

The Moderating Effect of Religiosity on Halal Certification Among Food Manufacturers in Malaysia

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Abstract— Halal compliance is very crucial for halal certified food manufacturers. However, over time, there are many cases of non-compliances which resulted in the revocation of halal certificate among Malaysian food and beverage manufacturers. This study looked at the role of religiosity in ensuring halal compliance in companies operating in Malaysia. Results from the quantitative analyses indicated that religiosity did not have an impact on halal compliance by Malaysia F&B companies. This conclusion indicated that the existing Malaysia halal management system might be the main factor which ensure compliance among F&B stake holders in Malaysia.

Keywords— *halal certification, halal compliance, food and beverage*

1. Introduction

The halal industry plays an essential role in the global economic growth due to increasing demand for halal products, which is induced by the confidence given to consumers by halal certification. Halal certification plays a crucial role in worldwide expansion of the halal market. It provides confidence and trust among consumers, Muslims and non-Muslims. Halal certification is seen as the silver bullet for manufacturers and halal service providers. In the case of Malaysia, halal certification is optional and non-Muslim manufacturers own more than 60% of halal foods production businesses.

2. Background of Study

In Malaysia, halal certification is voluntary and not compulsory to all food manufacturers [26]; however, the Muslim population in Malaysia is compulsory to consume halal products especially

related to food consumption. Halal certification is seen as the marketing strategy for the company to expand more in the halal industry. As a previous study by [18] and [23] found that, implementing a halal certification helps to increase the company performance.

Although the halal certification can other issues associated with certification still arise. Monitoring and enforcing by JAKIM shows that there is a failure in the industry to maintain halal certification through non-compliance notice issue. The difference in the meaning of halal and practices have caused different interpretation and doubtfulness among consumers and manufacturers. In June 2014, Statistics Malaysian Halal Certification (SPHM) had reported three company's halal certificates being revoked for failing to meet the terms of the JAKIM halal standard. Similar cases were exhibited by 3 other companies in 2013, and 15 companies in 2012 [17]. Such cases are on the rise and from 2015 until 2018, there were more than 10 reported cases of halal certification revocation due to non-compliance with JAKIM Halal Standards. The issue is very critical as more than 60 percent of the owners of halal food certificates are non-Muslim manufacturer.

Due to this, the research focused on investigating the impact of religiosity the relationship between halal compliance and company performance. In this study, halal compliance dimension such as halal & toyyib practices, internal processes, halal assurance system and human capital.

3. Problem Statement

The halal industry in Malaysia is expected to contribute about 5.8 percent to the total GDP by

2020 and is expected to continue growing at 5 percent annually.

As demands for halal products become huge, halal certification importance turns crucial as a form of reliable assurance in terms of the halal product status. Products which carry proper halal certification are sought after and trusted by Muslim consumer in term of its halal status, wholesomeness, and overall quality. Since the market was estimated to be worth about 9.71 trillion dollars by 2025, more manufacturers are aiming to be halal certified in Malaysia and globally.

As the economic impact of halal certification became significant, some unscrupulous business owners choose to use fake certification logos and certain quarters of the industry only use the logo for business gains, without really implementing and understanding the rigorous practices to attain and maintain halal compliance for their manufacturing plants. There are documented cases of halal certification being revoked from food production facilities nation-wide. So far there are 9 reported cases of manufacturer's halal licenses revoked by JAKIM, 6 of which are from food producer [22] [25]. As 68% of halal food manufacturers being non-Muslim, it is critically important to understand their hindsight to halal certification and halal compliance. This research aims to study the impact of religiosity on halal compliance of these manufacturers.

4. Methodology

To facilitate the retrieval of the questionnaires from the respondents, a self-addressed envelope was sent alongside the questionnaire to the respondents. Questionnaire were sent to the top managers of each selected company. These questionnaires were completed by respondents who have the knowledge of halal certification and responsible for operations in related units. The population for this study consisted of an active halal certified company that registers under JAKIM in Malaysia. There are about 5,726 companies registered under JAKIM and the halal certificate, and the certification is valid until 2018. The total active halal certified company in Malaysia were 5,726 companies.

5. Results

Out of 400 questionnaires distributed, 130 (32.5%) were returned. questionnaires were returned. Out

of that 101 are fit to use questionnaires, later analysed using SPSS version 22 for Windows and SmartPLS softwares. The results are depicted as follows:

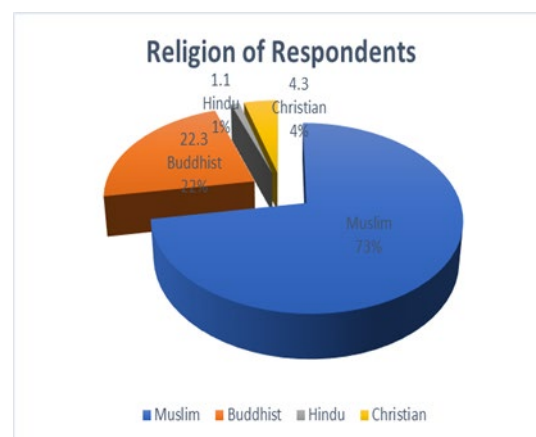


Figure 1: Demographic of respondents

Out of 101 food and beverage manufactures studied, more than 70% are Muslims, followed by 22.3% Buddhists. 59.6% or the companies have been certified halal for more than 5 years, 10% have been certified for 4 years and the rest were certified in the last 1-3 years.

Table 1: Moderation analysis results of religiosity

Research Question	Does religiosity moderate the relationship between halal certification compliance and organization performance?	
Hb1	The moderating effect of religiosity on halal and toyyib practices and organization performance	Not Supported
Hb2	The moderating effect of religiosity towards internal process and organization performance	Not Supported
Hb3	The moderating effect of religiosity towards hal al assurance system and organization performance	Not Supported
Hb4	The moderating effect of religiosity on human resource capability and organization performance	Not Supported

6. Discussion

The role of religious people always connects priority in their lives. Religion is seen as confident, and it is often associated with our daily lives. In this study, religiosity as a moderator for the interacting relationship between compliance with halal certification and organizational performance. There are four hypotheses developed to analyse the

role of religiosity as a moderator of halal compliance and organizational performance.

Previous studies have found that religiosity has an impact on business practices, working environment as well as performance [11] [15] and [3]. Religion helps collective action through human behaviour. Religion is an essential component of an individual's lifestyle; it is a system that is culturally and spiritually practiced, beliefs, values, and norms of daily life. Religion also acts, as a rule, an individual, especially to those who believe that transferring religion to their daily activities; this includes business practices and work environments as well as performance.

Such behaviour is common among religious entrepreneurs who are guided by ethical norms defined by religion during the decision-making process. This also applies to both managing a business and establishing leadership styles. For example, Islam shapes the behaviours of Muslim entrepreneurs by redirecting internal motivational forces from utility maximization, associated with a material reward system, to spiritual gains, assuming the system of welfare benefits and created not only for oneself but also for others. The finding from [20] also mentions that the leadership's component, for example, has been recognized as a strategy that can improve business performance mainly among the SMEs

Non-Muslim entrepreneurs are more likely to seek worldly pleasures and are always grateful to those who practice Islamic teachings that claim to be in-compliance with the law in doing business. It is supported by [21], where their study finds that high levels of religiosity have respect and humility while non-religious individuals seek happiness through material goods and worldly pleasure.

Religiosity is very important as it can influence individuals cognitive and behavioural. Religious people have a different system of values than less religious and non-religious. Similarly, with the attitude of entrepreneurs to the company, if they have a high religious value, it will directly help improve the company's performance by adhering to religious values such as business to help improve the economy. The attitude of the entrepreneurial religiosity also determines whether to adhere to halal certification. In general, in Malaysia, the number of companies that obtain halal certification is dominated by non-Muslims.

Halal in Malaysia is governed by the federation in which mandate the fulfilment of requirement set by

the government in-order to obtain halal certification. Non-Muslim entrepreneurs see halal as a platform to generate the economy. Due to the widespread halal market transcending beyond Muslim countries to even the non-Muslim countries, it has become a factor in expanding the business wing. With the growing number of Muslims, each year in the world, halal food and beverage producers put this market into a profitable business for their business. As the halal market now estimated USD 9.71 Trillion, this encourages the non-Muslim entrepreneur to tap into the convincing market.

In terms of human nature, a person must become a true Muslim then become an entrepreneur if he intends to become a businessperson. He is responsible for performing worship and being the Caliph of the Creator. Muslim entrepreneurs should also seek a blessing in business. For Islamic entrepreneurs, they do business is not merely for profit, but above all, fulfilled the 'fardhu kifayah.' This factor makes the religiosity among Muslim traders put the practice of religion as a purely non-profit.

Individuals who pursue material goods and worldly pleasures tend to place a great emphasis on the worldly in life and happiness derived by the possession of material goods. This lifestyle, to a certain extent, can have a significant impact on how they run their businesses. Since their main goal is likely to be an acquisition of wealth in order to pursue their goals, they may not pay much attention to social and environmental issues, which may have a significant impact on the communities where these businesses operate especially to SME.

This is explained by [8], that religious beliefs for individuals and decision-making practices play an important role in influencing spiritual-based decision-making for entrepreneurs, by providing a spiritual framework for entrepreneurs. This is because they seek guidance from their religion when deciding and avoiding unethical decisions.

Christian entrepreneurs with high religious motivation values are less likely to choose the organisational value set along the supplier chain from workers to suppliers, as business practice behaviour is important. They concluded that only small entrepreneurs are motivated by the benefit of the organization, especially against the company's performance. [6] proved such viewed where their findings show that Christian entrepreneurs are more inclined not to follow the direction set by the

company and that does not necessarily mean they direct their religious values towards the welfare of others.

Overall, religiosity affects entrepreneurial decision making by providing a reliable reference framework for decision-making that is supported by virtue of honesty and integrity.

It is noteworthy that this study did not find that religiosity had a low relationship between halal certification compliance and company performance. This is also because entrepreneurs with high religious values believe in low organizational value. This is reinforced by the findings of the study from [6] that small business leaders who have high extrinsic personal religious motivation have less likely to choose and follow the direction of the organizational value.

These leaders are likely to see their religion as a source of security, peace, and happiness, consider their organizations to focus less on the welfare of the organization or not focusing on the performance of the company. Therefore, just because a leader is actively involved in religious activities does not mean they will see their organization as directed by others; in fact, they may indeed believe they are less devoted than the other.

This finding is not consistent with a previous study by [24] [2] and [10]. In religiosity side, religiosity believed to have a relationship with economic growth. It is hypothesized that there is a direct relationship between religious attitudes and both economic growth and entrepreneurial activity.

In this study, religiosity does not play an important role in halal conformance probably due to the Malaysia halal certification system is under the government jurisdiction. This means that once inducted into the halal system through certification, the companies are bound by the halal standards in Malaysia in term of compliance and will lose their halal status if non-conformity is found in their halal management audit during the periodic audit conducted by the JAKIM. Such systematic approach will ensure vigilant among food manufacturers that opted to be halal certified.

Religiosity may influence the choice of the individual in carrying out entrepreneurial activity [1] In addition, religiosity will be beneficial for self-employment in the face of environmental change [13], so it will be able to survive in the business environment [14]. Empirically, some researchers suggest that religiosity will give an impact on achieving superior performance [9] and

an entrepreneurial success [4] [16]. Furthermore, explained that the factors that encourage entrepreneurial success in running business activities through its religiosity is their ability to make their own decisions and their ability to control the organisations contribute to their success.

7.0 Conclusion

This study was designated to find out if religiosity serves as a moderator between halal certification and organizational performance. Religiosity was investigated as the moderator variable in the relationship between halal compliance and business performance. The role of religion-based certification could potentially retain a similar function and give impact to quality and compliance. This study differs from previous studies in which previous studies mostly investigate the non-Muslim certification standard [5] [7] [18] while arguing that a religion-based certification MS 1500 can have a relationship with the business performance. This research evaluated the impact of halal certification compliance and related to well-established food safety certification research such as ISO and HACCP.

This study focused on demonstrating religiosity as the moderator variable to investigate the behavior of the implementer of halal certification and business performance. On behalf of a non-Muslim entrepreneur, they look at this certification is one of their platforms to be in this halal food market size worth \$739 billion by 2025 [12]

8.0 Limitation of the Study

Some limitation of the present research must be addressed. This study was limited to the sample obtained from the food and beverage halal registered companies in Malaysia. Henceforth, the relatively small sample size of this research may influence the generalizability of the findings. Halal certification is optional thus, this might be some of the company that might also practice sharia compliance manufacturing practices, but that did not go for certification, thus not participating in this study. Although this prevents the feasibility study, it should be recognized that, this is indeed a standard limitation for most surveys researcher that have constraints on time and budget. The limitations noted above provide the impetus for

future research. The suggestions for future research are addressed below.

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