

ICBSI 2018
International Conference on Business Sustainability and
Innovation

FACTOR ANALYSIS OF THE HINDERING FACTORS IN HALAL
CERTIFICATION FOR THE SMES

Ratih Hendayani (a) (b)*, Sumrahadi (a), Annisa Sifatul (a), Yuvaraj Ganesan (b)
*Corresponding author

(a) School of Economics and Business, Telkom University, Bandung, 40257, Indonesia, ratihendayani@gmail.com

(b) Graduate School of Business, Universiti Sains Malaysia, Penang, 11800, Malaysia

Abstract

Every halal industry in the world especially such small-medium enterprise (SMEs) should face a regulation, customers, suppliers, and condition of the halal industry itself before competing with other companies in its country. The small-medium enterprise, which becomes the first and is already aware of halal industry, is the food and beverage companies. The objective of this study is to investigate what the most inhibiting factor for the SMEs in applying halal certification. It combines stakeholder theory and/or with resource based theory. This research is an exploratory study using non-probability sampling. The sampling of this study is 396 food and beverage small-medium enterprises in one of the big cities in West Java. The result of this study is known that the most inhibiting factor of the seven factors is employee with factor loading 0.805, and then followed by government. For the future research is suggested that it can investigate the factors in this study in another area and another small-medium enterprises of halal industry such a pharmacy. However, this study has implication in which the stakeholders theory and resource based views can be adopted by the previous research factors and resulted a new factor from the small-medium enterprise's point of view.

© 2019 Published by Future Academy www.FutureAcademy.org.UK

Keywords: Halal industry, factor analysis, SMEs, stakeholders theory, resource-based view.



1. Introduction

The existence of SMEs in the midst of globalization and high competition makes the SMEs itself must be able to face global challenges. It needs to be done to increase the selling value of SMEs, especially, in order to compete with foreign products that are increasingly flooding in industrial and manufacturing centre of Indonesia. However, the SMEs are the economic sector, which is able to absorb the largest workforce in Indonesia (Sudaryanto & Wijayanti, 2015).

Halal label is considered to be a competitive advantage for the small and medium-sized micro and small industries (SMEs) of food and beverage seeking to penetrate export markets. According to Lukman, Judge Chairman of Indonesian Ulema Council, global halal industry continues to grow in which a predominantly non-Muslim nation has started to look halal industry (Ajidin, 2016). Therefore, many industries certify their halal products whether to be marketed in domestic areas to attract Muslim tourists or exported to a number of countries which have Muslim population.

Along with the increase of Muslims' awareness of halal products consumption, good and secure joint efforts are required in management of products. The development of halal in Indonesia and around the world is very fast so that LPPOM MUI should constantly improve its services in supporting halal certification, therefore, cooperating with other parties is required to answer demands of developing higher halal certification. Although percentage of halal certification products has increased year by year but totally the number is still quite small (LPPOM MUI, 2017).

There are several reasons why some of merchants have low interest in halal certification; first, their understanding and concern to halal certification is lesser. Second, halal certification is still voluntary (trader) so they feel and argue that there is no obligation for them to apply halal certification. Besides, people consuming foods such meatballs or even meat itself require halal certification (LPPOM MUI, 2017). It is in line with what Prabowo et al. (2015) stated that there are many people directly involved in food industry but they do not know kinds of ingredients banned in Islam even though they are Muslim. Consumers also never ask about halal status of the food they buy, especially, if the seller uses Islamic attributes.

Government encourages companies to have halal certification because it can make them get an advantage of competitiveness. Even, some restaurant owners observe that halal is a healthy, quality, delicious, authentic, safe and hygienic so halal certification can be a trademark and has competitiveness, however, most restaurant owners claim that halal certification is complex, expensive, and time consuming (Marzuki et al., 2012). In addition, Porter (2008) states that the power of industrial competition that will make the advantage of competitiveness is suppliers, new entrants, buyers, substitutes, and industries. Unfortunately, there are still inhibiting factors such as attracting much investment, certification ownership procedure, and the existence of halal certified industries from upstream to downstream (Hermawan, 2016). Employers have provided government an input into halal certification that could complicate many industries from upstream to downstream because raw materials in the certification process must be certified first, and it takes a longtime process.

Halal certification is a fatwa written and issued by MUI through a decision of Fatwa Commission based on the audit process conducted by LPPOM MUI. Halal certification gives the company an

advantage of competitiveness. However, the awareness of halal in industries and consumers is still low; only a few is halal certified.

2. Problem Statement

Many researchers have done for halal study. First, Prabowo et al., (2015) did research on restaurants and catering in East Kalimantan. Second, Soltanian (2015) examined the motivation of SMEs to be halalpreneur consisting of attitude, subjective norm, and perceived behavioural control. Third, Rafiki (2014) analysed human resource and halal certification consisting of business experience, motivation, training, and education. Four, Alqudsi (2014) examined awareness and demand for 100% halal in meat supply chain consisting of halal meat price, display of halal logo and certificate, separated cold storage / refrigerator / display space, observation of 100% halal supply chain & logistics, and cleanliness of the butcher, store, grocery, and supermarket. Fifth, Tarmizi (2014) examined the factors affecting the readiness of halal logistics in the field of food in Malaysia consisted of three factors: vision to change, halal assurance system, and environments. The five previous studies above have the same topics with this research, but the difference is this research examined about the analysis of inhibiting factors in halal certification in SMEs in Bogor city of West Java.

The selection of attributes for this study is based on Prabowo et al. (2015) on the drivers of the company in obtaining halal certification. Previous studies on halal certification manage halal products to make an advantage of competitiveness in global markets and increase supply complexity by expanding products. According to Prabowo et al., (2015), in the food industry such as restaurant and catering in East Kalimantan, halal certification is not priority. Even Rafiki (2014) states that Muslim communities in Indonesia have a perception that halal certification cannot be combined with business practices. Registration of halal certification is still underestimated. Also, Alqudsi (2014) states that the consumers' perception of halal meat is just looking at the halal logo on the packaging without thinking of the authenticity of halal in the supply chain.

This research is conducted to know the obstacle of filing halal certification at SMEs that will be the advantage of competitiveness and encourage SMEs to have halal certificate. A law states that all products that are circulated and traded in Indonesia must be certified of halal but the data of Cooperative Office and SMEs of Bogor City shows that only 10 of 396 SMEs that have halal certificate.

2.1. Theoretical framework

The theoretical framework in this study shown that the variable used in this study is combined theory between resource-based view theory and stakeholders theory and the adoption from Prabowo et al., 2015 research which is covering industry, customers, government, NGO, suppliers, and employee to knowing what the new factor that can be an obstacle for the SMEs to apply the Halal certification. The framework can show in figure 1.

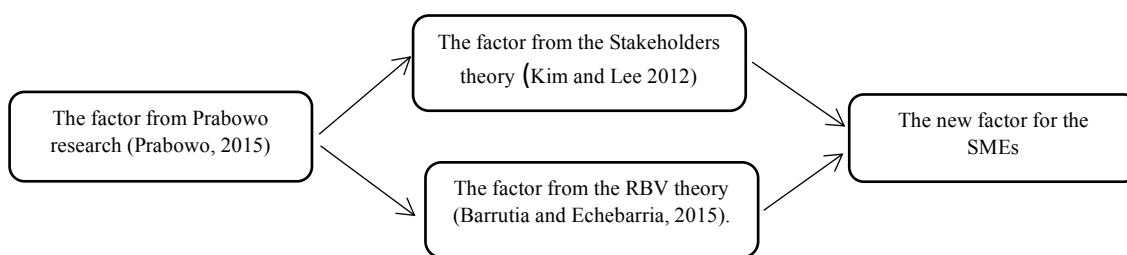


Figure 1. Theoretical framework

From the figure 1 is show that this study is start with adopted the Prabowo et al, 2015 which studied about the factors that can be the hindering factors to applied the Halal certification that only in restaurant in east Kalimantan, difference in this study that focus to the food and beverage SMEs. The factors in the Prabowo et al., 2015 research is already include about the part of stakeholders and exposed the importance of the resource. For have a right factors especially to know what factor that can be an obstacles for the SMEs, then in this study add more other factor from underlying theory for more completed factor than the Prabowo et al., 2015 research, which is the RBV theory that focus on the resource (Barrutia & Echebarria, 2015), that representative with the supplier for the SMEs and Stakeholders theory, which have five factors such customers, employees, shareholders, governments, and society/NGOs (Kim & Lee 2012).

3. Research Questions

This study has two research questions:

1. What are inhibiting factors in halal certification for SMEs?
2. Which is the most dominant factor?

4. Purpose of the Study

The purpose of this study is to investigate the inhibiting factors faced by SMEs in gaining halal certification, and know the dominant factor.

5. Research Methods

The target population of this study was food SMEs in Bogor City of West Java. The maximum number of population is 396 people as representatives of their company who really know and understand how their companies face the inhibiting factors of halal certification process. To analyse a number of observations viewed from the interrelation point, this study used factor analysis method to find out whether variations that appear in the observation may be based on a number of basic categories that are fewer than appear (Fruchter, 1954). According to Panter, et al. (1997), Exploratory Factor Analysis or Factor Analysis Investigation is designed to identify the meaning, and construct the dimension evaluated by the observed covariance which includes the observed nature, response, and sign. Therefore, this study used Exploratory Factor Analysis method because the researchers do not know the factors that will be

tested and want to empirically verify the structure of the factors that become obstacles. Also, the researchers want to identify the most dominant factor hindering the submission of halal certification to SMEs in Bogor City, West Java.

6. Findings

The number of variables that would be examined is 6 variables. Each respondent was given 24 questions formulated in questionnaires. All the data obtained from the respondents was inputted into SPSS application using KMO and Barlett's Test of Sphericity and the result show in table 1.

Table 01. KMO Results

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.758
Bartlett's Test of Sphericity	
Approx. Chi-Square	1179.008
Df	276
Sig.	.000

The table 1 show the KMO and Barlett's Test of Sphericity to find out whether or not a factor analysis was carried out by researchers. The KMO value is 0.758 (greater than 0.5). It indicates that the sample that was taken is adequate. Then, the significance value is 0,000 (less than 0.05). It shows that the research variables can be predicted and analysed much further. Meanwhile, rotated component matrix shows the distribution of more question items clear and real so each question item can be put in wrong position of the seven factors that have been formulated. The other process in the factor analysis is to investigate the factoring that can be seen on the eigenvalue in table 2.

Table 02. The Factoring results

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.009	30.474	30.474	7.009	30.474	30.474	3.135	13.630	13.630
2	2.488	10.818	41.292	2.488	10.818	41.292	3.057	13.292	26.922
3	1.990	8.653	49.945	1.990	8.653	49.945	2.752	11.964	38.886
4	1.614	7.017	56.963	1.614	7.017	56.963	2.460	10.695	49.581
5	1.420	6.175	63.137	1.420	6.175	63.137	2.142	9.311	58.892
6	1.176	5.112	68.249	1.176	5.112	68.249	1.660	7.217	66.109
7	1.081	4.702	72.951	1.081	4.702	72.951	1.574	6.842	72.951
8	.850	3.695	76.646						
9	.680	2.957	79.603						
10	.624	2.715	82.318						
11	.551	2.398	84.715						
12	.502	2.183	86.898						
13	.459	1.997	88.896						
14	.421	1.829	90.725						
15	.372	1.617	92.342						

16	.324	1.410	93.752						
17	.285	1.239	94.991						
18	.259	1.126	96.117						
19	.250	1.086	97.203						
20	.222	.966	98.169						
21	.165	.718	98.887						
22	.148	.642	99.529						
23	.108	.471	100.000						
Extraction Method: Principal Component Analysis.									

From the table 2 is known that the factoring is become seven, which is:

1. Component 1: 30,474%
2. Component 2: 10,818%
3. Component 3: 8,653%
4. Component 4: 7,017%
5. Component 5: 6,175%
6. Component 6: 5,112%
7. Component 7: 4,702%

From the 7 component it can explained 72.951% from 23 variable which is the dimension of the hindering factors. After the factoring then use of rotational factors and can be clarified in each item on factor grouping. The formulated factors can be grouped into components as follows:

a. Resource Factor

The first factor is resource taken from the highest factor loading value of 0.805 and this factor has the highest variant of 30.474% which forms five statement items consisting of Lack of HR. The Government determines the cost of filing halal covering complicated and difficult certification on the requirements for halal certification submission. Also, it tends to be expensive, and lack of socialization from the MUI. The lack of human resources caused by the discovery of a minimum amount in the application for halal certification must be 25 people based on the results of interviews, and based on the Lembaga Pengembangan Perbankan (2015), SMEs can be grouped into three types, namely; 1. Micro Enterprises (10 people), 2. Small Businesses (30 people) and 3. Medium Enterprises (up to 300 people). In the resource factor is needed to be coordinated with the government and SMEs related to the requirement for employees that will be hired, and it is too large. For the government, the fee launched by them for applying halal certification is too expensive for Rp. 2,500,000 for the submission of halal certificates per industry (be based on LPPOM MUI, 2017).

Requesting of MUI's policy for the requirements of the certificate fee is adjusted to SMES income. Complicated and difficult factors in the requirement for applying halal certification is caused by the procedure of submitting certification and the process of certification for raw materials must be in advance and take a long time. The costs incurred in this study are for MSMEs whose income is not comparable to

large companies. The costs that must be incurred for small businesses are very large because they are not in accordance with their monthly sales revenue. Also, lack of socialization from MUI makes SMEs do not understand the flow of applying halal certification.

b. Information sharing factor

The second factor is information sharing taken from the highest factor loading value of 0.734, and this factor has a variance of 10.818% which forms four statement items consisting of lack of MUI's concern of halal certification in business, and information dissemination which is a barrier to the submission of halal certification, lack of government socialization of halal certified products, and lack of knowledge on the importance of halal certificates. The information sharing factor discusses about information of halal certification. In this term, MUI does not require SMEs to apply for halal certification because the nature of halal certification is still voluntary, and MUI itself has not encouraged SMEs to have halal certificate (based on information on halalmui.org). Information dissemination is a barrier to the submission of halal certification because the information obtained by SMEs regarding halal certification is still lesser. Then, the government does not provide counselling about products that are safe and dangerous for consumption. Thus, information from the government regarding halal certification for consumers and SMEs is still lesser.

c. Certification Procedure Factor

The third factor is the certification procedure taken from the highest factor loading value of 0.788, and this factor has a variant of 8.653% which forms four statement items consisting of the process of halal certification which takes long time consuming, halal certification procedure, the distance of halal certification office which is far from the SMEs, and consumer knowledge about halal certificate is very low. The certification procedure discusses about the process of how SMEs can have halal certificate from the side of the halal certification procedure launched by MUI in which it will take a long time to issue the halal certificate. The process of making halal certificates takes time because of the process of checking raw materials that must be certified first until they are ready to be distributed. Procedure for making halal certificates is stated in HAS 23000 Books that must be fulfilled. Then, the submission of a halal certificate must be processed directly to the head office of halal certification. In addition, consumer knowledge about halal certificates is very low; they just believe without asking the halal status of the products they purchase.

d. Supplier Factor

The fourth factor is the supplier with a factor loading value of 0.810, and this factor has a variance of 7.017% which forms the four item statements that comprise the incoming costs from Supplier. The supplier factor discusses about the difference, threat from supplier, fear of halal related discrepancies, and availability of raw materials from supplier. From the Supplier side, it will discuss about the availability of raw materials and fear of halal related inconsistencies. The costs that come from the Supplier are different; the first price agreement is different after the goods are sent to the hands of the business actor. The threat from the supplier referred to this research is that the supplier provides raw materials that are not in accordance with the wishes of SMEs besides the halal certification process pays attention to the raw materials used by them. Fear of any halal related to discrepancies in this study is when the raw materials are checked at the time of filing halal certification, and it shows that the raw materials used

contains illegitimate ingredients. So, availability of raw materials from suppliers must be sure for the quality of the desired item.

e. Certification Factor

The fifth factor is Certification taken from the highest factor loading value of 0.712 and this factor has a variance of 6.175% which forms three statement items consisting of implementation or application of halal certification by business actors, lack of government oversight, and consumers that have the right to know the process of making food. Implementation of halal certification by business actors such as the existence of a certificate and halal logo on their products is very important. Even though, Lack of government oversight due to the nature of halal certification is still voluntary. However, consumers have the right to know the process of making food, even they can see the processes and the raw materials used by industries.

f. Financial Factor

The sixth factor is that finance taken from the highest factor loading value of 0.588, and this factor has a variance of 5.112% which forms two statement items consisting of SME financial problems being an obstacle to the submission of halal and socio-cultural certification. The financial problems of SMEs becomes an obstacle to the submission of halal certification because their income is still below compared to the large companies' one while the cost for applying halal certification for SMEs is still high. Then, socio-culture becomes an obstacle to the submission of halal certification because the consumers and business people also still care less about halal certificate, they do not know about the authenticity of halal on the products they purchase.

g. Consumer Factor

The seventh factor is that consumers taken from the highest factor loading value of 0.848, and this factor has a variance of 4.702%. The naming of consumer factors discusses the consumer's low concern for halal certification, which means that the consumers are less concerned about halal certificates because they have believed in the products they consume without knowing whether they have halal certificates or not and they do not care about the authenticity of their halal logo.

7. Conclusion

Based on the results of factor analysis there are 7 factors that hinder the submission of halal certification to SMEs in Bogor City, West Java. These seven factors are resources, information sharing, certification procedures, suppliers, certificates, finance, and consumers. Based on the results of factor analysis we can conclude that the most dominant factor hindering the application of halal certification to SMEs in Bogor City, West Java is a resource factor because it has the largest total variance of 30.474%.

Based on the results of the factor analysis that has been described, for further research it will be best to expand the object of research by conducting research in other cities, because the more inhibiting variables used from the related expert theory, the better the results of the factors that will be formed. Subsequent research can examine the effect of halal certification submission using factors in this study on the level of consumer confidence in SMEs. For SMEs players in Bogor city, it is suggested that they have to increase consumer's confidence in their products by having halal certificates. As SMEs, it is necessary to coordinate with the government about conditions for hiring employees who do not follow large

companies, and request to MUI in order to launch its policy for procedures of applying halal certification for SMEs in order that the costs of halal certification must be in accordance with their income.

References

- Ajidin, Z. A. (2016). Potensi Industri Kuliner Halal, (online). <http://www.republika.co.id/berita/koran/opini-koran/16/01/22/01ce4m9-potensi-industri-kuliner-halal>. [19 November 2016]
- Alqudsi, S. G. (2014). Awareness and demand for 100% halal supply chain meat products. *Procedia-Social and Behavioral Sciences*, 130, 167-178.
- Barrutia, J. M., & Echebarria, C. (2015). Resource-based view of sustainability engagement. *Global Environmental Change*, 34, 70-82.
- Fruchter, B. (1954). Introduction to factor analysis. England: Van Nostrand
- Hermawan, F. W. (2016). Benarkah Sertifikat Halal Menghambat Investasi, (online). Retrieved from <https://beritagar.id/artikel/berita/benarkah-sertifikasi-halalmenghambat-investasi>.
- Kim, S. T., & Lee, S. Y. (2012). Stakeholder pressure and the adoption of environmental logistics practices: is eco-oriented culture a missing link? *The International Journal of Logistics Management*, 23(2), 238-258.
- Lembaga Pengembangan Perbankan Indonesia. (2015). Profil Bisnis Usaha Mikro, Kecil dan Menengah (UMKM), (online). Retrieved from <http://www.bi.go.id/id/umkm/penelitian/nasional/kajian/Documents/Profil%20Bisnis%20UMKM.pdf>
- LPPOM MUI. (2017). Biaya Sertifikat, (online). <http://www.halalmuikepri.com/biaya-sertifikat/>.
- Zannierah Syed Marzuki, S., Hall, C. M., & Ballantine, P. W. (2012). Restaurant managers' perspectives on halal certification. *Journal of Islamic Marketing*, 3(1), 47-58.
- Panter, A. T., Swygert, K. A., Grant Dahlstrom, W., & Tanaka, J. S. (1997). Factor analytic approaches to personality item-level data. *Journal of personality assessment*, 68(3), 561-589.
- Porter, M. E. (2008). Competitive strategy: Techniques for analyzing industries and competitors. Simon and Schuster.
- Prabowo, S., Abd Rahman, A., Ab Rahman, S., & Samah, A. A. (2015). Revealing factors hindering halal certification in East Kalimantan Indonesia. *Journal of Islamic Marketing*, 6(2), 268-291.
- Rafiki, A., & Abdul Wahab, K. (2016). The human capital and the obtainment of halal certification. *Journal of Islamic Marketing*, 7(2), 134-147.
- Soltanian, M., Zailani, S., Iranmanesh, M., & Aziz, A. A. (2016). Motivations of SME entrepreneurs to become halalpreneurs. *Journal of Science and Technology Policy Management*, 7(2), 173-189.
- Sudaryanto, R., & Wijayanti, R. R. (2015). Strategi Pemberdayaan UMKM Menghadapi Pasar Bebas Asean. Retrieved from kemenkeu.go.id.
- Tarmizi, H. A., Kamarulzaman, N. H., Latiff, I. A., & Rahman, A. A. (2014). Factors influencing readiness towards halal logistics among food-based logistics players in Malaysia. *UMK Procedia*, 1, 42-49.