IDENTIFYING FACTORS OF HALAL CERTIFIED MANUFACTURERS TOWARDS ISLAMIC FINANCE ADOPTION

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A thesis submitted in Fulfilment of the requirement for the award of the
Degree of Technology Management and Business (Production and Operation) with Honours

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January 2018
I hereby declare that the work in this project report is my own except for quotations and summaries which have been duly acknowledged.

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I hereby declare that the work in this project report is sufficient in terms of scope and quality for the award of the degree of Bachelor of Technology and Business Management (Production and Operations) with Honours.

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MDM. SITI ANISAH BINTI ATAN @ YAAKUB
ACKNOWLEDGEMENT

Here I would like to take this opportunity to express my sincere thanks to my PSM 1 and PSM 2 supervisor Puan Siti Anisah binti Atan @ Yaakub for all the support, encouragement, guidance and assistance provided throughout my completion of my Bachelor Project for the 2017/2018 session. Along with her gratitude, she also said that she had never spoken to her for the sake of her guidance in the early days until the end of the process of completing my Bachelor Project and all the various ideas she had contributed which was very useful as long as this research was fully carried out.

In addition, I would like to thank thousands of my gratitude to my family members for their dedication and assistance during this research in terms of finances, time, energy and even the thoughtful ideas which have given me the opportunity and opportunity to pursue knowledge in depth and also giving infinite support as long as I complete this study. A sincere and sincere appreciation to my beloved parents for all their sacrifices, support and encouragement during my difficulty in carrying out this research.

Last but not least, I would like to thank my friends who have provided mental and physical support throughout the course of the research. Without sincere guidance and continuous moral support from the world it is very difficult for me to continue and complete this research to this stage. This award is also directed to all individuals who have been involved directly or indirectly in helping me prepare this report successfully.
ABSTRACT

Halal products and business financing in line with Shariah are important. Malaysia is one of the countries with a high percentage of the current Islamic finance used in industry or in the world today. The purpose of this research is to determine the most influential factors in Islamic Finance selection among Halal certified manufacturers in Johor, Malaysia and to know the relationship between the factors of Islamic Finance selection and the adoption of Islamic financing among Halal certified manufacturers in Johor, Malaysia. This research was conducted around Johor, Malaysia which focuses on Halal-certified manufacturers in Malaysia. In addition, this research also focuses on several types of business sectors, such as food, agriculture, retailer and pharmaceutical sector. However, there were some respondents from other sectors who participated in the research such as metal and clothing or fabrication. Workers in the corporate department were respondents in this research and 100 respondents participated but only 60 respondents responded as a whole. This research uses a quantitative approach to which the questionnaire has been used throughout the data collection process. Meanwhile, Statistical Package for Social Science (SPSS) has been used throughout the process of analysing data obtained from respondents. Results from this study showed that there are two main factors that most influence the election of Islamic finance among Halal certified manufacturer in Johor, Malaysia, the religious obligations and awareness and knowledge with a mean value of 3.6167 at high tendency level. Furthermore, all the 10 hypotheses constructed in this study indicate that their properties are positive and significant with their respective values.
ABSTRAK

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LIST OF ABBREVIATIONS

ASEAN - Association of Southeast Asian Nations
BIMB - Bank Islam Malaysia Berhad
CIMB - Commerce Islamic Malaysian Bank
IFI - Islamic Financial Institutions
IFSB - Islamic Financial Services Board
JAKIM - Jabatan Kemajuan Islam Malaysia
MIHAS - Malaysian International Showcase
SCF - Shari’ah Compliant Financing
SMEs - Small to Medium Enterprise
SPSS - Statistical Package for Social Science version 22.0 Software
UTHM - Universiti Tun Hussein Onn Malaysia
US - United States
1.1 Introduction

The market for halal products in global are increasingly showing an encouraging improvement in line with the growing number of Muslims in the world. With the increasing number of Muslims, will cause the increase in demand for food products, cosmetics, medicine and consumables halal (Lokman, 2009). Based on the economic potential of this lucrative Malaysian government has taken steps to become Malaysia as a halal hub world. This have be done because Malaysia is a Muslim country that is respected in the world whether at the OIC7 and ASEAN countries (Azah, Hairul, Sanim & Azmi, 2009).

Looking at the history of Islamic financial institutions, it started with a number of interest-free saving and loan societies which are reported to have been established in the Indian subcontinent during 1940s. Since Malaysia have become the halal hub in the world the government also have taken other initiative to develop the Islamic Finance. Even though Islamic Finance have evolved in Malaysia there still have some issues regarding it which there are only 5% of Halal players use Islamic banking and finance products while the remaining 95% are non-users of Islamic financing instruments (Badlyshah, 2011).

One of the important aspects in Islamic Finance that need to be improve is increase the awareness among the Halal industry players on Islamic financial system so that there will be more halal certified manufacturers will adopt this system in their management. The government have to take big step in the evolvement by increasing the services that can be used by Halal players such as keeping pace with the development, Islamic Financial Institutions (IFI) ; BIMB (Bank Islam Malaysia
Berhad), CIMB (Commerce Islamic Malaysian Bank) and Bank Rakyat which provide e-banking services.

Halal economy serves as a term to integrate the production of Halal products with the Islamic financial system for a new economic model (Ishak, & Man, 2011). In other words, the need to integrate the Islamic Finance and halal certified manufacturers by making Islamic finance in halal productions is the best initiative.

1.2 Research Background

Islamic finance and halal industry are two sectors that Islam provides a vital service to the community especially Islam community (Abdullah & Zainalabiddin, 2014). Indeed, the two industries are very significant to Muslims where Islamic finance industry provides banking and financial services for individuals and businesses, meanwhile halal industry produces goods and services that are compliant to the Muslims (Abdullah & Zainalabiddin, 2014). Islamic finance refers to the provision of financial services in accordance with Islamic jurisprudence (Shari’ah) where is Sharia’ah bans interest (Riba), products with excessive uncertainty (Gharar), gambling (Maysir), short sales, as well as financing of prohibited activities that it considers harmful to society (Kammer, Norat, Piñón, Prasad, & Towe, 2015).

To ensure compliance with the terms of the appropriateness of the shariah, halal industry should be consolidated with the Islamic banking and finance industry. There are several types of financial assistance can be delivered which were discussed with the various forms of financial instruments including equities, sukuk and Islamic banking products. Anything is allowed and permitted of Islamic law known as 'halal' which is the term that covers all. While for ‘haram’ the meaning which is contrary to ‘halal’ refers to what is prevented by a decisive way (Syazwan Ab Talib & Bakar Abdul Hamid, 2014). To meet halal requirements in the production of goods and services, the halal term is highly meaningful to refer to the halal industry. In practice, the terms ‘halal’ and ‘shariah rules’ are used with relative variations according to sector and remain in power even though they carry the same meaning.

Today, Halal has emerged as a new source of economic growth. The growing Muslim population totalling at 1.8 billion or 23% of the world population, the
increasing awareness and demand for Shariah compliant products among Muslims and the increasing acceptability of Halal products among non-Muslims have created massive possibility of growth in Halal business (Jaffar & Musa, 2013).

The idea that religion plays a key role in shaping the mode and level of manufacturing activity in a given society is not a new one, nor is it an obscure one. Due to that, the government has established an Islamic Financial system which provided by several banks such as BIMB (Bank Islam Malaysia Berhad), CIMB (Commerce Islamic Malaysian Bank) and Bank Rakyat. This is to ensure that the halal certified manufacturers in Malaysia will adopt to this system. Bank Negara Malaysia has taken and adopted various measures in strengthening the existing infrastructure as to ensure a more effective channel.

Therefore, Halal consumption and businesses are not just about halal ingredients and production process. It must cater all aspects of Halal and Haram in Islam. Manufacturers should consider the production from the beginning until the end of the product process including the financial source.
1.3 Problem Statement

This research was conducted to examine the factors that most influence Islamic Financing adoption among Halal Certified Manufacturers and the relationship between factors that most influence Islamic Financing adoption. Identifying the problem statement for this research is very important before it begins.

The financial industry has emerged in the near 3 years ago which has been a rapid development for global Islamic banking assets. in 2014, with more than US 778 billion have established it as the international Islamic banking assets with commercial banks, which involves six markets in the world such as Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates (UAE) and Turkey in heading touching US 1.8 trillion ahead of 2019.

The rapid expansion of 50% of the banking sector as a whole has further enhanced the growth of Islamic banking continues to be positive. While, according to Ernst and Young (2013), 30% of Islamic banking asset markets have grown in Malaysia. Where by 2015, an increase of 25% is expected to benefit the Islamic bank group. Staff efficiency has shown and expanded the Islamic banking sector around the world. In addition, it has led to increased consumer demand towards Islamic banking products and services. Products that are free from the benefits of Islamic banks have received higher demand due to the increasing number of Muslims in the world and also raising the level of awareness of Islamic values towards Islamic banking (Khir, Gupta, & Shanmugam, 2008). In addition, the Arab Times (2014) also noted that the adoption of increased demand was due to an increase in Shariah-compliant products and education.

Islamic finance is the only example of a financial system directly based on the ethical precepts of a major religion, providing not only investment guidelines but also a set of unique investment and financing products.” Islamic finance is based on Shari'ah, the Islamic law that provides guidelines for multiple aspects of Muslim life, including religion, politics, economics, banking, business and aspects of the legal system What Shari'ah compliant financing (SCF) seeks to do is to shape financial practices and accompanying legal instruments that conform to Islamic law. Major financial principles of Shari'ah include a ban on interest, a ban on uncertainty, adherence to risk-sharing and profit-sharing, promotion of ethical investments that
enhance society and do not violate practices banned in the Qur’an and tangible asset-backing (Chapra, 2011)

Strong and organized Islamic financial system is very important to generate economic development of a country. The main purpose of the system is to meet the needs of Muslims towards a system that is truly in compliance with Shariah, as a comprehensive financial system and able to compete with a conventional system that has existed for decades. The government plays the necessary measures to ensure that the Islamic financial system works in harmony with the Shariah principles outlined by al-Qur'aan and al-Sunnah in terms of its goals and operations.

The adoption of Islamic Finance in Halal Certifies holder’s manufactures is not being practiced and this matter is not proving the halal status of the products in halal industry (Jaffar & Musa, 2014). Their knowledge on halal status is just the source for the materials used in the product but not the source of the financial which might cause some issues to Muslim. Other than that, the laws that state the manufacturers need to concerns the Islamic Finance in the manufacturers is not practiced by the manufacturer’s owner especially for the non-Muslim (Abozaid, 2016). The manufacturers might not aware that they need to concern all aspect all halal to be certified the Halal status. The laws also are not too concern about the financial source as long as the materials is halal which is not following the rule of halal in much aspect.

In order for the Islamic financial sector to be competitive and to ensure the vision of making Malaysia as global financial hub, it is important to have adequate advance planning in this area. Therefore, during the seminar on the ten-year master plan for the Islamic financial services industry organized by the Islamic Development Bank and the Islamic Financial Services Board (IFSB), the Malaysian government has initiated the drafting of the ten years master plan for the Islamic financial services industry (Laldin, 2008). Based on these paradoxes, the research attempted to investigate the factors that most influence Islamic Financing Adoption among Halal Certified Manufacturers. The exploration of the research are expected to find whether there are any relationship between factors that most influence and Islamic Financing adoption among Halal Certified Manufacturers in Johor, Malaysia.
1.4 Research Questions

Based on the problem statement above, this research was conducted to answer the questions below:

i. What is the factors that most influence Islamic Financing adoption among Halal Certified Manufacturers?
ii. What the relationship is between factors most influence and Islamic Financing adoption?

1.5 Research Objective

Based on the research question above, a few objective that can be stated regarding to this thesis topic are:

i. To study the factors that most influence Islamic Financing adoption among Halal Certified Manufacturers.
ii. To study the relationship between factors that most influence Islamic Financing adoption.

1.6 Research Scope

To make research more effective and adaptable, the scope of this research focused on three main areas as follows:

i. The research is conducted at Halal certified manufacturers in Johor, Malaysia.
ii. This study is conducted in several industry sectors that have been set up which have the recognition of halal certification
iii. Respondents targeted in this research is in corporate departments of manufacturers.
iv. Respondent are selected based on departments that has in corporate departments and targeted respondents for this research were 100 respondents from Halal certified manufacturers in Johor, Malaysia.
This research used quantitative methods by distribute the questionnaire to workers who served in the corporate departments.

1.7 Significance of Research

Gain halal users satisfaction is important since it is related to the religion. According to (Elasrag, 2016), to gain the users satisfaction is considered to be the key to improve the process of gaining the halal certificate in Islamic way which would be profitability to all type of users. Hence, the important issues confronting would be to determine. Therefore it’s to expand the idea of bridging the gap between Islamic financing and halal industry to achieve the comprehensive halal compliance practices in Malaysia (Muhamed, Ramli, Aziz, & Yaakub, 2014).

It has to be noted that the rapid progress of Islamic banking over the last decades would not have been possible without the pioneering efforts of the Islamic financial institutions. In order to capitalize on the halal certified manufacturers adoption in Islamic Finance, Islamic banks need to look beyond the conventional ‘one-size-fits-all’ approach and provide them with customized value additions, much akin to what many conventional banks are now increasingly offering. The suggested competency where banks would need to acquire the required proficiencies are Strategy and Segmentation, Products and Services, Sales and Delivery, Advisory Services, Organization and Systems and Risk Management (Elasrag, 2016).

By doing this research, it can helps the manufacturers and government to understand more on how will Islamic Finance factors influenced the halal manufacturing in Malaysia in order to produce the halal and quality product.
1.8 Conclusion

In conclusion, discussions that have been described in the introduction part, the researcher were able to understand and follow the whole of the research done more carefully. The process that involved in this research completed by following the planning step by step. Starts with an introduction to the topic, background of the research, the problem statement, research question and others give input and output that are useful to continue the research. The next chapter will be discussed about literatures review more in-depth related studies that related with the research topic.
CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

A list of bibliographic references are taken from the literature. Literature review can be classified as theoretical articles, literature reviews from previous studies, comparative studies conducted through past research, and critical analysis of knowledge segments published through summaries (Duke, 2015). In addition, a summary of critical literature published in research relating to the topic for research and objectives is called a literature review. The purpose of the literature review is to familiarize yourself with specific topics in terms of thought and research. Furthermore, future research can be guaranteed whether it is not understood or neglected from the previous area.

In this chapter two will explain in more detail and detail about the definition of halal industry, Islamic Finance and halal certificate in Malaysia. There are several factors described in the selection of Islamic Finance as well as the types of Islamic Finance involved in the study. Besides that, there are some categories that are involved in Islamic finance are discussed in this study. The results obtained in this study are from the previous researchers who have their own opinions, and this provides a solid basis for conducting this research more fully.
2.2 Halal

‘Halal’ is a word that comes from Arabic word which bring meaning lawful or permitted that engage in Islamic Law. Halal also can be write as ‘Hallal’ or ‘Halaal’ which also known as anything that is permitted and allowed. According to Laldin, 2006, ‘Haram’ is the opposite meaning from ‘Halal’ which refers to anything that is prohibited and not allowed by the decisive means. In fulfilling halal requirements, halal manufacturing must provide a very significant meaning of producing goods and services. Even though ‘halal’ and ‘Shariah compliance’ lead to the same meaning, this terms are used relatively varied according to the sectors and authority bodies.

In getting halal goods and services, halal manufacturing is really important role for Muslims to have what they want without having any doubt towards halal manufacturing. Halal product also means what the materials used to produce it, how it produced, and tools used. This means everything that regarding halal issues must take serious to avoid upcoming issues since halal is a sensitive issues to Muslim. Some people and manufacturers did take the halal production seriously but they forgot that the financial source also counted in certified the product is halal or not.

2.3 Halal Certification in Malaysia

A detection technique for Halal-labelled food developed by researchers from the International Islamic University Malaysia is expected to contribute to the establishment of Malaysia as a leading world Halal hub (Abdul, Ismail, Hashim, & Johari, 2009). The main goal of Halal certification is to ensure that the Halal requirements of the goods are in place. Halal industry evolved tremendously since its inception during the first Malaysian International Showcase (MIHAS) in 2004. Today, Halal has known worldwide and has emerged as a new source of manufacturing growth in Malaysia especially. The growing Muslim population totalling at 1.8 billion or 23% of the world population, the increasing awareness and demand for Shariah compliant products among Muslims and the increasing acceptability of Halal products among non-Muslims have created massive possibility of growth in Halal business (Jaffar & Musa, 2014).
Due to the demand of getting halal certification, some party take advantages by replicate the halal logo without having the certified certification by the authorises. This issues have caused many problem related to having this certification. The certification need to be renew and will only be approved if the inspection of the product is passed. The other issues is what is the source of the financial. Since apart from the Trade Descriptions Act 2011 and other legislative provisions halal control situated under the jurisdiction of several government agencies, Malaysia still does not have a provision that specific legislation or "Halal Act" to regulate activities related to the use of halal, whether halal certification for food products, beverages, products and service, and its financial sources.

In Malaysia, the issue of disconnection or lack of interaction between Halal and Islamic finance sectors is witnessed by the low penetration of Islamic finance among the Halal industry players. Although, Islamic banks have established in Malaysia for almost three decades, there are only 5% of Halal players use Islamic banking and finance products while the remaining 95% are non-users of Islamic financing instruments (Jaffar & Musa, 2013).

### 2.4 Halal Industry

In general, the different sectors under the Halal industry are regulated by separated authority bodies. Similarly, the Islamic banking and financial sectors are also regulated by the different regulators, with the Bank Negara Malaysia controlling the Islamic banks and Takaful providers and Securities Commission Malaysia (SC) controlling the Islamic capital market. The main authority body for consumer goods and supportive services sectors is JAKIM with the support from the Department of State Religious Affairs (JAIN) / State Islamic Religious Council (MAIN). The main function of these authority bodies is to ensure the compliance of the applicants’ (companies) products and services with Shariah requirements (Muhamed et al., 2014).

The Halal certification is granted once the companies fulfil the requirement, as indicated in the JAKIM’s main document (i.e. Halal Certification Procedures Manual). The certificate works as assurance towards halal compliance (Halal Industry Development Corporation, 2013).