THE MEDIATING ROLE OF TRUST BETWEEN HALAL PRACTICES INTEGRITY AND BUSINESS PERFORMANCE

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Abstract

Trust is an essential prerequisite in the business especially dealing with halal food. Likewise, Muslim consumers must follow strict dietary laws affirmed in the holy Quran and consume the food with a proper food description of its halal status. However, the intensifying number of food safety scandals and withdrawal of halal certification during current years has driven to increased uncertainty about food consumption choices. The uncertainty of halal food may affect the image and reputation of halal integrity as Muslim consumers believe that halal is part of a belief system and moral code of conduct in Islam. Hence, this study attempts to examine the mediating role of trust between halal practices integrity and business performance. A survey was carried out by distributing a structured questionnaire to the halal food manufacturers during the halal food events and festivals in Malaysia. 180 usable data have been analyzed using Partial Least Square Structural Equation Modelling (PLS-SEM). The findings show halal practices integrity has a positive influence on halal trust, and halal trust has a positive influence on business performance. Halal trust mediates the relationship between halal practices integrity and business performance. Additionally, the halal trust serves as an underpinning for more efficient halal food processes and practices in sustaining the Malaysia halal food manufacturing. The findings of the research contribute to the body of knowledge on halal food business performance, which helps managers to react accordingly by ensuring and providing a safe halal food as well as sustaining their halal food integrity.

Keywords: Halal practices integrity, trust, business performance, food industry

1 INTRODUCTION

Halal products had gained high attention in Malaysia since 1974 when the first halal certification issued by the Research Centre for the Islamic Affairs Division in the Prime Minister’s Office that fulfill the halal criteria. The halal market has burst and grown at a tremendous rate in Muslim countries as well as non-Muslim countries. It is projected that the average global halal food trade of RM 600 billion per year. The global halal food and lifestyle sector is expected to increase by six per cent by 2020 as reported by the State of the Global Islamic Economy Report 2015/2016. Thus, there is tremendous potential in the development and production of halal products especially food that manufacturers must grasp this opportunity by putting in greater efforts to gain and expand their market share. Today, Malaysia is still the leading global halal hub with more than USD11 billion for halal exports in 2014. Halal certification is an influential marketing tool for both the Muslim and non-Muslim producers due to an increasing awareness of Muslim consumers all over the world on their obligation to consume halal food. The issue of halal certification via halal logo become a primary concern of the Muslims (Ambali & Bakar, 2013). According to Riaz and Chaudry (2004), Muslims are requesting a halal logo for foods or products. The halal logo issued by the Department of Islamic Development Malaysia (JAKIM) is an important endorsement that the food or drinks are truly halal, safe and hygienic to be consumed primarily in Malaysia. However, the exploitation of halal logos, Halal certificates and statement about the halal products create confusion and doubtful about the validity of JAKIM halal logo among the Muslim consumers (Ilyia Nur, Rosli, Suhaimi, & Dzulkifli, 2011; Kamisah, 2016). Thus, halal is no longer merely a religious issue but a global symbol of quality assurance and healthy lifestyle.

In Malaysia, sustaining the integrity of halal products have become a priority for the government and the consumers (Siti Sarah, Mohd Iskandar, & Mohamad Ishak, 2011; Tieman, 2013). However, there are a lot of barriers and misconceptions in producing halal food. Several suppliers and manufacturers did not realize the peculiarity in the process of handling halal food. The production of halal food needs a very cautious understanding throughout the supply chain. Thus, the halal practices integrity subject disembarks. Consequently, this will increase the importance of perceptive in factors ensuring the halal food supply chain integrity (Mohd Hafiz, Marhani, & Mohamed Syazwan, 2014) and halal trust. Thus, this study was guided by primary research questions as follows:

What are the effects of halal practices integrity (HPI), and trust on halal food business performance in Malaysia?
2 LITERATURE REVIEW AND HYPOTHESES

*Halal* and *haram* are universal terms that apply to each and day-to-day activities by the mankind in this world, whether in their *ibadat* or *muamalat* or *mua’sharah* (Tieman, 2011). *Halal* is a Quranic term that means lawful, permitted or legal. Otherwise, *haram* is unlawful, forbidden and illegal. The concept of *Halalan-Tyoyyiban* is clearly being explained in the Quran and Hadith. *Halal* is more on the religious, faith and spirituality. *Thoyyiban* means a high quality, safety, clean (sanitation), hygiene, nutritious and authentic. Thus, it represents the symbol of intolerance in the hygiene, safety, and quality. All foods that are pure and clean are permitted for Muslim consumption which clearly and explicitly stated in the Quran. However, the foods become unlawful if the foods are contaminated from any haram items such as alcohol and pig.

According to Hassan & Khan (2012), integrity is an important matter and concern in the process industry, especially in the food production. Ali, Tan, & Makhbul (2013) asserted that any issues related to the food integrity should be tackled properly because it has a substantial effect towards health, safety and confident of the users, i.e. *halal* food. Operational integrity should continuously be preserved in day-to-day activities, which include materials, process, and logistic (Ali et al., 2013) and being supported by the organization internally as well as externally. This scenario requires an interpersonal, social and culture rapport (Brown, 2006) in building a close relationship with the organization and industry as a whole by ensuring the sustainability of food integrity along the supply chain.

In general, supply chain (SC) encompasses all activities involved in the production and delivery of a final product or service, from the supplier to the customer. Cooper, Lambert, & Pagh (1997) defined supply chain management as the integration of the entire set of business processes that provides products, services and information that add value for customers. According to Tieman et al. (2012), the *halal* supply chain is the management of a *halal* network with the objective to extend the *halal* integrity from source to the point of consumer purchase. Thus, the *halal* supply chain (HSC) is the incorporation of business process and activities from various links of the supply chain by sustaining the *halal* integrity that in line with Islamic law.

2.1 Halal Practices Integrity (HPI)

Integrity is the condition of being whole and complete and it is a major factor to earn and maintain the trust of others (Palanski & Yammarino, 2011). Previous studies identified integrity as a trust antecedents (Albrecht, 2002; Viitaharju & Lähdesmäki, 2012). According to Tejpal, Garg, & Sachdeva (2013), integrity is one of the main factors in creating and retaining trust in supply chain partnerships. Thus, the following hypothesis is proposed:

Hypothesis 1. HPI has a significant influence on trust.

2.2 Trust

Xiao, Zheng, Pan, & Xie (2010) identify three factors that trust could affect the business performance: (1) trust is the necessary condition for SC partners to obtain information and respond positively to the market changes and reduce the market risk; (2) trust enhancement would reduce the transaction costs, increase the business success and improve the profitability among SC partners; and (3) trust establishes a long-term SC relationship. Previous studies also show that a high-level trust lead to a successful business performance and supply chain performance (Chen, Yen, Rajkumar, & Tomochko, 2011). According to Peters & Karren (2009), trust is a significant predictor of performance as well as other outcomes, such as satisfaction. Thus, the following hypothesis is proposed:

Hypothesis 2. Trust has a significant influence on business performance

According to Bloemer et al. (2013), trust has been modeled as mediators in the literature. Traditionally, trust is the key mediating variables, which critical to be studied, failing to include their effects in such studies would result in flawed conclusions (Morgan & Hunt, 1994). According to Xiao et al. (2010), enriching the mutual trust between supply chain partners would decrease the trading costs, escalate the success possibility of the trading and increase the profitability of business. Thus, the following hypothesis is proposed:

Hypothesis 2. Trust mediates the relationship between HPI and business performance.

3 RESEARCH MODEL

Figure 1 illustrates the research model for this study. This study predicts that business performance of *halal* food is influenced directly by *halal* practices integrity, while trust mediates the relationship between *halal* practices integrity and business performance.

**FIGURE 1. Research Model**
4 RESEARCH METHODOLOGY

4.1 Data collection method
A listed questionnaire is adapted and adopted from previous studies done in the field of integrity, trust and business performance to suit with this study. Questionnaires were distributed in the food festivals or events i.e. PIHEC 2016, MIHAS 2016 and Malaya Food Festival 2016. The questionnaire was supposed to be answered by the managerial level or higher rank of the companies as a control measure that believed to provide accurate information regarding the business. This study used face-to-face approach to collect data from respondents.

4.2 Sampling technique
A purposive sampling technique also known as judgmental was used in this study. According to Sekaran and Bougie (2013), a purposive sampling comprises the selection of subjects who are a most favorable position to provide the required information. A list of the halal food and beverages manufacturers that participate in the mentioned events was gathered.

4.3 Target respondents and sample size
The managerial level or higher rank of the food manufacturing industry is the population or sampling unit in this study. The respondents were expected to provide valid and accurate information of their company. Data collection was conducted in that food festival came from businesses done in Malaysia specifically SMEs. Micro company, small company and medium company in food manufacturing industry as defined by SMEs are included in this study. A total of 250 questionnaires were distributed in the festivals.

4.3 Questionnaire development
A quantitative research approach is employed in this study. The questionnaire has two parts. There are 12 items of HPI, trust and business performance in the first part of the questionnaires. Demographic section of eight items that are related to respondents’ companies’ profile stated in the section D of the questionnaires. All three categories of structures, namely HPI, trust and business performance, was measured by a seven-point Likert scale. The scale ranged from “1” not at all to “7” extensive (fully) used to measure HPI. For trust, the scale ranged from “1” strongly disagree to “7” strongly agree. Lastly, for business performance, the scale ranged from “1” greatly decreased to “7” greatly increased. Many previous researchers have used the seven-point scales to measure integrity, trust and business performance which considered as a valid and appropriate measurement (Chen & Paulraj, 2004; Green, Whitten, & Inman, 2008; Svensson, 2001). The HPI items were measured by adapting indicators from Chen & Paulraj (2004) and Wilson & Nielsen (2000). Trust was measured by adapting from Chen, (2013), Mayer, Davis, & Schoorman (1995) and Svensson (2001). Lastly, business performance was adapted from Green et al. (2008).

4.4 Respondent profile
The middle to upper managerial executives in the company were the respondents in this study. Total questionnaires distributed were 250 and 180 were valid to be used for a response rate of 72 per cent. The demographic profile is presented in Table 1.

<table>
<thead>
<tr>
<th>TABLE 1. Demographic profile</th>
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<tbody>
<tr>
<td>Profiles</td>
</tr>
<tr>
<td>What is your designation?</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>General Manager</td>
</tr>
<tr>
<td>Manager</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>What is your area of responsibility?</td>
</tr>
<tr>
<td>Production</td>
</tr>
<tr>
<td>Procurement</td>
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<tr>
<td>Distribution</td>
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<tr>
<td>Others</td>
</tr>
<tr>
<td>How many employees does this company have?</td>
</tr>
<tr>
<td>Less than 50</td>
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<tr>
<td>51 to 100</td>
</tr>
<tr>
<td>101 to 150</td>
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<tr>
<td>151 to 200</td>
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<tr>
<td>What is the ratio between Muslim and non-Muslim in this company?</td>
</tr>
<tr>
<td>100% Muslim</td>
</tr>
<tr>
<td>80% to 99% Muslim</td>
</tr>
<tr>
<td>60% to 79% Muslim</td>
</tr>
<tr>
<td>40% to 59% Muslim</td>
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<tr>
<td>20% to 39% Muslim</td>
</tr>
<tr>
<td>1% to 19% Muslim</td>
</tr>
<tr>
<td>0% Muslim (Totally non-Muslim)</td>
</tr>
<tr>
<td>When was this company established?</td>
</tr>
<tr>
<td>Less than 2 years ago</td>
</tr>
<tr>
<td>2 to 5 years ago</td>
</tr>
<tr>
<td>6 to 10 years ago</td>
</tr>
<tr>
<td>11 to 20 years ago</td>
</tr>
<tr>
<td>More than 20 years ago</td>
</tr>
<tr>
<td>What is the type of ownership of this company?</td>
</tr>
<tr>
<td>Sole trader</td>
</tr>
<tr>
<td>Partnership</td>
</tr>
</tbody>
</table>
Public limited company: 7 3.9
Private limited company: 46 25.6

What is the annual sales turnover of this company?
Less than RM1 million: 144 80
Between RM1 million to RM10 million: 26 14.4
Between RM10 million to RM25 million: 6 3.3
Between RM25 million to RM50 million: 4 2.2

Does this company have MS1500:2009 (Halal Food) certification?
Yes: 118 65.6
No: 62 34.4

5 DATA ANALYSIS

The variance-based partial least square (PLS-SEM) technique is used to test the model developed. PLS-SEM is a second-generation technique that maximizes the explained variance of the endogenous latent constructs (dependent variables) and minimizing problematic issues in the social sciences (Hair et al., 2014). SmartPLS 3.0 was used to analyze the collected data. Hair et al. (2014) suggested that the significance levels for loadings, weights, and path coefficients can be determined by using bootstrapping methods since PLS-SEM does not assume a normal distribution (Hair et al., 2014).

5.1 Measurement Model

Reliability and validity are two steps in assessing reflective outer models by using PLS-SEM. Firstly, composite reliability (CR) is used and more appropriate to evaluate the construct measures’ internal consistency reliability for two reasons (Hair et al., 2014) as follows:

i. CR does not assume that all indicator loadings are equal in the population, and
ii. CR can accommodate different indicator reliabilities (i.e. differences in the indicator loadings) and avoiding underestimate internal consistency reliability.

Secondly, the assessment of validity in evaluating reflective indicators through construct’s convergent validity and discriminant validity. Convergent validity is the extent to which a measure correlates positively with the alternative measures of the same construct. Hair et al. (2014) suggested that each item has outer loadings above 0.70, and average variance extracted (AVE) is 0.50 or higher to support convergent validity of reflective outer models. Figure 2 and Table 2 show the research model result with sufficient convergent validity.

Discriminant validity is the extent to which a construct truly distinct for other constructs by empirical standards. Fornell and Larcker (1981) criterion is used to assess the discriminant validity after conforming the convergent analysis. The criterion used to test this requirement by comparing the AVE of each construct should be higher than the highest squared latent variable correlation with any other construct. Table 3 shows the square root of the AVE with correlations and exhibits adequate discriminant validity.

5.2 Structural Equation Modeling – partial least square

The study calculates the $R^2$ to evaluate the structural model’s predictive power in this research. It represents the endogenous latent variables combined effects on the endogenous latent variables. The study found that almost 58 percent of the variables explained by all three variables. The path coefficients and t-statistics were calculated for the hypothesized relationships by using a bootstrapping technique with a re-sampling of 500. The
The results show that HPI (β = 0.599, t = 11.767, p < 0.01) was positively related to trust. Trust (β = 0.392, t = 5.152, p < 0.01) was positively related to business performance. The mediating effect of trust was tested in the HPI-to-business performance. The bootstrapping procedure was used to test the indirect effect, and the findings show that the indirect effect (β = 0.235, **p < 0.01**) was significant. It indicates there was a mediating effect. The variance accounted for (VAF) used to determine the size of the indirect effect in relation to the total effect (i.e. direct effect + indirect effect) as suggested by Hair et al. (2013) and Hair et al. (2014). The VAF for this study was 0.50. According to Hair et al. (2013), when the VAF value in the range of 20 percent to 80 percent, it is classified as partial mediation.

### 6 CONCLUSION AND CONTRIBUTION

The aim of this study is to examine the effect of trust as a mediating variable in the relationship between HPI and business performance. The results of this study indicated that HPI has a significant relationship with trust that supports H1. The significant relationship between HPI and trust confirms that the halal food industry in Malaysia is using elements of compliance, control, coordination, cooperation and communication in meeting the purposes of the trust. This finding is consistent with the previous studies by Colquitt et al. (2007) and Albrecht (2002) that integrity have unique relationships with trust which they are controlling for one another. Thus, the halal food manufacturers need to enhance the HPI at all activities in the supply chain.

The relationship between trust and business performance was significant that support H2. The relationship between trust and business performance partially mediated by trust and emphasizes the significance of HPI in the achievement of the business performance. This analysis shows that the company which highly implementing halal integrity to have more trust in relation with their supply chain partners. The results of this study also show the elements of halal integrity and trust practiced by the halal food manufacturers has significantly affected the business performance. As a result, the elements of trust and ability to understand halal practices in a competitive of commercial competition, it is essential for the halal food manufacturers to enhance their business performance.

### 7 LIMITATION AND FUTURE RESEARCH

The findings of this study contribute to the existing literature, but it cannot be generalized due to the small sample size. Future studies should consider the proposed research model among different categories of food (i.e. poultry, meat, and dairy; fast food and premises; ingredients and raw materials) in the food industry.

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