

Urgency of Halal Certification on the Performance of MSMEs



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ABSTRACT: This research aims to explain the effect of halal certification on the financial performance of MSMEs, which is mediated by innovation performance. Halal certification is required for MSME food products along the supply chain, starting from providing ingredients, processing, storage, packaging, distribution, sales, and presentation of products. Currently, the awareness of MSME owners in Malang Regency regarding the importance of halal certification for the products produced is increasing, aiming to improve MSMEs' performance. This is also supported by a government program that provides assistance facilities for MSMEs in managing halal certification. This research uses quantitative methods accompanied by hypothesis testing. The research sample was 153 MSME food products registered with the Cooperative Service, which had received halal certification from LPPOM MUI. Questionnaires were distributed to MSMEs in five sub-districts in the Malang Regency area to obtain a representative sample. The sampling technique used was purposive sampling with primary data collection was carried out by field surveys of food product MSMEs using questionnaires and Likert scale measurement. The analysis technique used in this research is Structural Equation Modelling Partial Least Square (SEM-PLS) analysis to find out how halal certification affects the financial performance of MSMEs. The research results show that halal certification does not affect the financial performance of MSMEs in Malang Regency; on the contrary, halal certification has a positive and significant effect on innovative performance in MSMEs. This research also found that innovative performance positively affects financial performance. Apart from that, another finding from this research is that halal certification indirectly affects financial performance, which is mediated by innovative performance in MSMEs in Malang Regency.

KEYWORDS: Halal Certification, MSMEs Performance.

I. INTRODUCTION

Indonesia is one of the countries that has Sharia economic strength. The government is encouraging increased halal certification for business owners to become the Sharia economic center (Yazid et al., 2020). The business owners dominating Indonesia's economy are micro, small, and medium enterprises (MSMEs). Halal certification is part of the product obligation provisions; Law Number 33 of 2014 Article 4 states that products entered, distributed and traded must be halal certified. The concept of halal is now not only limited to a religious issue but has developed into a part of business and trade (Salindal & Akmad 2019).

Initially, this opportunity could not be optimized because many MSME players still needed to understand the importance of the halal status of their food products. Like MSMEs in Malang Regency, the number of MSMEs in Malang Regency is currently around 427,706 in 2020 (Department of Cooperatives, 2019). However, starting in 2022, many outreach activities will be carried out through halal centers appointed by the government, starting from the socialization stage to assisting in online and free registration of halal product guarantee certification for MSMEs to obtain halal certification. (Asyik et al., 2023; Efendy et al., 2022). This is also supported by the regulations of Law Number 33 of 2014 concerning Halal Product Guarantees for food and beverage products. So, awareness of halal certification for MSMEs increases, the aim of which is to improve the performance of MSMEs. Furthermore, there is a positive correlation between halal certification and business growth, where halal certification can be used to gain consumers' trust and expand market share, ultimately improving company performance (Yusuf et al., 2016). So, it is essential to research the urgency of halal certification on the performance of MSMEs. This research aims to understand the influence of halal certification of food products on the performance of MSMEs.

Based on the literature review, research on the impact of halal certification was conducted in Malaysia and the Philippines. In Indonesia, research on halal certification from the perspective of MSME producers still needs to be improved. Halal industry

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research topics from the perspective of MSME producers focus more on identifying the drivers. Moreover, factors inhibit MSMEs from meeting halal certification standards (Prabowo et al., 2015; Viverita et al., 2017).

II. LITERATURE REVIEW

Halal Certification

Halal comes from the Arabic word, permitted or accepted (Nooh et al., 2007; Wilson & Liu, 2010; Yusuf et al., 2016). This word can refer to food, objects, attitudes, and actions permitted by Allah for humanity and ordered to followers of the Islamic religion (Supian et al., 2018; Wilson & Liu, 2010). This is in line with Wilson & Liu (2010), who argue that halal is not just a label but a practice of moral beliefs and behavior integral to everyday Muslim life.

The halal concept is now developing into a part of business and trade. The current development of the halal market has great opportunities that can be utilized by the Muslim community to promote the halal concept itself. This shows that for Muslims and non-Muslims, the existence of halal certification is an opportunity for halal food MSME producers to compete in the global market (Nooh et al., 2007), and the intensity of competition between halal food business actors is expected to increase in the future. Therefore, they must implement several practical strategies and approaches for marketing halal food.

Since the enactment of Law Number 33 of 2014 concerning Halal Product Guarantees. The procedure for issuing halal certificates in Indonesia involves at least three parties, namely the Halal Product Guarantee Agency (BPJPH), the Indonesian Ulema Council (MUI), and the Halal Inspection Institute (LPH). Halal-certified products will be guaranteed to be halal throughout the supply chain, starting from providing ingredients, processing, storage, packaging, distribution, sales, and product presentation (Yazid et al., 2020).

Apart from that, with halal certification, producers will get a halal label in the form of a halal logo, which indicates that their product has received halal certification. A halal logo is part of the image or brand of a food and beverage manufacturer. Halal brands owned by producers have implications for increasing public trust in purchasing products owned by producers (Ramadhan & Gunanto, 2021). Halal products are in great demand because Islam is currently the second-largest religion in the world. A large market will influence the turnover of halal food, according to Hill (Yusuf et al., 2016). This research on halal certification is conceptualized as an innovation strategy used by MSMEs for halal-certified food products in Indonesia to improve MSME performance and guarantee halalness by providing ingredients, processing, storage, packaging, distribution, sales, and product presentation.

Halal certification and MSMEs Performance

According to Sin & Tse (2000), performance is explained in a business context. They define *business performance* as profitability (profit margin), market performance (sales volume, market share), growth rate, and customer satisfaction. On the other hand, Bontis et al. (2000) consider four elements of business performance: finance, marketing, production, and innovative performance. In contrast to performance measurement, Gunday et al. (2011) used innovation as an indicator of business performance and found that innovation significantly influenced business performance in general.

In this research, the performance of MSMEs with halal-certified food products is measured using innovative and financial performance measures. Innovative performance in this research describes the innovation strategy carried out by MSME producers related to halal certification, which includes raw materials, processes, products, and marketing. Meeus & Oerlemans (2000) describe that a company's innovative performance, that is, production processes and innovation, contribute to an organization's business performance. However, in this research, the innovative performance of MSMEs includes the novelty of existing products, product development, and product quality. Meanwhile, financial performance is measured by four measures: profit on sales, return on assets (ROA), general profitability, and cash flow (except investment) according to Gunday et al. (2011), MSME performance is measured based on profitability in this research.

This halal concept has been accepted by many non-Muslim food industries in non-Muslim countries, such as the Philippines. Halal certification has increased awareness among Filipino Muslims about the importance of halal products and service innovation (Salindal & Akmad, 2019). Likewise, Chan (2011) argues that halal certification significantly influences business performance by providing high-quality products that provide competitive benefits and better performance.

Based on the discussion above, the hypothesis of this research are:

H1. Halal certification has a positive and significant effect on the financial performance of MSMEs.

H2. Halal certification has a positive and significant effect on the innovation performance of MSMEs.

H3. The innovation performance of MSMEs has a positive and significant effect on the financial performance of MSMEs.

H4. Halal certification indirectly affects the financial performance of MSMEs, which is mediated by the innovation performance of MSMEs.

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III. METHOD

This research uses quantitative methods accompanied by hypothesis testing. The sample in the research consisted of 153 MSME respondents with MSME criteria for food products registered with the Malang Regency Cooperative Service, which had received halal certification from LPPOM MUI. Data was collected using a structured questionnaire and questions using Likert scale measurements. This research aims to find out the effect of halal certification on the performance of MSMEs, the analysis technique used in this research is Structural Equation Modeling Partial Least Square (SEM-PLS) analysis. According to Ghazali & Latan (2015), SEM-PLS aims to develop or build theory (prediction orientation). PLS is used to explain whether there is a relationship between latent variables (prediction). As for compiling the questionnaire, it is based on several endogenous and exogenous variables. In this study, the exogenous variable is Halal Certification, the endogenous variable is Financial Performance, and the intervening variable is Innovative Performance.

Table 1. Research Variables

Variable	Indicator
Halal Certification (Giyanti et al., 2021)(Salindal, 2019) (Hendijani Fard & Seyyed Amiri, 2018)	Raw Material
	Process
	Product
	Marketing
Innovative Performance (Salindal, 2019)	Newness in Existing Product
	New Product Development
	Quality New Product
Financial Performance (Hendijani Fard & Seyyed Amiri, 2018)	Return on Assets
	General Profitability of the firm
	Return on Sales
	Cash Flow Excluding Investment

Source: Data processed by authors (2023)

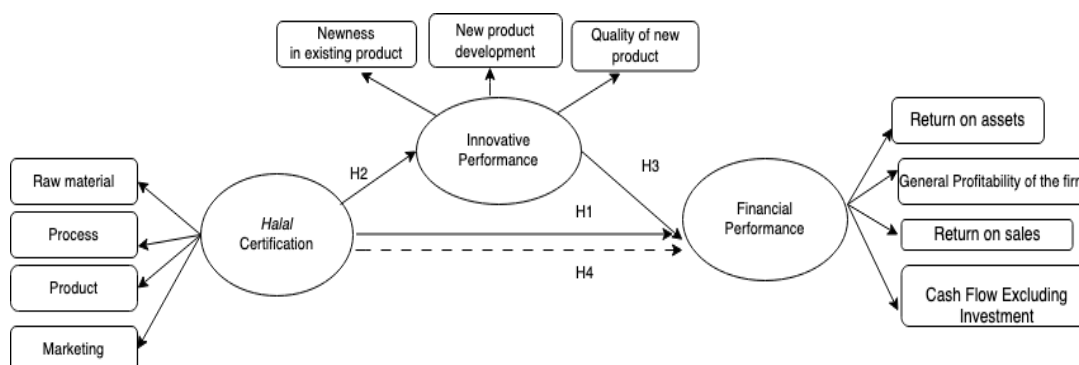


Figure 1. Conceptual Research Framework

IV. RESULTS AND DISCUSSION

1. Description of Respondent Characteristics

The number of respondents in this research was 153 MSMEs in Malang Regency who had registered halal certification for food products. At this stage, the MSME respondents sampled have been classified based on the time the business has been established, the number of employees, and ownership of a PIRT (Home Industrial Food Production Certificate) for the products produced. The description of the respondents is explained below.

Table 2. Demographic Profile

Company age	N	(%)
1-5 years	115	75.20
6-10 years	34	22.20
11-15 years	2	1.30
16-20 years	1	0.70
> 21 years	1	0.70
Number of employees		

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Micro (1-10)	138	90.20
Small (11-50)	15	9.80
PIRT Ownership		
Registered	104	68.00
Not Registered	49	32.00

Source: Data processed by SPSS

The table above is an overview of MSME respondents in Malang Regency, totaling 153 respondents who have registered halal certification for food products. Based on data obtained from distributing questionnaires, the majority of MSME businesses have been established for 1-5 years at 75.20%, with the micro business level dominating at 138 or around 90.20%, while the small business level is 15 or around 9.80%. Another explanation from this research is that as many as 104 MSMEs already have PIRT, while the remaining 49 or around 32.00% still need to get PIRT. However, MSMEs in Malang Regency, which still need PIRT for their products, are already aware of the importance of halal certification to improve their business performance.

2. Validity and Reliability

Model evaluation according to Haryono (2017) in PLS consists of two stages, namely outer model evaluation (measurement model) and inner model evaluation (structural measurement model). Evaluation of the Partial Least Square (PLS) outer model is to determine the validity and reliability of the indicators that measure latent variables. According to Haryono (2017), inner model evaluation consists of two stages, namely evaluating the structural model by looking at the significance of the relationship between constructs/variables as seen from the path coefficient and t-test or CR (critical ratio) obtained through the bootstrapping process (resampling method). The second stage of inner model evaluation is evaluating the R square.

Convergent validity consists of three categories: (1) individual item reliability, (2) internal consistency, and (3) average variance extracted. Evaluation of individual item reliability can be seen from the standardized loading factor value. An indicator is said to be valid if the loading factor value is ≥ 0.7 . Even though the ideal loading factor value is 0.7, a loading factor value of 0.6 - 0.7 is still acceptable (Yana et al., 2015), even in empirical research, a loading factor value of 0.5 is still accepted (Haryono, 2017). From the data processing results, several items in this research had to be removed from the model to obtain an appropriate model. After eliminating these items, the results of the validity test carried out again are as follows:

Table 3. Outer Loading Factor

	Financial Performance	Halal Certification	Innovative Performance	Information
FP1	0.814			Valid
FP2	0.847			Valid
FP3	0.882			Valid
FP4	0.821			Valid
FP5	0.818			Valid
FP6	0.726			Valid
FP8	0.716			Valid
HC1		0.854		Valid
HC2		0.870		Valid
HC3		0.859		Valid
HC4		0.869		Valid
HC5		0.894		Valid
HC6		0.904		Valid
HC7		0.783		Valid
HC8		0.816		Valid
IP1			0.855	Valid
IP2			0.844	Valid
IP3			0.831	Valid
IP4			0.844	Valid
IP5			0.863	Valid
IP6			0.820	Valid
IP7			0.838	Valid

Source: Data processed by SmartPLS 3.0

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The second stage is internal consistency reliability, which can see Cronbach's Alpha and Composite Reliability (CR) values. The construct is declared reliable with Cronbach's Alpha and Composite Reliability if the value exceeds 0.7 (Haryono, 2017). From the data processing, all variables (financial performance, halal certification, innovative performance) have a CR greater than 0.7, so these variables are declared reliable.

Table 4. Final Reliability of The Outer Model

	Cronbach's Alpha	rho_A	Composite Reliability	Average Information Extracted (AVE)	Variance
Financial Performance	0.909	0.918	0.928	0.649	Reliabel
Halal Certification	0.948	0.955	0.957	0.735	Reliabel
Innovative Performance	0.932	0.933	0.945	0.709	Reliabel

Source: Data processed by SmartPLS 3.0

3. Evaluate the R2 Value

The R Square value is the coefficient of determination on the endogenous construct. According to Chin (1998), the R square value is 0.67 (strong), 0.33 (moderate) and 0.19 (weak). To see the strength of the relationship from the model, researchers used the R2 value of each endogenous variable.

Table 5. R2 Value of Latent Variables

	R Square	R Square Adjusted
Financial Performance	0.535	0.529
Innovative Performance	0.229	0.224

Source: Data processed by SmartPLS 3.0

Financial performance has an R2 value of 0.529, explaining that halal certification and innovative performance contribute to the financial performance variable of 52.9%, and other variables explain the remaining 47.1%. Apart from that, the R2 value for Innovative Performance is 0.224. This explains that the halal certification variable contributes to the innovative performance variable by 22.4%, and the remaining 77.6% is explained by variables not in the research.

4. Hypothesis Testing

This research uses a significance level of 5% so that the t-statistics value is at least 1.96. If the t-statistic value is ≥ 1.96 and the p-value is ≤ 0.05 then the research hypothesis is accepted (Ho is rejected). From the results of data processing, the results are in the table below:

Table 6. Structural Hypothesis Model Test

	Original (O)	Sample T (O/STDEV)	Statistics P Values	Information
Halal Certification -> Financial Performance	0.058	0.801	0.423	H1 rejected
Halal Certification -> Innovative Performance	0.479	6.184	0.000	H2 accepted
Innovative Performance -> Financial Performance	0.702	14.080	0.000	H3 accepted

Source: Data processed by SmartPLS 3.0

From testing the first hypothesis, the results of this study prove that there is no effect of Halal Certification on Financial Performance ($\beta = 0.058$, $t = 0.801$, $p > 0.05$), so the result of H1 is rejected. The results of testing the H2 hypothesis found something different; the Halal Certification variable positively affected Innovative Performance ($\beta = 0.479$, $t = 6.184$, $p < 0.05$), so the result of H2 is accepted. Furthermore, testing H3 also proved that Innovative Performance was proven to positively affect Financial Performance ($\beta = 0.702$, $t = 14.080$, $p < 0.05$), so hypothesis H3 is accepted.

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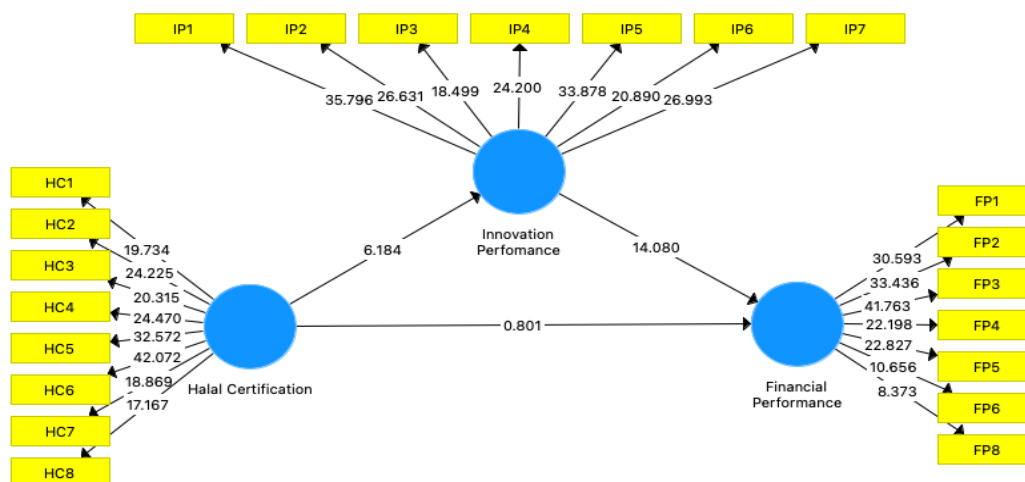


Figure 2. Path Diagram t-value Research Model

Table 7. Structural Hypothesis Model Test (Indirect Effect)

	Original Sample (O)	T Statistics (O/STDEV)	P Values
Halal Certification -> Innovative Performance -> Financial Performance	0.502	5.513	0.000

Source: Data processed by SmartPLS 3.0

In testing the indirect effect, this research confirmed the influence of Innovative Performance in mediating the relationship between Halal Certification and Financial Performance ($\beta = 0.502$, $t = 5.513$, $p < 0.05$), so H4 was declared accepted.

DISCUSSION

The research results found no effect of halal certification on the financial performance of MSMEs in Malang Regency. These results indicate that the halal certification application to MSMEs in Malang Regency does not increase MSME financial performance. From the findings in the field, the awareness of micro owners in Malang Regency regarding the importance of halal certification for the products produced is supported by a government program that provides accessible facilities for MSMEs to register their products to obtain halal certification. So that the implementation of halal certification can be carried out collectively by MSME assistants so that many MSMEs register their products to obtain halal certification. Therefore, the findings in the research are that the urgency of halal certification for MSMEs in Malang Regency is carried out as a form of compliance with the government, which requires food and beverage products to be halal certified so that it does not affect the financial performance of MSMEs. The findings of this research are different from previous research (Santosa et al., 2022), which found that halal certification had a significant positive effect on financial performance. Likewise, previous research (Nordin et al., 2016) also states that halal certification has many benefits for companies where companies that obtain halal certificates will increase satisfaction with their products and improve financial performance.

The results of further research, the second hypothesis prove that halal certification has positively and significantly affects innovation performance. This shows that with halal certification, MSMEs can increase innovation to develop new products and improve the quality of the products produced. The results of this research align with previous research (Salindal, 2019) that halal certification has positively influences the innovative performance of halal-certified companies in the Philippines. Companies that respond to halal certification will increase innovative performance, starting from halal raw materials used, halal processing, and halal packaging to producing halal products. Halal certification has increased awareness among Filipino Muslims about the importance of halal products and service innovation (Salindal & Akmad, 2019).

Another finding in this research is that innovative performance has a positive and significant effect on financial performance, so H3 in this research is accepted. The results of this research are supported by previous research (Gunday et al., 2011) that innovative performance as a result of innovation developed by a company or business provides a positive contribution to the growth and profitability of the organization. Therefore, MSMEs who dare to innovate their products will improve financial performance.

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The results of the last hypothesis prove that innovative performance can mediate the indirect effect of halal certification on financial performance in MSMEs. The indicator item, which states that MSMEs can improve the quality of new products and can provide product variations that consumers want, received an affirmative response. This explains that innovation, in this case, halal food products produced by MSMEs, can improve financial performance. It can be seen from the characteristics of the MSME respondents that even though the MSMEs operating are still on a micro scale, they can demonstrate their innovative performance about the halal food products they produce.

V. CONCLUSION

Based on the findings in this research, there is no effect of halal certification on the financial performance of MSMEs in the Malang district because the aim of MSME owners to obtain halal certification is solely for compliance with the government, which requires food and beverage products to be halal certified. Another finding from this research is that halal certification affects innovative performance. Furthermore, innovative performance influences financial performance. Another result of the research is that innovative performance can mediate the influence of halal certification on the financial performance of MSMEs in Malang Regency. Innovative performance as a result of innovation developed by MSMEs positively contributes to the financial performance of MSMEs. Therefore, MSMEs who dare to innovate their products will improve financial performance. It is hoped that the results of this research will provide confidence and motivation to MSMEs owners regarding the importance of understanding that the implementation of halal certification is not merely a form of compliance with the government but that halal certification can be used as a means to gain trust from consumers and expand market share. Market, which will ultimately improve the performance of MSMEs. This research also has limitations, namely that the MSME performance variables were only studied from financial and innovation aspects. Future research is expected to add several MSME performance variables, such as market and operational aspects, about halal certification.

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