

Halal Certification vs Business Growth of Food Industry in Malaysia

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Abstract—This paper aims to provide information on Halal Certification and its impact in the business growth of food industry in Malaysia. Halal industry in Malaysia has grown rapidly in recent years. It has gained interest from consumers and industry players that have chosen Halal certification as an indicator of good practice in food industry in Malaysia. Apart from the concern of Halal certification from religious view, safety and hygiene, it is also important to find the relation of Halal certification and its impact to business growth. The method used in this conceptual study is derived from literature review in the form of related articles, journals, proceedings, and books. There is variety of benefits that Halal certification provides. Among widely discussed areas are in safety and hygiene, attractions to Muslim tourists, attracts more consumers, better market signals and business expansions. This paper is hoped to contribute to better understanding of current situation that Halal certification can help industry players to grow their businesses. Further study on this matter is suggested in order to gain more accurate and detailed information on the situation.

Index Terms—Business growth, Halal, Halal certification, Islamic practice.

I. INTRODUCTION

Recently Halal industry has gained interest all over the world, not only from Muslim countries, but other countries as well. Reference [1] indicated that the impact of Halal products not only affect Muslim countries, but also other countries with Muslim populations. Muslim and non Muslim consumers all over the world are interested to purchase Halal product because it clarifies that the food preparation and final product is safe and hygiene to be consumed. Furthermore it can be said that Halal product has high demand because Islam is currently the world's second largest religion [2] as cited from Hill (2008).

However, there are significant lacks of interest shown from the business owners and those involved in the food industry in Malaysia to apply for Halal certificate despite their awareness and knowledge on the Halal certification [3], [4]. In most previous studies, there were limited researches that relate the importance of the Halal certification in terms of economic interest.

Most of the papers and books discussed on the value of Halal certification as a standard to be followed by business

owners to ensure compliance in Islamic value, cleanliness and hygiene aspect, and quality assurance [5], [6]. This paper's objective is to provide information on Halal certification and its impact towards the business growth of food industry in Malaysia.

II. HALAL FOOD INDUSTRY AND CERTIFICATION IN MALAYSIA

A. Definition of Halal

The word Halal is originated from Arabic word which means lawful and permissible according to Islamic Syariah law which refers to the teachings of Al-Quran and exemplary conduct of Prophet Muhammad (Peace and blessings of Allah be upon Him) as quoted in Hadith. The opposite of Halal is Haram which means forbidden [7] as quoted from Roland (1996).

Halal means an overall concept that encourages Muslims to seek and use products and services that promote cleanliness in every aspect of that person's life. Halal food means they are safe for consumption, produced in a clean environment as well as being the next benchmark for quality [6].

In Al-Quran, there are various proofs of the Islamic teaching in Halal concept. Among it is the ayat (verse) from Surah Al-Baqarah which strongly recommend Muslim people to only consume what is lawful in terms of Islam and avoid the wrongful ones which are misguided from Satan. The meaning of the ayat is as follows:

"He has forbidden you only the Maitah (dead animal), and blood and the flesh of swine, and that which is slaughtered as a sacrifice for others than Allah (or has been slaughtered for idols, on which Allah's Name has not been mentioned while slaughtering). But if one is forced by necessity without willful disobedience, nor transgressing due limits, - then is no sin on him. Truly, Allah is Oft-forgiving Most Merciful [8]."

B. Halal Food Industry and Certification

Total sale of food service in Malaysia is about USD 7.5 billion in 2010 due to rising disposable income in the country, urbanization in the cities, and growing popularity of eating behavior, for example eating out activities with families [9] as quoted from Sungkar (2008). 65% of the Halal certified companies derived from food cluster industries [10]. By the year 2012, there were already 2629 food premises which were granted with the Halal certification, according to [11] as cited from Halal Development Corporation (2012).

Malaysian government has taken measures in the Second Industrial Master Plan (1996-2005) and National Agriculture Policy (1998-2010) to support the Halal industry in Malaysia. State governments also set up the area for Halal Parks in the

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states of Selangor, Kedah, Malacca, Negeri Sembilan, Perak, and Pahang [12].

Halal certification in Malaysia is handled by Department of Islamic Development Malaysia (JAKIM). Other promotions and activities on Halal development are organized by government agency like Halal Industry Development Corporation or known as HDC [13]. Apart from Halal certification, Malaysia also uses other Halal standards to ensure the Halal implementation of its industries such as Malaysian Standard MS1500; General Guidelines on the Production, Preparation, Handling and Storage of Halal Foods, which includes compliance with Good Manufacturing Practices (GMP) and Good Hygiene Practices (GHP) by Department of Standards Malaysia (SIRIM) [14]. Recently in Year 2013, JAKIM's issuance of Halal certification were 84% of the total applications received [15].

Halal certification process in Malaysia as summarized from [16] is shown in Fig. 1. Steps 1 and 2 explains on relevant forms submission and required documents and other certifications submission via JAKIM official website. Step 3 explains on audit process whereby JAKIM officers will make site visits before the applicants are granted with certification. Step 4 is when Halal certification is awarded. The certificate will be valid for a year and renewal process will begin after completion of one year.

To relate the definition of business growth with this current study, it can be suggested that Halal certification can be one of the innovation tools for the business to grow because it can differentiate from one business to another. Theoretically, Halal certification can be one of the key factors to cater the ever growing Halal market. Supply of halal products to this increasing demand can be deciding factors for survival of business.

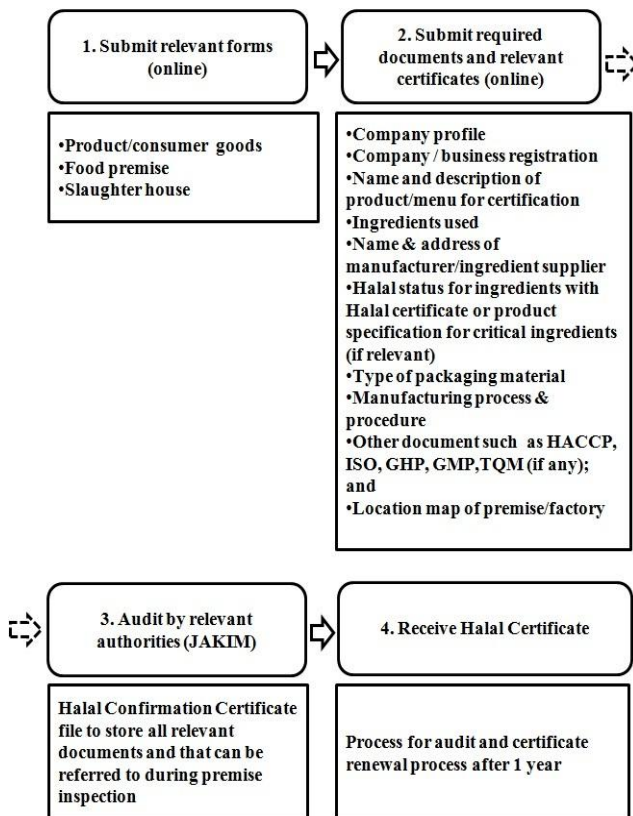


Fig. 1. Application flow chart for Halal certification in Malaysia.

III. BUSINESS GROWTH

A. Definition of Business Growth

There are various definitions of business growth available in literature review. Business growth is not only measured in terms of sales and profit only but there are also other factors that can define the growth of a business organization.

Reference [17] has categorized business growth into three different pillars;

- 1) Financial capital
- 2) Human capital
- 3) Intellectual capital

Among growth categories that fall under those three pillars are research and development (R&D) and new product service, sales and marketing, customer and market share, brand equity, new domestic and international market, human resource (HR) and staff recruitment, profit and efficiency, stock price, net worth and market perception, and distribution channel. Reference [18] also state that business growth is measured via sales growth, sales volume, profit level and number of workers.

Reference [19] outlined the growth stages in small enterprises in Malaysia. The first stage is called Post Stage 1; where the enterprise is legally established and assured of the survival. During this stage, the management's objective is to have some profit, monitor the business growth and market share. After the first stage, the enterprise will move to the next level which is called Early Growth Stage whereby the objective is to increase sale and the product supply to meet customer demand. Basically, the small enterprises will move from being micro to small to medium-sized enterprise. In order to understand the increase of the business size, one must look for corresponding increase in number of employee, capital employed, number of locations and sales revenue. Therefore, the business growth can be measured by associating it with gain, return of investment and increased chances for survival [20].

B. Factors that Influence Business Growth

According to [21], the four factors that influence business growth are entrepreneurial orientation (EO), environmental characteristic, firm resources and managers' personal attitude. EO refers to an organization's strategic orientation, entrepreneurial aspects of decision making styles, methods and practices. In other words, it means the business organization's innovative way of doing marketing, brave to take risks to market new and uncertain products or services, and being proactive compared to their competitors in order to lead the market. Environmental characteristic such as location, industry and market on performance are also among the factors that influence business growth. There are several types of environmental dimensions in current industry. Dynamic environment represents environment where there are many opportunities for growth that arises from social, political, technological, and economical changes. Hostile environment is when there are increased in business rivalry or decreased demand of the business organization's product or service. This condition will obviously lead to the decrease of growth opportunities for the firms involved. Whereas environmental heterogeneity happens when a situation is

rather complex, e.g., there are many different segments of the market with different characteristics. As for the firm’s resources, among resources that are needed to determine the growth are financial capitals, human capital and network resources. Business organizations with enough financial capital to run activities needed for the growth process are more likely to grow than the ones without. Apart from that, human factors are equally important in order to gain business growth. Individuals with better quality will achieve higher performance in achieving growth. Skills, knowledge, and experience are part of the factors that assist to grow the business successfully. Another form of resource is network resource, which can be divided into inter-organizational, intra-organizational, and inter-personal networks. Manager’s attitude is also important as a growth determinant. Business managers with positive attitudes will carry out the tasks given to ensure that the growth is achieved accordingly to plans and strategies.

Characteristics of the entrepreneur may vary from one to another [22]. These can influence firm growth too. Some like to take high risk. Some are too calculative. There is no single theory to say which is better. Similarly, entrepreneur characteristic is found to be one of the significant factors for business success as concluded from a study on small medium enterprises (SME) in Bangladesh [23].

There are other factors interacting with each other. If the entrepreneurs share the same characteristics, the firm’s characteristics such as nature of the business and their market might not. In that case, the organization depends on the management strategy in deciding things. If the management strategy is deemed right other external factors might not. If the firm has strength and opportunity, the external threat might cancel it [22] as cited from Storey (1994).

Reference [24] mentioned that when an organization plans for business growth, among factors that should be taken into considerations are the right people, processes or controls. The entrepreneur need to establish the right culture, business structure, human resource (HR) policies, measurement and rewards to the employees in order to produce the desired business growth. Apart from that, the hiring of the management team is also important in order to implement the strategy to gain business growth.

Table I below summarized the factors that influence business growth as discussed above.

TABLE I: FACTORS THAT INFLUENCE BUSINESS GROWTH

Factors	Citation
Entrepreneurial characteristic	[21], [24], [22], [23]
Management team’s attitude	[21], [22], [24]
Environmental characteristic (Market, nature of business, social, political, technological, economic situation, external factors etc.)	[21], [22]
Firm resources (financial, human, network, process and control, etc.)	[21], [24]

C. Business Growth in Relation to Halal Certification

There are quite a number of literatures that focus on the benefit of Halal certification to business organizations. The studies conducted to find the relation between these are

usually divided into two general categories; one from the point of view of the business owners and another is from the perception of the consumers.

Halal certificate recently has been described as a new defining market force. It helps to boost the development of Muslim nations as consumer and producer in global market. Interestingly, the Halal industry not only affects Muslim, but also gained interest from Non Muslim users because it’s a global symbol for quality assurance and lifestyle choice [5].

In Malaysia itself, since 60% of the total populations are Muslim communities, the Halal certificate and logo have advantages of capturing bigger market [11]. By having Halal certificate in a business, it will help the business to have better market signals, Islamic attributes, and marketing [25]. The values of a Halal certificate in a business actually have broader appeal beyond religion and also contribute to Malaysia’s position as a tourism destination and a hub for the global Halal market as targeted by the government. Reference [9] mentioned that in 2010, food and beverages expenditure was registered at RM9.72 billion from the components of tourist expenditure as quoted from Tourism Malaysia (2010). Hence, the demand for food service in general and Halal food in particular are expected to grow tremendously in this country.

Reference [20] in her case study mentioned that a Malaysian company owned by Muslim entrepreneur that produced Halal pharmaceutical gelatins which gained Halal certificate managed to expand the business geographically to China, India, Turkey Sri Lanka, Canada, United Arab Emirates (UAE), Brunei, and Indonesia. Reference [10] mentioned that Halal certificate is now seen as a marketing tool and provides the competitive advantage for manufacturers alongside with other benefits such as consumer’s confidence, compliance to Islamic, and also hygiene and safety requirements. The Halal certificate also works as a mechanism for the authority to monitor Halal food in the food industry. As an evident of Halal certification as a tool to enhance business performance, the study provided example of business success in Singapore after the UAE recognized the Islamic Religious Council of Singapore (MUIS), the food export from Singapore to UAE increased by 67% in a year, as quoted from International Enterprise Singapore website.

Reference [26] indicated that his company that produced frozen food in Malaysia had widened their target market by 100% after obtaining the Halal certificate. He also conducted case studies on a few companies and found that a European-based company has broadened their business geographically from the European market to Asian market because it has Halal certificate.

Business growth in the perception of Islam is widely discussed in literature review. In a study conducted by [23], the measurement of business success is done in two dimensions,

- 1) Financial performance versus other types of success, and
- 2) Short term success versus long term success.

The success terms are defined in different forms which are survival of the business, profit, return of investment (ROI), sales growth, number of employees, happiness, reputation, and so on. The term happiness and reputation are two kinds of

business growth and success terms that differentiate the definition from Islamic value and the general understanding from other literatures.

Similarly, there are studies that highlighted that goal in business are not primarily in terms of materials in Islamic point of view [17], [27], [28]. According to a study by [27], the Islamic concept of business growth stresses on the balanced satisfaction of material and spiritual needs. By following the concept, Muslim business owners are bound by business ethics that guide them to strictly follow the rules of not selling unlawful goods and products. These motivations will lead them to follow Islamic rules in order to gain business growth in terms of satisfaction from the ability to sell and provide Halal products or service to the whole Muslim community. Reference [17] discussed that the ultimate objective in Islam is to get blessings from Allah. Business is done because it is fardhu kifayah (obligatory duty). Profits in business are merely incidental in the fulfillment of the fardhu kifayah. However, to prosper the community, profits are encouraged. The writer also highlighted on the characteristics of Islamic Man in business which desires to succeed in the business venture and believes in the concept that success is not only measured by the end result, but also means and ways of achieving them.

The Islamic business ethics according to this study is the same business ethics that are practiced worldwide but the only difference is that it is practiced because of the awareness of Islam. It emphasized on the importance of Halal, cleanliness, environmental stewardship and establishing the Islamic brotherhood while conducting the business.

This study focuses on finding the relation between Halal certification and its impact to business growth. While many literature available already investigated that Halal certificate is good for business due to religious value, hygiene and safety, and quality assurance, this paper emphasizes on the impact of Halal certification to business growth of Malaysian food industry.

IV. CONCLUSION

The previous studies focus on the benefit of Halal certification in terms of standard to be followed by business owners to ensure compliance in Islamic value, cleanliness and hygiene aspect, and quality assurance. While these factors are beneficial to the business organizations, most of the business owners will not be motivated to work hard to get the Halal certification because the benefit are not translated into the growth of their businesses. Reference [26], [28] provided the example of how business organizations can expand their business internationally after getting the Halal certificate.

Hence, it is found that Halal certification is important to be implemented in food industry to ensure a standardized system of Islamic practice including safety and hygiene is incorporated. It is also an innovation tool to help boost business growth especially in a country where Muslim population is dominant. In this study, Halal certification can be considered as deciding factors to ensure business growth of Malaysian food industry.

Current literatures that discussed on the impact of Halal certification towards business growth are limited to general discussions in business expansion and attractions to consumers. As a suggestion for further study, other factors of growth such as Financial Capital, Human Capital and Islamic values can be focused to find what kind of impact Halal certification has towards a business organization.

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