CHALLENGES IN THE IMPLEMENTATION OF HALAL CERTIFICATION AMONG SMALL MEDIUM ENTERPRISES (SMES)

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Abstract: This research aims to have a better understanding of the Halal certification challenges amongst the Small Medium Entrepreneurs (SMEs) in Malaysia. Since Halal industry is growing globally, the benefits of embarking in Halal certification will strengthen the economic standing among entrepreneurs. A study amongst SMEs was conducted to get deeper understanding on the challenges in approaching Halal. Local SMEs in Malaysia will be identified as participants for this study. The focus of our research is in the food industry. The area of research is in the Northern area of Malaysia. This study is expected to provide a good groundwork to further enhancement of Halal penetration among SMEs. The findings will show the challenges that the SMEs encounter during their pursuit of Halal certification. By identifying the challenges faced, this study can contribute ideas to certain parties to facilitate the acquisition of Halal certificates among SMEs. This study will benefit both future researchers and practitioners alike.

Keywords: Halal awareness, Small Medium Entrepreneurs (SMEs), Halal industry.

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INTRODUCTION

The Muslim community's worldwide growth is expected to escalate from 1.8 billion to 2.2 billion in 2030 (New Straits Times, 2018). With the increasing number of Muslim communities, there is exponential growth for Halal products. Halal in Arabic term refers to that which is permissible or lawful according to a set of rules in Islamic law (Shahbaneh, 2020; New Straits Times, 2018). All food prepared following these rules complies with the hygienic principles that make the food healthy and nutritious (Abdul, 2014). If the food is not prepared in this way, then it is considered Haram or unlawful in Islam. Each Muslim is obligated to follow these rules, especially regarding food and drink (Bonne and Verbeke, 2006). Conversely, Halal products are also attractive to the non-Muslim consumer due to the adhering to strict processing rules and guidelines which are considered more hygienic and safe to consume (Abdul, 2014). Hence, this surges the demand for Halal products worldwide, especially in Muslim countries.

The increase in demand for Halal products translates to a lucrative business segment, especially for the local small and medium enterprise (SMEs) in Malaysia. The government of Malaysia greatly encouraged the proliferation of Halal products through the Halal Industry Master Plan 2030 (HIMP 2030) in order to "…catalyse Malaysia's strengths towards the development of its Halal industry holistically" (Halal Development Corporation Berhad, 2018).

However, despite the growth in demand for Halal products, the products from the local SMEs will not be able to compete in the global market, as Halal certification is the requirement for entrance. Halal certification is also considered as quality standards among Muslim consumers. Although local Muslim SMEs are manufacturing the products, they will not be able to be certified halal without proper certification from Malaysia's Department of Islamic Development (JAKIM). The local SMEs will have to follow the stringent rule of obtaining Halal certification from obtaining raw materials, the processes, and the finished products. There is a misconception of a product being labelled Halal just because the manufacturer is a Muslim. It has to follow Halal procedures from "farm to plate".

Hence, this study will first look at the level of halal awareness and help the local SMEs overcome the Halal certification barriers to be at the same standing as manufacturers that have obtained their Halal certification. At the same time, this will improve their economic standing and market the local products globally. This study will focus specifically on SMEs in the halal food industry. Consumers are now more aware of Halal products, and it is considered as a standard for food producers to follow. The concentration will be on Halal products' SMEs' awareness and the challenges in obtaining Halal certification.

1.   LITERATURE REVIEW

1.1 Halal and Halal Awareness

The word halal in the food industry means that the food is permissible to be consumed by Muslims. The Halal concept not only means that the food is Shariah compliance or abiding the Islamic law, but it also covers the hygiene, sanitation and safety aspect of the food being consumed (Baharuddin, Kassim, Nordin, and Buyong, 2015). Non-Muslims are also familiar with the Halal concept, especially those residing in Muslim countries (Nusran, Gunawan, Numba, and Wekke, 2018). Halal is considered as the benchmark for Muslims as well as non-Muslims worldwide.

Although Malaysian SMEs' perception toward halal food is high, the awareness toward halal certification among SMEs is low (Tawil, Ramlee, Jaafar, and Saat, 2015). Since consumers are more aware of halal products, it is observed that one of the factors that encouraged purchases is the halal certification (Nooh, Nawai, Dali, and Mohammad, 2007). The researchers also show that consumers' purchase preference is towards SME producers with Muslim owners/entrepreneurs (Fard, and Amiri, 2018; Nooh et al., 2007).

1.2 Halal Certification

In Malaysia, the agencies involved for Halal certification are the Halal Industry Development Corporation (HDC), an agency under the Ministry of Trade and Industries, and the Islamic Development Department of Malaysia (JAKIM) under the Prime Minister's Department. JAKIM is the agency assigned for the Islamic affairs, including halal certification in Malaysia. Hence, JAKIM plays a critical role in protecting Muslim consumers in Malaysia to ensure that the food they consume and all product that is being used is Shariah compliance. To attained Halal certification JAKIM has to ascertain the halal status of the product at every stage and at every process involved by carrying out an official site inspection on the plants purposely to examine on how the halal status of the raw material is maintained and monitored at all times (Halal Malaysia Official Portal, n.d.). Mandatory premise inspection in terms of the product processing, handling, storage, equipment and distribution is one of the requirements before the Halal certificate is approved (Noordin, Md Noor, Hashim and Samicho, 2009). The Halal certification will only be issued if the company can comply with the basic principles. Jakim also has the authority to revoke the certification if the company do not adhere to the regulations. As consumers gain confidence in the Halal process, the industry also

needs to keep up with the growing demand for their Halal products and services. Some of the challenges include maintaining a high and consistent quality of Halal products and services, comply with importing countries requirements, local food laws and regulations, and continue investing in research and development.

1.3 Challenges to obtain Halal certification

Malaysia's halal logo is not only accepted in Malaysia; in fact, it is also recognised as one of the valid certifications worldwide. As a well-known authority producing Halal certificate, it is clearly seen that Halal certification plays an important role, especially towards Malaysian SMEs. The halal certificate enables SMEs to get their products certified according to an acceptable standard. Additionally, SMEs will enable to win the consumer trust both from the Muslim and non-muslim consumers. To the Muslim consumers, products that carry the halal logo have more significance than those with ISO certification (Shafie and Othman, 2006). This is because of the stringent process flow to ingredients, food safety benchmark and quality assurance in the certification process (Baharuddin, Kassim, Nordin & Buyong, 2015).

Halal certification helps SMEs to be competitive to venture in the Halal market. However, getting certified is not without its challenges. Despite the awareness of Halal certification's benefit, 90% of Malaysia's SMEs are operating without the Halal certificate (New Straits Times, 2019).

A study by Abdul, Ismail, Hashim and Johari (2009) shows that not all Muslim entrepreneurs owned Halal certification. Among those who owned Halal certification, 56% agreed that the challenges they faced while obtaining the certification were tedious and stringent. Other reasons are that the "…process is not user friendly…"(Abdul et al., 2009) and proper business premise is the requirement for certification. Another challenge is that the SMEs must obtain Halal certification for every product that they produced. This posed a very big task for SMEs in the food industry as they have to ensure that all ingredients used to produce their products have Halal certification.

2. METHODS

2.1 Study Design

This research aims to explore the challenges in obtaining halal certification amongst SMEs. This study adopts the qualitative study to understand the challenges in obtaining halal certification amongst SMEs by obtaining an in-depth view to the objectives of this research. In this current study, the data were collected through interviews to get more insights related to the survey answers.

Semi-structured Interview

A qualitative semi-structured interview was used to collect the data to understand SMEs' challenges in applying for the halal certification. A set of interview questions was developed, consisting of a few open-ended questions. The sampling method for this interview is purposive sampling. The samples were selected based on the characteristics of F&B companies with small or medium-sized. The participants must be a top manager or the owner of the companies, or the person in charge of the halal operation. Five local F&B SMEs companies were involved with the interview. The participants are the managers or the owners of the companies. The main question is about the challenges during applying for the halal certification and their opinions about the whole application process. The interviews were recorded and were carefully transcribed and converted into words for further analysis. The conversion of audible data into written form is an interpretive process which starts the first step for data analysis (Bailey, 2008). The thematic analysis then used to analyse the data.

3. RESULTS AND DISCUSSION

3.1 Result

Qualitative Interview

To further understand the challenges the F&B companies of SMEs face in applying for the halal certification, qualitative interviews have been done to gather the participants' data. Five food & beverages SMEs have participated and the data gathered were evaluated by thematic analysis.

Demographic Background

The participants of the interviews are the top management of five F&B companies in northern region Malaysia. One of the company has been operating for more than three years. Three companies have been in operation between three to six years, while one company operates for less than one year. Of the five participated companies, one company has the halal certificate for more than eight years. Three companies are still applying the halal certification, while one company is planning to apply for certification in the next two years. Table 1 summarise the respondents and companies profile.

Table 1
Profile of the Participants

Respondent Label	D	H	S	K	L
Position	QA	Owner	Manager	Manager	Marketing Operation Supervisor
Years of operation	10 years	6 years	4 years	3 years	9 months
Halal status	Yes (8 years)	In process (from 2019)	No (next 2 years)	In process (from 2019)	In process (from 2020)

Thematic Analysis and Results

According to respondent D, the most challenging parts in applying the halal certification is the procedure. They need to make sure that the person in charge is well trained as the procedure is quite complicated and need proper documentation.

"The challenge is to educate employees on how to do halal filing since everything needs to be organised correctly, as they (Halal authorities) are very particular about certain things, even though some people may consider it just a small thing."

Besides the complicated filing and documentation procedure, there are also some technical challenges in filling up the online form.

As stated by K, *"The website is always down. The server they used was very bad, especially in the morning and evening. So the only time I can access the system/website is at night since fewer people use it. Sometimes I even have to restart over. For example, there are many phases in applying a halal certificate when I'm done putting information on the first stage, then I go to the next stage when suddenly something happens with the system, and I need to go back to the website and noticed that all the information that I put in a moment ago was missing."*

Additionally, there are some other issues in completing the procedure, as stated by K, *"The process to get a halal certificate is very slow. In terms of audit, it is slow."*

The halal certification procedure is a time-consuming process. It can take months or even almost a year to complete the application, depending on process flow, the number of auditors available and the number of applications the authorities need to entertain. This problem is explained further by K, *"At our nearest branch, there are only three to four panels for auditing. So, it will take some time (for the auditing procedure)."*

Other challenges are the availability of the raw materials that have halal certification. D mentioned that, *"Raw materials, raw materials, we need to make sure that it comes from a good source and needs to be halal certified."*

H also mentioned the challenges for halal certification because of the difficulties in getting halal-certified raw materials.

"We started applying the halal certification in 2019, but we stopped for a while because there is a problem with the current supplier. They do not have stock for raw materials. Therefore, it takes us a long time to get the halal certificate because we have to find a new supplier who has a halal certificate."

The opinion is similar to K, who stated, *"We always have the problems where we need to change certain raw material just because that raw material doesn't have halal certification."*

S also stated that, *"We want to have a halal certificate, but there are some constraints in terms of the raw materials we use. For example, one of our raw materials is from a non-Muslim factory, so they do not have a halal certificate. Some suppliers even though they have the ingredients but do not consider the importance of halal.*

L also mentioned the same issue regarding the raw materials, by stating that *"The challenges are ingredients. Usually, the supplier did not keep a copy, or they don't know where they put their halal certificate. So we have to keep on pushing the supplier to ask for their halal certificate."*

The process of finding the supplier with halal-certified raw materials not only consumed much time and delayed the application process, but also increased the cost for the company.

According to S, *"Sometimes the supplier will charge more on the price if we want to buy the raw materials that have the halal certificate. The price is slightly lower if we just buy the raw materials without asking for the halal certificate."*

S also added up the point of the challenges in getting the halal-certified raw materials and the difficulties in terms of halal logistics to transport the raw materials.

"There are also many transportation constraints. For example, trucks used to transport the raw materials must have halal."

The problems of getting halal-certified raw materials not only lead to high waiting time and cost, but also forced the companies to reduce the ingredients of their product. According to S, *"(because of the limitation to get halal-certified raw materials), we need to reduce some of the ingredients used in the steamboat to qualify for a halal certificate."*

3.2 Discussion

The thematic analysis resulted in a detailed discussion on halal certification challenges. According to the results, the most quoted problem is a complicated procedure. This finding aligned with the previous study stated that the Halal certification process is tedious and stringent (Abdul, Ismail & Mustapha, 2013). Almost all the participants face this problem; from the eight-year halal certification holder to the new holder and the current applicants. These results show that the process's complicatedness is an old issue, yet still the main halal certification issue. Although the current procedure has improved with the online application form, the technical problem still exists and makes the procedure even more complicated. Thus, the Halal authorities need to ensure that they manage to distribute sufficient knowledge about the system with up to date information and accessible feedback anytime they need (Abdul, Ismail & Mustapha, 2013).

Besides the issue of filing and documentation, applicants also feel that the halal certification process is expensive. The registration fee is not the main problem. The issue is that, in order to complete the whole process of application, the companies need to spend money to get the halal raw materials. This is quite challenging when the supplier has no concern on the halal certificates of their raw material, or even worst, they take advantage of the halal certificate to gain more profit. Consequently, the companies need to pay more for the halal-certified raw materials or spend more time to find a new qualified supplier.

Additionally, the small and medium companies with limited operating budget also need to increase the cost in setting up their halal compliance premises or factories.

The complicatedness and high-cost procedure can also lead to a time-consuming issue of halal certification. Thus, the companies that insist on getting the halal certification will hire the consultants to cost them more. Instead, Halal authorities could help the SMEs by giving proper training or seminars on the halal certification process before registering their certification products to thoroughly understand the process (Abdul, Ismail & Mustapha, 2013).

All the above explanations justify why the process of getting halal certification is often claimed as a complicated, expensive and time-consuming procedure by the applicants. It is not because of the authorities' processing fee but on the cost to complete the application process and fulfil all the requirements.

During the interview, one of the participants reportedly said, *"The domination of raw materials by a certain group of the supplier makes it difficult for the small and medium-sized company to apply for the halal certification. It has cost us much time and money."*

All of the above statements reflect the industry player's opinions and concerns that should not be taken lightly by the Halal authorities, especially in encouraging the implementation of halal certification in Malaysia. The government support is among the crucial factors that can increase the awareness and intention for Halal certification, as the government policies will influence firms to practice Halal (Azmi, Musa, Sihombing, Fen, 2018). Government support is also essential in Malaysia to compete with other Halal food producers such as Indonesia and boost Halal players to adhere to Halal requirements (Zailani, Kanapathy, Iranmesh, & Tieman, 2015)

4. CONCLUSION

This study summarizes that the complicated, high-cost, and time-consuming procedure is the main challenges the participants addressed during the interviews. These problems were believed to rooted from various issues, including the application process and the difficulties in finding Halal-certified raw materials. Above all, some interesting comments from the participants suggest the importance of government support in increasing Halal certification implementation among SMEs.

There are several perspectives on the implications and contributions of this study; This study explores the Halal certification challenges among SMEs in Malaysia. This study extends the knowledge about the Halal certification implementation in Malaysia. Understanding the current situation and challenges in the Halal industry can lead to more extensive research, thus helping the researchers explore more from this study. For the practical implications, this research is very important, especially to the Halal authorities in understanding the Halal implementation in Malaysia. Halal certification clearly has many advantages to the SMEs. However, dealing with unresolved challenges while applying for Halal certification will prevent the SMEs' efforts to get certified. Indirectly, it will affect the Halal industry and SMEs, especially when competing in the market.

Based on this study, a few suggestions can be proposed. In order to reduce the complexity of the application process, the Halal authorities can provide more technical class on the application process instead of just providing the theoretical training for the applicants. The training can help to solve the technical issue, including the online application. The online application is a good approach. However, it will be a problem for thus who do not familiar with the online form. A user-familiar menu and interface can ease the application process.

The Halal authorities also need to set up one-stop centres to assist the applicants with the application system and procedure. The applicant needs to be able to access the information in order to complete the application process. The one-stop centres can be set up in a physical form or through the online platform. The fast feedback is very important to reduce the delays in the processing time.

Additionally, the Halal authorities need to encourage the supplier to have Halal certified raw materials. Incentive or rewards can be introduced to support the suppliers' effort to get certified. This approach can help SMEs solve the raw materials issue, especially to ensure that no

suppliers are taking advantage to increase the Halal-certified raw materials' price. Besides, the law and enforcement need to be tightened so that no irresponsible party will take advantage of the Halal certification.

Lastly, the Halal authorities can come up with the initiative of developing centralized Halal-certified facilities so that SMEs can use to produce their product. This approach can solve the facilities problem, especially to SMEs with a limited budget to develop or renovate their facilities. The facilities can be shared among the nearest SMEs that have a similar production process. This initiative can help to speed up the process of Halal certification with reasonable cost.

This study has a few limitations including the limited number of the interview's participants. Due to time constraints, this study manages to include five participants for the interview. Future research should include more participants to get more opinions and input regarding the SMEs' Halal certification challenges.

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