Awareness of Halal Certification of Micro and Small Enterprises in Jakarta

VIVERITA* AND RATIH DYAH KUSUMASTUTI

Department of Management, Faculty of Economics and Business, Universitas Indonesia, Depok, 16424, Indonesia

ABSTRACT

Demand for halal-certified products is increasing in Indonesia, as the country has a high percentage of Muslim residents. Micro and small enterprises (MSEs) play an important role in Indonesia’s economy and contribute significantly to the country’s gross domestic product. This study investigates the determinants of MSE’s awareness of halal certification, which is increasingly applied in products and gets more attention of the producers, especially those in the food and beverage industry. This research is conducted by using a combination of qualitative and quantitative methods. In-depth interviews (IDI) and focus group discussions are conducted to gain insights concerning the halal certification process, while a survey of 180 MSE owners/employers is conducted to analyze the determinants of their awareness of halal certification. We apply SEM-PLS to analyze the survey results, and the findings reveal that most MSEs are aware of halal certification, while customers and exposure significantly affect MSE’s awareness of halal certification.

Keywords: halal certification, awareness, micro and small enterprises

JEL Classification:
INTRODUCTION

Halal products are becoming more attractive to consumers, not only to Muslim consumers, but also those who pay attention to the healthiness and hygiene of certain products. Consumers buy halal products not only for religious reasons but also due to their concerns about healthiness, wholesomeness, and hygiene (Kassim, 2010; Soesilowati, 2010). In other words, they buy the confidence factor of the halal products. Therefore, halal products become more interesting due to increasing consumers’ concern for the environment, health, and vegetarianism (Global Pathfinder Report, 2011).

Previous studies provided evidence that religion and religiosity might have influence on people’s attitudes and behavior (Delener, 1994; Pettinger et al., 2004); therefore, they could affect their food purchasing behavior and eating habits (Steptoe et al., 1995). In addition, Mullen et al. (2000) suggested that food consumption also was influenced by religion. Furthermore, Musaiger (1993) found that sociological factors such as religion and beliefs were among the prominent variables that influenced food consumption. Muslim consumers typically have to follow a set of food dietary rules that must comply with Islamic laws, known as halal. In the halal concept, Muslims are only allowed to consume foods that comply with sharia law (Vermeir et al., 2007).

Indonesia is a country in which 88% of the population identify themselves as Muslim. Therefore, the demand for halal-certified products, especially for food and beverages, in the country is increasing significantly. According to the data from Indonesia Statistics Body (BPS), up to December 2015, there were 3,385,581 micro enterprises and 283,022 small firms in Indonesia, where food and beverage industries account for about 46.14% and 32.97% of total micro and small enterprises, respectively. Furthermore, in Jakarta only, the production growth (y.o.y) of these firms have increased from 6.97% in 2012 to 11.43% in 2015 and 10.90% in the first quarter of 2016, while nationally it only grows 5.71% on average. In addition, these firms contributed to the value, which added about Rp 90,039,047 million to the nation’s economy in 2015 (BPS, 2016).

Small and medium enterprises (SMEs) play an important role in economic sustainability of a nation, especially during crisis periods. In Asian countries such as Indonesia, Malaysia, the Philippines, Thailand, and Vietnam, this sector contributes to about 55% to the GDP; this sector also helps the government to reduce the unemployment number by helping to absorb 70% of the workforce (Jinjarak et al., 2014). Due to the important role of SMEs in a nation’s economy, and their market potentials, it is essential for them to obtain halal certification. Until 2015, 35,962 halal certificates for 309,115 products were issued by the Indonesian Halal Certification Body (LPPOM-MUI) to 33,905 firms. Current data from Indonesian Statistics Body (BPS) show that, until 2015, there are about 3.7 million micro and small businesses in Indonesia, but only about 4,000 of them (0.11%) have obtained halal certificates. The number is still far behind Malaysia, where 93.7% of products (from 47.2% small businesses) have been halal certified (Halal Industry Development Corporation, 2017). In the case of Thailand, currently there are 21,854 products from 5,099 sellers that have been halal certified (CICOT, 2017). As the result, due to the limited variety of halal products in Indonesia, many of them are imported from neighboring countries such as Malaysia and Thailand.
As the need for halal products in Indonesia is increasing, and many of the producers are SMEs, it is important to explore factors affecting them—especially at the micro level, i.e., the micro and small enterprises’ (MSEs) awareness of halal certification. As research focusing on halal awareness and perception has been conducted mainly in Malaysia, only limited studies have been carried out within the Indonesian setting and mostly focus on the customer side. Therefore, this study aims to investigate the determinants of MSE’s awareness of halal certification. This paper contributes to provide insights from the Indonesian micro and small businesses’ point of view.

The remainder of the paper is organized into five sections. The next section presents a brief review of the literature related to motivation to obtain halal certification. This is followed by the research methodology, which describes the conceptual model and hypotheses development. The fourth section describes measurement and structural model results, followed by discussions in Section five. The paper concludes with a discussion of the results obtained from testing the hypotheses and their implications.

**REVIEW OF LITERATURE**

The halal status of the product is normally represented by halal certificate. Previous studies find that one of important factors considered by customers when purchasing a product is the halal certification issued by respected institutions (Umihanic, 2009). Furthermore, Yusof et al. (2014) examined Muslim consumers’ perceptions on halal branding in Malaysia and found that most of them agree that producers need to follow all the requirements for halal certification to obtain consumers’ trust and confidence. In addition, the survey results of restaurant managers’ perceptions about halal food certification reveal that most of them agree that having halal certification is an advantage (Marzuki et al., 2014). However, Veldstra et al. (2014) found some organic producers in the United States are reluctant to certify their products due to higher financial costs than the benefits.

The goal of producing halal products is not only to attract Muslim consumers; it also can be viewed as a competitive business advantage (Abdul et al., 2013a, 2013b). However, previous studies regarding halal products mostly focus on the customer’s side (demand’s side). For the Indonesian case, studies by Kassim (2010) and Soesilowati (2010) indicate the importance of customers’ perception of healthiness, wholesome, and hygiene factors in purchasing halal products. Jusmaliani and Nasution (2009) and Salehudin (2010) also conducted other studies focusing on halal awareness and perceptions in an Indonesian setting. In Malaysia, Yusof et al. (2014) investigated the consumers’ perception on halal branding and found that most customers agree that producers must provide halal certification for their products to enhance consumer confidence. Furthermore, Marzuki et al. (2014) revealed the importance of having halal certification from the consumers’ point of view. Rajagopal et al. (2011), on the other hand, studied the awareness of halal products and certifications among the student population in United Arab Emirates. The study indicates that the respondents are familiar with the halal concept, but they have low awareness of halal brands and halal certified products.

Although there are ample studies regarding halal products and certification, limited studies
have explored the awareness of halal certification from the supply side, i.e., the provider of halal products. A study by Abdul et al. (2013b) may be one of the few related studies in the Indonesian setting, which examine the perception of SMEs in the food industry in Yogyakarta City and find that most of SMEs in Jogjakarta City are aware of halal food certification. Rafiki (2014) examined factors that affect small firms’ obtainment of halal certification in North Sumatera, Indonesia. Using logistic regression analysis, the study found that religiosity of the business’ owner, such as Islamic motivation, Islamic training, and Islamic education are among significant factors for obtaining halal certification. In addition, Prabowo et al. (2015) found that inadequate information of requirements and procedures are obstacles in obtaining halal food certification in East Kalimantan, Indonesia.

Furthermore, Abdul et al. (2009, 2013a) examined the SMEs’ perception of halal certification in Malaysia. The authors revealed a significant relationship between religion of the SMEs’ owner and owning halal certification. In addition, the study also found that the process of obtaining halal certification is costly and not user-friendly.

**RESEARCH METHODOLOGY**

**Conceptual Model**

The objective of this research is to identify factors that affect the awareness of MSEs concerning halal certification. Deriving the concept from brand awareness literature, awareness of certain objects is defined as a rudimentary level of knowledge involving the least recognition of the object (Hoyer & Brown, 1990). Therefore, in terms of halal certification, MSE’s awareness of halal certification means having basic knowledge of halal certification.

Ambali and Bakar (2012) conceptualize four sources of halal awareness of Muslim customers, namely, religious belief, role of halal certification, exposure, and health reasons. We modify their concept to suggest the sources of halal certification awareness of MSEs in Jakarta by also taking into account results from our FGD with 10 MSEs’ owners in greater Jakarta, in which some or all of their products have already been halal certified. We hypothesize that the MSEs’ awareness of halal certification is influenced by customers, exposure, market opportunity, and the importance of halal certification. The conceptual model is depicted in Figure 1.

![Figure 1. The proposed conceptual model](image-url)
Hypotheses Development

As suggested by Musaiger (1993), Steptoe et al. (1995), and Mullen et al. (2000), religion and religiosity may have an influence on eating habits. Thus, Muslim customers may require halal-certified products from MSEs producing food and beverages. Based on our FGD with 10 MSE owners in greater Jakarta, two participants specifically state that the main motivation behind their initiatives to get halal certification for their products are customer requirements. Thus, we suggest that customers may influence MSE’s awareness of halal certification. Based on the above explanation, we draw the following hypothesis.

**H1: Customers have direct influence on MSEs’ awareness of halal certification.**

In the era of information technology, information may come from various sources, such as personal experiences, books, journals, expert opinion, media, and the Internet. Stanovich and Cunningham (1993) empirically find that differences in exposure to information significantly contribute to differences in knowledge. As awareness means having basic knowledge, exposure to halal certification information may influence MSE’s awareness of the certification. FGD results also indicate that most of the participants undertake the halal certification process for their products after they have information concerning the certification procedure and cost. Based on the above explanation, we draw the following hypothesis.

**H2: Exposure has a direct influence on MSEs’ awareness of halal certification.**

Owning halal certification in a Muslim-dominated country, such as Indonesia, may be used as a mean to increase market share. Halal certification also may be seen as a competitive business advantage (Abdul et al., 2013a, 2013b). Two FGD participants say that having halal certificates means increased market share, for instance, because they can now sell their certified products at the retail supermarkets, as halal certification is one of the requirements for entering the retail market. They also mention that, by having halal certification, they are more confident in selling their products in various markets, including exporting the products abroad. Based on the above explanation, we draw the following hypothesis.

**H3: Market opportunity has direct influence on MSEs’ awareness of halal certification.**

The level of importance of halal certification perceived by customers may affect their halal awareness (Ambali & Bakar, 2014). The halal logo is important because it indicates that the products comply with Islamic sharia and also are safe and healthy to be consumed. Therefore, the halal logo is a signal that the products are permitted for the Islamic customers. Based on the above explanation, we draw the following hypothesis.

**H4: The importance of halal certification has direct influence on MSEs’ awareness of halal certification**

Method

This study uses primary data, which are gathered by conducting focus group discussion (FGD) with 10 MSEs that already have halal certified products, in-depth interviews (IDI) with representatives from LPPOM-MUI, and also by distributing questionnaires to respondents. FGD and IDI are conducted to gain insights on the halal certification process.
The measurement variables are adopted from Ambali and Bakar (2012) and from the FGD result. We use purposive sampling, as we need to ensure the respondents are representatives from businesses with maximum annual revenue within definition of MSE, as stated by the BPS, and that the businesses have not yet had halal-certified products. Variables, indicators, and their sources are presented in Table 1.

Table 1: Variables and indicators

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definitions</th>
<th>Indicators</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSEs’ awareness of halal certification</td>
<td>The awareness of MSEs of the importance of halal certification for all the offered products.</td>
<td>I have sufficient information concerning the halal certification process in Indonesia. I always concern about the halal issue of a product. As a food/beverage producer, I always want to make sure that our customers buy products that are in accordance with Islamic sharia.</td>
<td>Ambali dan Bakar (2012)</td>
</tr>
<tr>
<td>Customers</td>
<td>Customers require to consume halal certified products.</td>
<td>Our customers only consume halal products. Our customers will never consume products that are not in accordance with Islamic sharia. According to our customers, halal products are healthy to be consumed</td>
<td>Result of FGD with MSEs that have halal products</td>
</tr>
<tr>
<td>Exposures</td>
<td>Exposure received by MSEs on halal certification from different media platform</td>
<td>I get the information of halal certification process from printed media. I get the information of halal certification process from electronic media. I get the information of halal certification process from social media. I get the information of halal certification process from LPPOM-MUI’ website. I get the information of halal certification process from the Internet other than LPPOM-MUI. I get the information of halal certification process from friends. I get the information of halal certification process from education/socialization conducted by the local government.</td>
<td>Ambali and Bakar (2012), result of FGD with MSEs that have halal products</td>
</tr>
</tbody>
</table>
Market opportunity that can be exploited by obtaining halal certification

Having halal certification means increased sales volume
Having halal certification means increased business profit
Having halal certification means increased customers base
Having halal certification means bigger opportunity to export the products to foreign countries

Result of FGD with MSEs that have halal products

The level of importance of halal certification to customers

Halal certification information is more important than other product information, such as PIRT, information of ingredients, etc.
I believe that our customers prefer products with halal certification logo
I believe that our customers can clearly recognize halal certification logo

Ambali and Bakar (2012)

By applying the proportional sampling method, the sample of our research is 180 MSEs’ owners/employees in five regions in Jakarta, which have not yet had halal certifications for their products. Pre-test and field surveys were conducted in the period of September–October 2015. The partial least-squares structural equation modelling (PLS-SEM) method is used to analyze the survey result, as it works particularly well when the research focuses on predicting or explaining the variance of the key target construct (Hair et al., 2012).

Hair et al. (2012) also explain that analysis using PLS-SEM consists of two sub-models. The first is the measurement model (or outer models), which shows how latent variables represent the observed variables to be measured. The second is the structural model (or inner models), which shows the estimated strength between latent variables or constructs.

**RESULTS**

**Measurement Model Results**

Reliability test results show that the value of Cronbach’s alpha of all constructs is more than 0.6, indicating that all constructs are reliable. Validity test results indicate that, out of 20 indicators, three from exposure and one from market opportunity variables have loading factors below 0.5 and, thus, are not used to measure the latent variables.

Descriptive analysis show that 70% of the respondents are from micro businesses (maximum annual revenue is Rp.300 million or around USD22,000), while 30% are from small businesses (annual revenue is between Rp.300 million and Rp.2.5 billion or around USD22,000 and USD185,000). Furthermore, 99% of the respondents state that they are Muslims, 63% of the respondents are business owners, and 87% are from food businesses. Concerning business
location, only 2% of the respondents are located in areas in which residents are mostly non-Muslims. Moreover, 98% of the respondents are aware that there is halal certification in Indonesia. Table 2 presents reasons why the respondents have not yet had halal-certified products. It can be seen that having no information on the halal certification process is the reason that most respondents state for not having halal-certified products.

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>42</td>
<td>23%</td>
</tr>
<tr>
<td>Have no information on halal certification process</td>
<td>59</td>
<td>33%</td>
</tr>
<tr>
<td>Long and complex procedure</td>
<td>41</td>
<td>23%</td>
</tr>
<tr>
<td>The certification is not important</td>
<td>38</td>
<td>21%</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 2. Reasons for not having halal certified products

Structural Model Results

The hypotheses are tested using path analysis, and the results are presented in Table 3, which shows that there are only two path coefficients with a T-statistic of more than 1.96, namely, customers to awareness and exposures to awareness. These path coefficients show that there are only two constructs (i.e., customers and exposures), which have significant effects on MSEs’ awareness of halal certification. The remaining two hypotheses are not supported by data (see Figure 2).

Furthermore, it also can be seen that the R² is 79.43%, indicating that all exogenous variables (customers, exposure, market opportunity, and the importance of halal certification) can explain 79.43% variability of the endogenous variable (MSE’s awareness of halal certification).

In order to validate the entire model, we use a GoF (goodness-of-fit) index, the value of which is calculated as the square root of multiplication result of average communality index and the average R² (Tennenhaus, 2004):
The average communalities index and $R^2$ can be seen in Table 4, and the resulting GoF index is 0.7505, which is considered as high; thus, it can be concluded that the model is valid.

### DISCUSSION

The results reveal that 52% of the respondents tend to agree that they care about the halal status of a product. However, 74% of respondents tend to disagree if their customers only consume halal products. This indicates that their awareness of halal certification is influenced by their customers as proven by the T-value, which is 5.912. This finding is consistent with the finding of Said et al. (2014), which state that, in general, customers in Malaysia buy halal products for religious reasons. In addition, it is also in line with Abdul et al. (2009), which revealed that consumers buy halal products because they promote confidence, trust, and satisfaction.

Results of the hypotheses tests also show that exposure has a direct influence on MSE’s awareness of halal certification. Out of the seven types of exposure (printed media, electronic media, social media, LPPOM-MUI’s website, other Internet websites, friends [word of mouth, WOM], and socialization/education from relevant government divisions), only four types of exposure have good reliability and validity, namely, social media, LPPOM-MUI’s website, other Internet websites, and socialization/education from relevant government divisions. This is due to limited information provided through the other three types of exposure, as indicated by the FGD, IDI, and survey results. LPPOM-UI has no specific budget for socialization/education activity; mostly this activity is conducted by relevant government divisions, however limited to the MSEs under their supervision. Limited and nonuniform information also may be the cause as to why exposure to awareness has a negative path coefficient (-0.348), indicating that more exposure results in lower awareness, which is different from previous research results (such as those from Ambali and Bakar, 2012).

According to the FGD result, most informants state that information concerning the halal certification process is not widely disseminated; that is, the information obtained from their colleagues through social media or from the officers of related government institutions (such as local office of the Ministry of Trade and industry or local office of Ministry of Cooperative, and Small and Medium Enterprises). Furthermore, the respondents also say that they obtain different information from different sources. Borrowing from the concept of integrated

$$G_0F = \sqrt{\text{Com} \times R^2_{\text{inner}}}.$$
marketing communication, coordination of message and media is critical in achieving strong awareness (Shimp & Andrews, 2013). Thus, different information from different media may cause confusion that may lead to low awareness.

Concerning the market opportunity, the results reveal that market opportunity has no direct influence on MSEs’ awareness. This is different from the findings of Abdul et al. (2013), which revealed that SMEs in Yogyakarta agree that halal certification may increase market share because of increased consumers’ belief and trust. The difference may be due to the respondents in Jakarta who are still uncertain if their customers only consume halal-certified products, so they don’t think that having halal-certified products will significantly increase their sales volume.

The hypothesis tests also indicate that the importance of halal certification has no direct influence on MSE’s awareness. This also is different from the findings of Ambali and Bakar (2012). If we look further, 46% of respondents state that halal-certification information is not more important than other product information. The results also reveal that 40% of respondents do not agree that their customers prefer halal-certified products, and 48% of respondents do not agree that their customers can clearly recognize the halal logo. These results indicate that the respondents do not think of halal certification as something that is important to obtain for their products. Implicitly, the respondents also view that their customers have not yet understood the importance of halal certification, so they do not specifically prefer products with the halal-certified logo. Another possible explanation is that most Indonesians assume that food produced by Indonesian producers is halal; therefore, they do not pay attention to whether they have a halal-certified logo. Furthermore, having a halal food certification and logo is optional, not compulsory in Indonesia. Therefore, in order to overcome this problem, the related local authority needs to have a strong education and socialization program to introduce the concept to the MSEs (Aziz & Sulaiman, 2013).

In addition, such socialization and education concerning halal products should be conducted periodically to business owners and consumers (especially Muslim consumers), so that the number of halal-certified products can be increased.

**CONCLUSION**

This study examines determinants of the awareness of halal certification of micro and small enterprises in Jakarta. Using primary data of 180 owners/employees, we use SEM-PLS to analyze the results. The results show that most respondents are aware of halal certification. Hypotheses testing results show that customers and exposure have direct influence on MSE’s awareness of halal certification, while market opportunities and the importance of halal certification do not affect the awareness.

These findings imply the need for a socialization program regarding the importance of consuming halal products, especially for Muslim consumers. Furthermore, the socialization/education programs need to be held regularly for MSE owners, emphasizing the necessity of providing halal-certified food and beverage products for Muslim consumers. In order to significantly increase awareness, updated and uniform information concerning halal products...
and the halal certification process also must be provided in the media, which easily can be accessed by society, such as through social media and relevant government divisions’ Internet websites.

LIMITATION

The main limitation of our study is the limited number of respondents filling out the questionnaire due to the difficulty in obtaining MSEs’ data in Jakarta. The time and resource constraints also inhibit us from having a longer time to find more respondents. As a result, this study cannot be generalized to all MSEs in Jakarta. Future study in other parts of Indonesia is needed to be conducted to gain more comprehensive insight on halal certification and MSEs in the country.

REFERENCES


