THE EFFECT OF HALAL CERTIFICATION ON FINANCIAL PERFORMANCE OF HALAL FOOD COMPANIES IN MALAYSIA

Dasima Nordin, Rosita Husain, Astrid Yulia, Suria Abu Basar and Mohd Fuad Salleh
Faculty of Business, Universiti Selangor, Malaysia
E-mail: dasima@unisel.edu.my

Abstract

Halal has always been a relevant strategy in the mainstream market with the large Muslim population. Currently, companies that can best understand this emerging market with its complex customer base, plus all the issues relating to certification and standards, are likely to be the most successful. Therefore, the intention of the researchers was to examine the impact of Halal certification on halal food and beverage companies’ financial performance and to assess the company financial performance after getting halal certificate by the influence of customer satisfaction. The framework identifies the factors that will contribute to overall financial performance. Most of the hypothesis (H1, H2, H3, H4, H5, H7, H9) are supported by empirical study, whilst two hypotheses are not verify (H6, and H9). Results also show that Halal Certification Implementation has positive impact on all of the factors that contribute to overall financial performance.

Keywords: halal certification, productivity, sales revenue, efficiency, market share

1 INTRODUCTION

Halal has always been a relevant strategy in the mainstream market with the large Muslim population. Halal certification is been used as a new marketing strategy for positive competitive environment (Rajagopal et al., 2011). Wilson and Liu (2010) found that the halal concepts in Islamic branding have a good potential to attract customer.

Nowadays, customer awareness on halal products is rapidly increases and customers’ demands are constantly changing. Besides, interests in halal products are also increase tremendously among non-Muslim as well as Muslim consumer. This is because, consumer’s views on halal products are not only confined to religious viewpoint but the confidence that it’s comes with the Halal Branding and halal certification. The Muslim population is approaching 2 billion and is expected to account for 30% of the world’s population by 2030 (Pew Research, 2010). Compared to other sectors of halal products, halal food makes up around two-thirds of the global market for halal products and 17% of the global food industry (Selcuk, 2014). The market for halal food & beverage products is estimated at US$ 1,088 billion annually in 2012. This estimated is expected to increase to US$ 1,626 billion in 2018, corresponding to a Compound Annual Growth Rate (CAGR) of about 6.9% (Selcuk, 2014).

Thus, the halal market is becoming recognized as a vitally important emerging market sector with a global consumer base of about 1.7 billion. So, the halal food and beverage market is estimated to be worth trillions of US Dollars and ripe for the picking, and thus it is time that companies with halal products and services should act fast to reap the potential returns. Thus, manufactures and companies from food and beverages sector of the industry, from huge multinationals down to small enterprises are looking to capture their share of this growing market, such Nestle, Cadbury, Yeos’, and Maggie. Currently, companies that can best understand this emerging market with its complex customer base, plus all the issues relating to certification and standards, are likely to be the most successful.

Therefore, the objective of this study is to examine the impact of Halal certification on halal food and beverage companies’ financial performance and to assess the company financial performance after getting halal certificate by the influence of others factors.

2 LITERATURE REVIEW

According to Syed Mardzuki, Hall& Ballantine (2012) the customer trust on halal restaurant will gained a marketing benefit. Halal certificates also have impact on the purchasing process (Tieman & Ghazali, 2012). The study by Verbeke, Rutaurt, Bonne, & Vermeir (2013) found that the Muslim consumer is willing to pay a higher price for certified halal labelled food at the Islamic shop. While, Danesh, Chavosh, Nahavandi, (2010) highlight that many non-Muslim customers are satisfied with halal products and services. Halal products also get intention and demand from non-Muslim consumer because the awareness
of the quality of the products (Rezai, Mohamed & Shamsudin, 2012).

The Halal product also have a potential opportunities for export market (Niza, Talib, & razak, 2012). Besides, halal regulation and certification is used as a mechanism for implementing Islamic business ethics in contemporary world (Ismaeel & Blaim, 2012). According to JAKIM generally, there are four benefits of halal certification: 1- high-level of consumer confidence, which allows users to make confident choices about their purchases; 2- provide a healthy completion, producers can use it as a tool for marketing strategy; 3- quality assurance aspect, the certification indicates that the products not only meet halal requirements, but also strict hygiene practices; 4- enforcement, the certification involve a mechanism to audit and monitor halal products.

In Malaysia halal standard was established in 2003, and it was utilized by the appointed halal certification body, the Department of Islamic Development Malaysia (JAKIM) and their Halal Certification scheme (Department of Standard Malaysia, 2008). Under JAKIM, there are three types of Malaysian Halal Standards; 1- MS 1900:2005, Quality Management System-Islamic Perspectives; 2- MS 2200-1:2008, Islamic Consumer Goods-Part1: Cosmetics and Personal Care –General Guidelines; 3- MS 1500:2004, Halal Food-Production, Preparation, Handling and Storage-General Guidelines.

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Generally from the literature discussion, it shows that halal certification have a lot of benefit to the company. The company which gets Halal certificate from an authority foundation will gain customers satisfaction on the produce and it will increase company’s financial performance. It is because the Halal Certificate contains the most ultimate level quality standards. Therefore this study is attempt to assess the implication of halal certification on the company’s financial performance in terms of sale, market share, profit, productivity, opportunity for export and effective promotion of products.

2.2 Reason for Halal Certification
Several surveys have been conducted concerning the reasons behind the halal certification. According to Ireland and Rajabzadeh (2016) UEA Muslim consumers are putting high weight on halal certification, because they are concerned about the halal status of their products. Lada et al., (2016) mentioned that consumer norm and attitude is the main attribution for them to choose halal products. This finding also supported by some other research which indicated that the perception and intention of non-Muslim consumers about halal food products is influenced by their attitude, subjective norm and perceived behavioural control, as well as Halal image, specifically in the context of Malaysia (Haque et al., 2015, Mohd Suki and Abang Salleh, 2016). Consumers perception of the trustworthiness of halal certifications from various Muslim and non-Muslim countries explains the highest proportion of the variance in the preference for a product, followed by the interaction of country favourability and brand name country of origin (Rios et al., 2016).

A study by Muhammad Ayyub (2016) stated that majority of the non-Muslims have positive perceptions regarding the Halal products and services, as far as quality is concerned. Halal market demand, government support, expected business benefits, and integrity positively contribute to the market halal orientation strategy (Zailani et al., 2016). Moreover, the application of halal certification in purchasing is leads to stronger partnerships with suppliers and adopting various strategies to secure continuity of supply and also have impact on the purchasing process (Tieman et al., 2016). Halal marketing and branding practices of food products are being influenced by the sales promotions and celebrity endorsements is the factors that affecting halal purchase intention (Awan et al., 2016). Halal certification is a new marketing paradigm which marketers can use to differentiate their products and services in the current competitive environment (Rajagopal et al., 2016).

According to Ahmad (2016), halal brands is a valuable business assets based on a proposed halal brand personality dimension in the micro-spectrum of halalan (lawful) Tayyiba (good) concept in Malaysia. Therefore, the Halal certification literature includes various studies that have discuss about the customers views, opinion and purchase intention attributes towards halal products (Ireland and Rajabzadeh, 2016; Lada et al., 2016; Haque et al., 2015; Mohd Suki and Abang Salleh, 2016; Rios et al., 2016; Muhammad Ayyub, 2016). Based on the discussion, it shows that halal products get positive attention from Muslim and non-Muslim consumers.

2.3 Impact of Financial Performance
As competitiveness between firms rapidly increases and customers’ demands are constantly changing, quality awareness becomes a primary target for every manager. Since quality is difficult to be generally defined and measured, quality standards must be somehow certified. Sharma (2005) found that the implementation of ISO 9000 has a higher impact on profit margin when he investigated the impact of ISO 9000 certification on three dimensions of financial performance. The three dimensions concerned are operating efficiency (measured with profit margin), growth in sales and overall financial performance (measured by earnings per share). In the meantime, Corbett et al. (2005) conducted a survey testing the impact of ISO 9000 on ROA, ROS and lower cost of goods sold (COGS/SALES ratio). Their findings led to the conclusion that there are actually significant improvements in the overall firms’ financial performance. However, Corbett et al. (2005) argued that the effectiveness of the ISO implementation is strictly related to the motives behind the decision to implement; proper motives lead to better performance and more benefits. (Zailani et al., 2015).

However, when it comes to financial impact of halal certification, not many study can directly related to the
issues, but some literatures which discusses about the importance of halal certification on the market penetration can be used (Zailani et al., 2015; Tieman, 2015; Awan et al., 2015; Rajagopal et al., 2011; Ahmad, 2015)

2.3. The research model

Figure 2.1 illustrates the research model for this research. This model is developed based on adopts approach used by other studies within the same field in financial performance (Chatzoglou et al., 2015). The adopted approach study are focusing on ISO certification on firms financial performance. According to Jabatan Kemajuan Islam Malaysia (JAKIM) Halal Certification also can be classified as quality certification for Muslim products. Therefore, the approach concept of quality and the assurance system between halal certification and ISO Certification is almost same. For that reasons, the researchers used ISO certification adoption on financial performance as guideline for this research. The intention of the researchers was to examine the impact of Halal certification on halal food and beverage companies’ financial performance and to assess the company financial performance after getting halal certificate by the influence of customer satisfaction. The framework identifies the factors that will contribute to overall financial performance. From the extensive literature review revealed that, there are five factors that contribute to overall financial performance. These factors were incorporated into a holistic conceptual framework (research model) that consists of five factors. These factors are:

1. Customers’ demand: measures the extent to which a company implements halal certification as a result of the pressure applied by its customers.
2. Halal certification: Halal certification is a process which ensures the features and quality of the products according to the rules established by the Islamic Council that allow the use of the mark Halal. It is mainly applied to meat products and other food products such as milk, canned food and additives.
3. Productivity: measures whether the company excels in its productive capacity.
4. Operations execution: measures the effectiveness of the operation including various dimensions, such as the level of bureaucracy, employee autonomy in the decision-making process, flexibility to change production volume, optimal level of inventories, etc.
5. Market share: measures the market share of the company in its main sector of competition.
6. Sales revenue: measures whether the company has produced higher revenues than its competitors during the last three fiscal years.
7. Overall financial performance: measures whether the company has higher financial performance that its competitors during the last three fiscal years (in term of ROA, ROS, debt-to-equity ratio). In general, financial performance is a subjective measure of how well a company uses its assets and generates revenues (Kober et al., 2012; Lee et al., 2013; Thoumy and Vachon, 2012; Wahba, 2013)

The main dependence variable for this study is ‘Overall financial performance’, while customer’s demand is the only independence factors for this study. All the other factors are either dependent or independent, given the relationship under examination in each case (see Figure 2.1). For example, when examining the relationship productivity and overall financial performance, productivity is an independent factor, while when examining the relationship halal certification implementation and productivity, productivity is a dependent factor. Therefore, the “structural equation modelling” technique is the most appropriate method for examining such models (Kelloway, 1998). From the research model developed, the impact of halal certification on financial performance is measured indirectly, via four factors that are characterized in two scopes, which is, factors representing operation efficiency improvement are productivity and operations execution. While the factors representing market efficiency improvement are market share and sales revenue.

Hypothesis:

H1: Customers’ demand has a significance impact on Halal certifications
H2: Halal certification has a positive impact on productivity
H3: Halal certification has positive impact on operation execution
H4: Halal certification has positive impact on market share
H5: Halal certification has positive impact on sales revenue
H6: Productivity has positive impact on overall financial performance
H7: Operation executions have positive impact on overall financial performance
H8: Market share have positive impact on overall financial performance
H9: Sales revenue has positive impact on overall financial performance

The research hypotheses presented above leads to the formation of the proposed research model (Figure 2.1), which focuses on the relationships among the research factors examined

Figure 2.1: Research model
3 RESEARCH DESIGN

3.1 Research design
A cross-sectional sample survey field study is employed in this research as data were collected at a single point in time. The cross-sectional design is chosen because it has a several advantages which are appropriate for this study. The cross-sectional design has no time dimension, whereas the study can be conducted without requiring period of time and sequence (DeVaus, 2001). This research uses quantitative approach. Quantitative research is a systematic process to test a relationship and examine cause and effect among variables.

3.2 Sample of the study
The proposed research model present in this study is tested on a sample of halal food and beverage companies in Selangor. Data concerning halal certified companies that could possibly be included in the sample were obtained via the JAKIM web sites (www.halal.gov.my). Totally, 79,300 certified food and beverages companies that have Halal certifications were identified. These companies belong to a wide range of industrial sectors and sizes. The stratified sampling technique is used for this study. The simple random sampling used to select target sample from total population listed. The questionnaire is based on items (questions) that have been adopted from Chatzoglou (2015). The five-point Likert scale was used for the measurement of all factors (1 = “strongly disagree” to 5 = “strongly agree”).

3.3 Method
The Structural Equation Modelling using a Partial Least Squares (PLS) approach is used as the method of analyzing data. We used the SmartPLS 3.0 software to analyze the data with the application of a bootstrapping technique to determine the significance levels for loadings, and path coefficients (Ramayah, Yeap, and Ignatius, 2013). Following the recommended two-stage analytical procedures by Anderson and Gerbing (1988), the validity and goodness of the measurement model was first tested followed by an examination of the relationships outlined in the structural model.

3.4 Measurement Model
The measurement model is the first method in Partial Least Square Equation Modelling (PLS-SEM) in indicating the model predictive capability in order to judge the model’s quality. To assess the measurement model, was first checked for reliability (internal consistency and indicator reliability), convergent validity and discriminant validity.

The composite reliability and outer loading value used to evaluate the reliability of the constructs. The outer loading value for measurement model, can be written as the multivariate regression, for each block of indicators items reflects its constructs variables:

\[ X_g = y_g w_g^T + F_g \]

Where \( E[F_g | y_g] = 0 \)

The least square estimate for \( \hat{w}_g = (y_g^T y_g)^{-1} y_g^T X_g \) was obtained by assumption \( E(X_g) = y_g w_g^T \) and \( \text{cov} (X_g) = \text{var} I \), therefore if \( \text{cov} (X_g) = \text{var} I \), the \( \text{cov}(\hat{w}_g) \) is give by \( \text{var}((y_g^T y_g)^{-1}) \) (Alvin C. Rencher, 2000).

The composite reliability can be computed using the following formulas:

\[
CR = \frac{\left( \frac{1}{n} \sum_{g=1}^{m} w_g \right)^2}{\left( \frac{1}{n} \sum_{g=1}^{m} w_g \right)^2 + \sum_{g=1}^{m} \text{var}(y_g)}
\]

Where the \( \text{var}(y_g) \) is \( 1-w_g^2 \), and \( w_g^T \) is the weigh score for outer loading of indicator items.

The convergent validity and discriminant validity are used to measure the construct validity (Hair et al., 2013). In order to establish the convergent validity of the constructs, there need to consider the outer loading and Average Variance Extracted (AVE). The cut point value for outer loading is more than 0.708 and 0.5 or more for AVE, as suggested by Hair et al., (2013). The Average Variance Extracted (AVE) values are obtained by:

\[
\sum_{g=1}^{m} \frac{(w_g^T)^2}{m}
\]

Where, \( w_g^T \) is the outer loading weight for each indicator item, and \( m \) is the number of indicator items in the constructs.

3.5 Structural Model
Structural model involves examining the model’s predictive capabilities and the relationship between the constructs. According to Hair et al., (2013) estimation of path coefficients value close to + 1 represent strong positive relationships and vice versa for negative values. While, the closer the estimated coefficients are to 0, shows the weaker relationships. The positive values always be statistical significant and very low values close to 0 are usually non significant. The 500 resample bootstrapping was running to obtain the standard error. The bootstrap standard error allows computing the empirical t value by:
$$t = \frac{\hat{\beta}_a}{se_{\hat{\beta}_a}}$$

Where, $\hat{\beta}_a$ is the path coefficient estimates and $se_{\hat{\beta}_a}$ is the bootstrap standard error.

The confidence interval estimate can be obtained by:

$$\hat{\beta}_a \pm Z_{1-\alpha/2} \cdot se_{\hat{\beta}_a}$$

4 CONCLUSION

The empirical analysis proved that the model accounts for 70 per cent of the variance of financial performance, underlining the significance of halal certification implementation for all organizations. Therefore, the present study enhances the current literature with a research that strongly supports halal certification implementation and its benefits.

Table 4.1

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path (B)</th>
<th>Sample Mean</th>
<th>Standard Deviation</th>
<th>T Statistics (O/STDEV)</th>
<th>P Values</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>0.519</td>
<td>0.330</td>
<td>0.085</td>
<td>6.087</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>0.580</td>
<td>0.590</td>
<td>0.086</td>
<td>6.766</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H3</td>
<td>0.284</td>
<td>0.294</td>
<td>0.118</td>
<td>2.406</td>
<td>0.016</td>
<td>Supported</td>
</tr>
<tr>
<td>H4</td>
<td>0.486</td>
<td>0.491</td>
<td>0.101</td>
<td>4.805</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H5</td>
<td>0.340</td>
<td>0.343</td>
<td>0.097</td>
<td>3.495</td>
<td>0.001</td>
<td>Supported</td>
</tr>
<tr>
<td>H6</td>
<td>0.022</td>
<td>0.029</td>
<td>0.083</td>
<td>0.271</td>
<td>0.786</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H7</td>
<td>0.246</td>
<td>0.234</td>
<td>0.078</td>
<td>3.165</td>
<td>0.002</td>
<td>Supported</td>
</tr>
<tr>
<td>H8</td>
<td>0.146</td>
<td>0.151</td>
<td>0.086</td>
<td>1.706</td>
<td>0.089</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H9</td>
<td>0.538</td>
<td>0.535</td>
<td>0.093</td>
<td>5.779</td>
<td>0.000</td>
<td>Supported</td>
</tr>
</tbody>
</table>

The results of this study provide strong evidence that halal certification is highly associated with improvements in financial performance. Results suggest that halal certification bring benefits to the company and, therefore, its stakeholders. Analytically, the statistical analysis showed that halal certification is directly associated with significant improvements in operations execution, market share and sales revenue. Hence, it appears that halal certification can be a valuable strategic initiative for organizations, since it does impact the overall financial performance through enhancements to internal business processes.

Table 4.1, shows that most of the hypothesis (H1, H2, H3, H4, H5, H7, H9) are supported by empirical study, whilst two hypothesis are not verify (H6 and H9). Results also shows that Halal Certification Implementation have a positive impact on all of the factors that contribute to overall financial performance. The analysis of the results gives a new idea for observations and offers guidelines to food companies about the benefit of halal certification implementation on their financial performance. Finally, it should be underlined that halal certification implementa-

tion give a positive impact on overall company’s financial performance.

Generally from the literature discussion, it shows that halal certification have a lot of benefit to the company. The company which gets Halal certificate from an satisfaction on the produce and it will increase company’s financial performance. It is because the Halal Certificate contains the most ultimate level quality standards. Therefore this study is attempt to assess the implication of halal certification on the company’s financial performance in terms of sale, market share, profit, productivity, opportunity for export and effective promotion of products.

This study used a survey sample that was limited to Malaysian halal firms. However, the effect of halal certification might be different in other countries, especially non-Muslims countries. Thus, future research could test the research model of this study in other countries.

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