

OVERCOMING BARRIERS TO HALAL CERTIFICATION: A CASE STUDY ON SMES IN KEDAH, MALAYSIA

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Abstract: *The global demand for halal products, driven by Muslim and non-Muslim consumers, has surged in recent years, highlighting the critical role of halal certification in enabling small and medium enterprises (SMEs) to succeed locally and internationally. However, the number of halal-certified SMEs in Malaysia, remains significantly low, limiting their market competitiveness and growth potential. This study examined the barriers faced by SMEs in Kedah in obtaining halal certification and their implications for business development. The research aimed to (i) identify key challenges such as high certification costs, knowledge gaps, regulatory hurdles, and resource constraints; (ii) analyze the impact of lacking halal certificate on the growth and market potential of SMEs; and (iii) assess the awareness and understanding of the halal certification process among SME owners and managers. Using a qualitative approach, data was collected through interviews with SME owners and halal executives, followed by thematic analysis. The findings revealed that high certification costs, limited awareness of certification protocols, and limited halal suppliers are the major obstacles. Halal certificate was found to enhance market credibility, facilitate entry into new markets, and strengthen consumer trust. The study concludes that targeted government support, awareness initiatives, and more accessible certification processes are essential to improving SME competitiveness. These findings underscore the importance of halal certification as a catalyst for the economic growth and sustainability of SMEs in Kedah.*

Keywords: halal, SME, certification, manufacturing sustainability

1. Introduction

Halal refers to products and services considered permitted and lawful according to Shariah principles as delineated in the holy Quran. For adherents of Islam by Muslims, consumption of halal items is compulsory for their religion and faith. Neglecting this indicates a deficiency in faith as a Muslim. Alqudsi (2013) posits that the term halal is frequently linked to "toyyiban," which encompasses two interrelated meanings: serving as a synonym for halal and denoting cleanliness and quality alongside halal compliance. The comprehension of halal significantly influences the demand for halal products as a benchmark for food safety and consumer goods, as emphasized by Bakar *et al.* (2019). The rapid Muslim population growth has resulted in heightened global demand for halal-certified products. In 2022, Muslims constituted approximately 25.8% of the world's population, equating to roughly two billion

individuals (statista.com, 2022). This demographic expansion has propelled the halal market's value to surpass USD 7 trillion, with projections indicating it will attain USD 10 trillion by 2030, expanding at a rate of 5% per annum (halalfoundation.org., n.d.).

Malaysia's halal certification is globally acknowledged as a benchmark, with its requirements respected and adopted in over 47 countries (Halal Development Corporation, 2023). This extensive recognition not only enhances Malaysia's position as a halal hub but also facilitates international trade for enterprises with JAKIM's certification. Businesses that comply with halal procedures acknowledge the significance of acquiring JAKIM's halal certification, as it provides a competitive edge by facilitating entry into the burgeoning halal market anticipated to reach \$3.2 trillion by 2028 (Halal Times, 2024) and the halal accreditation indicates a company's dedication to superior quality and compliance with Shariah principles, attracting consumers seeking halal products and services on a broader scale.

SMEs contribute significantly to Malaysia's halal business landscape and economic development. As of 2021, there were 1,226,494 SMEs registered in the country, including 78% microenterprises and 19% small firms (Hasan & Tanakinjal, 2020), but only about 7,000-8000 are halal certificate holders, and only about 1800 SMEs are actively exporting their products (HDC, 2021). Medium-sized enterprises in Malaysia sometimes encounter difficulties in acquiring halal certification, despite the growing prospects within the halal industrial sector (Hasan & Tanakinjal, 2020). This development is concerning as many enterprises depend significantly on government subsidies and assistance.

2. Methodology

This research examined the challenges faced by small and medium enterprises (SMEs) in Kedah when pursuing Halal certification. Employing a case study approach is beneficial for exploring the thoughts, emotions, and experiences of participants concerning the challenges they encounter in their daily business activities.

2.1 Data Collection

Primary data was obtained through formal interviews conducted with individuals intimately engaged in the Halal certification process, including small and medium enterprise (SME) owners, and senior officials responsible for overseeing compliance standards. Semi-formal interviews were chosen for their capacity to enable participants to articulate their perspectives and personal experiences interactively, while simultaneously addressing the critical areas of interest specified in the study project.

2.2 Sample Selection

The research employed purposive sampling to select individuals with expertise and involvement in the Halal certification process. The participants included owners of small and medium enterprises (SMEs), certification process consultants offering guidance during applications, and certification bodies overseeing Halal compliance. Details of the respondents are summarized in the following table.

Table 1. Details of the respondents

Respondent	Respondent's Age and gender	Respondents Details and Justifications
1	34 (female)	Supervisor for a small-scale traditional medicine manufacturing company that aims to become halal certified. Despite her primary work as a halal supervisor and quality assurance specialist, her attempts to align the company with halal standards give her valuable insights. Her experiences emphasized the hurdles that SMEs confront, such as understanding certification criteria, navigating prices, and finding support, making her viewpoint especially helpful for spotting potential for growth in the industry.
2	53 (male)	The owner and founder of a small business that makes grilled fish sauce. As an entrepreneur, she leads the management of production and business operations, allowing her to share important insights about the challenges and opportunities in the SME sector. He is an important source of information, providing practical knowledge and firsthand experiences that are useful for understanding market demands, regulatory processes, and strategies for business growth.
3	55 (female)	The owner and runs a small business that makes traditional egg sponge cakes. She has more than ten years of experience in the baking and confectionery industry, earning a reputation for her dedication to quality and innovation in her products. She shares useful insights about the challenges that SMEs encounter, such as scaling operations, meeting regulatory requirements, and finding market opportunities for ongoing growth.

2.3 Data Analysis

The analysis of the collected data involved transcribing and organizing interview responses and observational notes, followed by identifying consistent patterns and key themes within the dataset. This analytical method elucidated the challenges faced by small and medium enterprises (SMEs) and the various factors influencing their ability to achieve Halal certification. In this research on, thematic analysis can be applied to explore the challenges and barriers faced by businesses in obtaining halal certification.

3. Findings

3.1 Financial challenges in obtaining halal certification

Securing Halal certification presents financial challenges for medium enterprises (SMEs), primarily due to elevated raw material costs, pricing complexities, and limited capital availability. Reliance on halal-certified ingredients constitutes a significant obstacle, as many

suppliers do not possess the necessary certifications. Entrepreneurs often encounter difficulties sourcing essential items such as flour, sugar, butter, and eggs, leading to inefficiency and delays. The increasing demand for Halal products exacerbates costs, while the scarcity of certified suppliers and minimum order requirements further complicate the situation for budget-constrained businesses. The certification procedure incurs costs, such as registration fees. Enhancing facilities alongside compliance assessments for small and medium-sized enterprises (SMEs). The lack of readily accessible financial help for investment in technology and training poses challenges for SMEs, highlighting the necessity for support such as subsidies or grants.

3.2 Inadequate Knowledge

The deficiency of knowledge impedes SMEs from effectively maneuvering through the certification process. They encounter difficulties utilizing online platforms such as MY eHALAL due to inadequate IT proficiency. Entrepreneurs frequently depend on external assistance such as consultancy services, which escalates costs and complicates the procedure. Although platforms like MYeHALAL streamline application processes, some SMEs perceive them as intricate due to the extensive documentation required. Enhanced training and guidance could facilitate access. Moreover, the absence of certification adversely affects business growth and customer trust. Products lacking certification often encounter skepticism from consumers who prioritize compliance with Halal standards, particularly among those seeking assurance in their purchases. Additionally, non-Muslim consumers also prefer halal-certified products due to their perceived hygienic attributes. Companies frequently depend on certifications such as MeSTI and GMP to establish credibility. These may not consistently correspond with client expectations for halal compliance.

3.3 The Halal Supply Chain and Operation

All three (SMEs) are apprehensive about fulfilling the criteria for halal certification due to insufficient comprehension of the procedure and what they deemed ambiguous instructions, which exacerbate anxiety among the producers regarding compliance with established standards. The traditional medicine manufacture for example, is apprehensive over the use of various components in the extraction processes. Each of these components needed halal certified ingredients for the final product to be eligible for halal certification. Highlight the significance of confirming that these ingredients possess halal certification. However, as his suppliers are mostly small-time business holders and local farmers, getting halal certified raw materials is very challenging. Besides that, hygiene concern and the potential for cross-contamination are significant concerns for all three SMEs. Entrepreneurs operation capability underscores the importance of consistently maintaining cleanliness in production area and ensuring that all equipment is exclusively utilized for the manufacture of halal-compliant products to prevent any contamination from raw material from farms and so on.

4. Discussion and Conclusion

The pursuit of halal certification is motivated by market demands and the company's aims. SMEs business owners recognized that obtaining halal certification fosters trust with clients by demonstrating that their products are hygienic and secure while complying with established standards (Awang & Abdul Rahman, 2023; Yanti, 2024). The proprietor of the fish sauce company noted that possessing halal accreditation bolsters client trust. The other two

companies also agreed that accreditation represents quality and purity. An increasing consumer demand in halal certified products also necessitates that their companies integrate halal management system into their manufacturing and distribution operations to ensure the halal status influences customer purchase decisions. All the SMEs also received training which should have equipped them with the skills and knowledge necessary to effectively navigate the halal certification process. These training programs are offered by government agencies, industry groups, and private consultants. However, all of them still struggled with the basics of the certification process. They seem to concentrate on sourcing halal-compliant materials, establishing production facilities in accordance with halal standards, instead of preparing and fulfilling the halal certification requirements especially in terms of documentation. Furthermore, the training underscores the business opportunities associated with acquiring halal certification. These insights enable SMEs to comprehend the significance of halal certification for their growth and market competitiveness. It is unfortunate that these SMEs still failed to obtain halal certificate for their products despite all the support given to them. This finding supported similar phenomenon found earlier research by Moin et al. (2024) and Anwar, Nurhakim and Rani (2024). This goes to further emphasize the importance of further exploration of this malaise condition among SMEs to break down the hindrance to their halal certification attempts.

However, there is a crucial issue which SMEs faced in terms of the halal supply chain itself including a scarcity of halal-certified raw materials in the market, high operational expenses, and limited funding choices (Ab Talib & Hamid, 2014; Andespa, Yurni & Aldiyanto, 2024). Certified companies and those trying to get certified encounter difficulties in their supply chain collaborations due to the necessity for suppliers to likewise possess halal certification. These issues are exacerbated by human resources and technical knowledge constraints faced by the producers. To resolve these challenges and promote compliance with rules, it is imperative to implement customized financial assistance programs, strengthen raw material supplier relationships and collaborations, and initiate procurement initiatives and programs targeting nationwide suppliers, regardless of the size of their enterprise.

Business owners frequently experience misunderstandings over the standards, compliance requirements, and the application processes for acquiring halal certification. This deficiency in awareness resulted in mistakes, rejections, or postponements in approval procedures post application (Rafiki, 2019; Yanti, 2024). SMEs frequently encounter difficulties in fulfilling documentation requirements, such as preparing manuals, compliance with equipment standards or appropriate labelling. Most of the SMEs faced this problem due to constrained resources and insufficient guidance. Enhancing knowledge of the advantages of certification is essential for assuring compliance and facilitating growth within this industry. Furthermore, organizations pursuing halal certification must comply with requirements for material procurement, production, and facility operations (Oemar, Haryani & Nurhayati, 2024; Andespa et al., 2024). Thus, it is essential to source all raw ingredients from recognized halal vendors and safeguard them against any contamination. Furthermore, production sites must adhere to methods aligned with halal regulations, emphasizing cleanliness and the prevention of cross-contamination.

Companies lacking halal certification have constraints in expanding their market presence in sectors where compliance with halal criteria is crucial to satisfying customer demands. In the absence of certification, these enterprises forfeit potential to serve an expanding demographic of consumers seeking halal certified products. The lack of certification undermines consumer

confidence and obstructs market access in nations with a substantial Muslim demographic. Halal certification guarantees that a product adheres to standards verifying the absence of any forbidden chemicals or practices. Without certification, in place trust from consumers tends to decrease causing them to doubt the genuineness and adherence of the product to quality standards. Furthermore, obtaining halal certification presents an opportunity for companies to access the ever-growing market segment of consumers who prioritize halal standards enabling them to cater to preferences and needs. Obtaining certification also helps with entering markets in various countries, with majority Muslim populations where certification is needed for imports.

Conclusively, the study offers significant insights into and contributions to academia, policymakers, regulatory authorities, and SME entrepreneurs by identifying and addressing the challenges SMEs face in obtaining halal certification. This research reveals financial constraints, knowledge gaps, and limited support systems for SMEs in regional contexts like Kedah. It also emphasizes the relevance of training programs and workshops for filling knowledge gaps and improving operational efficiency.

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