity on halal compliance and how its increase the organization performance.

2. Research Objective and Questions/ Theoretical Foundation of the Study

The current study aims to investigate the role of halal certification compliance among food manufacturer will enhance the organization performance. The research question are as below:

- i. Does the level of halal compliance enhance organization performance?
- ii. Does religiosity moderate the relationship between the level halal compliance and organization performance

3. Literature Review

3.1 Organization Performance

Performance refer to multidimensional build to achieve the goals of the organization and has connection with strategy goal of the organization [25]. Previous study related to certification were on quality aspect such as performance measurement and implementation of ISO certification [5],[3] & [17]. Many researcher and empirical study have showed that implement certification has the relationship with the performance not only regard to financial performance such as sales, ROA, ROI and , it is also on non-financial performance such as quality, time and market share [12],[21],and [35]. Halal industry nowadays become more important due to high demand and the increasing number of Muslim population in the world on halal product, in order to tap into the halal market, the halal certification is crucial because it is referring to trust, confident, hygiene and safety. [10] point out that halal certification is a resource for the firm to go international. This is the ticket for firm to go beyond global and penetrate their market. Since the

halal industry has make a considerable impact towards economic growth, it is important to measure the implication of halal certification among manufacturer.

3.2 Level of Halal Compliance

The implementation on the halal certification for this study is measure by four independent variable in measuring the level of halal certification. The four independent variable for the level of halal certification is Halal and Toyyiban practices, internal process, halal assurance system and human resource capability.

3.3 Halal and Toyyiban practice

[30] has listed that halal and toyyib principles include eight items namely food hygiene and safety, ingredient, equipment and utensil, packaging, storage, processing, transportation and waste management. This practice are been stated on Manual Halal Procedure (2014), clause 3.0 in MS 1500:2009. In this variable, there are seven dimension in this variable that represent the halal process in the manufacturing plant. The seven dimension consist of food hygiene and cleanliness, the ingredient, equipment and utensils, packaging, storage, transportation and waste management.

3.4 Internal Process in the organization

Internal process in the organization is a development working toward satisfying the process set out in the Malaysian halal certification application. It incorporate the documentation and the record that required by a new company that needs to obtain halal. The new company need a special record for the application of halal [27] he internal process consist of two dimension that is documentation and process.

3.5 Halal Assurance System

Halal assurance system refers to the Guideline on Halal Assurance System (HAS) issued by the JAKIM. This guideline is controlling halal purity and validity in order to promote the appropriate system when developing, implementing and improving the effectiveness in halal process. This guidelines should be used by the halal certificate holder in order to fulfil the halal standard, regulation and requirement in halal certification [16]

Internal halal committee (IHC) has to be establish by the organization in order to accountable for the developing, monitoring and controlling the halal assurance system to assurance its efficiency. The company also held some meeting involving halal committee members to discuss on the issue that are related to the development, implementation,

maintenance and review of halal assurance management system.

This includes halal critical points, product development and verification flow chart, the implementation of control measures, development corrective actions, system documentation and management record, product recall, verification process, and detection system (traceability) [16].

3.6 Human Resource Capability

Human resource capability refer to the employee in the company. The employee need to attend several seminar in order to fulfil the halal requirement. Employees are evaluated in terms of training requirements such as courses, food handlers, and injection TY2 [27]. In the Malaysian Manual for Halal Certification Procedure (Third Revision), in the manual has describe the responsibility of the management in providing the training courses to the employee. This courses trained employee in order to fulfil the requirement of halal procedure, this will help the management and the company with integrity in fulfilling the halal standard.

3.7 Religiosity

In the world, there are many religion such as Hindu, Buddha, Chistian, Jewwish, Islam and atheism. [18] define religion as practice and belief by a people which interprets and responds to what they feel is supernatural and sacred. Religiosity has been defined as "...the way in which people express their religious beliefs and practices and the importance ascribed to them" [25]. According to [17], religiosity is defined as the extent to which an individual is committed to his religion and to which that religion is reflected in the individual's attitudes and behaviour. [23] define religion as important cultural factor to study because it is universal and most influential in the social institution that will have significant influence on people's attitude, values and behaviour. In regards to religiosity, previous study has been used in sociology, phycology and educational area.

Religion is a way of life that will influence life. In the food consumption, religious as a foundation for human being in order to build their inner attitudes and behaviour [24]. This is considered as a very important indicator to make decision where it is a basis that lead a person to act legally and morally. Religion is a factor in deciding choice of halal and non-halal services and products by an individual.

4. Conceptual Framework

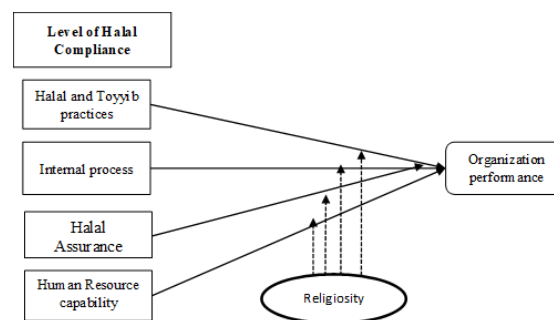


Figure 1: Conceptual Framework

In the relationship with certification and organization performance, previous study mostly focusing on quality management in implementing the ISO standard such as ISO 9000, ISO 9001 and some of it from environmental background such as ISO 1400. [12] has examine 3000 manufacturing and services companies that applied ISO 9000 has reveal that the implementation of ISO standard has positively enhance organization performance. This study similar to [19] has studied the performance of 287 manufacturing certified companies in Greece, and find that a positive relationship towards operation performance. Several study on performance has highlight and measuring the impact on financial performance [4];[5] and [9]. The findings shows that the implementation of standard certification help company to growth in term of financial performance.

In regards to halal certification and performance, there are several study has examine the relationship between halal implementation and performance [8],[15] & [30].

The conceptual framework in this study shows the relationship between halal compliance and organization performance and this relationship moderate by three dimension of religiosity; belief, knowledge and behaviour. Different religion bring a different teaching. Religiosity plays and important role in business environment and religiosity has impact the business organization through shaping the business and personal lives [6]. By ignoring the religiosity can be disable a business and stakeholder such as customer, employee and even competitors [11]. Additionally, there are also no published literature that examine the role of religiosity as the moderating variable in the association between level of halal compliance and organization performance.

5.0 METHODOLOGY

5.1 Research Design

The research design for this study was a cross-sectional that employ survey methodology to collect data from respondent [7]. This study using Structural Equation Model (SEM) to develop the model of the relationship among variable. The data will be collected among halal food manufacturer in northern region and registered under JAKIM.

5.2 Population and Sampling Method

The population of this study consisted of active halal certified company that registered under JAKIM in Malaysia. There are 5,726 company register under JAKIM and the status of halal certification valid until 2018. However, due to the same procedure and standard are follow by the halal manufacturer, only northern region are selected to be the respondent in this study namely Kedah, Perlis, Pulau Pinang and Perak. The total halal manufacturer in northern region is 928 [16]. According to [20], the appropriate sampling size is 274 companies. Therefore the appropriate sampling technique to select is simple random sampling.

5.3 Research Instrument

A questionnaire was develop which comprises of four section that is organization performance, level of halal compliance, religiosity and respondent profile. The level of halal compliance was adapted from [2] & [33] which consist of 31 item using a 5-point Likert scale (1 – I Do not Do; 2- I do partially; 3- Sometimes I Do, Sometimes I Don't; 4- I Do; 5- I Do Most of It). Meanwhile for ownership religiosity consist of 15 item adapted from [1] and [41], using 5-likert scale (1- Strongly Disagree; 5-Strongly Agree). Organization performance will be measure using two dimension that is financial and non-financial measurement. This is adapted from [38],[36] & [12] using a 5-point Likert scale (1- Strongly Disagree, 5- Strong Agree). The last part instrument is the information of respondent.

5.4 Data Analysis

Structural Equation Model (SEM) was used to create the database and run the statistical to determine the level of halal compliance, religiosity and organization performance. SEM software

divided into two types that is PLS-SEM and AMOS-SEM. The actual statistical will be chosen based on the data, if the data is normal, will be used AMOS-SEM. However if the data is not normal, PLS-SEM analysis will be choose. In this study, IBM SPSS 23.0 are also used in this study to analyse the descriptive information form the respondent.

6.0 DISCUSSION

The approach of this paper is to exhibits the role of religiosity in explaining the impact of the halal compliance and organization performance. Previously, most of the halal certification study has been extensively examine on the area of consumerism such as halal purchase intention, halal buying behaviour, perception on the halal product and halal awareness. And most of the study specifically focusing on halal food product. The fact that all studies has gone through the consumerism part. However, there a lack of study on the manufacturer view in halal certification study.

It is important to conduct a research form the manufacturer perspective, it is because the halal manufacturer is the producer of halal product and they are responsible to follow the rules and regulation in maintaining the halal status along the production line. This is mainly due to the ownership of the manufacturer most of it comes from non-Muslim producer. There are more than 70 percent of the halal manufacturer being non-Muslim, where only 30 percent of it being Muslim manufacturer. This is important to see the role of religiosity among halal manufacturer as 70 percent of it being non-Muslim. The perspective of non-Muslim is different from Islamic teaching, and belief.

As for Muslim, halal is an obligation and must be follow Islamic teaching (*Syariah*) and as a lifestyle especially in daily life and also for business. The compliance of halal is compulsory for Muslim producer and is voluntary for non-Muslim manufacturer. The economy of halal is getting bigger and beneficial for manufacturer, and most of the manufacturer want to involve in the halal business.

7.0 CONCLUSION

In conclusion, halal certification is seen as the tools in gaining the benefit inside the halal certification.

With the non-Muslim manufacturer are dominated the market, it is important to see the role of religiosity in the relationship between halal compliance and organization performance.

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