



HALAL CERTIFICATION AND BUSINESS
PERFORMANCE OF *HALAL* CERTIFIED
FOOD COMPANIES IN
THE PHILIPPINES

BY

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ABSTRACT

Over the years, *halal* certification has gained world-wide popularity and has become one of the most desirable systems adopted by many countries, especially Muslim countries. Despite this overwhelming popularity, there is considerable confusion surrounding the role and business value of *halal* certification and its relation to business performance. Thus, the aim of this study is to gain better understanding on the relationship between *halal* certification and the business performance of *halal* certified food companies in the Philippines. Through this empirical study, *halal* registered and about to be registered organisations will have a wide perspective and realistic view on what to expect from *halal* certification. Furthermore, this thesis hopes to provide factual evidences that may aid certified food companies to evaluate the implementation of *halal* certification in their own environment and ascertain whether it is giving them *halal* assurance. The study was based on a survey and the time horizon was cross-sectional. The survey was carried out using stratified sampling on *halal* certified food companies operating in the Philippines. Through a self-administered questionnaire, 141 usable responses were acquired from the responding companies. Analysis of data was conducted using descriptive, exploratory and confirmatory factor analysis. After the satisfactory results of confirmatory analysis for all constructs, the structural equation modeling (SEM) was conducted to test the hypothesised relationships among the constructs, as postulated in the model. A total of six hypotheses were designed based on the review of literature, and all the results were supported. The findings of this study revealed that *halal* certification significantly affect business performance of *halal* certified food companies in terms of innovative performance, market performance and financial performance. Further, it was revealed that innovative performance fully mediates the relationship between *halal* certification and market performance. Similarly, the relationship between *halal* certification and financial performance was also fully mediated by innovative performance. This study concluded that *halal* certification was found to be related with improved business performance in terms of innovative performance, market performance and financial performance of *halal* certified food companies in the Philippines.

ملخص البحث

لقد حظيت شهادة الحلال شعبية عالمياً على مدى سنواتٍ وأصبحت إحدى الأنظمة المرغوبة التي اعتمدها العديد من الدول خاصة الدول المسلمة. وعلى الرغم من هذه الشعبية الساحقة، فإن هناك كثيراً من الحيرة يحيط بدور وقيمة أعمال شهادة الحلال وعلاقتها بأداء الأعمال التجارية. ومن ثم، فإن الهدف من هذه الدراسة هو الحصول على الفهم العميق حول تأثير شهادة الحلال لأداء الأعمال التجارية من شركات الأغذية الحلال المعتمدة في الفلبين. ومن خلال هذه الدراسة التجريبية، فإن منظمات شهادة الحلال المسجلة على وشك أن تكون منظمة ومسجلة على وجهات نظر واسعة ورؤية واقعية على ما يمكن توقعه من شهادة الحلال. وعلاوة على ذلك، فإن هذه الرسالة تأمل أن تقدم الأدلة الواقعية التي تساعد شركات الأغذية المعتمدة لتقييم تنفيذ شهادة الحلال في بيئتهم الخاصة وتحقيق الحال الذي يمكن أن يعطيهم ضمان الحلال. واعتمدت الدراسة على الإستطلاع والأفق الزمني عبر القطاعي. حيث سعى إلى تحقق الإستطلاع باستعمال النموذج التطبيقي على شركات الأغذية الحلال المعتمدة التي تعمل في الفلبين. ومن خلال استبيان تدار ذاتياً، تم الحصول على 141 إجابة القابلة للاستخدام من الشركات المتجاوبة، ثم قام الباحث بتحليل البيانات باستخدام العوامل التحليلية كالوصفي والإستكشافي والإثباتي. وأما النتائج المناسبة بتحليل إثباتي لجميع المنشآت، فإن نمذجة الهيكلية المعادلة لإختبار العلاقات الفرضية بين المنشآت قد تقوم في النموذج، وكل النتائج التي تمت دعمها جمعت في ست فرضيات التي صممت بناءً على الدراسة السابقة. وبعد تناول النتائج التي توصلت إليها هذه الدراسة، فإن شهادة الحلال تؤثر تأثيراً كبيراً على أداء الأعمال التجارية من شركات الأغذية الحلال مصدقة من حيث الأداء الإبداعي، وأداء السوق، والأداء المالي. وعلاوة على ذلك، تم تناول إلى أن الأداء الإبداعي كشف العلاقة بين شهادة الحلال وأداء السوق. وعلى حدٍ سواء، فإن العلاقة بين شهادة الحلال والأداء المالي قائمة على الأداء الإبداعي. وبناءً على ذلك، فإن هذه الدراسة توصلت إلى أن شهادة الحلال مقتربة بتحسين أداء الأعمال التجارية من حيث الأداء الإبداعي، وأداء السوق، والأداء المالي من شركات الأغذية الحلال المعتمدة في الفلبين.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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I dedicate this thesis to my parents, Kasim P. Salindal, Al-haj and Kapindong A. Salindal, brothers, Norodin, Morsed, Abokaris, Kaharodin and Maguid, sister, Noraisa, children, Siti Shahida and Muhammad Shafiq, and my partner in life, Dr. Badruddin Paguimanan Ahmad.

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LIST OF ABBREVIATIONS

AFIC:	Australian Federation of Islamic Council
AMC:	Australian Manufacturing Council
ARMM:	Autonomous Region in Muslim Mindanao
ASEAN:	Association of South East Asian Nations
ASV:	Average Shared Squared Variance
AVE:	Average Variance Extracted
BFAD:	Bureau of Food and Drugs
BPS/TC:	Bureau of Product and Standard Technical Committee
BPS:	Bureau of Product and Standard
CCP:	Critical Control Points
CFA:	Confirmatory Factor Analysis
CFI:	Comparative Fit Index
CR:	Composite Reliability
DA:	Department of Agriculture
DOST:	Department of Science and Technology
DTI:	Department of Trade and Industry
EFA:	Exploratory Factor Analysis
EU:	European Union
FP:	Financial Performance
GMP:	Good Manufacturing Practice
HACCP:	Hazard Analysis and Critical Control Points
HCI:	<i>Halal</i> Certification Innovation

HDC:	<i>Halal</i> Development Council
ICT:	Islamic Competent Authority
IDCP:	Islamic <i>Da'wah</i> Council of the Philippines
IFANCA:	Islamic Foods and Nutrition Council of America
IP:	Innovative Performance
ISA:	Islamic Services of America
JAKIM:	Islamic Development Department of Malaysia
MEDCO:	Mindanao Economic Development Council
MP:	Market Performance
MSV:	Maximum Shared Square Variance
MTPDP:	Medium Term Philippine Development Plan
MUIS:	<i>Majelis Ulama</i> Indonesia
NCMF:	National Commission on Muslim Filipino
NHABPI:	National <i>Halal</i> Accreditation Board of the Philippines Inc.
OIC:	Organization of the Islamic Conference
PBUH:	Peace be Upon Him
PNS:	Philippine National Standard on <i>Halal</i> Food
QMR:	Quality Management Representatives
RMSEA:	Root Mean Square Error of Approximate
SAW:	Sallullaho Alayhi Wassalam
SEC:	Security Exchange Commission
SEM:	Structural Equation Modeling
TLI:	Tucker Lewis Index
WHC:	World Halal Council

LIST OF TRANSLATIONS

<i>Allah:</i>	God
<i>Al-Zabeh:</i>	slaughter, cutting the throat
<i>Darar:</i>	manifest harm
<i>Darurah:</i>	dire necessity (in case of extreme hunger or extreme thirst)
<i>Hadith:</i>	the compilation of the traditions of Muhammad
<i>Halal:</i>	arabic word which means lawful, permitted or acceptable
<i>Haram:</i>	unlawful, prohibited, or unacceptable
<i>Ibadah:</i>	worship
<i>Ijma:</i>	the consensus of Muslim jurists
<i>Khaba'ith:</i>	impurity
<i>Makruh:</i>	reprehensible
<i>Mandub:</i>	commendable
<i>Mushbooh:</i>	doubtful or questionable
<i>Najs:</i>	animals or things that are themselves not permissible
<i>Qiyas:</i>	deduction by analogy / analogical reasoning
<i>Quran:</i>	the divine book
<i>Shari'ah:</i>	Islamic law
<i>Sunnah:</i>	the life, actions, and teachings of Muhammad
<i>Tasmiyyah:</i>	name of Allah
<i>Toyyibah:</i>	good, wholesome
<i>Ummah:</i>	nation
<i>Wajib:</i>	obligatory

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Halal certification has moved to the forefront as consumers all over the world are now becoming more educated, health conscious, and demanding. It has been the strategic measure that many firms have adopted to sustain consumers' demand and set them apart from competition. To facilitate ongoing improvements in business performance, these firms are employing a variety of programmes to help them accomplish their goals.

Today, because of the *halal* standardisation, *halal* certification has gained world-wide popularity and has become one of the most desirable systems adopted by many countries throughout the world. With its popularity comes the many controversies surrounding its implementation. *Halal* certification is periodically criticised for its supposedly lackluster impact on business performance, while others claim its business value.

In the Philippines, the need for *halal* certification became noticeable only when *halal* became part of the Codex Alimentarius of the United Nations in 1998 or thereabouts (Abdul Rahman R.T. Linzag, 2011). But while *halal* certification has been sparingly practiced in the last 20 years or so, it was only recently that its importance is being to be recognised by the government and the business sector for the tremendous opportunities that a vibrant *halal* industry can bring to the economy (Esmael Ebrahim, 2008). It was only in 2003 that the Philippines government initiated a local *halal* food

industry through the creation of the Philippines *Halal* Certification and Regulatory Board.

As a result, some company producers of food products opened their mind towards *halal* certification of their products and therefore, permitting Muslims to consume the products without much difficulty in finding as to whether the product is *halal* or *haram*. Moreover, the *halal* programme provides opportunities for big, medium and small scale businessmen to capture a significant market in the local and global *halal* market either as *halal* supplier of food and non-food finished products or supplier of raw materials necessary for the production and processing of *halal* end – products.

This study aims to gain better understanding on the impact of *halal* certification in the business performance of *halal* certified food companies in the Philippines, considering it has been classified as a non-Muslim country and being a latecomer in terms of realising the values and importance of entering the *halal* market. Through this empirical study, *halal* registered and about-to-register organisations would have a wider perspective and a realistic view on what to expect from *halal* certification.

Furthermore, this study will provide factual evidences that may aid certified companies to evaluate the implementation of *halal* certification in their own business environment and ascertain whether it is giving them the competitiveness and quality assurance that *halal* certification claims to deliver.

1.2 SCOPE OF HALAL FOOD

Halal is an Arabic word which means lawful, permitted or acceptable. The word can refer to food, things, manners, and actions allowed by Allah for mankind and enjoined

upon the believers of Islam (Muslims). The opposite of *halal* is *haram* which means unlawful, prohibited, or unacceptable.

With regard to food, references from the Holy *Qur'an* and *hadith* (sayings) of Prophet Muhammad (peace be upon him), clearly indicate in definite terms that consuming *halal* food is an order from Allah (God) and is an essential part of Islamic faith. Examples from the Qur'an pertaining to *halal* are:

"O mankind, eat from whatever is on earth (that is) lawful and pure".(Qur'an, Surah al-Baqarah: 2 verse 168)

"O ye who believe, Eat of the good things wherewith we have provided you, and render thanks to Allah, if it is He whom ye worship". (Qur'an, Surah al-Baqarah: 2 verse 172)

These divine verses and *hadiths* are clear attestation to Islam's disapproval of consuming something which is unlawful (*haram*).The rulings of *halal* and *haram* should be done by referring to the primary authentic sources of Islamic law: the *Qur'an* and *al-Sunnah* (traditions of Prophet Muhammad).Secondary sources such as *ijma'* (the consensus of Muslim jurists) and *qiyas* (analogical reasoning) are also important in Islamic law (Mohd. Noor, 2009).

It should be noted that the principle of *halal* is not only confined to food and beverages. In fact, the issue of *halal* covers a wider scope including food and drinks, non-food sector such as cosmetics and medicine, transactions and, sports and leisure. With regards to food and beverages, *halal* means food and beverages permitted under the *Shari'ah* law and the items are safe and not harmful as well as do not contain any parts or products of animals that are non-*halal* to Muslims or products of animals which are not slaughtered according to the *Shari'ah* law; do not contain any ingredients that are *najs* (filth) according to the *Shari'ah* law and; the food or its ingredients do not contain any human parts or its derivatives that are not permitted by

the *Shari'ah* law. In addition, they are not prepared, processed or manufactured using equipment that is contaminated with things that are *najs* according to *Shari'ah* law; and during its preparation, processing, packaging, storage or transportation, the food is physically separate from any other food that does not meet the requirements or any other things that have been decreed as *najs* by the *Shari'ah* law (Amid, 2010).

The *Qur'anic* guidance dictates that all food are *halal* (lawful and permissible) except those specifically mentioned as *haram* (unlawful or prohibited). For example, it is stated in the *Our'an*:

"Forbidden unto you (for food) are: carrion and blood and swine flesh, and that which hath been invoked the name other than Allah, and the strangled, and the dead through beating, and the dead through falling from a height, and that which hath gored to death, and the devoured of wild beast, saving that ye make lawful (by slaughter) and that which has been immolated to idols and that ye swear by the diving arrows. This is an abomination " (Qur'an, Surah al-Maidah:5 verse 3).

The above *Qur'anic* reference makes it crystal clear that meat is the most strictly regulated of the food groups. It is also required that the *halal* animals be slaughtered with the name of Allah at the time of slaughter. Apart from slaughtering methods, it is also important to ensure that the animals for the Islamic slaughter are raised and procured from farms which do not feed them anything that might contain animal derivatives and other unlawful substance. To make meat *halal*, the animal has to be from the *halal* species and the animal has to be slaughtered in a specified ritual known as *al-Zabeh* (slaughter, cutting the throat). It requires the animal to be alive and healthy at the time of slaughter, during which the jugular vein, the carotid artery and the windpipe are to be severed by a single swipe of a razor sharp knife, to incur least pain as possible. The name of Allah (*tasmiyyah*) must be pronounced by the Muslim slaughterer before the cutting action.

1.3 PROBLEM STATEMENT

Competition within most industries is becoming increasingly intense; hence, companies emphasise the need to identify sources of sustainable competitive advantages to counter this threat. Competitive advantages can arise from leveraging a firm's unique skills and resources to implementing a value-creating process that competitors cannot execute as effectively. A source of competitive advantages that is getting increasing attention among food manufacturing industries in the Philippines comes from creating, communicating, and delivering superior value to customers through acquiring *halal* certification on all food products.

This *halal* certification was institutionalised in 2003 by the Philippine government through the creation of the Philippine *halal* Certification and Regulatory Board. But despite the efforts of the government to promote the use of the *halal* standard, the responses of some private companies are slow. In effect, the majority of the Philippine's food products and services are not yet *halal* certified; meaning it is not safe for Muslim consumption and cannot be exported to Muslim countries or sold to Muslim consumers in the Philippines.

However, there are local companies seeking the *halal* certification for the following reasons: some would like to gain competitive advantage that would drive bottom line results. Some have been coerced into *halal* compliance by their multinational customers to gain access to customers in the international community; and still others adopted *halal* certification with inflated expectations and a quick-fix mentality that it has answers to all problems and that it would reverse poor performance.

Whatever the reasons are, this study aims to determine whether *halal* certification has a positive impact on business performance. Companies in the country

that have already invested in the *halal* certification programme would like to know whether they have made the right decision and whether they should continue investing in the *halal* programme.

Other company managers have indicated that even though organisations have committed to *halal* certification programmes, they still need hard evidences that they are on the right track. Others have indicated as well that their organisations have backed away from investing in *halal* certification or have dropped the idea of a *halal* certification because of the controversies surrounding its implementation. This study attempts to throw light on these doubts and controversies using verifiable data through statistically design methods that are sufficiently conclusive to draw a realistic perspective.

1.4 RESEARCH QUESTIONS

The researcher hardly found any published work on the subject of *halal*, its adoption in the Philippines by local businesses, and its link to business performance. Examination of the literature found that vast majority of the articles that do address the business value of *halal* certification are either anecdotal, case-study based, or report only with descriptive statistics which do not provide proof that *halal* certification is likely to lead to improved performance, only that it is possible. However, there are some foreign studies conducted surrounding the *halal* issues in general. Due to these concerns, this study will focus on the impact of *halal* certification in the business performance of *halal* certified companies in the Philippines.