

SME towards Halal Process Requirements in IR 4.0: Resource Based View

Noor Saidatul Natrah binti Saaidun^{1*}, Nainatul Farzuha binti Nor²,
Siti Farhana binti Hasanudin³

¹ Faculty of Business and Management Science, Kolej Universiti Islam Perlis, Malaysia

² Faculty of Business and Management Science, Kolej Universiti Islam Perlis, Malaysia

³ Faculty of Business and Management Science, Kolej Universiti Islam Perlis, Malaysia

Abstract: The halal industry increasing year by year. The worldwide Muslim and non-Muslim consumers tend to consumed, use and purchased halal product. They know that halal product are hygiene, clean and not harmful to health. About 61.3% from the total population in Malaysia are Muslim. Thus, having halal product are very important in Malaysia. Produced halal product may well benefit all Muslim and non-Muslim all around the world. Therefore, the markets for halal product are huge for Small Medium Enterprise (SME). But the capabilities of exporting halal product among SME in Malaysia still weak.

Small Medium Enterprises (SME) are the backbone of Malaysia economy. About 97.3% (645, 136) business establishment in country are SME which are consists of three categories of business; medium, micro and small. There are three classification of sectors under SME; manufacturing, services and others (refer to primary agricultural, construction and mining and quarrying). SME are important to the economy. Therefore, this research intends to study the antecedents of optimize halal process awareness among SME. It is designed to investigate the factors to optimize halal process among SME, to study if expected awareness towards halal business affected halal process.

Keywords: Small Medium Enterprise (SME), Halal Process, Resource Based View (RBV)

1.0 Introduction

Halalantoyyiban elements including halal foods, beverages and others product are obligation halal and both sources are obtained from a halal source, not shubhah (their status of not sure), clean, safe and nutritious (Halal Food General Requirements, 2018). Besides that, halal is also covering preparation, processing and storage align to rules and regulation stipulated under Shariah law and fatwa. The halal concept not only used in foods, beverages and daily consuming products, but also in trade and financial services, logistics, social, business transaction and investment (Halal Food General Requirements, 2018).

Malaysia is made up of many races, religions, and cultures and become an important halal hub in the halal development (Soraji, 2016). Malaysia's halal portfolio has expand beyond the food and beverages into various sectors such as cosmetics, logistics, tourism and pharmaceutical (Digest, 2016) (Latif, 2014). The concepts of halal food in Islam refers to the safety, hygiene and processes that make permissible for consumptions. About 80% of local food processing industry in Malaysia is dominated by the SME. Furthermore, Malaysia Investment Development Authority (MIDA) has divide food industry into three categories; fish and fish product, livestock and livestock product include dairy product, and vegetables and cocoa.

According to (Smecorp, 2019), most of the local players do not accelerate enough to take opportunities in leading halal hub. Besides that, Entrepreneur Development Minister Datuk Seri MohdRedzuan Md Yusof said in Malaysia Halal Expo (MHE) 2019, Malaysia's Halal industry are too focus in promoting halal product but neglecting the halal process that could lead to missed opportunities. Furthermore, Malaysia's halal industry are not looking at the halal certification processes that could give impact on investments. Halal processes are also involved the higher value chain of producing halal products or services (Smecorp, 2019).

A good quality of food come from the good implementation of halal process. The quality is not just about its taste and look. In the halal concept, quality of food includes hygiene and the whole process in produced food. These are the lacking factors in SME especially when they wanted to adopt halal (Backhouse, 2014) but many local SME do not fulfill demand from the big retailer because they have trouble in the consistency of quality and supply (Magazine, 2017). However, there are still have gap in increasing numbers of SME for halal certified product especially in food and beverages (Viverita, 2017). SME are still behind in terms of halal certification. It is due to several issues such as management and financial constraint (Rahman, 2016). In order to encourage SME the government need to formulate policies for the SME to adapt halal in their company (SME, 2016).

According to (Salikin, 2014) SME required more cost, support and awareness in halal process in order to adopt a quality certification. It is also required motivational and knowledge which is influence the adoption of halal certification (Koryak, 2015) (Omar, 2009). Besides that, other issues and challenges that face by SME would come from various area such as access to financing, market access, legal and regulatory environment, innovation and technology adoption, human capital development and infrastructure. (SMEcorp, 2015). Common start issues (Razif, 2016) lack of knowledge regarding to ability to execute, customer experience, validation of the product and customer acquisition lead to fail in the first two years. Studies in the country that conducted by SMEs showed about 30% of new business fail in the first two years, 50% during first five years an 66% within 10 years (Roshan, 2020). The reason they failed because poor promotional, digital, weak organizational structure, no understanding market operation and lack of skills.

This could add knowledge and help government in introducing policy to encourage SME to embark on the halal journey. Halal certification could provide better quality of product. Besides that, the readiness of a person to perform halal processes in their business activities encouraged to increased sales. Furthermore, it will lead SME to face industry revolution 4.0 (IR 4.0). IR 4.0 means of automation and data exchanged in manufacturing technologies by fully using cyber-physical systems, Internet of things, augmented reality, additive manufacturing, simulation, horizontal and vertical system integration, autonomous robots as well as cloud computing (Low Mei Leong, 2017). Companies are expect to reduce costs by 3.6% per annum when they are fully implement industry 4.0. Moreover, SME Corp did research towards 1,469 SME and it showed 66% of respondent realized that they did not have skill and knowledge workers in order to implement IR 4.0.

2.0 Literature Review

2.1 Resource Based View (RBV)

By using RBV model. According to (Ruivo et al., 2015) the difference in firm performance can be explain when firm resources are economically valuable, relatively rare, difficult to imitate, and imperfectly mobile. RBV is the base for marketing strategy research because of the relationship between resource dissemination and performance (Kim, 2015). According to (Newbert, 2007) suggest that value and rare resources are associated to competitive advantage and linked to performance. Two types of resources which are basic and higher order resources (Madhavaram, 2008). Higher order resources as a package of basic resources and made up compound of tangible and intangible basic resources that work together in order to achieve their goals. They are knows as competence or capabilities.

2.2 Halal operating capabilities

Generally the focused of performance activities will depend on operations capability. It is efficiently and flexibly with minimum of resources and some capabilities related to efficient manufacturing and logistics (Krasnikov, 2008). Focusing more to halal operating capabilities (HOC) in SME towards halal process requirements as an advantage to move to global market. Moreover, efficient HOC will influence the firm performance. According to (Darley, 2017) operating capabilities is going to be an asset that will strength relationships with firm performance outcomes. This research be done towards Saudi female entrepreneurs. Based on it there a positive relationships between operations capability and firm performance. This research should be conducted towards Malaysia SME especially in HOC in order to achieved IR 4.0. In the halal production, HOC is the main consideration in order to produce halal products. Moreover, HOC include the whole halal development process. It is include by identifying the potential markets, cost obtaining halal ingredients and time taken to obtain halal (Norizah Mohamad, 2014). Besides that, long time taken to obtain halal accreditation and that will cause the firm to setback plan of the companies. There is relationship between HOC and halal food process requirement in IR 4.0.

2.3 Technologies Capabilities

Technology capability means capability, which provides strength to the firm and create competitive advantage. In the industry it is indicated the innovation that linked to technological change and to research and development (R&D) (Grunert, 1997). Furthermore, ability to meet customer demands mostly influence by technological change and research development (R&D) activities. Therefore, technology capabilities (TC) one of the factor to SME accept the challenge of government to implement IR 4.0. It is also one of the factor for SME to move up to the next level. To make IR 4.0 become reality, SME should implement the use of technology in their operations. There is a relationship between technologies capability and halal process requirements in IR 4.0. A strong emphasis on technological development in the organization can significantly contribute to firms' growth (Guan & Yam, 2015). Especially, financial capabilities are deemed a significant factor to surge innovation in developed and developing economies (Mustar & Larédo, 2002; Wei & Liu, 2015).

2.4 Financial Capabilities

Resource based-viewed, financial capability is a financial capital that ability and willingness to secure external debt. The good financial capital will help the firm increase its performance (Dubini, 1989). In the other hand, inability to access finance capital will be a barrier for the start-up business activities (Ahmad, 2011b)(Dubini, 1989). According to (Darley, 2017) in Saudi, female entrepreneur has money from family legacy and all the expenses will be fully covered by father, uncle and brother. Thus, there is a relationship between financial capabilities and firm performance. In Malaysia SME most of the incentive will be given by government to support their business activities. However, SME seems to be lack of connection between government incentives and the needs of the SME (Thut, 2011). Financial capability a main role in business activities and related to technology used. This is because technology sophistication and halal operation capability will depend in the financial capability of the firm.

2.5 Human resource capabilities

Human resource capability or some research used labor can positively influence firm performance. There is a relationship between labor and firm performance. When there is not enough labor or absence labor the firm production failed to meet their target. This will negatively impact the firm performance (Darley, 2017). For SME, human resource capabilities include such as labor, knowledge, awareness and understanding of halal process in order to move for IR 4.0. SME, as a halal food producer must know and understanding of halal issues. They should know the various document that provide practical and guidance to meet halal requirements. The halal standard for foods (MS1500:2004) have been developed by Department of Standard Malaysia. There are seven requirements on preparing and handling of halal food; 1) sources of halal food and drink include animal (land aquatic), plants, mushrooms and microorganism, natural minerals and chemicals, drink and genetic modified food (GMF), 2) slaughtering requirements and process guidelines, 3) product processing, handling and distribution, 4) product storage, display and serving, 5) hygiene, sanitation and food safety, 6) packaging and labelling, and 7) legal requirements (Norizah Mohamad, 2014).

3.0 Discussion

Based on the (Darley, 2017) there significant effect of labor shortage, financial, human resource or labor but not operation capabilities. According to (Darley, 2017) there is positive impact between financial capabilities and firm performance. In this study the financial capabilities become mediator to operational, technology and human resource. It is the new development of methodology impact to the successful factor of SME towards halal process requirements IR 4.0. (Darley, 2017) , there are bank loans and state loans available to encourage women in Saudi in entrepreneurship and decreased the number of unemployment educated females.

In that study there is negative significant between labor and firm performance. According to (Kolvereid, 1993) female entrepreneurs face difficulties to find qualified labor and constraint by lack of mobility. Thus, (Darley, 2017) high level of labor shortage is reasonable to the firm and show poor firm performance especially in productions.

4.0 conclusion

Based on (Salikin, 2014) to adopt halal process and quality certification, SME required especially support and knowledge. Government give many support to SME in term of incentive to increase their skill level. The SME should be more aware towards halal process requirements in order to move to IR 4.0. Halal operating capability gave impact to the firm performance it prove by research that conduct in Saudi female entrepreneurs (Darley, 2017). Furthermore, when firm involved in food production they need to involve the whole operations with the halal standard guideline and halal accreditation. It is as a competitive weapon for the firm to go global (Norizah Mohamad, 2014). Technology is very important to the food industry in order to fulfill customer demands. Besides that, it provides strength to the firm performance and create competitive advantage. In term of product innovation technology is needed to research and development (Grunert, 1997). Technology capability one of the factor drive SME to toward IR 4.0.

Labor or human resource, influence the firm performance in order to meet customer demand. When there is labor shortage, firm production failed to meet their target. (Darley, 2017). Moreover, human resource capability should include with knowledge, understanding, skills and awareness. Especially to implement the halal food process align with the halal standard for food (MS1500:2004). Halal operations, technology and human resource capabilities need financial capabilities to enhanced firm performance. Financial capability very important especially for start-up business activities or any new development to the industry (Ahmad, 2011b) (Dubini, 1989). Entrepreneur need financial capability in order to maximize their production, enhanced technology and human resource (Darley, 2017).

In inspiring halal process requirements to SME, the study on the critical successful factor is important because it provides significance to the researcher, academician, industry and government by providing the insight on the halal process requirement towards IR 4.0.

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