

Faridah Hassan · Ismah Osman ·  
Erne Suzila Kassim · Balkis Haris ·  
Rohana Hassan *Editors*

# Contemporary Management and Science Issues in the Halal Industry

Proceedings of the International  
Malaysia Halal Conference (IMHALAL)

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# Contents

<b>1</b>	<b>The Application of Qur’anic Verses in Malaysian Contemporary Islamic Painting and Fashion: 1991–2016</b> .....	<b>1</b>
	Sallehuddin Mohamed, Mumtaz Mokhtar, Dzul Haimi Md Zain and Abd Rauf Hassan	
<b>2</b>	<b>Shariah Compliant Web Analysis Tool</b> .....	<b>29</b>
	Noor Latiffah Adam, Nordin Abu Bakar, Shaharuddin Che Soh and Angela Jau Purai	
<b>3</b>	<b>Muslim Industrialists and Manufacturers (MIM): Introducing a New Way to Conduct Muslim-to-Muslim Businesses for the Global Halal Industry</b> .....	<b>37</b>
	Asbi Ali and Mohd Shukri Yazid	
<b>4</b>	<b>Regaining Consumer Trust Over Halal Certification Authority</b> .....	<b>43</b>
	Zurina Ismail and Zuhul Hussein	
<b>5</b>	<b>The Influence of Theory of Planned Behavior, Religion and Halal Certification on Consumers’ Purchase Intention of Halal Food at Restaurant in Subang Jaya</b> .....	<b>53</b>
	Muhammad Abdul Adib Abdul Aziz, Mohd Fikri Abu Bakar, Mohd Khairul Zaaba and Faridah Hassan	
<b>6</b>	<b>Factorial Validation and Measurement Model of Attitude and Intention Towards Adoption of Islamic Financing Among Non-users</b> .....	<b>65</b>
	Mariatul Aida Jaffar and Rosidah Musa	
<b>7</b>	<b>Halal Logistics Operations in MS2400 Standards: A Literary Review</b> .....	<b>77</b>
	Sariwati Shariff and Noorsiah Ahmad	

<b>8</b>	<b>Entrepreneurial Characteristics from Conventional and Islamic Perspectives: Some Insights</b> . . . . .	<b>89</b>
	Sharifah Kamaliah Syed Sofian and Fung Thien Lung	
<b>9</b>	<b>MIM: Muslim Industrialists &amp; Manufacturers—A Platform for Muslim-to-Muslim Businesses Without the Need of Halal Certification</b> . . . . .	<b>105</b>
	B. A. Asbi and M. S. A. Yajid	
<b>10</b>	<b>Marketing Mix of Thai Halal Food Products Instant in Indonesia</b> . . . . .	<b>111</b>
	Nurme Hasa, Pakorn Limyothin, Wiwat Jankingthong and Chutima Wangbenmad	
<b>11</b>	<b>Towards Devising Islamic Advertising Theory</b> . . . . .	<b>121</b>
	Kalthom Abdullah, Ahasanul Haque, Faruk Ahmed and Ali Shafiq	
<b>12</b>	<b>Factors Influencing Muslim Tourists Satisfaction Travelling to Non-Muslim Countries</b> . . . . .	<b>139</b>
	Nik Ramli Nik Abdul Rashid, Yong Azrina Ali Akbar, Jamilah Laidin and Wan Shahrul Aziah Wan Muhamad	
<b>13</b>	<b>Empowering Halal in Waqaf Land Property Management Using Geographic Information System (GIS) Tools</b> . . . . .	<b>151</b>
	Sharifah Lailee Syed Abdullah, Sr. Khairulazhar Zainuddin, Sarina Muhammad Noor, Kamsol Mohamed Kassim, Hamlusalam Md Dali and Nora Yanti Che Jan	
<b>14</b>	<b>Islamic Hybrid Securities: Analysis from Malaysia Islamic Capital Market</b> . . . . .	<b>159</b>
	Mohamad Nizam Jaafar, Balkis Haris, Amirul Afif Muhamat and Ismail Ahmad	
<b>15</b>	<b>Halal in the Land of the Atheist</b> . . . . .	<b>169</b>
	Risyawati Mohamed Ismail	
<b>16</b>	<b>Tourists' Satisfaction on the Products and Services in Dry and Shariah-Compliant Hotel: A Case Study in Hotel Industry in Selangor</b> . . . . .	<b>175</b>
	Nik Rozilaini Wan Mohamad, Mashita Abdul Jabar, Mohd Taufik Zamri, Azien Jamin and Norfadhilah Mohd Akhuan	
<b>17</b>	<b>The Moderating Effects of Employee Tenure Towards the Relationship Between Leadership Competencies and Employee Engagement Among Muslim Staff at Public Universities in East Coast Malaysia</b> . . . . .	<b>187</b>
	Narehan Hassan, Mazuin Mat Halif, Sharrifah Ali, Rozilah Abdul Aziz and Muhamad Hafiz Suhaimi	

**18 Understanding the Abstract and Psychological Concepts of Brand Loyalty for Halal Market Industry . . . . . 209**  
 Abaidullah Mustapha, Faridah Hassan and Mariati Abdul Rahman

**19 Customer Satisfaction Toward Sharia Compliant of Hotel Design and Operation . . . . . 219**  
 Sarina Muhamad Noor, Noraini Nasirun, Kamsol Mohamed Kassim and Aimi Amira Amir

**20 Eliciting Salient Beliefs for the Practice of the MS2300:2009 Halal Core Values Among Medical Professionals . . . . . 231**  
 Jalilah Ahmad, Juhanna Azura bt Abdul Rahman and Syahirah Razi Abdul Karim

**21 Extending Theory of Planned Behaviour Approach to Understand the Muslim Consumers’ Intention to Patronize Retail Stores . . . . . 247**  
 Abang Sulaiman Abang Salleh and Norazah Mohd Suki

**22 Digital Printing Motif on Muslim Fashion Trend in Indonesia . . . . . 263**  
 Yunita Fitra Andriana

**23 Comparative Study of Islamic Quality Standard for Hotel in Malaysia and Indonesia . . . . . 281**  
 Vanessa Gaffar, H. P. Diyah Setyorini and Norain Othman

**24 The Influence of Price, Brand Image, and Product Attribute to Consumer Attitude of Fast Food Restaurant in Jakarta . . . . . 289**  
 Bonita Dwi Cahyani and Francy Iriani

**25 Islamic Tourism: Emerging Trends, Challenges, and Opportunities in Tourism Industry of Malaysia . . . . . 303**  
 Zaleha Muda, Diyana Md Jamil, Nur Hayati Abd Jamil and Shafizul Faizal Zulkiply

**26 Plant-Based Substitutes for Gelatin . . . . . 319**  
 Widya Lestari, Fitri Octavianti, Irwandi Jaswir and Ridar Hendri

**27 An Analysis of User Requirement for Halal Compliant Mobile Application (HCMA) . . . . . 323**  
 Noor Asmaliyana Ahmad, Nurulhuda Noordin and Mohd Zabiedy Mohd Sulaiman

**28 The Development of Rapid Method for Detection of Ethanol in Mouthwash Using E-Nose . . . . . 335**  
 Fitri Octavianti, Irwandi Jaswir, Rini Akmeliawati, Adi Rahmadsyah, Azrul Hafiz Bin Abdul Aziz, Russly Abdul Rahman and Nurul Asyikeen Ab Mutalib

<b>29</b>	<b>Contemporary Islamic Art in Malaysia: New Trends and Approaches Since 2000</b> .....	<b>345</b>
	Muhammad Faiz Sabri, Mumtaz Mokhtar and Muliyadi Mahamood	
<b>30</b>	<b>The Influence of Graduates' Learning Competencies on Employability: The Mediating Effects of Person-Job Fit and Person-Organization Fit</b> .....	<b>355</b>
	Abdul Kadir Bin Othman, Nadia Parmila Binti Yunnus and Masripan Salleh	
<b>31</b>	<b>Halal Supply Chain Commitment for Enhancing Halal Food Integrity in Malaysia</b> .....	<b>373</b>
	Kamisah Supian and Mokhtar Abdullah	
<b>32</b>	<b>Conceptualizing the Implementation of Halal Food Certification: an Institutional Theory Perspective</b> .....	<b>385</b>
	Mohamad Syazwan Ab Talib, Abdul Hamid Abu Bakar and Ai Chin Too	
<b>33</b>	<b>Opportunities of Islamic Trade Finance in OIC Countries</b> .....	<b>395</b>
	Puspa Melati Binti Kasi, Nurul Alia Binti Shaharuddin and Mohd Firdaus Bin Awang Kechil	
<b>34</b>	<b>The Challenges in Islamic Trade Finance for SMEs in Malaysia</b> .....	<b>411</b>
	Wan Nur Afiqah Wan Nawang, Nurul Syafiqa Misran and Rusnah Mohyiddin	
<b>35</b>	<b>Risk Management in Contract of Islamic Trade Financing</b> .....	<b>419</b>
	S. Sapizi, M. Z. Zharif, R. Norelmi and N. M. D. Asyikin	
<b>36</b>	<b>Smart Contract in Islamic Trade Finance</b> .....	<b>431</b>
	Farhana Binti Md Hilal and Nor Faridah Binti Jamaludin	
<b>37</b>	<b>Business Strategies of Islamic Trade Finance Products for SME</b> .....	<b>439</b>
	Arief Heikal Bin Mohd Zin, Mahzan Bin Noordin, Muhammad Hariz Bin Abdul Rahman and Ahmad Al-Amin Bin Faisal	
<b>38</b>	<b>Islamic Trade Finance: Revitalizing Trade and Unlocking New Potential</b> .....	<b>451</b>
	Amir Shahaaruddin	
<b>39</b>	<b>The Development of Islamic Trade Finance in Malaysia: From the Bankers' Perspectives</b> .....	<b>461</b>
	Sharifah Faigah Syed Alwi, Mohamad Nizam Jaafar, Ismah Osman and Amirul Afif	



<b>40 Halal Trade Finance and Global Well-Being: Here Come the Millennials</b> .....	469
Rosylin Mohd Yusof, Akhmad Affandi Mahfudz and Sabariah Yaakub	
<b>41 Sharia Rulings of Bill Discounting and Its Alternatives</b> .....	495
Uzair Ashraf Usmani	
<b>42 Islamic Religiosity and Perceived Sociocultural Impacts Toward the Support of Tourism Development in Malaysia</b> .....	509
Nurhaslinda Basri, Nor Asmalina Mohd Anuar, Norliza Aminudin and Nor'ain Othman	

# Chapter 1

## The Application of Qur'anic Verses in Malaysian Contemporary Islamic Painting and Fashion: 1991–2016



Sallehuddin Mohamed, Mumtaz Mokhtar, Dzul Haimi Md Zain and Abd Rauf Hassan

**Abstract** The decision is made by the 13th *Muzakarah* of the Fatwa Committee on 1 and 2 July 1985, and the Non-Muslims are prohibited/not allowed to write, carve, shape, display and sell materials containing Qur'anic verses. In 2008, Malaysia Department of Islamic Development published a book titled 'Guideline on Manufacturing, Handling, and Disposing of Publishing and Decorative Materials which contain Quranic Verses'. Another book was produced by the Department of Islamic Development Malaysia the Guideline on Department of Islamic Development Malaysia Volume 2 Year 2015 titled 'Guideline on Manufacturing, Handling, Selling and Disposing of Qur'anic verses'. In manufacturing, all activities related to manufacturing of materials containing Qur'anic verses must adhere to the guidelines. There are nine guidelines and one of the guidelines is related with the artworks on *Shari'ah* compliance. It is prohibited to write or shape Qur'anic verses in the form of animals, humans, buildings and game equipment such as the *wau*, plants, flowers and the like. The usage of the calligraphy in the creativity of the artists emerged the shape of human, fauna and alike by consciously and unconsciously. It is also the issues of the spelling mistakes, difficulty of reading the verses and designs' arrangement in the application of the Qur'anic verses in the artworks. Therefore, this research is to study the application of Qur'anic verses in Contemporary Islamic art: 1991–2016. It is the artworks produced after the establishment of the National Calligraphy Art Association (was established in 1985) and Yayasan Restu Foundation (was established in 1987). These institutions support the Islamic Art in Malaysia via education and exhibitions. This study reconsiders the JAKIM's *Fatwa* and the compliance of Islamic art in the application of Qur'anic verses. 120 artworks of variety of Qur'anic verses were collected from 36 artists as samples in the analysis of the stylistic of Qur'anic verses in the contemporary Islamic art. The context of the artworks is categorized into four categories: signs, *doa'*, *shifa'* and *dzikir*. It has four components (idea, tools, form and contents) and the Islamic tradition of deeds in contemporary Islamic faith. The artists do righteous deeds (*amal khair*) receive reward (*ajrun*) of journey to the paradise (*Jannah*). Thus, the thesis formulates towards the definition and philosophy of Islamic art.

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**Keywords** Contemporary islamic art · *Shari'ah* compliance · Calligraphy · Styles

## 1.1 A Brief Historical Background of Islam in Malaysia

The Islamic art began from the prophet Adam after he received knowledge and forgiveness from Allah (S.W.T). Prophet Muhammad (S.A.W.) is the last and the final prophet. The beautiful knowledge of Islamic art was affected after the cleaning of the *Ka'abah* in Mecca by prophet Muhammad (S.A.W) (Haekal 1981). The paintings and crafted pictures of the Prophet Jesus, Mary the Jesus's mother, angels and idols were thrown and destroyed to avoid *shirk*. Allah has no partner and nothing same like him. The literate prisoners were released from prison to teach read and write the Arabic language to the illiterate Muslims and not yet Muslims. After that, figurative artworks in the shape of human being and animals were faded. Thus, the Arab calligraphy, geometrical and Arabesque became the significant artworks in Islamic culture.

Historically, the Muslim traders from Middle East, India and China came to Malaysia. They brought the teaching of Islam, Arab calligraphy, Islamic art and culture besides trading their goods. Islam means surrender, submission, obedience, sincerity and peace (Ahmad 2004). These traders are also known as *Musafir* and brought the good morals to the Malay society. Their morals are the Qur'an itself and the *sunna* of the Prophet Muhammad (S.A.W.). Their character of spreading Islam: pray five times a day, reciting Qur'an, honest, polite, speak the truth, patient, helpful (Baz 2004), had attracted the Malay society to revert to Islam. After that, some of the Malay Muslims went to Middle East to do Hajj and further their studies on Islamic theology. When they came back to the Malay Peninsula, they taught the Islamic religion to the local society. Impact of their activities such as the Arabic language and calligraphy became popular and well accepted by the Malay society in the Malay Peninsula. The evidences of the popularity of the Arabic calligraphy are the artefacts of *batu bersurat*, Lord Minto Treaty, tombstones, mosques, etc. An example of the earlier artworks which has an application of the Qur'anic verses is the tombstones found in Pahang dated 1028 A.D. (Ali, 1994). It has Qur'anic quotations like Surah Al-Imran Verse 185:

Every soul shall have a taste of death: and only on the day of Judgement shall you be paid your full recompense. Only he who is saved far from the fire and admitted to the Garden will have attained the object of life. For the life of this world is but goods and chattels of deception.

and the Surah Yunus Verse 62:

Behold! Verily on the friends of Allah, there is no fear, nor shall they grieve.

The British intervention of the Malay states and the colonial rule introduced Roman calligraphy. The Malay society assimilated the roman calligraphy, and some books, magazines and newspaper were written in Roman calligraphy too. After Malaya independence, it formed Malaysia in 1963 where Sabah and Sarawak were

included. The government official letter was written in Roman and the usage of *Jawi* calligraphy faded. The fading of the *Jawi* calligraphy after the formation of Malaysia lead the Malaysian Muslim artists active in the usage of Islamic calligraphy and the application of Qur'anic verses in their artworks. In 1971, the National Congress of Culture was held. Islamic culture became the main topics in the discussions and seminars. The National Congress of Culture Policy defines three principles as guidelines for 'national culture' (Rogayah Estar bt Mohamed2008):

- i. The National Culture must be based on the indigenous Malay culture.
- ii. Suitable elements from the other cultures may be accepted as part of the national culture.
- iii. Islam is an important component in the moulding of the National Culture.

Since Islam is an important component in moulding the Malaysia National Culture; therefore, in 1975, the *Pameran Seni Khat* (Islamic Calligraphy Exhibitions) was organized by University of Malaya at Dewan Tuanku Canselor, University of Malaya, Kuala Lumpur and then it was exhibited at Kelantan, Johor, Trengganu and other states (Pamiran Seni Khat Pulau Pinan 1976). The exhibitions exhibited mostly the artworks which contained Qur'anic verses. The exhibition was a catalyst to the calligraphers and artists to form the National Islamic Calligraphy Society and National Art Gallery to organize exhibitions on Islamic art.

## 1.2 Background of the Study

Art and crafts had a great impact on Islamic art in Islamic civilization. The most dominant of Islamic art is the Islamic calligraphy. It can be seen in building, mosques, utensil and so on in Islamic countries as an artefact of Islamic art. Thus, the Islamic calligraphy and the application of Qur'anic verses appear as the background of the study in the contemporary art.

### 1.2.1 Islamic Calligraphy

Calligraphy means 'the art of beautiful writing' (Bevlin 1982). It is handwritten which is shaped as fine artwork (*Tulisan tangan yang diolah sebagai hasil seni halus*) (Rahman 1991). The Qur'an was revealed in Arabic and it was written in Arabic calligraphy. Therefore, Islamic calligraphy is the Arabic calligraphy. It is also considered a holy practice because it is the tool used for writing the Qur'an, holy book of Islam (Zeyad 2004). The calligraphy paintings in Malaysia, historical perspective and the art of calligraphy painting are seen to co-exist from two distinct traditions of the arts that of west and east traditions (Nor Azlin Hamidon, D'zul Haimi Md. Zain, Rahmah Bujang and Mariana Janeri 2011). Nor Azlin Hamidon and Siti Mastura

Md. Ishak categorized the Styles of Contemporary Islamic Calligraphy Paintings in Malaysia into the following:

- (i). Traditional Calligraphy,
- (ii). Rudimentary Calligraphy,
- (iii). Abstract Calligraphy,
- (iv). Marginal Calligraphy and
- (v). Gestural/Pseudo-Calligraphy (Ishak, 4, April 2015).

Nevertheless, their main discussions are calligraphy and not on the Qur'anic verses.

### 1.2.2 *Qur'anic Verses*

The Qur'anic verses are the verses abstracted from the Holy Qur'an. The Qur'an was revealed to the Prophet Muhammad S.A.W. in Arabic language in 1400 years ago. Some Muslim scholars suggest that the book was named Qur'an because it encompasses the books revealed to the prophets before Muhammad S.A.W. (Zin 2014). The Qur'an is the contemporary book and sealed of all the books revealed to the prophets. It is the book of guidance for mankind.

### 1.2.3 *Contemporary Art*

In the *Glosari Seni Lukis* (Art Glossary), the term 'contemporary art' means '*Karya-karya yang dihasilkan dalam zaman yang sama*' and '*Karya seni masa kini*'. In English it means 'the art works produced in the same period' and 'the art works produced in this age' (Unknown 1993). Thomas Hoving in his book 'Art for Dummies' (Hoving, Art for Dummies 1999) suggests that:

Contemporary art is that all styles and modes of expression are now considered to be valid. The bad news about contemporary art is there is a lot of ugly stuff out there calling itself high art, ghastrly junk masquerading as "real art" with few experts willing to blow the whistle on it.<sup>1</sup>

The most popular contemporary Islamic art at present is the usage of Islamic calligraphy styles and design. The applications of Qur'anic verses grew tremendously in contemporary Islamic art. The artists shaped the quotation of Qur'anic verses in many different styles of form in their artworks. For example, the verse *Basmalah* is a common Qur'anic verse used by the artists in the Islamic art creativity. Among them are Nik Zainal Abidin, Syed Mohthar Al-Shahab, Syed Muhammad Naquib Al-Attas, Omar Basaree and many others. The artwork titled *Basmalah* by Nik Zainal

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<sup>1</sup>Thomas Hoving. (1999). *Art for Dummies*. Foster City: IDG Books Worldwide, Inc. p.175.

Abidin (see Plate 1.1) clearly shows the image of a bird. It was exhibited in 1984 at National Art Gallery.

The artwork by Syed Mohthar Al-Shahab in shape of pens or shape of a mosque with six minarets (see Plate 1.2) was exhibited at the National Art Gallery in 1992. Another example of the artworks (see Plate 1.3) in the form of vegetable was exhibited at the Malay Ethnography Museum, University of Malaya in 2010. One of the traditional styles suggested by Ismail R. Al-Faruqi is Imaginary Calligraphy because of the usage of the imaginary pattern with the calligraphy elements of multi-styles (AR 1997). Some of the calligrapher shaped the calligraphy artworks into a shape of vegetable (Artist: Nor Hamka bin Mohammad Zainal, see Plate 1.3), human, animals, building, music instruments or anything comes into their mind and the Iranian calligraphers are common in these forms of artworks.<sup>2</sup> Therefore, when we approach contemporary art, whether in museums, galleries, books or on television, we should think carefully about why artists use and adapt the forms they do and how these differ from previous or perhaps more 'conventional' ways of art making (Whitham 2003).

#### ***1.2.4 The Institutions that Support Islamic Calligraphy in Malaysia***

The National Islamic Calligraphy Society known as PSKK (*Persatuan Seni Khat Kebangsaan*) was established in 1985 which the Non-Government Organization strived hard to spread the beautiful usage of the Islamic calligraphy and Islamic art. There are eight objectives of the PSKK. One of the objectives is to preserve and expand National Islamic Calligraphy as a national cultural heritage. The organization members run Islamic calligraphy courses to the students, government servants and public. Besides calligraphy, the organization teaches floral and geometrical design. They also organized exhibitions, workshops and competitions to encourage the public to learn the calligraphy and Islamic art. Some of the quotations of Qur'anic verses were applied as artworks in the calligraphy competitions.<sup>3</sup> The Islamic calligraphy competitions, education, exhibitions and the demand of the Islamic artworks encouraged some of the artists to have their own studio and art gallery.

Besides this, another body strived hard on Islamic arts is *Yayasan Restu* (Restu Foundation). The Restu Foundation was established in 1987. Its aim is to spread the message of Islam throughout the world, to strengthen the faith of Muslims and revive the field of Islamic arts.<sup>4</sup> It has gallery exhibiting artworks of Quranic verses at Shah Alam. The application of the Qur'anic verses consists of the usage of the calligraphy in the artistic styles of modern paintings, graphic design, decorative form

<sup>2</sup>Drs. D. Sirojuddin AR, 1997. *Serial Bina Kreativitas Anak dan Mitra Muda*, Belajar Kaligrafi. Jakarta: Darul Ulum.

<sup>3</sup>Calligraphy Competition 'Manifestasi Perdana Seni Khat'. This competition is held normally every 2 years joined organized by PSKK and Islamic Arts Museum Malaysia.

<sup>4</sup><http://www.restu-art.com/>.



**Fig. 1.1** The red circle lines show the mistakes in Kufi Murabba (Square Kufi) style (The photo was taken from an Art Gallery selling artworks in Selangor)

and sometimes calligraphy with the combination of geometrical and floral forms in Islamic cultures. In this research, the contemporary artworks before and after the establishment of PSKK and Restu Foundation were collected to investigate *shari'ah* compliance. The PSKK and Restu Foundation are seriously involved in educating the Malaysian in the usage of Islamic calligraphy and Islamic art activities.

### 1.3 Statement of the Problems

It is common in Malaysia that the Malaysian government will take action when there are issues or problems brought up by the public. The red circles show the mistakes in the calligraphy method (see Figs. 1.1 and 1.2).<sup>5</sup> The Malay proverb says: *Tiada angin masa kan Pokok bergoyang* (In English it means: The tree would not shake if there is no wind).

Some contemporary fashion and ornamentation of wear applied the Qur'anic verses for examples on rings and slippers are selling in the shops (see Figs. 1.3 and 1.4).<sup>6</sup> It is a very sensitive issue that the selling materials contain the sacred verses of Holy Qur'an by the Muslims and non-Muslims in Malaysia where they did not know what is *halal* and what is *haram* or sin in the method of handling the material. According to JAKIM (Malaysia Department of Islamic Development):

<sup>5</sup><https://www.facebook.com/abdulwahabkhatboard/media>.

<sup>6</sup><https://www.facebook.com/abwaartwork?fref=u>.



وَأَقِيمُوا الصَّلَاةَ وَآتُوا الزَّكَاةَ وَمَا تُقَدِّمُوا لِأَنفُسِكُمْ مِنْ خَيْرٍ تَجِدُوهُ عِنْدَ اللَّهِ إِنَّ اللَّهَ بِمَا تَعْمَلُونَ بَصِيرٌ

*Al-Baqarah: 110*

يَا بُنَيَّ أَقِمِ الصَّلَاةَ وَأْمُرْ بِالْمَعْرُوفِ وَانْهَ عَنِ الْمُنْكَرِ وَأَصْبِرْ عَلَىٰ مَا أَصَابَكَ إِنَّ ذَلِكَ مِنْ عَزْمِ الْأُمُورِ

*Lokman: 17*

**Fig. 1.2** The red circle lines show the mistakes found in the application of Qur'anic verses

Orang-orang bukan Islam adalah diharamkan/tidak boleh menulis, mengukir, membentuk, mempamerkan dan menjual barang-barang yang mengandungi ayat-ayat Al-Qur'an.

Translation:

Non-Muslims are prohibited/not allowed to write, carve, shape, display and sell materials containing Qur'anic verses.



**Fig. 1.3** The application of Qur'anic verses in the Fashion of a Ring

(This ring cannot wear or bring in the toilet)



**Fig. 1.4** The application of Qur'anic verses in the Fashion (ornamentation) of Slippers (These slippers cannot bring or wear in the toilet)

**Fig. 1.5** Source <http://www.e-fatwa.gov.my/.../hukum-menulis-ayat-ayat-al-qura...>



The above statement was the decision made by the 13th *Muzakarah* of the Fatwa Committee on 1 and 2 July 1985.<sup>7</sup> In 2008, Malaysia Department of Islamic Development published a book titled 'Guideline on Manufacturing, Handling, and Disposing of Publishing and Decorative Materials which contain Quranic Verses'. This first book was published in 2008 during Dato' Haji Wan Mohamad Bin Dato' Sheikh Abdul Aziz as Chief Director at the Department of Islamic Development Malaysia. Fatwah means a formal legal opinion or decision of a religious scholar on a matter of Islamic law (Karim, Muslims History and Civilization 2008). Currently, it is an issue of the spelling, difficulty of reading the verses and designs' arrangement in the application of the Qur'anic verses in the artworks. This situation might be due to the viewers' lack of Islamic calligraphy knowledge. Moreover, the usage of the calligraphy in the creativity of the artists emerged the shape of human, fauna and alike by consciously and unconsciously (see Fig. 1.5). Not all contemporary art and handling of Islamic art which contained Qur'anic verses are the *shari'ah* compliance.

Another book was produced by the Department of Islamic Development Malaysia titled 'Guideline on Department of Islamic Development Malaysia Volume 2 Year 2015, Guideline on Manufacturing, Handling, Selling and Disposing of Qur'anic verses'. The book contents are same as before and it is to serve as a guideline for those involved in publishing and handling materials which contain Qur'anic Verses. In manufacturing, all activities related to manufacturing of materials containing Qur'anic verses must adhere to the guidelines. There are nine guidelines. One of the guidelines is related with the artworks on *Shari'ah* compliance:

It is prohibited to write or shape Qur'anic verses in the form of animals, humans, buildings, game equipment such as the *wau*, plants, flowers and the like.<sup>8</sup>

*Shari'ah* is Islamic law derived from the Qur'an and the Sunnah (as-Siba'ee 2011). According to Ibn al-Qayyim (d.748AH/1347 CE):

*Shari'ah* is based on wisdom and achieving people's welfare in this life and afterlife. *Shari'ah* is all about justice, mercy, wisdom, and good. Thus, any ruling that replaces justice with injustice, mercy with its opposite, common good with mischief, or wisdom with nonsense, is a ruling that does not belong to the *Shari'ah*, even if it is claimed to be so according to

<sup>7</sup> *Garis Panduan Pembuatan, Pengendalian, Penjualan dan Pelupsan Bahan-Bahan Penerbitan dan Perhiasan yang mengandungi Ayat-Ayat Al-Qur'an*. Kuala Lumpur: JAKIM. p.2.

<sup>8</sup> [www.islam.gov.my](http://www.islam.gov.my).

some interpretation. (Auda, *Maqasid l-Shari'ah as Philosophy of Islamic Law, A System Approach* 2010).

On the other side, if we observe the artworks by Syed Muhammad Naquib Al-Atas (see Plate 1.4) in the form of animal. *Basmalah* is one of the Qur'anic verses. According to Syed Muhammad Naquib, his artwork the *Basmalah* in the form of a chanticleer first appeared in 1972 in his book on Islam in the history and culture of the Malays (NaquibAl-Attas 1990). He described that his artwork in the form of the chanticleer is a bird of dawn whose clarion call heralds the arrival of day. It is a symbol of the sun that casts light on things hidden in darkness by means of which the seeing eye knows their proper places. It is an emblem of wakefulness, of vigilance and activity tending towards awareness of affairs of the spirit in the sense illumination.

In another Syed Muhammad Naquib artwork (see Plate 1.5), he said:

The *Basmallah* in the form of the kingfisher first appeared in 1970 in my book on the Mysticism of *Hamzah Fansuri*. In this calligraphy the bird is a symbol of the spirit. The bird's azure plumage signifies rarefied atmosphere, the colour of the sky, which stands for the movement of thought. The eye of the bird is formed of the final letter *ha'* (هـ) in the name of Allah. The hearth of the bird is the loop of the initial letter *mim* (م) in the name of Holy Prophet Muhammad. The kingfisher refers to water and to fish. Water is a symbol of knowledge. The Holy Qur'an says that God creates all things from water. The fish is a symbol of the soul. The symbolism in this calligraphy refers to the coincidence of spiritual and intellectual knowledge. (Al-Attas, *Prolegomena to the Metaphysics of Islam* 2014)

Syed Naquib Al-Attas is a well-known influential philosopher and thinker, he has written on the traditional Islamic sciences as well as Sufism, metaphysics and philosophy. He has served at various global academic institutions as an educator and lead administrator and is also a noted calligrapher. He founded the International Institute of Islamic Thought and Civilization Malaysia (ISTAC), a world-class learned institution, where he taught and collected the unique multilingual library comprising more than one hundred and forty thousand volumes including rare books and manuscripts ([unknown The Official Website of international Islamic University Malaysia](#)).

### Problems or Issues

- The above five samples of the artworks (by Nik Zainal Abidin, Syed Mohthar Al-Shahab, Nor Hamka bin Mohammad Zainal and Syed Muhammad Naquib) are the *Shari'ah* compliance or not compliance?
- Do the Muslim artists or calligraphers followed the JAKIM's Fatwa in contemporary Islamic art?
- What about the Art Galleries owned by non-Muslims in exhibiting and handling the artworks contained Qur'anic verses?

In the book titled *Seni dalam Islam* (Arts in Islam), according to Yusuf al-Qaradhawi, maybe the problem of the Islamic society is the matters involved in arts and entertainment. He added that most of the Muslims are in two different streamlines. They are a group of extremists in arts or entertainment and a group of extremists against it (Al-Qaradhawi 1999). Yusuf Al-Qaradhawi is an Egyptian Islamic theologian and well-known international Islamic scholar. He is best known

for his programme, *ash-Shari'ah wal-Hayat* ('Shari'ah and Life'), broadcast on Al Jazeera, which has an estimated audience of 40 million worldwide.<sup>9</sup>

There are Holy Hadiths stated about discouraging of painting live creatures. For example, one of the hadiths:

It was narrated that Abu Hurairah said that he entered a house in Medina where he saw someone who was painting (pictures of live creatures). He said, "I heard the Messenger of Allah (S.A.W.) say (that Allah said), 'Who is more oppressing than someone who intended to create what resembles My creation. Let them create a grain or ant.'" (*Authentic*) – *Al-Bukhari transmitted it* ('Omairat 2010)

Concisely, the hadith traditions are to avoid shirk or associating living things with Allah.

Allah (SWT) says, "Allah is He besides Whom there is no god, the everlasting, Self-subsisting..." (The Holy Qur'an 2:255).

"He begets not, nor is He begotten. And none is like Him" (The Holy Qur'an 112: 3-4).

Yusuf al-Qaradhawi suggests that, the person who has expressed himself in this artwork, there is no limit free cessation. They even paint or sculpt statues of naked or half-naked women. Their drawing or forming symbol of idols and other religious teachings such as the cross, statues of idols and the like should not be accepted by a Muslim (al-Qaradhawi 2015). According to Muliyadi Mahamood, in the development of Islamic art, there are several major art forms, namely, calligraphy, painting, architecture, sculptures and decorative art. Forms of this art were guided by three major treatment concepts, i.e. styling, not individualized and repetition. These three concepts followed the form of Islamic art that avoids visualizing or imitating figures or nature exactly (Muliyadi Mahamood 1993). In other words, the treatment concept of the shape is not in the shape of nature. To date, no research studies on the application of Qur'anic verses in Malaysian contemporary art and defined the comprehensive definition of Islamic art (its context, styles, approach, purpose and meaning). The definition of Islamic art is related to this issue.

## 1.4 Aim and Objective

The aim is to establish the comprehensive definition of Islamic art and appreciation of Qur'anic verses in contemporary art.

In order to establish a comprehensive understanding of Islamic Art, this study plans the objective to be answered. The purpose of this study is to respond to the three objectives as follows:

- (a) To identify and evaluate the artworks which applied the Qur'anic verses in Malaysia Contemporary art.
- (b) To analyse the stylistic of Qur'anic verses in the contemporary Islamic art.

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<sup>9</sup>[http://www.goodreads.com/author/show/291803.Yusuf\\_Al\\_Qaradawi](http://www.goodreads.com/author/show/291803.Yusuf_Al_Qaradawi).

- (c) To develop the understanding of the meaning and concept featured in the Contemporary Islamic Art.

## 1.5 Research Questions

This study is to answer the following three questions.

- (a) Which are the artworks applied Qur'anic verses in Malaysian Contemporary art?
- (b) What are the meaning and concept of Malaysian contemporary Islamic art which consists of Qur'anic verses?
- (c) How Malaysian Contemporary artists explore Qur'anic verses in their artworks?

## 1.6 Purpose of the Study

The western definition of Islamic art and the orientalist concept are the visual art artefacts in Islamic world. The definition is blurred. In the *Glosari Seni Lukis*<sup>10</sup> 'Islamic Art' means '*Keseluruhan citra hasil tamadun Islam*' (Jawatankuasa Istilah Seni Lukis 1993). In English, it means 'overall artworks of Islamic civilization'. Roughly, it means the Islamic art is the artefact of the Islamic civilization. The meaning might be depicted from the western concept of Islamic art and moreover, the JAKIM's Fatwa on Islamic art are not clear. The definition of Islamic art and the application of the Qur'anic verses in the Malaysian contemporary art are inter-related. Therefore, this research is to formulate the actual definition or the meaning of the Islamic art and the *Shari'ah* compliance in the application of Qur'anic verses in Malaysian Contemporary Art. Without clear definition of Islamic art, there will be prejudice in application of Quranic verses in Islamic art.

## 1.7 Significance of the Study

The western definition of Islamic art is the artefacts of Islamic civilization like the interior decorations, mosques, tombstones, coins, utensils, etc. Their Islamic concept of the artworks is in the form of calligraphy, geometrical design and floral design. Non-figurative art was used and calligraphy is the most dominant artefacts. Some of these artefacts contain the Qur'anic verses.

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<sup>10</sup>*Glosari Seni Lukis, Dewan Bahasa dan Pustaka, Kementerian Pendidikan Malaysia, Kuala Lumpur in 1993.*

In Malaysia, the application of Qur'anic verses in the artworks became sensitive issues and *fatwa* were brought out by the JAKIM.<sup>11</sup> The issue affected the creativity of the contemporary Malaysian artists and the interpretation of the Islamic art. Therefore, the study of the traditional attributes of Islamic art is important to search the actual definition or real meaning of Islamic art and the *Shari'ah* compliance in the application of Qur'anic verses in Malaysian contemporary art. It will also, *insha'* Allah, dispel the doubts and suspicions in the minds of hostile critics, and increase genuine seekers of truth in the understanding of the Islamic art. This search is important with the country's official religion, objectives, politic, industry, economy and regulations. Moreover, the National Principles of Malaysia are as follows: Belief in God, Loyalty to King and Country, the Supremacy of the Constitution, the Rule of Law, and Courtesy and Morality. Hopefully, this research will overcome the stated controversy, the usage of figurative art in Islamic culture and the application Qur'anic verses in Islamic art.

## 1.8 Delimitations

The most significant is selection of the artworks dated from 1991–2016 (25 years) collected in the research. The selected date is after 3 years of the legal establishment of the PSKK in 1989 (the establishment of PSKK was 1985), the establishment of *Yayasan Restu* in 1987,<sup>12</sup> and after the Exhibition on Mushaf Malaysia was held at Putra World Trade Center in Kuala Lumpur. *Yayasan Restu* too taught Islamic calligraphy and art after 2003. A few artworks in shape of fauna which dated before 1991 will be selected for further discussion on the controversy of the usage of fauna, flora, buildings and alike in the Islamic art. In this research, only artworks with Qur'anic verses and related are selected for discussion. It included the artworks which titled with the name of the Qur'anic surah (without the calligraphy form). The painting which are not related to the Qur'anic surah or the verses are not selected for discussion.

## 1.9 Literature Review

In the researcher's observation of Islamic art, historically Islamic art is derived from the Middle East the place where western historian regarded it as the Bible lands (Tubb 1991) and the ancient civilizations, the lands where 25 Prophets of Allah (God) are mentioned in the Qur'an and among them are Adam, Noah, Abraham, Moses, David,

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<sup>11</sup>Guideline on Manufacturing, Handling, Selling, and Disposing of Publishing and Decorative Materials Which Contain Quranic Verses (The guidelines were endorsed by the *Shariah* Expert Panel Meeting of Inter Jakim-82 on 17-19 June 2013).

<sup>12</sup>[http://www.restu-art.com/?page\\_id=21](http://www.restu-art.com/?page_id=21).

Solomon, Jesus and Muhammad (Peace be upon them all). The reveal was to guide the life of mankind in the world (*dunya*) and to the hereafter (*akhirat*). The followers of the prophets were Muslims and their religion is Islam,<sup>13</sup> the religion revealed to the Prophets. God (Allah) revealed Scrolls of Abraham, the Psalms (*Zabur*) the Holy book of Prophet David (*Dawud*), the Torah (*Tawrat*) the Holy book of Prophet Moses (Musa) and the Gospel (*Injil*) the Holy book of Prophet Jesus (*Isa*) (Al-Hassan 2010). Someone is void of his faith (*iman*) to Allah if he does not believe in all Allah messengers—starting from Adam to Prophet Muhammad (PBUH) (Muhammad Noor Hj. Ibrahim 2015). The Qur'an is the final book and Prophet Muhammad (peace be upon him) is the sealed of all the Prophets. Prophet Muhammad (peace be upon him) is the cause of the renaissance in Islamic art to avoid *shirk* (associating partners with Allah). Islam is the religion of stated Prophets. Therefore, in terms of art the non-figural style of the Middle East played an important role in the development of Islamic art. Islamic art was originated from the Prophets of Allah (SWT).

According to David Samling, the characteristic of Islamic art emphasis on craftsmanship and the artist's personal ideas or feelings are not necessary in the artworks.<sup>14</sup> Fatimah Ali and Md. Salleh Yaapar in their seminar paper said that:

Arts scholars that is only familiar with figurative arts-based, like Christian art, Hindu art and modern Western art, often find it difficult to appreciate the Muslims artworks. (Yaapar 1995)

According to Lois Lamyá' al-Faruqi, the orientalist and Western scholars rejected the expression of 'Islamic art'. They said that the early Muslim artists had nothing to contribute to the future architectural legacy of the Muslim peoples (Faruqi 1984). This means that the orientalist and Western scholars did not accept that there is Islamic Art. Lois Lamyá' al-Faruqi mentioned five causes of the rejection of the expression of 'Islamic Art' by the orientalist and Western scholars. The five main causes are as follows: (1) the problems of the Western scholars mentality, (2) the secularists leaders of the Muslim nations ignored the Qur'an and hadith, (3) the nationalists ignored the Muslim scholars, (4) fear of any emphasis on Islam or its influence which might disturb the security of their positions or future well-being by the secular rulers and (5) the conservative element within the Muslim community which fails to understand the relationship of Islam to the aesthetic products of the Muslim artists. Anyway, al-Faruqi had missed to mention another cause that is disregarded of the creed of Islam by the Muslim's society. The society had neglected the complete love for the Companions of Allah's Messenger (S.A.W.). They are one of the major foundations of the creed of *Ahlul Sunnah wal-Jamaa'ah*. This is because they were the most perfect humans regarding faith, obedience towards Allah (S.W.T.) and His Messenger (S.A.W.) and strived hard in the cause of Allah S.W.T. The Muslim rulers and administrators ignore the *seerah* of the Prophet Mohammad S.A.W. and the *sunnah*. Thus, they are more on worldly (*dunya*) life rather thinking of hereafter. According to Thomas Hoving (the Former Director, Metropolitan Museum of Art), there is a powerful hedonistic element in Islamic art (Hoving 1999).

<sup>13</sup>The Prophet Muhammad is the sealed of all the Prophets.

<sup>14</sup>[www.davidmus.dk](http://www.davidmus.dk).

This means that the Muslims are concentrated more on secularism's world (*dunya*) instead of hereafter. Majority of today's Muslims are found indulging in ways of the Jews, Christians and other Polytheists, while ignoring the guidance of Qur'an and the Sunnah of the Prophet Muhammad (S.A.W.) the correct Islamic *aqidah* (creed). Moreover, the Iran and Saudi Arabia have different doctrinal interpretations (O'Kane 2007). The population of Iran 89% are Shi'a and Saudi Arabia 100% are Muslims (Karim, Muslims History and Civilisation 2008). Therefore, they have different interpretations of Islamic *aqidah* (creed) and might be different in the definition Islamic Arts. Actually, there are no sects in early Islam and Allah condemned those who create dissension in Islam. There were no Islamic sects during Muhammad S.A.W. life. The Qur'an says:

إِنَّ الَّذِينَ فَرَّقُوا دِينَهُمْ وَكَانُوا شِيَعًا لَسْتَ مِنْهُمْ فِي شَيْءٍ إِنَّمَا أَمْرُهُمْ إِلَى اللَّهِ ثُمَّ يُنَبِّئُهُم بِمَا كَانُوا يَفْعَلُونَ

Verily, those who divide their religion and break up into sects, you (O Muhammad) have no concern in them in the least....<sup>15</sup>

During Prophet Mohammad (S.A.W.), the Arabic language became an important role in spreading of Islam. The Prophet (S.A.W.) released the literate prisoners to let them teach the art of writing Arabic scripts and reading to the illiterate Muslims. Thus, it is the factor which made the Islamic art into a distinctive style. The Arabic scripts belong to the group of Semitic alphabetical scripts (Safadi 1992). The writing was originated from Semitic and became significant in Islamic art. On the other hand, some historian regarded as the development of Semitic Islamic calligraphy. The styles of the calligraphy developed and different places of Islamic states have different styles of Islamic calligraphy. The dynamic development of the Islamic calligraphy styles up the late ninth century and had been improved by Ibnu Muqlah by using rhombic dot as a unit of measurement of the alphabets.<sup>16</sup> The development of the calligraphy and the existed of many styles had beautified the Islamic art world. Therefore, some script of the Qur'an and quotations of it verses were written with different styles of calligraphy. Nevertheless, the Islamic philosophy of art had a great impact on calligraphy and determined its fundamental role in the application of Quranic verses in Islamic art.

The study at doctoral level by Ahmadrashidi Hasan titled 'Contemporary Islamic Painting in Malaysia 1980 to 2000' took a few samples of Qur'anic verses of Islamic paintings in his research. His analysis is on the titles of the works: (1). An Explicit manifestation of Islam, (2). An Implicit Manifestation of Islam and (3). An Exclusive Manifestation of Islam (Hasan 2010). Nor Azlin Hamidon in her study at doctoral level titled 'Islamic Calligraphy in Contemporary Art of Malaysia' brought out the differentiation of the Islamic concepts on the interpretation of artwork within the Panofsky's theory and the Muslim philosopher, al-Ghazzali's theory (Hamidon 2012). Both researches had a few samples of the Quranic verses but their main studies are not on the application of Quranic verses on the Contemporary Islamic art

<sup>15</sup>Al-Qur'an, Al-An'am: 159.

<sup>16</sup>Yasin Hamid Safadi (1992). *Islamic Calligraphy*. New York: Thames and Hudson Inc. p. 17.



in Malaysia. In their conference paper, Nor Azlin Hamidon, D'zul Haimi Md. Zain, Rahmah Bujang and Mariana Janeri clarified that Calligraphy Paintings in Malaysia as an Artistic Tradition (Nor Azlin Hamidon 2011) and studied its Pre-Iconographical Description, Iconographical Analysis and Iconographical Interpretation. Their calligraphy samples have no discussion on the application of Qur'anic verses.

## 1.10 Research Methods and Theoretical Framework

Qualitative case study methodology is used for the research of this study. Qualitative data consist of written records of observed (Abbot 2011) historical knowledge of art that researcher analyse qualitatively. Participants in this study consisted of artists, professional calligraphers or artists, academicians and religious scholars. The writing of the professionals, academician and religious scholars were taken an account in this study. The calligraphers or artist artworks were selected for their involvement and experienced in the artworks, exhibitions and practice of art and design in the country.

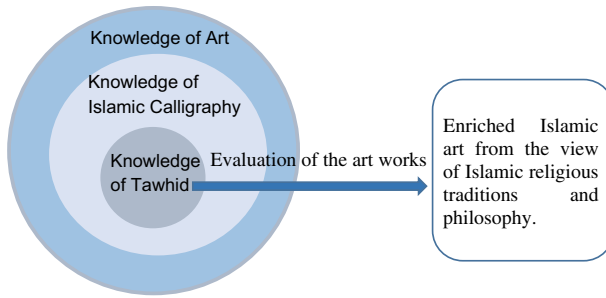
### **Analysis of *Shari'ah* Compliance**

The artworks are collected as samples in the research to observe the *shariah* compliance by referring to Al-Qur'an, Al-Hadith and the Muslim scholars. The Muslim scholars (Malaysian Muslims Scholars) Fatwa decision on the application of Qur'anic Verses in Islamic art are grounded theory in this research. The 69th Fatwa Committee of the National Council Discussion for Muslim Affairs Malaysia Meeting on 13–15 June 2005 discussed on the compliance of application of Qur'anic Verses in shape of game instruments like Malaysian kite (*Wau*), plants, flowers and alike (unknown, Bab 10. Sosial dan Syariah, page 210 2015). The discussion decided that:

- (i). The calligraphy scripts of Qur'anic verses in the extreme shape of ornament which can cause confusion and difficulty of reading are forbidden.
- (ii). The calligraphy scripts of Qur'anic verses are allowed with conditions of proper writing and can be read.
- (iii). The calligraphy scripts of Qur'anic verses are not allowed to mix with other verses which confused the readers.
- (iv). The calligraphy scripts of Qur'anic verses should be constructed properly and the arrangement of the verses cannot be broken which can cause misshaped or confused or changed the meaning; and
- (v). The calligraphy scripts of Qur'anic verses which are constructed in multiple shapes which caused confusion and lost its objective of revelations for reading, understand and appreciation are not allowed.

### **Reconsideration on the Fatwa**

To formulate the above Fatwa, researcher deduced the theoretical framework of the method in observing the application of Qur'anic verses in Islamic art. The observer has to observe the artworks first with the guidance knowledge of Tawhid, second



**Fig. 1.6** Method of evaluating the application of Qur'anic verses in Islamic art

knowledge of Calligraphy and third knowledge of Art (see Fig. 1.6.). Tawhid is the divine unity, which Muslims seek to imitate in their personal and social lives by integrating their institutions and priorities, and by recognizing the overall sovereignty of God (Karim E 2008). Calligraphy is art of beautiful writing. There are many styles of Islamic calligraphy. Among the styles are *Naskh*, *Thuluth*, *Diwani*, *Riqaa* and *Kufi* to mention a few. Different styles of calligraphy have different styles of composition of artworks. Art is the formal expression of a conceived image or imagined conception in terms of a given medium (Ocvirk, Art Fundamentals 2002). Therefore, it is to suggest that the Fatwa members have to re-evaluate the decision of the application of Qur'anic verses in Islamic art at the angle of these three substances. Therefore, the Fatwa member specifically only artworks should be included the academicians from faculty of Art and Design UiTM and NGO active in Islamic art. To evaluate these rich artworks from an aesthetic view is the utmost must be Islamic religious traditions and philosophy.

**Analysis of Content, Styles and compositions**

120 artworks of variety of Qur'anic verses were selected from 36 artists. Analysis of the compositions, styles and content is based on the research design (see Fig. 1.7). Al-Qur'an is the book of signs (Unknown, *The Book of Signs. A New Vision of Science Unknown*). In this research, the artworks contents (see Fig. 1.8) are categorised into signs, *doa*, *shifa'*/*Sufi* Healing and *dzikr*. In the Qur'an, the signs are the guidance to the mankind. *Doa* means to ask something from Allah. *Shifa/sufi* healing is to cure certain sickness by reciting Qur'anic verses. *Dzikr* is the act of remembrance of the Creator. Signs (see Plate 1.6), *doa* (see Plates 1.7 and 1.8), *shifa'* (see Plate 1.9) and *dzikr* (see Plates 1.1 and 1.3) are some samples to be mentioned a few. To investigate the *shari'ah* compliance and definition of Islamic art, some questionnaires and interviews will be taken.

The theory of the Islamic styles from the components of PSKK styles (see Fig. 1.9) will support towards the philosophy of Islamic art.

**Towards to the Definition of Islamic Art and its Philosophy**

The literature review of this paper has mentioned that the religion of the Prophets as mentioned in the Scrolls of Abraham, the Psalms (*Zabur*) the Holy book of Prophet David (*Dawud*), the Torah (*Tawrat*) the Holy book of Prophet Moses (Musa) and the

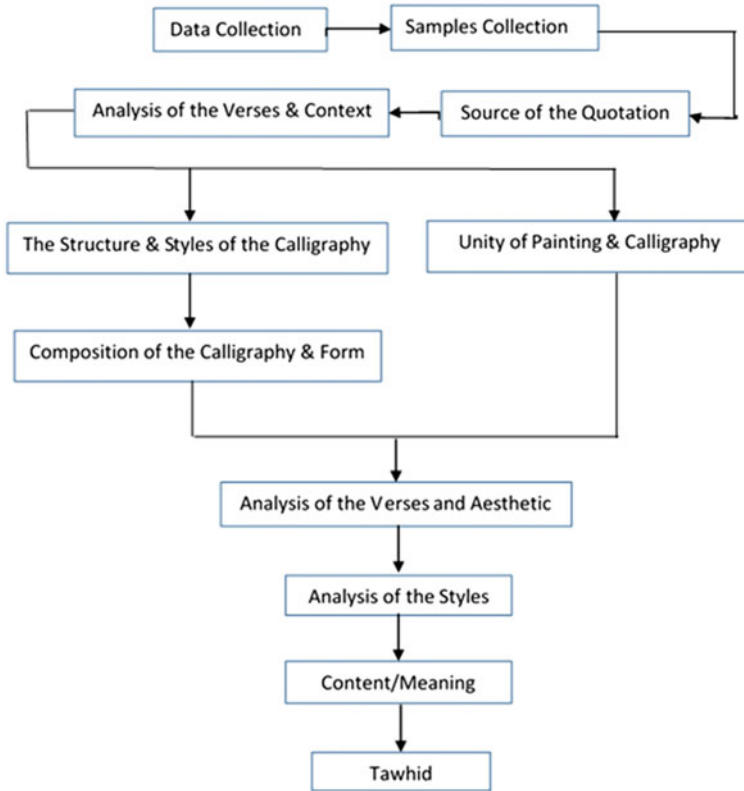
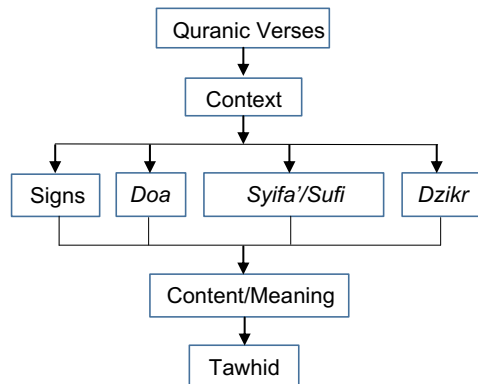
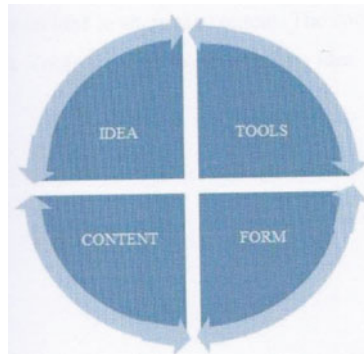


Fig. 1.7 Research design for the application of Qur’anic verses in contemporary Islamic art

Fig. 1.8 Analysis of styles and content



**Fig. 1.9** The component of Islamic art styles (Sallehuddin bin Mohamed, *Persatuan Seni Khat Kebangsaan* (PSKK) 1985–2009: Its contributions and styles to the contemporary Islamic art in Malaysia, M.A. Thesis, Shah Alam: UiTM, 2014)



*Clockwise Movement*

*Idea* → *Tools* (*Idea to use tools*)

*Tools* → *Form* (*Tools to shape form*)

*Form* → *Content* (*Form to form*)

*Form* → *Tools* (*Form shapes by tools describe content*)

*Content* → *Idea* (*Content to visualize Idea*)

*Anti-Clockwise Movement*

*Idea* → *Content* (*Idea to form the content*)

*Content* → *Form* (*Content describes by*)

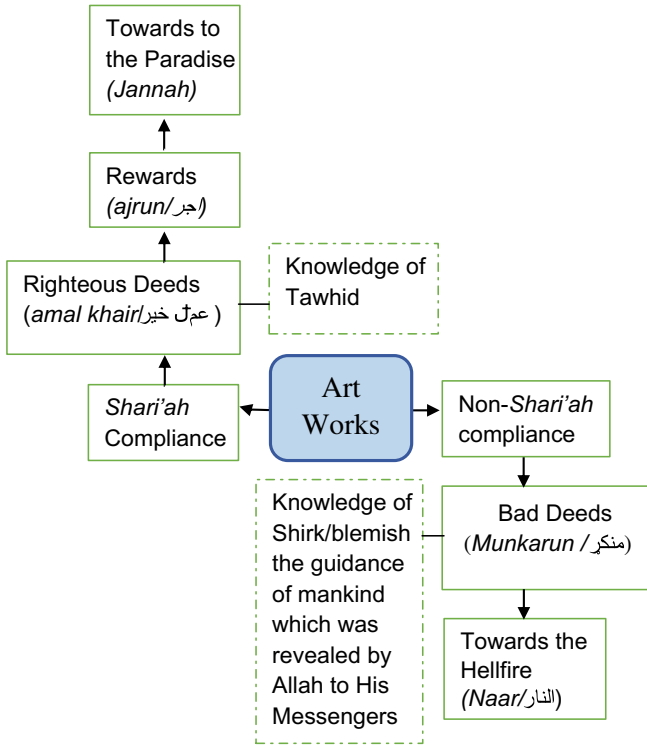
*Tools* → *Idea* (*Tools to compose idea*)

Gospel (*Injil*) the Holy book of Prophet Jesus is Islam. The word ‘Islam’ means ‘surrender, submission, obedience, sincerity and peace’. Those prophets and the followers are Muslims. The Muslim religion is Islam based on belief in one God and Prophet Muhammad S.A.W. is the sealed of all the Prophets. The Qur’an and Sunnah of the Prophet Muhammad S.A.W. are the guidance for the Muslims.

The word ‘Art’ means ‘the use of imagination to express ideas or feelings, particularly in painting, drawing or sculpture’ (Joana Thurnbull 2015). Art is the formal expression of a conceived image or imagined conception in terms of given medium (Ocvirk 2002). The twentieth-century German artist Joseph Beuys suggests that anything anyone does might be considered as art.<sup>17</sup> Grant Pooke and Graham Whitham suggest that there is no agreement on what art is. They added that the ‘Institutional Theory of Art’ bypasses questions about aesthetics, good and bad art or art as a response to wider social and historical conditions. According to Marcia Pointon, the terms ‘good’ and ‘bad’ are problematic for art historians who are more concerned with whether artworks fulfil and satisfy the purposes for which they were created than whether they are estimable according to an assumed universal standard (Pointon 1994). Concisely, the meaning of the word art in Western concept is not clearcut.

Dr. Khawaja Muhammad Saeed suggests that Islamic art has a powerful source of inspiration in every aspect of human life (Saeed 2011). Anyway, researcher suggests that the inspiration should be in good deeds (*amal khair/عمل خير*). ‘Art’ is one of the Islamic traditions of deeds in contemporary Islamic faith (see Fig. 1.10.). There are

<sup>17</sup>Grant Pooke and Graham Whitham. 2003. *Art History*. London: Hodder Headline Ltd. p.2.



**Fig. 1.10** The Islamic tradition of deeds

signs of art and culture blemished the guidance of mankind in the Qur’an and Hadiths. There are also signs or *ayat* as guidance to the mankind to the straight path, the path bestowed by Allah. It guided the mankind to do righteous deeds (*amal khair*) and receive reward (*ajrun*) of journey to the permanent place known as paradise (*Jannah*). One of the righteous deeds is the *Shari’ah* compliance artworks. For those who do the bad deeds (*Munkarun/ منكّر*), their journey is to the hellfire. In the Qur’an, Allah (SWT) says:

Thou will see the wrongdoers in fear on account of what they have earned, and [the burden of] that must [necessarily] fall on them. But those who believe and work righteous deeds will be in the luxuriant meads of the Gardens: they shall have, before their Lord, all that they wish for. That will indeed be the magnificent Bounty [of Allah].<sup>18</sup>

<sup>18</sup>Al-Qur’an, Surah Ash-Shura: 22.

## 1.11 Conclusion

Concisely, the *Shari'ah* compliance of contemporary art, the Islamic art definition and philosophy are the intellectual knowledge of doing the righteous deeds and receive rewards from Allah (S.W.T). In the book 'The Seven Habits of Highly Effective People', Stephen R. Covey suggests that we should have Emotional Bank account. This account is like bank account where we deposited some money (deposited rewards) and built up reserve from which we can withdraw when we need. The Emotional Bank is a metaphor that describes the amount of trust (amount of rewards) that has been built up in relationships with other human being. It is the deposits (rewards) being safe in the Emotional Bank Account through courtesy, kindness, honesty and other righteous deeds with another human being (Covey 1992). Allah (S.W.T.) says:

That is [the Bounty] whereof Allah gives Glad Tidings to His servants who believe and do righteous deeds. Say: "No reward do I ask of you for this except the love of those near of kin." And if any one earns any good, We shall give him an increase of good in respect thereof: for Allah is Oft-Forgiving, Most Ready to appreciate [service].<sup>19</sup>

The research expressed some of the views concerning the art usage, styles, content and meaning. These artworks have been collected to study the application of the Quranic verses in the Malaysia contemporary paintings. This study is to search the Qur'anic verses applied in the paintings and the usage of the calligraphy in the contemporary art in Malaysia. The study provides recommendations for the definition of Islamic art based upon analysis of the collected data. Hopefully, the recommendations are consistent with the *shari'ah* compliance.

In preliminary conclusion, this research will overcome some confusion of definition in Islamic art. The philosophy in Islamic art is to guide the observers, art appreciators, artists and public to the right path. The path is the straight path Allah bestowed on His Grace.

Our Lord! You do we worship, and Your aid we seek. Show us the straight way. The way of those on whom You bestowed Your Grace, those whose (portion) is not wrath, and who go not astray. Ameen... Ya Rabbal'alameen.

## Appendix

See (Plates. 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7, 1.8 and 1.9)

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<sup>19</sup>Al-Qur'an, Surah Ash-Shura: 23.



**Plate. 1.1** Artist: Nik Zainal Abidin; Title: 'Basmalah'; Media: Watercolour; Size: 46 × 45 cm



**Plate. 1.2** Artist: Syed Mohthar Al-Shahab; Title: *Al Qalam*; Media: Mixed; Size: 60 × 70 cm

**Plate. 1.3** Artist: Nor Hamka bin Mohammad Zainal; Title: *Wahai Yang Maha Lembut*; Media: Acrylic painting; Size: 92 cm × 92 cm.; Year: 2010



**Plate. 1.4** Artist: Syed Muhammad Naquib Al-Atas; Title: *Basmallah*; Media: Printed on paper; Size: 28 × 39 cm





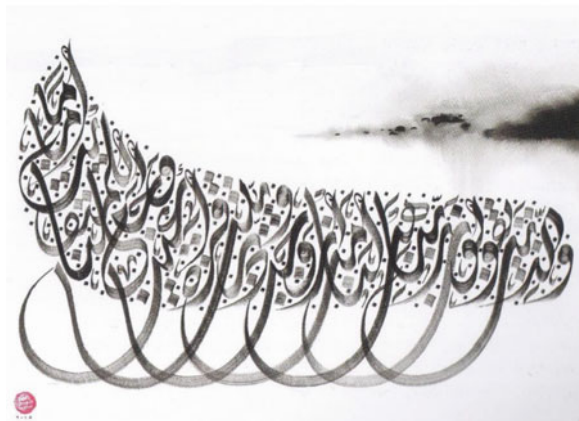
**Plate. 1.5** Artist:  
Zainurrahman Afandi; Title:  
'*Surah Ali Imran: 190*';  
Media: Acrylic on canvas;  
74 × 59 cm; Year:  
1419H/1998





**Plate. 1.6** Artist: Mohammed Yusof Hj Abu Bakar; Title: *Surah Al-Mukminun: 29*; Media: Acrylic on canvas; Size: 97 × 97 cm.; Year: 2002

**Plate. 1.7** Artist: Mohd Fadil Sulaiman; Title: *Al-Furqan: 74*; Size: 66 × 66 cm; Media: Ink on canvas; Year: 2015. Source Intima'i Ramadhan



**Plate. 1.8** Artist: Rakiah Ahmad; Title: *Masya Allah*; Media: Acrylic; Size: 15.5 × 11.5 inches; Year: 2004



**Plate. 1.9** Artist: Mohd Fadil Sulaima; Title: *Ayatul Kursi and Al Ikhlas*; Size: 94 × 94 cm.; Media: Ink on canvas; Year: 2015. Source Intima'i Ramadhan



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# Chapter 2

## Shariah Compliant Web Analysis Tool



Noor Latiffah Adam, Nordin Abu Bakar, Shaharuddin Che Soh  
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*Seeking halal earning is a duty after the duty*

Prophet Muhammad (p.b.u.h)

**Abstract** Understanding the nature of business around you may help organizations to make a better decision, starting a new business, investing to expand, doing joint venture, looking for potential collaborators, and goes on. One of the trending phenomena is to involve in Shariah-compliant businesses. With the help of the technology, we could find some relevant information from the web. However, the information gathered from the web were huge. The data may be redundant. To deal with such redundancy, there was a need to filter these information that were found. To do that, we have conducted a web analysis by doing web content mining. During the mining, we eliminate all noise information from the content. We have developed a tool to do the web analysis through company corporate website. From the pilot study, the tool could identify the existence of prohibited elements inside core business of a company and suggest the Shariah-compliant status of the company.

**Keywords** Market research · Shariah-compliant · Web analysis

### 2.1 Introduction

Business opportunity is one of the wealth sources for the Muslim community. However, the business activity is bound to the Shariah requirements (Ashraf and Khawaja 2016). Shariah or Islamic law is the religious law that constitutes part of the Islamic tradition. It was derived from the main source of Islam, particularly the Quran and

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the Hadith. Shariah compliance investment refers to investment, which are in accordance with the Islamic principles. Shariah-compliant businesses mean that those companies whose businesses do not involve with the prohibited elements. According to Thomson Reuters Releases Global Islamic Asset Management Outlook Report (2015), the demands for Islamic funds were expected to reach USD \$185 billion by 2019. Malaysia and Saudi Arabia were among the active players of the funds.

Sufficient information is needed to expand the existing business with new business activities by investing in other companies or introducing new product or services. The web provides too massive data and information. We need to filter these information that we obtained from the web to get the most meaningful data as the input for the decision-making process. To support such needs, we have to study the corporate website to investigate the company core business by implementing web analysis.

The web analysis tool was developed using Python programming language to carry out the Shariah-compliant analysis of the company's corporate website. The analysis will provide the information whether the core business has any involvement with the prohibited element, which could serve as the initial step in screening for the Shariah compliance.

## 2.2 Related Work

The web is a very dynamic and expands in an exponential rate. One can find almost anything on the web. Some information are redundant, where the same information may be available at different pages (Herrouz et al. 2013). Applying the information filter exposed users to only the information that are relevant to them (Hanani et al. 2001). Web mining focuses on the discovery of any significant knowledge found from the web. Web content mining aims to extract and to analyze any useful information from the web content (Yoon et al. 2013). A web page normally contains one primary content block and noise block. Only the primary content blocks represent the informative part that most users are interested in. Noise on web pages is irrelevant to the main content on the web pages being mined. Such noise includes banner advertisements, images from other websites, navigation bar, and copyright notices. Eliminating any noise information may increase the accuracy of mining the web pages (Yi et al. 2003). The noises were eliminated by removing the stop words and tags such as *the*, *is*, *which*, and *with*. Finally, meaningful words will be listed together with its frequency.

Regarding the Shariah-compliant investment, Muslim scholars have set a benchmark clarifying what is not acceptable as an investment under Shariah. The benchmark includes alcohols, conventional banks and insurances, gambling, tobaccos, and any other form of activities that are not acceptable under Islamic jurisdiction (Mahfooz and Ahmed 2014). IdealRatings<sup>®</sup> provides a clear Islamic equity rating framework. IdealRatings<sup>®</sup> is a financial research and data provider. The framework outlined a screening process for Shariah-compliant. In the framework, they have



Fig. 2.1 Research framework

pointed out a few sources used during data-gathering phase. One of them is websites (Donia and Marzban 2009).

For this research, we had studied some corporate websites. Corporate website is the representative of the company on virtual community. They provide sufficient information about the company profile and core business activities (Adam and Abu Bakar 2013; Hwang et al. 2010).

## 2.3 Methodology

The web offers seamless information. We need to be selective on the contents that should be supplied with the right content of interest. In this research, we had applied the web content mining to the company's corporate website. Python programming language was used to develop the tool. The research framework is shown in Fig. 2.1.

By adopting the web content mining, the content of the web was examined. Generally, we had applied information extraction on the unstructured data and used the exact match filtering to generate the suggested Shariah-compliant status. The details are described as follows:

### Phase 1:

We had identified a few corporate websites, whose companies were listed in the Bursa Malaysia.

### Phase 2:

The tool was developed using Python programming language. The modules involved were web scraping, content cleansing, and comparison rules. The research begins with seed URL. The main page or the index page will be extracted.

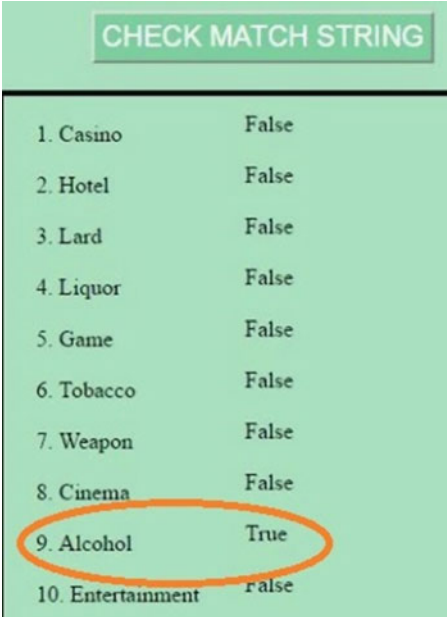
### Phase 3:

The content will go through a cleaning process. The basic idea was to extract a few keywords from the texts. These keywords usually describe the topical content of the web pages and other text contributions. Based on the vector space model of document collections, each unique word in a corpus of web pages is equivalent to one dimension, and each page is a vector with nonzero weight for each word in that page, zero weight for other words. Words with nonzero weight will be the "features".



```
/" if "casino" in word else 'False' "<br />  
/" if "hotel" in word else 'False' "<br />  
/" if "pork" in word else 'False' "<br />  
/" if "liquor" in word else 'False' "<br />  
/" if "game" in word else 'False' "<br />  
/" if "tobacco" in word else 'False' "<br />  
/" if "weapon" in word else 'False' "<br />  
/" if "cinema" in word else 'False' "<br />  
/" if "alcohol" in word else 'False' "<br />
```

Fig. 2.2 Rules



CHECK MATCH STRING	
1. Casino	False
2. Hotel	False
3. Lard	False
4. Liquor	False
5. Game	False
6. Tobacco	False
7. Weapon	False
8. Cinema	False
9. Alcohol	True
10. Entertainment	false

Fig. 2.3 Check match string

**Phase 4:**

Then, the outcome will be tested with the rules. The snapshot of the rules is shown in Fig. 2.2.

**Phase 5:**

Finally, the suggested status will be generated as shown in Fig. 2.3.

**Table 2.1** Feature selection

Casino	Tobacco
Hotel	Alcohol
Game	Lquor
Weapon	Lard
Entertainment	Cinema

**Table 2.2** Shariah-compliant status based on the experiment

Company core activities	Shariah-compliant status
Fashion	Shariah-compliant
Alcoholic beverage provider	Non-compliant
Construction material provider	Shariah-compliant

Initially, the list of concepts and appropriate key terms had been identified from the literature as shown in Table 2.1. The features were transformed into if-else rules as shown in Fig. 2.2.

## 2.4 Results and Discussion

We had discussed the result by following through the phases with the experimental input.

**Phase 1:** Select URL

For this article, we had experimented with three types of companies: fashion, alcoholic beverage provider, and construction material provider.

**Phase 2:** Web extract

The content of each of the main pages was extracted. We had extracted the main page or the index page that was usually known as *about us* or *profiles*. In this page, we had found the brief explanation about the company’s nature of business (Adam and Abu Bakar 2013).

**Phase 3:** Web pages cleaning

In this experiment, the web pages were in HTML form. The first step is to remove the HTML tags. Next, the remove the stop words (common words in any document, such as “to” and “the”).

**Phase 4:** Rules

The remaining of the individual words is then being compared with the list of featured words that have been identified beforehand. The importance of key terms extracted from the text usually describes the topical content of the web pages (Thomaz et al. 2016).

**Phase 5:** Suggested Shariah-compliant status

Finally, after a few comparisons with the featured words, Shariah-compliant status was suggested. Finding from the experiments is shown in Table 2.2.

The first company was actually a fashion company (consumer product). None of the strings is matched with the key feature. In this case, it needs further investigation but the result returned as a “*compliant*” value. Clearly, alcoholic beverage provider is “*non-compliant*”, whereas construction material provider is “*Shariah-compliant*” (industrial product). Initially, the results generated from the tool match the status of the company provided by Securities Commission Malaysia (Senarai Sekuriti Patuh Syariah oleh Majlis Penasihat Syariah Suruhanjaya Sekuriti Malaysia 2017).

## 2.5 Conclusion

Any useful information or intelligence that can help most of organizations to survive and to thrive in the global economy is crucial. Information overloaded need to be exploited intelligently. This information was needed to make a wise and profitable decision. The work described in this paper details our initial attempt at designing and implementing a tool for the web content mining to carry out Shariah web analysis. The aim is to extract any relevant information from the company’s corporate website.

The tool consists of preprocessing procedures and comparison rules. It requests seed *URL* from the user. The content of the web page will be extracted. The extracted pages were usually in the form of an unstructured data. In this experiment, we are dealing with some HTML documents. The documents will undergo a series of cleaning process, e.g., eliminating the HTML tags and stop words. More work will continue to refine this project. So far, the actual extraction is extremely high quality, although the formal analysis has not yet been carried out.

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# Chapter 3

## Muslim Industrialists and Manufacturers (MIM): Introducing a New Way to Conduct Muslim-to-Muslim Businesses for the Global Halal Industry



Asbi Ali and Mohd Shukri Yazid

**Abstract** This paper outlines a new and innovative way conducting businesses among Muslims who are in the halal industry worldwide, particularly those in the manufacturing of halal products (food, beverages, cosmetics, and pharmaceuticals) or halal food service industry, as well as those providing Shariah-compliant services (finance, education and training, health, tourism, legal counsel, logistics, fashion and lifestyle, media, and entertainment). An association of Muslim professionals in the above industry is formalized using the acronym MIM which stands for Muslim Industrialists and Manufacturers, and the members are given formal recognition as the legal owners of businesses who are also Muslims by faith and conducting business transactions to consumers and customers who desire products or services from Muslims.

**Keywords** Global halal industry · Muslim–Muslim businesses

### 3.1 Introduction

The global halal market is huge. At USD2.3 trillion worth of value (State of the Global Islamic Economy Report 2014), it is one of the largest market segments of trade and businesses in the world. This is made possible because of the 1.6 billion Muslims around the world (<http://www.pewforum.org/2012/12/18/global-religious-landscape-muslim/>) who need to consume halal products such as food (manufactured or served), cosmetics, pharmaceuticals and to employ Shariah-compliant services such as finance, Islamic banking, Islamic insurance, health, education and training, tourism, legal counsel, logistics, fashion and lifestyle, media and entertainment, etc.

This huge global halal market is projected to grow to USD3.9 trillion by the year 2019 (State of the Global Islamic Economy Report 2014). The world's Muslim population is expected to increase by about 35% in the next 20 years, rising from 1.6 billion in 2010 to 2.2 billion by 2030 (<http://www.pewforum.org/2012/12/18/>

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[global-religious-landscape-muslim/](http://www.pewforum.org/2012/12/18/global-religious-landscape-muslim/)). The Muslim global population is relatively young with a median age of 23 years compared to the global median of 28 years (<http://www.pewforum.org/2012/12/18/global-religious-landscape-muslim/>) and this young Muslim consumer who will be better informed and more technology-biased shall be looking for products that are not only halal or Shariah-compliant but also of high quality.

## 3.2 Halal Markets

The Global Halal Market (State of the Global Islamic Economy Report 2014) can be further categorized into food, fashion and lifestyle, tourism, media and entertainment, cosmetics, and pharmaceutical industries. The halal food market valued at USD1.3 trillion is by far the largest component registering 17.7% of global expenditures in 2013 followed by fashion and lifestyle market valued at USD266 billion, media and entertainment at USD185 billion, tourism at USD140 billion, and cosmetics and pharmaceuticals at USD72 billion.

The top 5 countries for the global halal markets of food, fashion and lifestyle, tourism, media and entertainment, cosmetics, and pharmaceuticals combined based on 2013 data are Turkey (USD251 billion) followed by Indonesia (USD 211 billion), Iran (USD141 billion), Pakistan (USD 108 billion), and UAE (USD 38 billion) (State of the Global Islamic Economy Report 2014).

The regional halal market of the 10 ASEAN countries which formally begins as a single economic community of 600 million people in 2015 is valued at USD1.3 trillion (<http://www.tradeandexportme.com/2014/02/a-landscape-of-malaysias-halal-industry/>), and this will make it approximately 60% of the global halal market. And Malaysia alone has captured 30% of this ASEAN halal market (<http://www.mb.com.ph/ph-eyes-to-capture-30-of-1-4-b-asean-halal-market-by-2016>).

With only 5% of its population being Muslims, Thailand is the sixth largest halal food exporter in the world. The domestic halal food market in Thailand grows around 20% a year. Almost a third of the 30,000 food factories in Thailand are involved in halal food production (<http://www.worldoffoodasia.com/index.php?q=halal>). Worldwide top countries that are major exporters of halal products are Brazil, US, India, and China are also non-Muslim nations.

As the global halal market grows in leaps and bounds, the halal industry will face the same challenges just like any other industry in areas such as standardization and compliance, certification, ingredient and raw material supply-chain integrity, human-capital development, consumer awareness and education, and lean industrial management.

### **3.3 Halal Certification**

#### **3.3.1 Malaysia**

Malaysia leads the world in establishing a systematic and regulatory system for certifying companies that claim to manufacture products that are labeled as halal with the introduction of the JAKIM halal logo as early as in 1994 which is now a label that is not only well accepted by consumers but also is one that is instantly recognized internationally.

JAKIM is also planning to open its own analytical lab in late 2015 for halal testing of food and all other non-food products which will make it a one-stop center in Malaysia for certification and auditing and testing as well as research.

In addition to JAKIM, there are also other government centers that are involved in halal R&D activities such as UPM's Halal Products Research Institute, UIA's International Institute for Halal Research & Training (INHART), USIM's Institute for Halal Research & Management (IHRAM), and UITM's Halal Management Science.

Recently, an independent private lab TPM Biotech has been accredited by JAKIM which can run commercially produced samples for halal testing which is an addition to the existing government-run Chemistry Department laboratory.

#### **3.3.2 Other Countries**

Thailand has its own Halal Science Center in Chulalongkorn University which operates the halal testing activities in addition to research and development work, while certification is conducted by the Central Islamic Committee of Thailand.

Last year Indonesia has passed a new halal labeling law which will be enacted fully by 2019 for all producers of food that are declared halal which will be required to have halal certificates. In addition to food and beverages, the law will affect most consumable products such as medicines, cosmetics, chemicals, and biological products. Under this new law, MUI (Ulama Council of Indonesia) will no longer be responsible for halal certification which will now be under a new organization to be called BPJPH (Halal Product Guarantee Agency).

In the Philippines, there are 18 certifying halal agencies in the country but only 9 are members of the Federation of Halal in the Philippines which are deemed the more credible halal suppliers. Despite being a country with a relatively large Muslim population, Pakistan has no governmental certification body. In March 2015, the International Centre for Chemical and Biological Sciences (ICCBS), University of Karachi set up a special laboratory at its Industrial Analytical Centre, dedicated to the testing of halal products (food, cosmetics, and pharmaceuticals). The ICCBS also aims to provide future leaders in the halal industry arena as well as the required well-trained human capital to cater the needs of the halal industry in the research, development, innovation and commercialization of halal food, pharmaceu-

ticals and consumer products as well as various Shariah-compliant service industries like tourism and hospitality.

### 3.4 Muslim-to-Muslim Businesses

In October 2014, we decided to set up an association of professionals who are involved directly with the manufacturing of products (food and non-food) or with the provision of services (finance, health, education and training, legal counsel, etc.) that represent a wide diversity of business activities but in which the only common characteristic is that the business owners are all of the Islamic faith.

The association is registered as Muslim Industrialists and Manufacturers or MIM for short. The acronym is so chosen because by design, MIM also stands for the Arabic alphabet “mim” which stands for Muslims in Arabic which is the language of the Quran (Fig. 3.1).

The basic idea of this new way to conduct business is as follows:

- Business owners are Muslims by faith.
- These business owners sell products or services to Muslim consumers who formally recognize the former as Muslims.
- The formal recognition is done by virtue that the Muslim business owners are members of MIM.
- The question of halal or Shariah-compliant does not arise because this is a strictly Muslim-to-Muslim business transaction.

In this manner, a new model is hopefully envisioned for years to come in which Muslim business owners can conduct businesses to other Muslim consumers irrespective of what types of products are produced or what types of services are provided.

**Fig. 3.1** The MIM logo





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# Chapter 4

## Regaining Consumer Trust Over Halal Certification Authority



Zurina Ismail and Zuhail Hussein

**Abstract** Muslims consumers are 17.1 million and they represent the majority of population in Malaysia. As a Muslim nation, the halal status for consumers' products is vital. The recent cases have raised concern among Muslims consumers whereby a certified halal product was found not complying with the halal requirement, and this includes contamination of non-halal ingredients in the certified halal product. The impact of integrity, benevolence, and competence on trust needs to be investigated. 250 Muslim consumers were randomly selected to participate in this study. Results from regression analysis indicate that all factors were proven to have significant impact on trust. Research implications, limitations, and suggestions for future researches are also discussed.

**Keywords** Benevolence · Competence · Halal product · Integrity · Trust

### 4.1 Introduction

Halal is an Arabic term meaning “permissible”. The holy Quran, a guide reference of Muslims, stated that Muslim is compulsory to seek “halalan toyibban” in all consumable products and services. Halal is defined as permitted from the Islamic law perspective (Riaz and Chaudry 2004). In other words, halal refers to lawful and wholesome. Having said that, halal is applicable in food, cosmetics, and business transaction. It is essential for a Muslim to consume only lawful and permissible product and services. In some part of the world, there is a big challenge for Muslim to determine the status of halal of particular consumable product. There are requirements that need to be fulfilled in halal certification in which it can confirm its halal status, which includes the product ingredients should be free of non-halal animals (forbidden animal to be eaten by Islamic law). The animal that is halal to consume must be slaughtered according to Islamic law (Shariah). In addition, it should be free from Najs (filthy or unclean) material according to Islamic law. The product does not

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contain harmful materials that include its physical, chemical, or biological/ microbial hazards. Apart from harmful material, the product must as well free from human parts or its derivate. Furthermore, the equipment used in producing the product must not be contaminated with Najs factor as according to Shariah. Last but not least, the product must be placed separated with the unlawful product. Generally, Muslim consumers in Malaysia will consume the product with the original halal certification (Aziz Ya and Chok 2012). This certification will allow the company to put the halal logo on its products and display it in its premise to confirm its halal status.

## 4.2 Literature Review

### 4.2.1 *Overview of Halal Issues in Malaysia*

Media reports had revealed the case of products that have been contaminated unlawful material such as traces of porcine or pork-related ingredient. Many disputes reported recently related to halal compliances. Latest was in 2014 when porcine DNA was claimed to be found in chocolate that certified as halal. This claim was made by another body after investigation made on three chocolate samples taken in random from the retail outlet. Results from the investigation report that two of the products are contaminated with porcine DNA. In response, the authority had immediately suspended the halal certification of both products. As a result, Muslims consumers start to question the halal certification issues. This issue has lead to a critic on the credibility of the authority.

Nonetheless, Yunus (2014) reported that many Muslim consumers were still uncertain about halal status of chocolate following discrepancies between the reports. Muslim consumer expressed dissatisfaction over this matter. The issues related to halal certified products that are not complying with the halal requirement are not new. Table 4.1 lists newspaper report on the halal compliance issue.

Based on the case highlighted above, it is crucial to carry out a study to ensure the authority is competent to carry its responsibility and to tackle the trust when crisis aroused. Therefore, it is crucial for the authority to assess the level of trust that Muslim consumer has over the authority, and impact of integrity, benevolence, and competence on consumer trust needs to be confirmed.

### 4.2.2 *Consumer Trust*

Trust plays a vital role in society and receives attention from academics in several areas of research, including social psychology, sociology, political science, management, economics, and philosophy (Urbano et al. 2013). The concept of trust implies the participation of at least two parties: a trustor and a trustee. The trustor is the

**Table 4.1** Newspaper report on halal compliance issues

News report	Date	Source
NGO gesa supaya akta produk halal diwujudkan	May 28,2014	Utusan Malaysia
7 produk sejuk beku import ada DNA babi	October 19, 2012	Berita Harian
Masih banyak restoran pameran logo halal swasta	January 2, 2012	Kosmo
Kilang pakai logo halal tak iktiraf di serbu	June 19, 2010	Kosmo
Cencaluk, Belacan guna logo halal haram	January 30, 2008	Kosmo
Halal tetapi ada perisa babi	May 20, 2008	Kosmo

party who places him or herself in a vulnerable situation under uncertainty. On the other hand, the trustee is the party in whom the trust is placed, making him or her as the person who has the opportunity to take advantage of the trustor vulnerability (Laequdin 2010).

Trust varies across domains as trustees have different abilities in different domains (Mayer and David 1995). Dimitrakos (2001) provides a broader conception of situational trust by defining trust as a measurable belief that the trustor has on the competence of the trustee in behaving in a dependable way, in a given period of time, within a given context and relative to a specific task. Moreover, Ristig (2009) posits that trust is the willingness of one of the parties to be vulnerable to the actions of the other party. Poon (2012) also agrees that trust consists of two essential elements that are willingness to be vulnerable and positive expectations. At the beginning, Mayer and David (1995) defines trust as: “The willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party.”

Trust is essential when decision and action are made under an uncertain condition, which requires an element of risk taking. Trust is needed when there is interdependence between actors in which the interests of one party cannot be achieved without reliance upon another (Jagd 2010). Risk-taking therefore stands as the most proximal behavioral outcome or expression of trust (Mayer and David 1995).

Even though a number of factors have been proposed, three characteristics of a trustee appear in the literature are competence, benevolence, and integrity (Mayer and David 1995). According to Lewis and Weigert (1985), trust often requires a leap beyond the expectations that competence, benevolence, and integrity can inspire and trust is based on “good reasons” constitute evidence of trustworthiness. The impor-

tance of all three trustworthiness dimensions had significant unique relationships with trust.

Competence, benevolence, and integrity are important to trust, and each may vary independently of the others. Colquitt et al. (2007) argued that although the relevance of ability, benevolence, and integrity may seem intuitive, it remains unclear whether each has a unique impact on trust levels. It may be that either ability or character is sufficient for fostering trust but that both are not needed.

### 4.2.3 C. Integrity

Integrity is the adherence to a set of sound principles (Xie and Peng 2009). As such, Mayer and David (1995) described integrity as an extent to which the trustor perceives that the trustee adheres to a set of principles that the trustor finds acceptable.

Integrity is a cognitive indicator of trustworthiness and contributes to cognition-based trust (Dirks and Ferrin 2002). Colquitt et al. (2007) define integrity as the extent to which a trustee is believed to adhere to sound moral and ethical principles, with synonyms including fairness, justice, consistency, and promise fulfillment. Many scholars have argued that integrity and competency are two of the most important qualities for trustworthiness (Mayer and David 1995). Fair, open, and honest past interactions of the focal organization (trustee) with other similar organizations may be viewed positively by the trustor organization while reviewing the “integrity” of the trustee organization (Mukherjee et al. 2012).

The issue of integrity is related to the consistency of the trustee’s past actions and the belief that the trustee has a strong sense of justice and his action will be congruent to that justice. Integrity plays a critical factor to trust as explained by Ristig (2009) where the results indicate that trust is positively correlated with integrity and further analysis on the study posits that integrity is positively related to trust where integrity explained a greater variance in trust than other factors.

### 4.2.4 D. Benevolence

Benevolence reflects an emotional reason to trust (Colquitt et al. 2007). In a similar vein, Elangovan and Shapiro (1998) relate benevolence to “a feeling of goodwill toward the trustor.” As such, Mayer and David (1995) defines benevolence as the extent to which a trustee is believed to want to do good to the trustor.

According to Xie and Peng (2009), benevolence is related to the motivation to do good for customers’ interests and a sincere concern for customers’ interests. Benevolence is synonymous with the willingness to take into consideration the partner’s interests in the decision-making process (Nguyen 2011). Lewis and Weigert (Lewis and Weigert 1985) mention that benevolence also develops in a long-term and close relationships, where trust is reciprocated and positive affect circulates among those

who express trust behaviorally, which may result in intense emotional investments being made. Benevolence can create an emotional attachment to the trustee, with caring and supportiveness fostering a sense of positive effect (Colquitt et al. 2007). Chu and Shiu (2009) highlight that it is crucial to reinforce the trustworthy behavior of service employees during the interaction with the customer, focusing on their competence and benevolence.

In related to this study, Wu (2013) highlights that benevolence is one of the determinants which contributes to trust among users. This indicated that for trust to be high, people must perceive benevolence to be high.

It is critical for the authority to build trust, which leads to the success of its performance. In relation for benevolence, consumer decision-making is influenced by benevolence element especially in an emotionally difficult decision (White 2005).

#### **4.2.5 E. Competence**

Competence relates to the potential and abstract ability of the evaluated entity to perform a given task (Mayer and David 1995). Competence which captures the knowledge and skills is needed to do a specific job along with the interpersonal skills and general wisdom is needed to succeed in an organization (Gabarro 1978). According to Xie and Peng (2009), competence refers to the ability to realize promises, of which it is developed when the organization holds adequate knowledge, skills, leadership, expertise, and other characteristics in related domains.

Many scholars have argued that integrity and competency are two of the most important qualities for trustworthiness (Mayer and David 1995). As such, Mayer and David (1995) also model competence, which is defined as the extent to which a trustee is perceived to possess a set of skills and competencies that enable the trustee to have influence within some specific performance.

Albrecht (Albrecht 2002) mentions that competence refers to qualities such as influence, impact, ability, expertness, knowledge, and the ability to do what is needed. Trustworthiness is, in part, indexed by the extent to which trust referents are perceived as being competent. Like integrity, it is a cognitive indicator of trustworthiness and contributes to cognition-based trust (McAllister 1995). In a recent study by Avionkai (2013), it was suggested that it might be important that organizations ensured employees are competent to overcome a crisis.

### **4.3 Research Methodology**

This research aims to analyze the relationship between integrity, benevolence, and competence on the trust over the halal certification authority among Muslim consumers. This research employed 250 Muslim respondents focusing on working adult in public higher learning institution from Kelantan and Terengganu; such sample

frame was selected because this segmentation has the multi-range of the education level. The states were chosen for this study due to the highest percentage of Muslim population by 97 and 95%, respectively, based on data provided by population and housing census of Malaysia (Department of statistics Malaysia 2014). Self-administered survey was applied as a method for data collection through simple random sampling.

UiTM Machang and UiTM Kota Bharu for Kelantan and UiTM Dungun for Terengganu are chosen due to the homogeneous factors such as the similarities of working environment, and also they share the same management style, and qualification levels of the staffs are at the same range. List of staffs available from the branches is gathered. The total number of staffs was divided proportionately. This study uses a simple random technique, where the selected respondents will be drawn randomly based on the staff's name list obtained from the administration office of those particular branches.

#### 4.4 Results

This section reports the findings from this research. A structured questionnaire was developed and distributed to 250 respondents who were selected randomly among public sector employees. Table 4.2 shows the summary statistics for the sociodemographic background of the respondents.

Respondent's gender was distributed almost equally whereby male represents 49.6% while female represents 50.4%. 10% of respondents aged below 25, 36.8% aged between 26 and 35, 36% were between 36 and 45, 12.4% aged between 46 and 55, and 4.8% aged above 55. In terms of income, the highest level of income is above RM4,000, representing 32.4% of total respondents, followed by 28.4% of

**Table 4.2** Sociodemographic background of respondents

Sociodemographic Items		Percentage (%)
Gender	Male	49.6
	Female	50.4
Age	Below 25	10.0
	26–35	36.8
	36–45	36.0
	46–55	12.4
	Above 55	4.8
Income	Below RM2,000	28.4
	RM2,000–RM2,999	26.4
	RM3,000–RM3,999	12.8
	Above RM4,000	32.4

**Table 4.3** Construct reliability

Variable	Cronbach's alpha
Integrity	0.966
Competence	0.961
Benevolence	0.953
Trust	0.960

**Table 4.4** Item mean score

Construct	Item	Mean
Integrity	Honesty	5.14
	Has a great deal of integrity	5.06
	Guided by sound principles	5.14
	Has a good value system	5.30
Benevolence	Has a great deal of benevolence	5.14
	Response constructively	5.15
	Favor community best interest	5.19
	Responding to negative publicity	5.19
	Concerned about Muslim community	5.20
Competence	Capable of meeting the need	5.10
	Problem-solving skill	4.96
	Competent in responding to the crisis	4.94
	Reliable in meeting expectations	4.93
	Able to avoid repetition of problems	4.92
Trust	Trust the authority	5.18
	The authority is dependable	5.15
	The authority is reliable	5.14
	Will be referred to	5.33
	Recommended	5.02

respondents who earn below RM2,000, 26.4% earn between RM2,000 and RM2,999, and 12.8% earn between RM3,000 and RM3,999 per month.

Data gathered has been tested for normality and the result shows that the data fit the requirement of normal data, thus allowing further analysis to be carried out. The test for reliability also shows that the measurement used in this study is reliable with Cronbach's alpha value between 0.953 and 0.966 (refer to Table 4.3).

Table 4.4 presents the result obtained from the mean score analysis. It shows the mean response to 7-point Likert scale on integrity, benevolence, competence, and trust over the halal certification authority. The mean score for the integrity of the authority ranges between 5.06 and 5.30, and the mean score for benevolence



**Table 4.5** Multiple regression analysis

Variable	Coefficient ( $\beta$ )	Sig ( $p$ -value)
Integrity	0.196	0.006
Benevolence	0.282	0.001
Competence	0.536	0.000

and trust ranged between 5.14 and 5.20, and 5.02 and 5.18, respectively. What is interesting in this data is that the response on the competency items of the authority is rated slightly low with the lowest mean score is 4.92 and the highest is 5.10. These findings revealed that respondents rated the authority's competency lower than its integrity, benevolence, and their trust over the authority.

Regression analysis was used to predict the impact that independent construct (integrity, benevolence, competence) has over the dependent construct (trust). The result shows the  $R^2$  value of 0.804, which indicates that 80.4% of the variation in Muslim consumer's trust over the halal certification authority is explained by the variability of its integrity, benevolence, and competence. The model in this study is significant in explaining changes in the dependent construct with the  $F$ -value of 337.225, significant at  $p$ -value 0.000. As can be seen from the data in Table 4.5 below, Integrity, benevolence, and competence reportedly have a significant influence on trust with  $\beta$ -value of 0.196, 0.282, and 0.536, respectively. Interestingly, the finding revealed that competence has the most significant impact on trust with  $\beta$ -value 0.536 ( $p$ -value = 0.000).

## 4.5 Discussion

This section intends to discuss the extent to which the findings concur with or differ from previous researches. The result from the mean score analysis revealed that the average response of Muslim consumers are ranged satisfactorily whereby it falls between scale 5 and 6. This shows that customers have a considerably good perception over the authority's integrity, benevolence and they have a great deal of trust over the authority. The result of this study confirms that all independent construct (integrity, benevolence, and competence) has a significant impact on trust. This finding is consistent with those of other studies (Mayer and David 1995; Poon 2012; Colquitt et al. 2007; Albrecht 2002) which found that integrity, benevolence, and competence have a positive and significant influence on consumers trust. Being an authority, which is responsible for 17.1 million Muslim consumer in Malaysia, the authority is supposed to gain the highest degree of trust from the consumers. However, findings of the present study revealed that the level of Muslim consumer trust over the authority is just slightly above average. Moreover, despite being the most influencing factor that could contribute to an increase in trust, competence is found to have the lowest mean score compared to other constructs. An implication of this

is the possibility that the authority may lose customers trust if its moderate level of competency is not properly managed.

## 4.6 Conclusion

The present study was designed to determine the impact of integrity, benevolence, and competence on trust that consumers have on the Malaysia halal certification authority. As explained in the earlier section, the halal certification authority is responsible to reassure the confidence of 17.2 million Muslim consumers in Malaysia. The most obvious finding emerged from this study is that the competency level of the authority is moderate, despite the greatest impact it could possibly contribute. Being the source of reference for the Muslim consumers, the authority needs to improve its competency level by developing skills (Mayer and Davis 2000) and enhance knowledge, expertise, and leadership of its employees (Xie and Peng 2009) in regaining trust from Muslim consumers.

## 4.7 Limitations

This study was, however, undergone several limitations. First, this study is focused on the public service employees, and second, it is limited to those who are located on the east coast of Peninsular Malaysia. Thus, the research scope is limited and could not further up the understanding of the consequences of postcrisis trust on larger community and context.

## 4.8 Recommendations

Considering the significant contributions of studies related to halal industry, further studies on the current topic are highly recommended. In future investigations, it might be possible to study the impact of authority's reputation in minimizing the impact during the crisis. This is due to the argument that superior reputation can have a strategic value (Raithel and Schwaiger 2014). Since the data for this study were collected during the *Cadbury* crisis, it would also be interesting to investigate consumer response at present state to see if time factor influence customers' evaluation on the authority.

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# Chapter 5

## The Influence of Theory of Planned Behavior, Religion and Halal Certification on Consumers' Purchase Intention of Halal Food at Restaurant in Subang Jaya



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**Abstract** This study focuses on investigating the purchase intention of Halal food at restaurants in Subang Jaya. By utilizing the Theory of Planned Behavior (TPB) and religion and Halal certification in the theoretical framework, data were collected from 323 Muslim and Non-Muslim respondents who dine at restaurants in Subang Jaya. Findings of this study show that the purchase intentions of Muslim and Non-Muslims respondents in purchasing Halal food at restaurants in Subang Jaya are influenced by attitude and religion while Halal certification has the lowest influence. This study extends the perception of the Muslim and Non-Muslim respondents in purchasing Halal food. The practical implication of this study contributes knowledge to the government agency especially JAKIM and HDC and also restaurant owners to encourage the purchase intention of Halal food in Malaysia.

**Keywords** Halal food · Restaurant · The Theory of Planned Behavior · Consumer behavior

### 5.1 Introduction

Muslims population of 1.6 billion in 2010 is expected to grow to 2.2 billion by the year 2030 (Pew Research Center's Forum on Religion & Public Life 2011). This value consists of 26.4% of the world population of 8.3 billion predicted in the year 2030. (Pew Research Center's Forum on Religion & Public Life 2011).

In Malaysia, Islam is the major professed religion which accounts for 61.3% of the population Malaysia, and the population includes three major ethics groups consisting of native Malays, Chinese, and Indian with a total of more than 28 million

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people (Department of Statistics Malaysia 2010). The percentage of religious is followed by Buddhism (19.8%), Christianity (9.2%), Hinduism (6.3%), and others (3.4%) (Department of Statistics Malaysia 2010).

According to Ministry of International Trade and Industry (MITI), quoting sources from the International Market Bureau Canada, the total world Muslim population is estimated to be 1.8 billion, and based on the estimated expenditure per capita for food of US\$0.85 (RM3.23) a day, it is estimated that the market for Halal products is US\$560 billion (RM2.12 trillion) a year (Star 2005). This is a huge market for food industry players. In Malaysia, about 16 million or 61.4% of the population are Muslims and if one were to estimate the per capita expenditure for food as RM1 a day, the demand for Halal products is expected to be more than RM5 billion a year (Star 2005). Malaysia's trade expanded 2.3 times to reaching RM716.6 billion, with exports increasing from 2.6 times to RM 398.9 billion and imports doubling to RM317.7 billion (Star 2005).

Thus, the global market demand for Halal products and services gives significant impact to the growth of the domestic Halal food industry. In reality, the huge demand for Halal food will lead to increase in supply for Halal certification and logo, making Halal certification far more important than before. In Malaysia, Department of Islamic Development Malaysia (JAKIM) issue Halal certification to local and export markets while Halal Development Corporation (HDC) assisting JAKIM in promoting participation and facilitating growth of Malaysian companies in the global Halal market (Halal Industry Development Corporation). The majority of Muslims in Malaysia considers the concept of Halal as an ultimate factor to consumption (Tawfik and Md 2011). Thus, there is a need to study consumers' purchase intention of Halal food in restaurants.

In order to build a global Halal community, HDC contributes to groom growth and participation of local businesses into the global Halal market by setting the bar for Halal best practices in Malaysia to enhance the development of Halal standards globally. This is to ensure a better understanding of Halal for all people.

The main focus for this research is to identify the most influence independent variables namely attitude, subjective norm, and perceived behavioral control of the Theory of Planned Behavior model and religion on purchase intention while adding one moderating variable which is Halal certification. Therefore, the primary research objectives of this study are to examine the relationship between purchase intention of Muslim and Non-Muslim on Halal food at restaurants in Subang Jaya towards attitude, subjective norm, perceived behavior control, religion the role of Halal Certification.

## 5.2 Factors Influencing Halal Food Purchase Intention

Purchase intention of people to buy food comes from the behavior. Intentions are expected to influence performance to the extent that the person has behavioral control, and performance should increase with behavioral control to the extent that the person

is motivated to try (Ajzen 1991). When a person's has a purchase intention to dine in the restaurant, the person would be likely involved in the purchase behavior at the restaurant. The stronger the intention to engage in a behavior, the more likely should it be performed (Ajzen 1991).

Religion is one of the potential individual factors that will shape consumption decisions, especially among Muslims. Ample evidence has shown that religion influences consumers' attitude and behavior in general (Pettinger, Holdsworth, and Gerber 2004), as well as food purchasing decisions, and eating habits in particular (Shatenstein and Ghadirian 1997; Asp 1999; Mullen et al. 2000; Blackwell et al. 2001); (Shatenstein and Ghadirian 1997). Thus, religion plays one of the most influential roles in food choices (Dindyal 2003). The impact of religion on food consumption depends on the religion itself and on the extent to which individuals follow the teachings of their respective religion.

According to Wan Hassan and Awang (2009), Halal certification can be viewed as a common marketing tool used by manufacturers and businesses to inform and reassure their consumers that their products are Halal and Shariah-compliant. To Riaz 1999 Halal certification is a document issued by an Islamic Organization, certifying the products it covers meet the Islamic dietary guidelines.

Attitude is defined as the first component studied to interpret individual's intention. Attitude is the evaluation of performing a particular behavior involving the attitude object, such as purchasing food product (Blackwell et al. 2001). An individual will probably perform a particular behavior if it benefits the individual. In contrast, the particular behavior is not likely to be performed if he perceives it as inappropriate (Ajzen and Fishbein 1980).

In Theory of Planned Behavior, subjective norm is the second component that influences individual's intention. Subjective norm is defined as an individual's perception of social pressure whether a particular behavior should be performed or not performed. An individual's intention to perform a particular behavior is not probably influenced by the positive evaluation of the behavior but rather the beliefs on what others think about it (Ajzen and Fishbein 1980).

The third component in Theory of Planned Behavior is perceived behavior. According to Ajzen (1991), perceived behavior control refers to the perceived ease or difficulty of performing the behavior and it is assumed to reflect past experience as well as anticipated impediments and obstacles. According to Ajzen (2001), control beliefs are person beliefs toward factors available which facilitate or prevent performing a behavior. Perceived facilitation is the condition where a person perceives himself to be able to perform the behavior (Ajzen 1991).

### 5.3 Methodology

Based on the review of the literature, Theory of Planned Behavior (TPB) has been adapted in the framework of the study. This is because it was proven effective in predicting consumer behavior towards Halal food (Khalek and Ismail 2015). In this

study, TPB is adapted and used with two additional variables, which are religion as independent variable and Halal certification as moderating variable. Hence, the framework yields the following hypotheses:

H1: There is a significant relationship between attitude and consumers' purchase intention of Halal food at restaurants.

H2: There is a significant relationship between subjective norm and consumers' purchase intention of Halal food at restaurants.

H3: There is a significant relationship between perceived behavioral control and consumers' purchase intention of Halal food at restaurants.

H4: There is a significant relationship between religious belief and consumers' purchase intention of Halal food at restaurants.

H5: There is a significant relationship between Halal certification and consumers' purchase intention of Halal food at restaurants.

The study was designed to identify the most influential factor that contributed to purchase intention of consumer towards purchasing Halal food at restaurant in Subang Jaya. The sample of the study was respondents that have experienced eating at restaurants in Subang Jaya. Quantitative method was used and questionnaire was chosen as the method to collect data for further analysis. A total of 400 questionnaires were distributed to the respondents and a total of 323 questionnaires were returned, where it showed a response rate of 80.75%.

The questionnaire consisted of three main sections, which are Sects. 5.4.1, 5.4.2 and 5.4.3. Section 5.4.1 of the questionnaire comprised of demographic question such as age, gender, religion, races, education background, and income range

Section 5.4.2 measured the dependent, independent and moderating variables. Five (5) items were used to measure attitude, four (4) items for subjective norm, four (4) items for perceived behavioral control, five (5) items for religion, five (5) items for Halal certification, and three (3) items for purchase intention.

In addition, two (2) items using open-ended have been used in Sect. 5.4.3 to measure respondent's opinion and awareness on halal certification at restaurants. The questionnaires were constructed on five-point Likert scale format in Sects. 5.4.1 and 5.4.2, which the respondents have to circle for the most appropriate answer. The questionnaires were written in English and the 323 data sets were tested using SPSS.

In this study, nonparametric statistics was used to test the significance, with four techniques employed to further analyzed the data, which were reliability analysis, descriptive analysis, Pearson correlation analysis, and multiple linear regression analysis.

## 5.4 Findings

A random sample of Muslim and Non-Muslim was drawn upon from restaurants in Subang Jaya. Gender, age, and religion of homogeneous sample were used since the objective of this study is to identify the factors influencing Muslim and Non-Muslim

purchase intention of Halal food. 320 questionnaires were distributed to respondents and all of the questionnaires were completed by the respondents. Descriptive analysis and correlation methods were used to explain the relationship between dependents and independent variables in this study.

Regression analysis is used to identify the most significant factors that influence the purchase intention of Halal food. The findings of this study present the influence of four independent variables; attitude, subjective norms, perceived behavioral control, and attitude and one moderating variable; Halal certification of Muslim and Non-Muslim consumers to the purchase intention of Halal food at restaurants in Subang Jaya.

### **5.4.1 Frequency analysis**

Demographic information of the respondents such as gender, age, race, and religion was analyzed using frequency analysis. Male respondents consist of 107 respondents (36.7%) while female respondents were 216 (63.3%). Respondents age below 21 were 57 (17.6%), 167 respondents (51.7%) were between 21 and 30 years old, 55 respondents (17.0%) were 31–40 years old, and respondents age 41 and above were 44(13.6%). The religion demographic information for each respondent were 163 (50.5%) Muslims respondents and 160(49.5%) Non-Muslims respondents.

### **5.4.2 Descriptive Statistics**

Table 5.1 presents the mean scores and standard deviations of the constructs used in this study according to TBP. Mean scores are presented based on five-point Likert scale (1–5). For Muslim respondents, attitude was rated at 4.41, subjective norm at 4.59, perceived behavioral control at 4.13, religion at 4.58, Halal certification at 4.58, and purchase intention of Halal food at 4.54. Subjective norm was identified with the highest mean for score at 4.59, showing that majority of respondents' is positive on subjective norm towards Halal food. The mean of purchase intention of Halal food is considerably high (4.54) which is between agree and strongly agree.

For Non-Muslim respondents, attitude was rated at 3.02, subjective norm at 2.91, perceived behavioral control at 2.89, religion at 2.90, Halal certification at 3.08, and purchase intention of Halal food at 2.91. Halal certification was identified with the highest mean for score at 4.79, showing that majority of respondents' is positive on Halal certification towards halal food. The mean of purchase intention of Halal food at food is slightly higher than average (2.91) which is between agree and strongly agree.



**Table 5.1** Descriptive findings of halal food purchase intention

	Muslim		Non-Muslim	
	Mean	Std. Dv	Mean	Std. Dv
Attitude	4.4123	0.49,226	3.0218	0.75539
Subjective norm	4.5997	0.47103	2.9183	0.84632
Perceived behavior control	4.1319	0.51318	2.8926	0.82066
Religion	4.5828	0.52934	2.9090	0.81418
Halal certification	4.5877	0.46862	3.0821	0.84514
Purchase intention	4.5419	0.55195	2.9124	0.81660

### 5.4.3 Correlation Analysis

All five hypothesis were tested using correlation analysis and the result is presented in Table 5.2. The result indicates that the correlation coefficient between attitude and purchase intention to eat at a restaurant in Subang Jaya is significant, and the strongest at 0.636,  $p < 0.05$  for Muslim consumer and 0.839,  $p < 0.05$  for non-Muslim consumer. This followed by correlation between religion and purchase intention to purchase food for both Muslim and non-Muslim consumer. (0.580,  $p < 0.05$  for Muslim; 0.791,  $p < 0.05$  for non-Muslim). Correlation coefficient between Halal certification and purchase intention of purchase food is significant but has the lowest correlation value for both Muslim and non-Muslim consumer (0.373,  $p < 0.05$  for Muslim and 0.737,  $p < 0.05$  for non-Muslim). As all the variables were significant, all five null hypotheses of the study are rejected (Table 5.2).

### 5.4.4 Regression Analysis (Muslim)

$R^2$  represents the percentage of changes in the dependent variable that can be explained by the changes in the independent variables (Table 5.3 and 5.4).

R square is the amount of variances explained by the independent variables and moderating variable based on the predictors. In this study, the value of  $R^2$  is 0.533 which means that 53.30% of changes in consumers purchase intention of Halal food at restaurant in Subang Jaya can be explained by attitude, subjective norm, perceive behavioral control and religion. Meanwhile, the remaining 46.70% of changes in dependent variables are unexplained by current independent variables.

At the 5% level of significance, attitude and religion are significantly related to customers purchase intention. Subjective norms, perceived behavior control, and

**Table 5.2** Result of correlation analysis

	Purchase Intention (Muslim)	Purchase Intention (non-Muslim)
Attitude	0.636**	0.839**
Subjective Norm	0.428**	0.776**
Perceived Behavior Control	0.440**	0.773**
Religion	0.580**	0.791**
Halal Certification	0.373**	0.737**

\*\*Correlation is significant at the 0.01 level (2-tailed)

**Table 5.3** Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficient	T	Sig.
	B	Std. E	Beta		
(Constant)	0.218	0.371		0.587	0.558
Attitude	0.488	0.071	0.435	6.830	0.000
Subjective Norm	0.059	0.083	0.050	0.706	0.481
Perceived Behavior Control	0.124	0.072	0.115	1.713	0.089
Religion	0.367	0.075	0.352	4.879	0.000
Halal Certification	-0.064	0.084	0.054	0.756	0.451

a. Dependent Variable: PI

**Table 5.4** Coefficient of Determination Analysis

Model	R	R <sup>2</sup>	Adjusted R Square	Std. Error of the Estimate
1	0.730 <sup>a</sup>	0.533	518	0.38325

<sup>a</sup>Predictors: (Constant), HC, A, PBC, SN, R

Halal certification are not significantly related to customers purchase intention. The result shows that attitude, subjective norms, perceived behavior control, and religion have positive relationship with the dependent variable while Halal certification religion has negative relationship with the dependent variable. The positive relationship means that any effort to increase the attitude, subjective norms, perceived behavior control, and religion will increase the consumers' purchase intention of Halal food at restaurant in Subang Jaya. The negative relationship means that any effort to increase the Halal certification will decrease the consumers' purchase intention of Halal food at restaurant in Subang Jaya.

**Table 5.5** Coefficient of Determination Analysis

Model	R	R <sup>2</sup>	Adjusted R Square	Std. Error of the Estimate
1	0.901 <sup>a</sup>	0.813	0.806	0.35936

<sup>a</sup>Predictors: (Constant), HC, A, PBC, SN, R

Based on Table 5.3, we can conclude that attitude is the most important factor that influences the consumers purchase intention of Halal food at restaurant in Subang Jaya followed by religion, perceived behavior control, subjective norms, and Halal certification (Table 5.5).

### 5.4.5 Regression Analysis (Non-Muslim)

R<sup>2</sup> is the amount of variances explained by the independent variables and moderating variable based on the predictors. In this study, the value of R<sup>2</sup> is 0.813 which means that 81.30% of changes in consumers purchase intention of Halal food at restaurant in Subang Jaya can be explained by attitude, subjective norm, perceive behavioral control, and religion. Meanwhile, the remaining 18.70% of changes in dependent variables are unexplained by current independent variables.

At the 5% level of significance, attitude, subjective norms, perceived behavior control, and religion are significantly related to customers purchase intention. Halal certification is not significantly related to customers purchase intention. The result shows that all variables have positive relationship with the dependent variable while Halal certification religion has negative relationship with the dependent variable. The positive relationship means that any effort to increase the attitude, subjective norms, perceived behavior control, religion, and Halal certification will increase the consumers' purchase intention of Halal food at restaurant in Subang Jaya.

Based on Table 5.6, we can conclude that attitude is the most important factor that influences the consumers purchase intention of Halal food at restaurant in Subang Jaya followed by subjective norms, religion, perceived behavior control, and Halal certification

## 5.5 Discussions

This research reveals the factors that influenced Muslim and Non-Muslims purchase intention of Halal food at restaurant in Subang Jaya are determined by their attitude, subjective norm, perceived behavioral control, religion and Halal certification. Based on the correlation result of Muslim and Non-Muslim, attitude has the highest relation with purchase intention followed by religion and the lowest is Halal certification.

**Table 5.6** Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficient	T	Sig.
	B	Std. E	Beta		
(Constant)	-0.155	0.125		-1.241	0.217
Attitude	0.414	0.066	0.383	6.285	0.000
Subjective Norm	0.236	0.053	0.245	4.444	0.000
Perceived Behavioral Control	0.145	0.061	0.146	2.404	0.017
Religion	0.196	0.068	0.195	2.882	0.005
Halal Certification	0.044	0.060	0.046	0.736	0.463

Dependent Variable: PI

The regression result shows that there is a positive relationship between attitude towards purchase intention on Halal food and it is the most important factor influencing Muslim and Non-Muslims purchase intention. The study done by Syed Shah Alam and Nazura (2011) also showed that attitude was an important factor in predicting intention to consume Halal food. Khalek and Ismail (2015) also found that attitude is the most important factor that influence Generation Y to purchase Halal food.

Muslim and Non-Muslim respondents choose religion as the second factor the influence the purchase intention of Halal food. The study in line with the findings of Loser, Klein, and Dohallahite (2008) where the impact of religion has an internal influence on the lives of individuals and guides different rituals and behaviors. Mokhlis (2009) also found religious affiliation and religious commitments that have been identified as two important aspects of religiosity and are found to impact consumer behavior. The significant influence of religion could possibly relate to the characteristics of Muslim society in Malaysia practices collectivistic culture in the society.

Based on the multiple linear regression analysis for Muslim and Non-Muslim it was found that Halal certification has the lowest relationship with purchase intention of Halal certification. Muslim totally rejected the Halal certification where there is a negative relationship between Halal certification and purchase intention. However, the Non-Muslim respondents do not totally reject Halal certification since there is a positive relationship between Halal certification and purchase intention.

## 5.6 Conclusion

The result of this research on the purchase intention of Halal food found that TPB, religion, and Halal certification are an effective independent and moderating variable. It was shown that the factors influencing the purchase intention of Muslims and Non-Muslims in purchasing Halal food are mainly because of their positive attitude towards halal food, where the influences may come from family and friends while religion is the second factor that influencing the purchase of Halal food. Therefore, this research suggests that JAKIM and HDC should increase the effort of educating Malaysian especially Muslim due to very low awareness regarding the importance of Halal certification. Furthermore, knowledge and awareness on Halal food could be incorporated in the existing Islamic Studies subject for Muslim and Moral Studies subject for Non-Muslim at the school level in order to instill an understanding of Halal food concept. For future research, the geographical location can be expanded to other states in Malaysia and other ASEAN country in line with Malaysian vision to be the leading Halal hub in the region.

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# Chapter 6

## Factorial Validation and Measurement Model of Attitude and Intention Towards Adoption of Islamic Financing Among Non-users



Mariatul Aida Jaffar and Rosidah Musa

**Abstract** The purpose of this paper is to validate the underlying factorial structure of attitude and adoption intention pertaining to Islamic financing measurement. This study integrates five exogenous latent constructs as the antecedents of attitude, that is, knowledge and awareness, religion obligation, cost benefits, business support, reputation and three key determinants in influencing behavioural intention, namely, attitude, subjective norms and perceived behavioural control as proposed in the theory of planned behaviour. The research was carried out on a random sample of more than 200 Micro and SMEs in halal production, collected at halal exhibitions via an interviewer-administered questionnaire. Exploratory factor analysis (EFA) was performed to determine the factorial structure of the measurement scale. Subsequently, confirmatory factor analysis (CFA) was executed to examine the reliability, construct validity and goodness-of-fit of the proposed model. The result unveiled and confirmed a nine-factor solution as conceptualized, and its scale has adequately met the psychometric criteria.

**Keywords** Islamic financing · Halal · Small and medium enterprise · Attitude · Theory of planned behaviour (TPB)

### 6.1 Introduction

Halal industry has emerged as a source of economic growth. The growing Muslim population totaling at 2.1 billion or 27% of the world population as the primary market for halal food, the increasing awareness and demand for *Shariah*-compliant products

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among Muslims combined with the rising of affluent and educated Muslims who seek for safe and high-quality products and the increasing acceptability of halal products among non-Muslims have created massive possibility of growth in the halal business (HDC 2014). The global halal business market is estimated at USD2.3 trillion in 2012, excluding Islamic banking, finance and insurance, whilst the global Islamic banking and finance industry assets worth at over USD1.3 trillion in 2012 (Malaysia 2012). If the halal business market and Islamic finance were to combine, the potential size of the halal industry is estimated at USD3.5 trillion. In the World Halal Forum 2011, halal and Islamic finance sectors are reported to be the two fastest growing *Shariah*-compliant industries, which are growing at 15–20% per annual. Indeed, according to Malaysia Institute of Islamic Finance Centre (MIFC), the global halal economy has reached close to the estimated figure of USD3.5 trillion (MIFC 2014).

Islamic finance and halal market are natural partners; the two sectors share similar set of values as both are Islamic; and global involves Muslim and non-Muslim consumers. However, despite the similarities and significant growth, the two *Shariah*-compliant business sectors are growing at different momenta and are developing independently. There has been a lack of interaction between the halal and the Islamic finance sector. Islamic finance has become a global brand, sophisticated and organized industry in the past four decades, whilst halal industry is seen more fragmented and less structured (Malaysia SME 2012). In Malaysia, the issue of disconnection 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, whilst the remaining 95% are non-users of Islamic financing instruments (Badlyshah 2011). In fact, being a holistic halal business operator, the business must not only focus on producing halal but must also finance their business in an Islamic or *Shariah* way of financing. However, this has yet to achieve. Given the research problem, there is a need to identify factors that influence the entrepreneurs' attitude and adoption intention towards Islamic financing. Substantial literature have examined the individual customers' attitude towards Islamic finance. However, there is still lack of empirical evidence on the attitude and behaviour towards Islamic finance from the business firms' perspective. To the researcher's knowledge, no study to date has specifically examined the factors that influence attitude of entrepreneurs in halal production. Against this backdrop, this study aims at assessing the factorial validity and measurement model of attitude and intention towards adopting Islamic financing among the non-users of Islamic financing.



## 6.2 Literature Review

### 6.2.1 *Conceptualization of Constructs*

Attitude refers to a predisposition to respond to an object, and it is usually represented whether a person is favourable or unfavourable to the attitude object (Schiffman et al. 2005). Similarly, attitude towards the behaviour refers to the individual's favourable or unfavourable evaluations of the behaviour. Ajzen and Fishbein (1980) posit that attitude towards a behaviour is determined by a set of salient beliefs that he holds in performing the behaviour. It is hypothesized that salient belief factors are positively related to attitude towards Islamic financing and consequently influence adoption intention. In this study, the salient beliefs that entrepreneurs obtained from perception or experience with financial institutions are likely to influence their attitude towards Islamic financing. Guided by the previous reviews and exploratory research, the authors have conceptualized five factors or determinants that have significant impact on entrepreneurs' attitude towards adopting Islamic financing, namely, awareness and knowledge, religion obligation, cost benefits, business support and reputation.

In this study, knowledge and awareness refer to the degree of consumers' awareness and knowledge about Islamic financing in terms of existence, differences with conventional financing that will influence attitude towards Islamic financing. Religion obligation construct measures the perception held towards Islamic financial providers to comply with the underlying Islamic principles, that is, *riba*-free, investment in halal business and equal distribution of wealth. Cost benefits are measured by cost of products and rate-of-return, availability of credit with favourable terms, lower service charge, lower interest charge on loan and lower monthly payment (Al-Ajmi et al. 2009). This study also measures the business support in terms of the extent of Islamic financial institutions and agencies support the business management, encourage business innovation and expansion, and improve business efficiency of the halal business (Gait and Worthington 2009), whilst for reputation, this study measures a reputation in terms of social responsibility and social objectives of Islamic financial institutions and agencies that provide Islamic financing.

Intention to adopt is referred as intention to use, which generates the actual behaviour (Ajzen 1991). Behavioural intention has described as an important mediator in the linkages between the actual behaviour and the main determinants, i.e. attitude, subjective norms and perceived behavioural control (Ajzen 2005). In this study, the intention towards adopting Islamic financing is resulted from attitude towards Islamic financing, subjective norms and perceived behavioural control. Subjective norms refer to the perceived social pressures which influence individual's behavioural intention (Ajzen 1991). In the context of Islamic finance, previous studies on individual customers show that subjective norms have direct impact to the intention to use diminishing partnership 'Musharakah Mutanaqisah' (Taib et al. 2008) and Islamic personal financing (Amin et al. 2011). Perceived behavioural control refers to the perception of ease or difficulty to perform the behaviour of interest (Ajzen 1991; Ajzen and Fishbein 1980). The perceived behavioural control in this study suggests

that entrepreneurs are likely to adopt Islamic methods of finance in business if they feel they have control over the behaviour or are prevented to adopt Islamic finance in which they have no control.

## **6.3 Research Design and Methodology**

### ***6.3.1 Instrument Design***

Guided by the existing literature and exploratory interviews with entrepreneurs, an instrument was developed to fulfil the objectives of the study. The questionnaire was divided into four sections, namely, Section A: Demographic profile and characteristics of the respondents' business, Section B: Usage of Islamic financing and awareness of Islamic finance terminologies, Section C: The Salient beliefs factors scale and Section D: the TPB constructs. The measurement scale for the salient beliefs factors in Section B covered the five exogenous latent constructs as antecedents of attitude that is knowledge and awareness, religion obligation, cost benefits, business support and reputation. They were adapted and extended with some minor refinement to suit with the context of the study. The instrument also measured the key constructs of TPB, which are attitude, subjective norms, perceived behavioural control and behavioural intention. A seven-point Likert scale (1 = strongly disagree to 7 = strongly agree) was utilized to provide wider ranges of choices for the reason of validity and reliability.

### ***6.3.2 Data Collection Method***

The data was collected at halal exhibitions specifically MIHAS (Malaysian International Halal Showcase) and HALFEST (Halal Fiesta) via interviewer-administered questionnaire. A simple random sampling using a list of exhibitors at halal exhibitions was used to achieve the sample size of 205 respondents. The sample size met the recommended sample size for CFA which is at least 200 respondents (Hair et al. 2010).

## 6.4 Results

### 6.4.1 *Demographic and Business Characteristics of Respondents*

Table 6.1 exhibits the respondents' demographic profile and business characteristics. The sample was largely represented by the male (62.4%) than female (37.6%) respondents. Majority falls under the age group of 30–49 years old (61.9%). Over 53% of the respondents had attained at least a first degree. According to SME Corp, the Micro and SMEs can be classified based on the annual sales turnover and number of staff. Based on the annual sales turn over, it is found that more than half or 53.1% of the respondents are the small-sized enterprises, where their business sales turnover is from RM250,000.00 to RM10 million, followed closely is the micro enterprises (42.4%) and medium-sized enterprises (4.4%). The number of staff has reinforced the domination of the small-sized enterprises (60%) with 5 to less than 50 employees, whilst the micro-sized business constituted 31.2%.

### 6.4.2 *Exploratory Factor Analysis*

Exploratory factor analysis (EFA) was performed to unravel the underlying structure of a larger set of variables. The goal is to find the most suitable items for each unobserved (latent) construct. In this study, EFA using principal component extraction method with varimax rotation was conducted to assess the factorial structure of the measurement scale. The first EFA was performed on 39 items. Upon inspecting the principal component analysis output, the researcher examined the factor loading to identify items to be retained or removed in the pool. Hair et al. (p. 118) posit that although factor loadings greater than 0.30 are minimally acceptable, values greater than 0.5 are considered practically significant, whilst 0.7 or higher is ideal. For newly developed items, a more suitable cut-off value 0.4 or 0.5 is considered sufficient (Nunnally 1978). The initial EFA revealed that three items were lower than the acceptable threshold of 0.5; hence, they were removed. An EFA for the remaining items was performed again. The final results of EFA for the remaining 36 items had extracted a nine-factor solution with eigenvalues greater than 1, explaining 76.06% of the total variance. The factor loadings for the 36 items were ranging from 0.62 to 0.89, above the 0.5 cut-off value (Hair et al. 2010).

The result revealed that the Kaiser-Meyer-Olkin (KMO) statistic of sampling adequacy was 0.885, which exceeded the cut-off value of 0.8, thus indicating the applicability of exploratory factor analysis. The Bartlett test of sphericity (BS) was employed to test the presence of correlations among variables, and it was statistically significant (5743.68 at  $p < 0.001$ ). The EFA results show that there is adequate level of unidimensionality as most items loaded on the expected factor with high factor loadings, which resulted in nine-factor solutions as conceptualized.

**Table 6.1** Demographic and business characteristics of respondents

Variable	Description	Frequency	Percentage (%)
Gender	Male	128	62.4
	Female	77	37.6
Educational level	Primary	4	2.0
	Secondary	43	21.0
	Certificate/Diploma	49	23.9
	Bachelor's degree	77	37.6
	Masters/Ph.D.	29	14.1
	Professional	3	1.5
Age	Below 20 years old	1	0.5
	20–29 years old	39	19.0
	30–39 years old	64	31.2
	40–49 years old	63	30.7
	50 years and above	38	18.5
Annual sales turnover	Less RM250,000	87	42.4
	RM250,000–RM500,000	40	19.5
	RM500,000–RM1 million	15	7.3
	RM1million–RM10 million	54	26.3
	RM10 million–	5	2.4
	RM25 million	4	2.0
Number of employees	Less than 5	64	31.2
	5 to less than 10 staff	68	33.2
	10 to less than 50 staff	55	26.8
	50 to less than 100 staff	13	6.3
	100 to less than 150 staff	5	2.4

### 6.4.3 Confirmatory Factor Analysis

A confirmatory factor analysis (CFA) was performed to reassure unidimensionality and fitness of the measurement model. CFA was carried out using AMOS 21 analytical programme. In AMOS 21, several indices were available to assess the fit of the underlying data and the measurement model. The most commonly used indices are chi-square, comparative fit index (CFI), Tucker-Lewis index (TLI) and root mean square error of approximation (RMSEA) (Garver and Mentzer 1999). The initial result of model fit indices revealed an inadequate fit with  $\chi^2 = 1383.89$ , degree of freedom ( $df$ ) = 666,  $\chi^2/df = 2.078$ ,  $p = 0.0001$ , TLI = 0.858, CFI = 0.872, and RMSEA = 0.073, suggesting a model fit improvement. In this study, all standardized loadings with values of below 0.5 threshold were removed (Hair et al. 2010). After deletion of the items having low factor loading, the fit indices were found unsatis-

factory; hence, the next step is to assess the modification indices (MI). MI indicates the correlation between a pair of items (Zainudin 2014), and items with high MI were eliminated. The elimination of 5 out of 39 items and modification of the measurement model had demonstrated a good model fit and unidimensionality. Table 6.2 illustrates the results of the final CFA which include the standardized factor loadings, Cronbach's Alpha, composite reliability (CR) and average variance explained (AVE). The deletion of items had improved the model fit with  $\chi^2 = 762.249$ ,  $\chi^2/df = 1.562$ ,  $df = 488$ ,  $TLI = 0.939$ ,  $CFI = 0.947$ , and  $RMSEA = 0.052$ , where all indices achieved the required level.

The path diagram shown in Fig. 6.1 exhibits the final measurement model comprising nine latent variables with corresponding multiple indicators. All standardized regression weights for the measured items were ranging from 0.53 to 0.96 with most items loaded above the threshold value of 0.7, thus providing adequate unidimensionality. Subsequently, the researcher performed construct reliability assessment, which includes Cronbach's alpha and composite reliability (CR). Table 6.2 shows that the alpha values of all constructs ranging from 0.75 to 0.93, exceeding the recommended cut-off value of 0.7 (Nunnally and Bernstein 1994), and thus indicates good reliability. The CR values were in the range of 0.74–0.94, where most constructs attained composite reliability value of above 0.80 and above the threshold of 0.7 (Hair et al. 2010; Hulland 1999). Therefore, it confirms the reliability of the measurement model. Finally, construct validity was performed to assess the extent of measured items that reflect the theoretical construct; this includes convergent validity and discriminant validity (Hair et al. 2010). Convergent validity is achieved when all items in the measurement model are statistically significant (Alegre et al. 2006). In this study, all indicators loaded significantly on their latent construct, and the critical ratio (t-value) of the items exceeded  $\pm 1.96$ , which made convergent validity evident. In addition, the average variance extracted (AVE) was ranging from 0.50 to 0.87, on par and above the suggested 0.50 threshold (Ajzen and Fishbein 1980). Discriminant validity was performed to examine the extent of construct distinct with other constructs. The most popular method to assess discriminant validity is by comparing the AVE of each construct with shared variance (squared correlations) between constructs (Fornell and Larcker 1981). In this study, the AVE of each construct was computed and found to be greater than the squared correlation between constructs as in Table 6.3, suggesting adequate evidence of discriminant validity (Farrell 2010).

## 6.5 Conclusion

The findings show that the 34-item construct is a reliable and valid measure to determine the underlying factorial structure of attitude and intention towards Islamic financing measurement scale. The EFA has unveiled nine-factor solutions based on 36 items; only three items with low factor loading were removed and supported unidimensionality. Consequently, the convergent validity and discriminant validity were upheld in the CFA model. CFA provides a more thorough and rigorous assessment

**Table 6.2** Confirmatory factor analysis

Variable	Std regression (loading)	Cronbach's Alpha	CR	AVE
<i>Knowledge and awareness</i>				
1. Existence of Islamic financing for Micro and SMEs	0.60	0.82	0.83	0.57
2. Differences between Islamic and conventional financing	0.89			
3. Basic principles applied in Islamic financing	0.91			
4. Offered to both Muslims and non-Muslims	0.53			
<i>Religion obligation</i>				
1. Follow Islamic (Shariah) principle	0.81	0.88	0.88	0.65
2. Completely interest (riba) free	0.76			
3. Fair to everyone	0.85			
4. Invest in halal business	0.80			
<i>Cost benefits</i>				
1. Profitable than conventional financing	0.81	0.87	0.85	0.59
2. Credit at favourable terms and conditions	0.88			
3. Lower service charge and monthly repayment	0.69			
4. Cost of borrowing funds lower than conventional financing	0.67			
<i>Business support</i>				
1. Encourage business expansion	0.92	0.93	0.93	0.87
2. Support business management	0.94			

(continued)

**Table 6.2** (continued)

Variable	Std regression (loading)	Cronbach's Alpha	CR	AVE
<i>Reputation</i>				
1. Promote Islamic values and way of life	0.78	0.82	0.89	0.67
2. Contribute to social welfare	0.80			
3. Not only maximizing profit, but also enhance standard of living and community welfare	0.89			
4. Promote sustainable projects	0.80			
<i>Attitude</i>				
1. Equitability	0.88	0.94	0.94	0.75
2. Fairness	0.96			
3. Flexibility	0.88			
4. Beneficial	0.82			
5. Rewarding	0.78			
<i>Subjective norms</i>				
1. Subjective norms 1	0.88	0.88	0.88	0.61
2. Subjective norms 2	0.96			
3. Subjective norms 3	0.83			
4. Subjective norms 4	0.55			
5. Subjective norms 5 <sup>a</sup>	0.59			
<i>Perceived behavioural control</i>				
1. Perceived behavioural control 3	0.65	0.75	0.74	0.50
2. Perceived behavioural control 4	0.60			
3. Perceived behavioural control 5 <sup>a</sup>	0.84			
<i>Intentions</i>				
1. Intentions 1 <sup>a</sup>	0.61	0.85	0.89	0.73
2. Intentions 2	0.96			
3. Intentions 3	0.95			

<sup>a</sup>Independent Variable

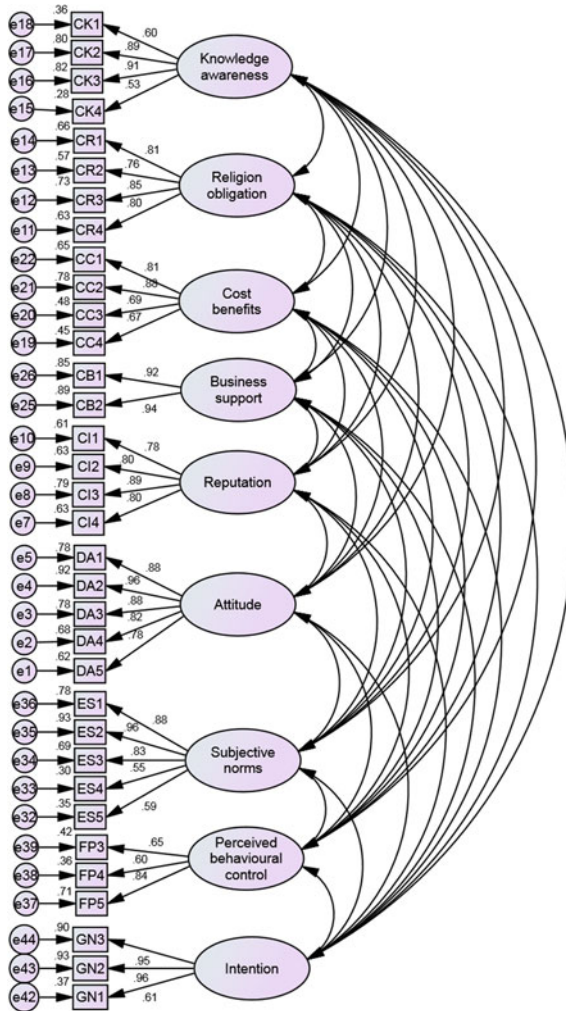


Fig. 6.1 The output path diagram for final measurement

than EFA. It suggests that five items have to be removed in order to improve the model fit. Thus, the final CFA model comprises 34 items, which has confirmed a nine-factor structure. In essence, there is strong evidence that the measurement model fulfils the psychometric properties. This study can be a useful indicator in determining the attitude and intention towards adoption of Islamic financing among the business owners, specifically the non-users of halal financing. Replication of studies can be undertaken in a different context pertaining to Islamic financing. Since this study focuses on the non-users of Islamic financing, further investigation of the actual behaviour can be conducted through longitudinal research. This potential research endeavour could



**Table 6.3** Average variance extracted estimates and shared variance of latent constructs

Constructs	INT	PBC	SN	BS	CB	KN	RO	REP	ATT
INT	<b>0.73</b>	0.41	0.40	0.01	0.21	0.08	0.12	0.12	0.20
PBC	0.64	<b>0.50</b>	0.44	0.14	0.12	0.13	0.06	0.08	0.13
SN	0.63	0.66	<b>0.61</b>	0.11	0.13	0.12	0.07	0.16	0.23
BS	0.32	0.38	0.32	<b>0.87</b>	0.31	0.02	0.25	0.42	0.30
CB	0.46	0.35	0.36	0.56	<b>0.59</b>	0.01	0.29	0.36	0.30
KN	0.28	0.36	0.34	0.13	0.09	<b>0.57</b>	0.02	0.02	0.06
RO	0.34	0.25	0.27	0.50	0.54	0.14	<b>0.65</b>	0.25	0.28
REP	0.35	0.28	0.40	0.65	0.60	0.15	0.50	<b>0.67</b>	0.31
ATT	0.45	0.36	0.48	0.55	0.55	0.24	0.53	0.55	<b>0.75</b>

Note AVE estimates are presented on the diagonal axis. Correlations are below the diagonal. Squared correlations are above the diagonal

afford valuable insights in gauging the engagement behaviour of the entrepreneurs in halal business.

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# Chapter 7

## Halal Logistics Operations in MS2400 Standards: A Literary Review



Sariwati Shariff and Noorsiah Ahmad

**Abstract** This literary paper aims to describe halal logistics operations and its relevance to the Malaysian Standards MS2400 for halalan-toyyiban assurance pipeline, or technically the halal supply chain management. Malaysia had produced the MS2400 standards in 2010 that set forth the requirements for establishing halal-toyyiban supply chain management and also for halal certification. MS2400 standards comprise of three parts: Part 1—Requirements for transportation of goods; Part 2—Warehousing and related activities, and Part 3—Retailing. Several logistics companies in Malaysia have been certified with either Part 1, or Part 2 or Part 3 of this standard by the Department of Islamic Development of Malaysia being the certification body. Henceforth, it is worthy to discuss on the halal logistics operations and its requirements to facilitate better understanding on halal supply chain with syariah compliance (halal) and technical compliance (toyyiban–wholesomeness). With in-depth understanding in the literature review, it will provide meaningful insight on how to operationalize the MS2400 requirements towards business sustainability and to support the global halal industry. In conclusion, halal logistics operations do not only apply for the logistics industry but also for all manufacturers and government agencies to support and to assure halal integrity in halal logistics operations and halal businesses.

**Keywords** Operations management · Halal operations · Halal logistics · Halal integrity · Halal supply chain management

### 7.1 Introduction

“Halal” is an Arabic word meaning permitted or allowable by the syariah laws (Islamic laws). Syariah laws refer to the Divine Intent, or a group of rules and

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ordinances of both prescriptions and prohibitions revealed in the Scripture of the Holy Quran and also amplified by the teachings of the Prophet Muhammad SAW which are termed as sunnah. Syariah are the canon laws of Islam—the commandments of ALLAH to mankind (SIRIM 2014). As for the technical definition, syariah is the totality of the Creator’s commands and prohibitions that regulates the life of every muslim in all aspects (Malaysian Standards 2010). The Malaysian Islamic laws refers to the Syafi’*e*, or Maliki, Hambali or Hanafi schools of thought, as decreed by the King of Malaysia and enforced in Wilayah Persekutuan; or decreed by the Royal Head of State of any state and enforced in that respective state (JAKIM 2012). Hence, the Quran, Hadith, Sunnah, and the Fatwa are syariah laws that govern the muslims’ faith, obligations and responsibilities to ensure that what they eat and consume come from halal sources; and what they do in businesses and in life are halal compliance (Rosly 2010).

Halal concept is not only for Muslims but also non-Muslims as it is meant for quality life and hygiene, clean and safe from impurities and contaminations (Tieman 2011). The concepts of halal have extended into global halal business and are no longer restricted to safe, halal and hygiene foods, but a complete holistic system from the origin (source), through the production processes, warehousing storage, transportation and distribution operations, and to the end users or consumers (Omar et al. 2013). Halal businesses are also not meant for the muslims and the muslims market, but also for the non-muslims across the world (Zulfakar et al. 2014).

The halalan-toyyiban concepts in the halal supply chain have captured global attention with the introduction of the MS2400 Halalan-Toyyiban Assurance Pipeline in 2010 from Malaysia. The halalan (syariah compliance) and toyyiban (quality assurance), or simply termed as the halal supply chain management is now becoming one of the core business strategies for business sustainability as the global halal trade industry is estimated RM7.4 trillion (USD2.3 trillion) each year. The Malaysian halal export for East Asia market amounted RM8.1 billion (USD2.5 billion) from the total halal national export of RM30.1 billion (USD9.29 billion) (Utusan Malaysia 2013).

In Malaysia, the halal business has expanded to seven sectors, namely: (1) abattoirs, (2) food and beverages, (3) food outlets, (4) consumer goods, (5) pharmaceuticals, (6) cosmetics and health care products, and (7) logistics (Mohd Shariff et al. 2014). Thus, the halal logistics industry is still relative new in Malaysia and to the halal global market.

The traditional supply chain management refers to the “management of the entire set of production, distribution and marketing processes by which a consumer is supplied with a desired product” (Zailani et al. 2010). However, for the past few years, business are adopting supply value chain where it is a holistic system of organizations, people, technology, activities, information and resources involved in moving a product or service from suppliers to the customers with added value at each activity (Malaysian Standards 2010). Omar et al. (2012) and Syazwan et al. (2012) defined halal supply chain (hereafter termed as HSC) encompassed from farm to fork concept that includes production, processing and packaging, storage and retailing processes based on the present supply chain management principles with inclu-

sion of halal (Islamic syariah) compliances. Hence, the concepts of halalan-toyyiban (hereafter termed as HT) assurance pipeline were introduced into the supply value chain management system with the adoption of the halalan syariah principles. HT denotes the assurance and guarantee with combined halal (syariah-Islamic) and toyyiban (technical-systemic approach) aspects integrating cleanliness, hygiene, hygiene, safety and sanitation, risks, environmental, social and other related aspects as holistic, wholesomeness, and balanced requirements (Malaysian Standards 2010).

Therefore, the Malaysian halalan-toyyiban MS2400 standards are formulated into three parts, namely: Part 1—Transportation of goods and/or cargo chain activities; Part 2—Warehousing and related activities; and Part 3—Retailing (Malaysian Standards 2010). These MS2400 standards stipulate the requirements for the establishment of the halal supply value chain management system, quote: “provides assurance that products, goods and/or cargo delivered from one custodian to another is in accordance with halalan-toyyiban requirements, thus preserving the HT integrity of the products, goods and/or cargo.” Part 1 of this standard applies to all manufacturers, receiving and distribution centers, warehouse and storage providers and retailers handling and managing halal products at all interfacing activities at receiving, loading, and delivering points. The scope of this literary paper focuses on the MS2400 Part 1: Halal transportation of goods and/or cargo activities where this in-depth literature shall describe what is halal logistics and its operations.

## 7.2 Halal Logistics

Teiman and Ghazali (2014) describe the conventional logistics handling of halal products does not provide sufficient assurance for the muslim consumers for both muslim and non-muslim countries. The main principle in halal supply chain is the segregation of halal and non-halal goods through the transportation, warehouse, and terminal operations that includes sea/air/rail/inland (Teiman and Ghazali 2014).

Halal logistics is a new phenomenon driven by the halal industry to ensure the integrity of halal products from source to the point of consumer purchase. Halal logistics is required for the movement, transportation, and delivery of halal products (Ngah and Zainuddin 2012). Jaafar et al. (2015) supplemented by stating halal logistics is the process of managing the procurement, movement, storage and handling of materials, parts livestock and (semi) finished inventory both food and non-food, and related information and documentation flows through the organization and the supply chain that comply with the syariah laws.

The main objective of halal logistics is to ensure the halal integrity of halal products for the end-consumers (Jaafar et al. 2015). Halal integrity means that the products are being sourced, produced, processed, stored, and distributed in a manner coherent with Islamic values such as high quality and safety, hygienically produced with respect for animal welfare and fairly traded (Iberahim et al. 2012). Hence, halal logistics is part of halal supply chain together with halal integrity (Bahrudin et al. 2011). Having said that, an in-depth understanding on halal logistics is important towards establishing

a halal toyyiban supply chain as specified in the MS2400 Part 1: Transportation of goods and cargo chain activities. This paper attempts to describe halal logistics operations with reference to this standard.

### 7.3 Halal Logistics Operations

Halal logistics operations refer to a set of interrelated elements consisting (1) inputs with syariah compliance, (2) processes which are halal with added values, (3) outputs or services with halalness compliances, and (4) controls deploying both syariah-technical requirements. All these four elements need to be integrated with compliances to the syariah principles. At the same time, halal integrity must be incorporated into the halal logistics operations with assurance and preventive system from any possible contaminations or any contaminants such as najis, and causing potential precursors (Zulfakar et al. 2014). Hence, the halal logistics operations system can be described as follows:

- i. Halal inputs. Inputs for halal logistics operations are categorized as the eight Ms: namely, man (workers, people), machines (equipment, machines, and appliances), materials (raw materials, inventories), methods (procedures), management (employers and staff), management information system (operating system and ICT), money (funding and financial support), and management of environment and technology (Mohd Shariff et al. 2010). For halal logistics operations, the inputs must therefore be halal and syariah compliance. The MS2400 standard, Part 1 has explicitly outline mandatory clauses as follows:

Clause 3.1—Requirements related to syariah;

Clause 3.2—Management responsibility; and

Clause 3.3—Halalan-Toyyiban system requirements

Clauses 3 specify the mandatory requirements for halal supply chain and halal logistics organizations to comply with all syariah requirements and/or syariah practices. It also outlines the management aspects in planning, leading, organizing towards the setting up of the halal logistics system.

It is the duties of the organization (manufacturers, logistics service providers, and suppliers) to (1) adhere with the provisions of halal inputs; (2) formulate documented halal policy statements and halalan-toyyiban objectives for the business; (3) provide adequate resources such as halal and syariah trainings and competencies to the workers; (4) set up halal committees and halal team leaders, (5) define jobs descriptions that fulfill the syariah requirements, and (6) provide communication processes on the effectiveness of the HT processes (Malaysian Standards 2010). To operationalize these requirements, one of the mechanisms is through developing a Halalan-Toyyiban Assurance Manual that provides a full description on the HT system deployment and its implementation of the system in fulfilling the standard requirements; and company-wide trainings to all levels of staff in the organization.

- ii. Halal processes. Apart from the manufacturing processes must be halal and halal-certified, the logistics processes too must be syariah compliances and halal adherence with added values activities for business and economic gains (Mohd Shariff et al. 2014). Halal logistics processes encompass all inbound and out-bound transportation services, inclusive of the nature and description of containers and equipment; modes of transportation; placement, stacking and storage conditions; dispatch, receiving, handling, and distribution activities with clear process flow diagrams for tracking and traceability on halal movements as specified in the standard (MS2400, 2010). Additionally, the formulation of detailed halalan-toyyiban risk management plan is part of the processes that must be carried out to identify all possible risks of contaminations in each of the logistics processes in order to substantiate the processes as halal compliances (Malaysian Standards 2010).

The halal processes are also required to be documented through written standard operating procedures (SOPs), process flows, and detailed descriptions of the tasks. These must be supported with objective evidences of records to ensure halal integrity, quality assurance, audits, and traceability purposes. The requirements for halal logistics processes are stated in

Clause 3.3 Halalan-toyyiban system requirements;

Clause 4.0 Preliminary steps to enable risk management process; and

Clause 6.0 Requirements for premise, infrastructure, facilities, and personnel.

The halalan-toyyiban (HT) processes are to described clearly and to be implemented (manage) physically right from the sources; simultaneously identifying all possible risks and contaminants in the process flows; and managing changes in the operations, packaging, and equipment that may affect the integrity of the whole halal processes; and last but not the least identifying and implementing appropriate control measures for each process. One effective way to ensure halal processes implementation is to establish a documented master list of management procedures and operating procedures for all the processes; and to conduct periodic management review or operations review meetings for monitoring purposes.

- iii. Controls for Halal. Controls for halal logistics operations (inclusive manufacturers and suppliers) need to formulated and implemented from both syariah and technical aspects as dictated in the MS2400 Part 1 requirements. The syariah-based controls are to assure halalness aspects as in the Islamic laws; while the technical controls are to assure the integrity and technicalities (toyyiban) aspects of managing the logistics processes and activities. Likewise, halal and non-halal products must be segregated to prevent contamination (Riaz and Chaudry 2004). The control mechanisms as specified in the MS2400 are stated in

Clause 3.1 Requirements related to syariah;

Clause 3.3.3. Validation for procedures of the halalan-toyyiban system requirements;

Clause 3.3.3. 4 Halalan-toyyiban risk management plan;

- Clause 3.3.4.7 Documentation system and management of records;
- Clause 4.0 Preliminary steps in doing risk management process;
- Clause 5.0 Operations of the halal-toyyiban risk management plan;
- Clause 5.3 Control of non-conformity;
- Clause 5.4 Isolation and notification;
- Clause 5.6 Traceability; and
- Clause 5.7 Control of monitoring and measuring equipment

Controls for halal are mainly aimed at risks mitigation on all possible contacts with contaminants or najis that may cause the halal products to become non-halal during the delivery, distribution, and logistics processes (Bahrudin et al. 2011). The integrity of halal food products must be protected by all means; and necessary controls must be taken by all the parties involved in the supply chain to avoid cross contamination (Zulfakar et al. 2014). To operationalise these syariah-based and business-operations controls, strategies can be deployed using the ISO9001 Quality management system and process-quality-problem solving tools and innovations approach; the MS1722 Occupational safety and health management system requirements and hazard identification, risk analysis and controls techniques (HIRAC), and applicable strategic management tools such SWOT (Strength, Weakness, Opportunities, Threats); PESTEL (Political, Economical, Social, Technological, Environmental and Legal), VCP (Value Chain Proposition), to mention a few (Malaysian Standards MS 2008; Malaysian Standards MS 1722).

iv. Halal Outputs. Supply chain and logistics businesses are mainly dealing with provision of services namely, transportation, receiving, storage, packaging, distribution and delivery services deploying manpower, transport modes and vehicles, and documentations. Since HSC and halal logistics incorporates syariah requirements, the rendering of halal outputs or services must adhere to syariah requirements. Thus, the services must be halal with integrity to ensure wholesomeness with mitigation measures on contaminations with any contaminants or najis. The halal outputs in the supply chain and logistics services are rest assured in halalness and toyyibaness when the halal inputs, halal processes, halal controls are in-placed; with objective documented evidences and demonstrated compliances through syariah-based work practices by the management and the workers in the organization. To remain competitiveness and sustainability in business, halal logistics certification is a way forward to escalate the image and trustworthiness as halal logistics organization offering halal syariah-based services (Malaysian Standards 2010).

### **7.3.1 Contaminations**

The possibility of cross contamination exists in the conventional supply chain (Tie-man and Ghazali 2014). Halal products may or can be contaminated with non-halal products, any contaminants and najis that cause the halal products to become non-halal (Zulfakar et al. 2014). Contaminants are any non-halal substances which are



detrimental either intentionally or unintentionally added which render the products as non-halal (Malaysian Standards 2010). Contamination refers to the state of being in contact, infected, adulterated by contaminants or precursors in violations of the syariah laws. Najs is one of the contaminants; it is things that are physically not clean because of their characteristics. Najs are categorized as follows in the MS2400; quoted

- i. things and animals that are themselves not permissible such as dog and pigs; and all its derivatives, blood and carrion;
- ii. things that are contaminated with things or animals that are najs;
- iii. things that come into direct contact with things or animals that are najs;
- iv. any liquid and objects discharged from the orifices of human being or animals such as urine, placenta, excrement, blood, vomit and pus; and
- v. carrion or halal animals that are not slaughtered according to syariah laws.

The probability of contamination(s) may occur at any stage along the halal supply chain processes and also during the transportation, warehousing, and retailing operations (Omar et al. 2013). The likelihood of contamination during transportation and handling, modes and means of transport, transits, bulk breaking process, and transshipments, and the logistics depends on the probability of exposure, duration and frequency of exposure to the contaminants or najs' and its severity effects onto the halal goods being carried. This is synonymous with potential hazards and risks in managing occupational safety, health, and environment aspects in a workplace (Mohd Shariff 2013). Thus, contaminations and degradation of halal products are crucial in halal logistics operations that warrant detailed halalan-toyyiban risk management plan to identify all possible risks of contaminations from the water and raw material sources; premise, workplace, air quality, environment and layouts; equipment, containers, facilities, wastes and disposal management; human health, personal hygiene and sanitary; pest control management and processes critical control points (Malaysian Standards 2010).

In the event of contaminations do occur, the logistics operations need to be prepared for remedial preventive and corrective actions to assure halal and syariah compliances. The control mechanisms are the syariah ritual cleansing procedure; and the detailed HTRMP (HT risk management plans) that addresses all possibility of contaminations and critical control points being in placed (Malaysian Standards 2010).

### ***7.3.2 Supporting Malaysian Standards***

Halal supply chain and halal logistics are to assure and demonstrate halal integrity for the halal products throughout the whole complete chain of processes from upstream to downstream; and encompassing all its subcontractors, logistics service providers, and affiliates in that chain. Additionally, halal supply chain and halal logistics are also required to adhere to other relevant syariah-based requirements imposed by the

Islamic certification bodies, Islamic rulings, and fatwas of the country. For instance, the requirements for syariah advisor, muslim committee members or executives possessing syariah knowledge and qualifications are part of the halal logistics system too. The organization is expected to support and facilitate the muslim workers towards their Islamic obligatory duties and welfare.

The certification for halal logistics operations as in MS2400—Part 1 does not confine compliance with only this particular standard (Malaysian Standards 2010). Logistics businesses deal with transportation of dry and wet, chilled and frozen food products, chemical, pharmaceutical, and cosmetic products; movements of live animals and handling of perishable products, to mention a few (Teiman and Ghazali 2014). Hence, halal logistics operations require other supporting standards, related laws and regulations, codes of practices that need to be made known and adhered to. Implementation of the MS2400 standards must at least be supported with quality management, value-based management and Islamic systems for added values in logistics service operations and business. Table 7.1 shows several related Malaysian standards and laws for the halal logistics business.

## 7.4 Summary

The Third Industrial Master Plan (IMP3: 2006–2020) outlined Malaysia towards becoming a global halal hub focusing on production and trade of halal products and services encompassing: food and non-food products, pharmaceuticals and health, medical devices, cosmetics and toiletries; and services including logistics, packaging, branding and marketing; and travel and tourism (Mohd Shariff et al. 2014). Getting halal foods certification by JAKIM or recognized international halal accreditation bodies is only a step to confirm the products are halal in the manufacturing processes itself, but these do not guarantee the products are still halal when products reach the end users or customers (Zulfakar et al. 2014; Ngah and Zainuddin 2012). In fact, it was reported only 10% of companies (multinationals) in Malaysia adopted halal supply chain in their services (Ngah and Zainuddin 2012).

HSC practices are being deployed by leading multinational logistics organizations that have the capacity, resources, experiences, and business advantage of being the main logistics players in the transport and supply chain solutions industry. Abd Latiff (2012) highlighted that presently there is no recognition awarded singularly as halal transportation, halal warehousing and halal retailing. Halalan-toyyiban (HT) certification should be awarded as recognition given for the ability of an organization to demonstrate compliance to the required halalan-toyyiban assurance pipeline system standards.

In summary, halal logistics can adopt a process and system approach; the processes and procedures shall be clearly documented as proof of a halalan-toyyiban logistics system being implemented. However, it is also a complex operation with multi-services and delivery. No doubt, deployment of the halalan-toyyiban supply chain may incur costs such as halal and syariah training and education of workers,

**Table 7.1** Applicable standards and regulations

Malaysian Standards (MS)	
MS1500:2009	Halal Food—Production, Preparation, Handling And Storage—General Guidelines (Second Revision)
MS1900: 2005	Quality Management Systems—Requirements from Islamic Perspectives
MS 2200:2008	Islamic Consumer Goods—Part 1: Cosmetic And Personal Care—General Guidelines
MS 2300:2009	Value-based Management System—Requirements from an Islamic Perspective
MS 2424: 2012	Halal Pharmaceuticals—General guidelines
MS 2400: 2010 Part 2	Halalan-Toyyiban Assurance Pipeline Part 2: Management System Requirements for Warehousing and Related Activities
MS 2400: 2010 Part: 3	Halalan-Toyyiban Assurance Pipeline Part 3: Management System Requirements for Retailing
MS ISO 9001: 2008	Quality Management System Requirements
MS ISO14001: 2004	Environmental Management System Requirements
MS 1722: 2008	Occupational Safety and Health Management System Requirements
Malaysian Laws and Regulations	
Trade Description Order (Use of Expression Halal 1975) in Trade Description Act 1972	
Manual of Malaysian Halal Certification Prosedur Pekeliling Pensijilan Halal Malaysia Bilangan Tahun 2014; 2012	
Handbook of Halal Food Additives	
Religious Edicts on Halal matters: <a href="http://www.e-fatwa.gov.my">www.e-fatwa.gov.my</a>	
e-Halal System Applicants Manual	
Majlis Agama Islam Negeri Sabah Enactment 2004	
Shariah Criminal Offences Ordinance (Sarawak) 2001)	
State Shariah Criminal Offences Enactment	
Shariah Criminal Offences (Federal Territories) Act 1997	
National Fatwa Council (Federal and States)	
Food Act, 1983; Food Regulations 1985	
Control of Drugs and Cosmetics Regulations 1984 (amended 2010)	
Abbatoir (Slaughter house) Act (Privatization) 1993, Act507	
Akta Lembaga Kemajuan Ternakan Negara (Pembubaran), 1983.	
Customs Act 1967 (Restrictions on Import, 1998)	

innovations towards halal premise and facilities, process and controls, the benefits are aplenty. It is not only for the setting up the HT assurance system itself; but the implementation of the system provides self-assurance, improved efficiency, and controls on halalness and integrity. As from the customers' perspectives on halal supply chain services, particularly the muslims, they will experience higher confidence on intentions to purchase, assured halalness of products and services and benefits. The MS2400 halal certification adds value, trust, and credibility to the supply chain business and the customers; it also serves as the catalyst for expanded halal market with more customers. Likewise, success will generate best practices among the industry

players; and the MS2400 certified logistics organization can share with other players and supply chain partners to meet these emerging global halal-toyyiban supply chain requirements.

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# Chapter 8

## Entrepreneurial Characteristics from Conventional and Islamic Perspectives: Some Insights



Sharifah Kamaliah Syed Sofian and Fung Thien Lung

**Abstract** The importance of entrepreneurship to a nation's prosperity is obvious. Among others, entrepreneurship is responsible for making goods and services available to consumers, more importantly it helps in the creation of jobs within societies. Salient to entrepreneurship is the contribution of entrepreneurs. Is there a difference between conventional and Islamic perspectives of entrepreneurs? This then is the main discussion of the paper. This paper is hybrid in nature as it combines the author's research findings with that of a conceptual attempt in understanding entrepreneurship from the Islamic perspectives. The dimensions of entrepreneurial characteristics inherent within the two perspectives are emphasised. Are they similar in nature and if they are different in what ways do they differ? A major demarcating factor that sets apart Islamic perspectives on entrepreneurship and conventional entrepreneurship is that the former is governed by the tenets of the AlQuran and Sunnah whilst the latter is embedded by the various Schools of Thoughts or approaches inherent to the understanding of contemporary entrepreneurship. This paper argues that if we are able to identify youth with entrepreneurial characteristics then steps could be taken in nurturing them in the hope of producing quality potential entrepreneurs imbued with Islamic values. The author's study conducted in 1996 shows that there were 13 entrepreneurial characteristics inherent within secondary schools students in Selangor. The characteristics were information seeking, systematic planning, efficiency orientation, persistence, concern for high-quality work, problem solving, sees and acts on opportunities, commitment to work contract, assertiveness, use of influence strategies, self-confidence, initiative and persuasion. These traits would then be examined in light of the salient traits of entrepreneurs from Islamic perspectives as conceptualised by Nazamul Hoque et al. (2013). These traits include knowledge, initiative, risk taking, customer orientation, employee involvement, strategic thinking, innovativeness, excellence, hard working, patience, vision, optimism, halal earnings, honesty and truthfulness, social welfare, morality, economic and fear of Allah. Conclusions and implications would follow suit.

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**Keywords** Entrepreneurship · Entrepreneurial · Islamic perspective on entrepreneurship

## 8.1 Introduction

This is an academic platform but I don't think I would like to be so formal as I am more comfortable with story telling, besides most of us love to listen to stories. This story telling is a revisit to an academic portion of my life waiting to be told. It was in the late 90 s when I embarked on a study to identify entrepreneurial characteristics among secondary students. Curious as to whether entrepreneurs are made or born led me to pursue the study at my master's level. Those days, people would just throw comments like so what after you have discovered that entrepreneurial characteristics exist among individuals and that the urge to investigate into characteristics would be futile as there was no standard set of characteristics that could be used across all studies what more with the diversified populations and samples. It was heart breaking a little so to say but perseverance made me persist. Coupled with the guidance received I managed to complete the study on time and was quite happy with the outcome albeit the literature review was rigorous. The various schools of thoughts governing the discipline of entrepreneurship act as a beacon giving a sense of direction through the journey thanks to Cunningham and Lischeron (1991) for addressing the various schools of thoughts embedded within entrepreneurship. I am grateful also to Carland et al. (1988) who defended on the traits approach of entrepreneurship upon reviewing psychological literature and concluded that personality has a marked influence on education, career, marriage and various aspects of life. The references are definitely outdated since the study was conducted in the 90s, however, attempts were made to update wherever deemed necessary.

## 8.2 Perspectives Governing Entrepreneurship

### 8.2.1 *The Nature of Entrepreneurship*

The **character of entrepreneurship** has been argued to be **ambiguous** (Johannison and Senneseth 1993). The ambiguity is exemplified by an array of definitions which, according to Sexton and Bowman-Upton (1991), reflected the personal preference of those making the definitions. Entrepreneurship is associated with the enhancement of skills to serve consumer (Gunderson 1990), nucleus of wealth creation leading to economic and social development (Ronstadt 1988), as a process of creative change (Rabbior 1990), identifying opportunities in the market place (Sexton and Bowman-Upton 1991), process of innovation and new venture creation (Kuratko and Hodgetts 1992), a human and creative acts of building something from practically nothing

(Timmons 1994 cited in Warsaw 1994) a process of creating something with different values (Hisrich and Peters 1995) and applying new and different ideas to an area of expertise to serve consumers' needs (Ashmore 1996).

Entrepreneurship is viewed to be a combination of **individual and group endeavours**. McCrimmon (1995) noted both individuals and teams are prominent in the entrepreneurial process, as individuals provide creative diversity whilst teams produce creative synergy. Some scholars do not agree that entrepreneurship is synonymous to starting a small business (Maranville 1992). To associate entrepreneurship to merely initiating of small business tantamounts to making the study of entrepreneurial activity limited in scope (Kent 1990). Entrepreneurship may be the result of a team in an existing organisation such as a large corporation or even within a government bureaucracy (Kent 1990).

One of the contributory factors to the ambiguous nature of entrepreneurship as evidenced by the many views on entrepreneurship lies in the **derivation of inputs it receives from many disciplines**. Bygraves (1989) acknowledged that many sciences had contributed towards the enrichment of entrepreneurship and these include mathematics in terms of numbers for measuring variables and techniques for analysing data, biology provides the population-ecology model, psychology explains individual behaviour, sociology interprets connectedness among individuals, economics concerns allocation of resources and business contributes strategy. Consequently, this posed some challenges to the researcher specifically in terms of selection of an appropriate basis for defining and understanding entrepreneurship as well as the entrepreneurial person (Cunningham and Lischeron 1991).

The word entrepreneur originated from the French verb *entreprendre*, meaning "to undertake." It was used on Frenchmen who organised and managed military and exploration expeditions during the early sixteenth century. Numerous definitions arose ever since, till date, differences regarding the term entrepreneurship have not been resolved (Jennings 1994). Entrepreneurs, according to Sexton and Bowman-Upton (1991), play leading roles in the understanding of entrepreneurship. Basically, literature on entrepreneur attempts to either describe the "man" by citing the numerous attributes associated with entrepreneurs or by enumerating features of them. The identification of the characteristics inherent among entrepreneurs in studies is justifiable (Chell and Haworth 1991; Noll 1993). In addition, the varying conceptions of the entrepreneur are also valid as in reality, entrepreneurs are different (Erickson 1993).

### ***8.2.2 Features of the Entrepreneur***

Siropolis (1994) perceived entrepreneurs to be made up of two types. The **pure entrepreneurs** that refer to men and women who create ventures from raw materials of their own ideas and hard work. The second type are those who have taken over businesses upon the death of the founders, or upon retirement of the founders, or upon sale of business. Carland and Carland (1990) differentiated between small



business owners and entrepreneurs, by noting the latter of not only having established businesses but are involved in the development and growth as well. The entrepreneur is noted by his **innovative behaviour** and will employ strategic management practices in the business. This view is also shared by Sexton and Bowman-Upton (1991) who ascribed entrepreneur with the **recognition of opportunities** in the market place, **marshalling the available resources** necessary to exploit that opportunity for long-term personal gain. Furthermore, Sexton and Bowman-Upton (1991) noted that ownership of a business does not necessarily classify a person as an entrepreneur and being employed in a firm does not preclude one from being an entrepreneur. The entrepreneurs are considered small business persons during the initial stages of the business. As the business is developed, the small business identity is shed for managerial status. As a natural progression, the manager of the ongoing business not only manages growth but is also in charge of discontinuous change. The ability to **manage change** is portrayed by a person's strategic thinking or future orientation of owners of growth firms. This view also concurred with Gunderson (1990) who expressed that an entrepreneur thrives on managing change where others find discomforting.

The entrepreneur's managerial orientation as viewed by Sexton and Bowman-Upton (1991) and Gunderson (1990) is in contradiction to that of McCrimmon (1995) **who delineated between an entrepreneur and a manager**. A manager manipulates what is; people, things and information to produce output specifiable in advance, whereas an entrepreneur tries to create what is not; by a lot of guesswork, improvisation and learning from mistakes.

Another dimension of an entrepreneur is that they **value freedom** (Harell 1994). This freedom is exemplified by the ability to be one's own man, to express an idea and transform it into a business which could lead to an empire. This view is consistent with that of Gunderson (1990) who insisted what entrepreneur really sought is independence and the opportunity to shape their own ventures. Money is not unimportant because it allows the entrepreneur freedom to operate, but an exclusive focus on financial motives might give a wrong conclusion as to what actually drives the entrepreneur.

Other views on entrepreneur include **thinking differently from other people** (Lipper 1987), **mildly sociopathic** (Winslow and Solomon 1987) and assumed the roles of **paradigm pioneers** and **architects of innovation** (Winslow and Solomon 1993).

Nevertheless, an all-encompassing **definition of an entrepreneur that seeks to capture the essence of entrepreneurship** and which is in line with the direction of this research is that view held by Kent (1990). Accordingly, the entrepreneur is an individual who deals with **uncertainty** and generates innovation. He or she has acquired, through birth, education and or experience, the decision-making skills to take advantage of his or her unique insight into new information generated in the system. The entrepreneur possesses a willingness to assume risk and work hard and has the confidence in his or her abilities to venture down new paths. The family and environment play an important role in forming the attitudes of the entrepreneur. Role models are important. **The entrepreneur emerges from the interplay of genetic**

**transferral, environmental influences, individual learning, and life's experiences to become a force for change through entrepreneurship.** (p. 38)

### ***8.2.3 Are Entrepreneurs Born or Made?***

Entrepreneurship is often plagued by the persisting issue as to whether an entrepreneur is born or made. If one is to accept the fact that an entrepreneur is born, this would imply that only those selected few endowed with entrepreneurial characteristics would make it to the business world. On the other hand, if one is to subscribe to the notion that entrepreneurs are made, this would mean that a large number of the population could be developed to be entrepreneurs.

According to Timmons (1994) **cited in** Warsaw (1994), **entrepreneurs are both born and made.** Kourilsky (1977) has shown that **entrepreneurial characteristics prevailed even among kindergarteners.** McClelland (1976) **suggested that achievement motivation is the primary characteristic of entrepreneurs** and that the origin of achievement motivation could be associated with the type of child-rearing practices that emphasises standards of excellence, maternal warmth, self-reliance training and low father dominance. On the other hand, Timmons (1985) argued that salient entrepreneurial characteristics of entrepreneurs are primarily interactive skills (social and cognitive), most of which can be learnt.

### ***8.2.4 The Traits and Management Schools of Thoughts in Entrepreneurship***

Kuratko and Hodgetts (1992) prescribed two approaches in understanding contemporary entrepreneurship. First is the School of Thoughts Approach which divides entrepreneurship into specific activities and second is the Process Approach which uses numerous methods and models to structure the entrepreneurial process and its various factors. **The School of Thoughts approach is further divided into two views namely, the macro and the micro view. One of the elements found within the micro view is the entrepreneurial traits school of thoughts.** This approach is grounded in the study of successful people who tend to exhibit similar characteristics that if copied would increase opportunities for the emulators (Kuratko and Hodgetts 1992). Aspects such as family development and educational incubation are examined within this school.

The **management school of thoughts of entrepreneurship as envisaged by Cunningham and Lischeron (1991) can be used in understanding entrepreneurs can be developed or trained in the classroom.** This school deals with the technical aspects of management. Managerial functions such as strategising, developing business plan, supervision and control can be taught. Ibrahim and Goodwin (1987) had

indicated that entrepreneurial and managerial skills are key factors associated with successful small business. Williams (1986) revealed that competence in interpersonal skills is a critical prerequisite for success in business and educational program could incorporate this concept. **Evidently, both traits theory and the management models do make good partners in generating the desirable entrepreneurial personality. Traits and skills need to coexist. For instance, a person may possess the inner drives and motivation to pursue an entrepreneurial pursuit but if he does not possess the required skills, then all the desires and hopes could not be transformed into actions. The same can be said about possessing skills without the right motivation.**

### *8.2.5 Critique of the Traits Approach by Scholars*

Chell et al. (1991) highlighted that research that sought to identify the personality attributes of entrepreneurs had experienced **severe criticisms**. The criticisms that had emerged included lack of an agreed definition amongst scholars regarding the definition of an entrepreneur as a result of which studies yielded conflicting results.

Gartner (1989) expressed his frustration at having to reject a number of manuscripts submitted to entrepreneurship theory and practice journal on the topic of entrepreneurial traits and characteristics on the grounds of fundamental flaws in the study's theory and research design. To minimise the flaws he suggested that researchers in submitting manuscript to ground their studies in the context of previous research, articulate a specific theory about the nature of entrepreneurship and its relationship to the entrepreneur, define key ideas and variables, conscientiously identify and select samples and to use current social psychology and personality theory-based measurement instruments or provide construct validity evidence for newly constructed measures.

Humam (1988) in identifying the main problems pertaining to the traits approach among other things had noted that it was questionable whether a large number of entrepreneurs can be developed once they have been identified to be possessing the desirable attributes. Second, it was not really valid to argue that entrepreneurship is entirely the function of personality, as there are other social economic factors influencing the development of entrepreneurs, third, was whether the traits have been born or have been developed at certain points of time is doubtful. The question of whether traits persist or are unstable and change by the environment and other influences needs to be considered. Another weakness of traits approach according to Humam (1988) was that the model does not recognise the individual as a social being having ideas and ambitions that evolved in a social situation. The theory does not explain the relationship between traits and the actions of entrepreneurs and finally, the great diversity of test instruments used prevents generalisations across studies. In spite of the drawbacks Humam (1988) indicated that this theory could direct attention away from the environmental-historical considerations toward internal-

motivation factors, so much so that policies could be generated to abandon certain unconstructive traditional values prevailing in a society.

Stevenson and Sahlman (1989) criticised the attempt to use conventional psychological techniques to identify and measure the personality traits of the entrepreneur. Among the arguments forwarded were, first entrepreneurial traits are not universal in nature in that successful and unsuccessful entrepreneurs do not share the same characteristics. Second, historical studies do not reveal the same character traits in earlier entrepreneurs. Third, it was noted that the life path of the entrepreneurs often shows decreasing entrepreneurship following success. On the contrary, Johnson (1990) drawing from a review of studies linking achievement motivation and entrepreneurship suggested that the study of psychological traits and motives should be continued, by precisely operationalising the variables. and that the variables are measured with valid instruments and included as one dimension in theory-driven, multidimensional research models of entrepreneurship.

Scholars differed in their **profile of entrepreneurs**. Meredith et al. (1982) argued entrepreneurs to be calculated risk-takers, deviants (Ket de vries 1977), high need in achievement (McClelland 1976), to possess internal locus of control (Brockhaus 1982). Ginsberg and Buchholtz (1989) in examining the extent to which empirical research regarding personality differences between entrepreneurs and non-entrepreneurs reflects a cumulative body of knowledge concluded that the contradictory results acquired from the studies could be a function of conceptual and methodological differences. To remedy the deficiency, researchers are requested to ground definitions of entrepreneurs, non-entrepreneurs and personality traits in a more carefully developed and clearly specified conceptual framework.

Gartner's (1988) argument on the unfruitfulness in using traits approach for research in entrepreneurship suggested for it to be replaced by the behavioural approach. This has caused a controversy among proponents of the traits approach. In response to Gartner (1988), Carland et al. (1988) staunchly justified their standpoint by reviewing psychological literature and concluded that personality has a marked influence on education, career, marriage and various aspects of life. Myers and Myers (1980) noted that even though one's personality evolves throughout one's life, nevertheless a large part of it is established during the formative years. However, it was agreed that research on entrepreneurs needs to include traits as well as the behavioural approaches (Carland et al. 1988).

### ***8.2.6 Being Entrepreneurial—What Does It Mean?***

Meredith et al. (1982) depicted entrepreneurial as the combination of personal characteristics, financial means and resources within one's environment. In addition, most people have the capacity to exhibit personal entrepreneurial characteristics, and that it is only the entrepreneurial type of person is able to take action to use these characteristics at work to achieve business success. The ability to find and evaluate opportunities, gather the necessary resources and implementation to take advan-

tage of these opportunities are some of the entrepreneurial characteristics. Another dimension of being entrepreneurial is that one is providing something of value to others. Entrepreneurial ability can be sustained by possessing a positive attitude. Evidently, an entrepreneur can be said to be endowed with an entrepreneurial personality as many of the salient characteristics like determination, persistence are inherent. Krueger and Brazeal (1994) recognised entrepreneurial as not necessarily speaking of entrepreneur per se. Implicit in this is the notion that groups particularly students possess some potentials for entrepreneurial activity.

An entrepreneurial student can be said to be possessing entrepreneurial characteristics in a restricted sense as he/she does not exercise the entrepreneurial ability within a business context (Mohd Salleh 1992). An entrepreneurial student is said to be empowered because he/she possesses skills and knowledge to do things that he wants to do confidently (Guirdham and Tyler 1992). Unleashing students' entrepreneurial characteristics will enable relevant parties in identifying various levels of these characteristics. These skills and characteristics are pertinent in preparing them for future. Traits like initiative, advanced reasoning skills, judgement, independence and most importantly, the ability to go on learning throughout their lifetime could be nurtured in schools through entrepreneurship education (Clodfelter 1990). Particularly essential to the nation is that entrepreneurial students should be coached to gradually adopt a psychology of owning jobs mentality.

Perhaps the following definition is able to capture the essence of entrepreneurship and the entrepreneur. According to Kent (1990) an entrepreneur is an individual who deals with **uncertainty** and generates innovation. He or she has acquired, through birth, education and or experience, the decision-making skills to take advantage of his or her unique insight into new information generated in the system. The entrepreneur possesses a willingness to assume risk and work hard and has the confidence in his or her abilities to venture down new paths. The family and environment play an important role in forming the attitudes of the entrepreneur. Role models are important. **The entrepreneur emerges from the interplay of genetic transferral, environmental influences, individual learning, and life's experiences to become a force for change through entrepreneurship.** (p. 38)

#### **Insight 1:**

Apparently, entrepreneurs are both born and made and this is made explicit by the literature reviewed. Some traits are inherent while some could be developed. One can be born with the entrepreneurial attributes but needs the appropriate motivation to actualise these characteristics, hence the need for an entrepreneurial personality. Taking from that, both the perspectives of Traits and Behavioural could facilitate in the understanding of the entrepreneur.

### 8.3 Islamic Perspective of Entrepreneurship

Understanding human pursuits from Islamic perspective has to be simultaneously viewed within the religion of Islam itself. As a way of life, all fabrics of human life in Islam are anchored upon the religion itself. The Divine Guidance bestowed by Allah swt aimed at facilitating life in this world and the hereafter. Allah swt, the Grand Designer of things does not leave man aimless but adequately provides the infrastructure for man to utilise in his livelihood. The Divine Guidance contains values and principles derived from the Quran and the Sunnah. Human beings play significant roles in Islam as Allah swt bestowed the status of vicegerent or Allah swt's representative in this world. The Quran reads, "Behold, thy Lord said to the angels: "I will create a vicegerent on earth." (2:30). Another role held by man includes that of a trustee, the Quran reads, "We did indeed offer the trust to the heavens, earth, and the mountains, but they refused to undertake it, being afraid there of: But man undertook it." (33:72). Salient to the philosophy in Islam pertaining to man's roles, functions and activities specifically his behaviour in society is beautifully encapsulated with the Tauhidic paradigm where Allah stipulates the man-God relationships (Habluminallah), man-man relationships (Hablunminannas), and man's relationship with other creations of God. This philosophical foundation acts a cushion that could prevent unnecessary complications and conflicts. Apparently, every creation has a unity of purpose in life and that is to serve Allah in the quest of attaining Falah or His pleasure.

Entrepreneurship is an important subset of the religion of Islam. The ummah engaging in entrepreneurship as a career has the obligation to generate prosperity for success in this world and the hereafter. As Prophet Mohamad (PBUH) stipulates that 9 out of 10 of sustenance is derived from business. A salient aspect of Islamic entrepreneurship is that it is guided by Quran and Sunnah. The crux of Islamic entrepreneurship ethics is based on the exemplary conduct of Prophet Mohammad (PBUH).

Kayed and Kabir Hassan (2011) combed through literature pertaining to Entrepreneurship and uncovered four distinct approaches and perspectives. They are individual, structural/historical, environmental and cultural and that the US leads in entrepreneurship research. The current notion of entrepreneurship includes entrepreneurial endeavours encompassing areas like academic, athletics, cultural, social and political activities.

In Islam, entrepreneurship is given a special status as it is a form of Ibadah. Specifically, it is Fardhu Kifayah or Collective obligation on the part of the Ummah. If entrepreneurs of the West focus on maximisation of profit then Islamic entrepreneur would be guided by the mission of vicegerent representing Allah swt in this world. Profits obtained by Islamic entrepreneurs have to be reasonable, or optimal, sufficient for moderate consumption and spent in the way of Allah swt by helping the needy and contributing to the ummah at large. If entrepreneurship is taken to be comprehended as a process which embraces conceiving of ideas, turning them into opportunities and transforming opportunities into wealth by way of new venture creations, then

this is compatible with Islam, as Islam opens for new ideas as well as wealth creation provided it conforms with the tenets of Islam. Opportunities pursued and resources mobilised towards the generation of wealth must conform to the concept of halal, lawful and permissible. More importantly, the ultimate goal of any human pursuits as in entrepreneurial activities is geared towards *Falah*—a state of both material and spiritual wellbeing or seeking the pleasure of Allah swt.

Gümüşay (2015) acknowledged research linking the religion of Islam and entrepreneurship is understudied. He added that Islam is an entrepreneurial religion as it encourages entrepreneurial activities such as the pursuit of opportunities, risk taking and innovation. Both the Quran and Sunnah emphasise such pursuits. In verse 77 of chapter 28, it reads “But seek the abode of the Hereafter in that which Allah has given you, and forget not your portion of the world, and be kind even as Allah has been kind to you, and seek not corruption in the earth; for Allah loves not corrupters.” The Prophet stated: “Work for your worldly life as if you were going to live forever, but work for the life to come as if you were going to die tomorrow” (considered a weak Hadith). He also enlightened through his discussion of how entrepreneurship Islamic perspective would enable us to shift our focus from merely concentrating on individual concerns to the society at large in the spirit of *ummah*’s betterment.

### **Insight 2:**

We must accept the fact that entrepreneurship research is firmly established in the West but that does not deter us from engaging into such research for the betterment of the *Ummah*. As Quran stipulates in Surah An Nahl v 43 that spells out one could learn from any man of wisdom who are qualified to have an opinion on such matter, hence Muslims should be open in terms of acquiring knowledge and skills even from non-Muslims as long as the acts do not transgress with the tenets of Islam. In the words of Ali Aslan Gümüşay (2015) ... A holistic approach to entrepreneurship research which incorporates religion may hence complement and enrich existing entrepreneurship theory and practice. The pursuit of entrepreneurship from Islamic perspective is very much intertwined with the religion of Islam as its engagement constitutes an act of *Ibadah* performed with the intention of acquiring His pleasure. In fact, in Islam, the more pious one is, the more productive and active he should be. Pious is described in the Quran as “those who believe in the unseen (which is taught by Allah), are steadfast in prayer, and spend of what we have provided for them, and who believe in the Revelation sent to you, (Muhammad), and sent before your time, and (in their hearts) have assurance of the hereafter. They are on true guidance from their Lord, and it is these who will **prosper**. (2: 3–5)

## **8.4 Entrepreneurial Characteristics from Both Perspectives**

The characteristics of Islamic entrepreneurs have been discussed by Faizal et al. (2013). Based on Quran and Sunnah, the researchers embarked on a qualitative approach by content analysis the data. The findings indicate that Islamic

entrepreneurs differ from others by way of motives and aims. The Islamic entrepreneurial characteristics include embedding taqwa as a framework, placing halal as top priority, not to engage in wastage, worshipping Allah swt is a priority, practicing high moral values, trustworthy, concern for welfare, knowledgeable, and finally caring for society and environment.

Adnan (2004) discussed an instrument designed to measure entrepreneurial inclination. This instrument was first crafted in 1985 by McClelland with McBer & Co. New York. It consists of 13 competencies obtained from a cross-cultural study administered on a group of successful entrepreneurs in Malawi, India and Ecuador. The competencies are as follows, initiative, sees and acts on opportunities, persistence, information seeking, concern for high quality of work, commitment to work contract, efficiency orientation, systematic planning, problem solving, self-confidence, assertiveness, persuasion and use of influence strategies. This instrument is said to be good at profiling potential entrepreneurs however there has yet to be studies conducted to track the quantity of the identified potential entrepreneurs becoming entrepreneurs.

Drawing from secondary materials through library research, Hoque et al. (2014) enumerated 18 entrepreneurial characteristics to be salient among Islamic entrepreneurs. They are as follows, knowledge, initiative, risk taking, customer orientation, employee involvement, strategic thinking, innovativeness, excellence, hard working, patience, vision, optimism, halal earnings, honesty and truthfulness, social welfare, morality, economic and fear of Allah swt.

### **Insight 3:**

The listing of entrepreneurial characteristics will be ongoing. Perhaps there will never be one instrument that could be administered across nations, what more with diversified populations. Each nation has its own idiosyncrasies. Hence, there should be a quest into acquiring a reliable and valid instrument that could facilitate one into answering study's research questions satisfactorily. In the attempt towards conducting research on entrepreneurial traits and characteristics, potential researchers should make an effort to comprehend and actualise the suggestions forwarded by Gartner(1989). In essence, Gartner (1989) advised would be researchers to ground their studies in the context of previous research, articulate a specific theory about the nature of entrepreneurship and its relationship to the entrepreneur, define key ideas, and variables, conscientiously identify and select samples and use current social psychology and personality theory-based measurement instruments or provide construct validity evidences for newly constructed measures. Research on entrepreneurship from the Islamic perspective is at an infancy stage but with lots of potential.



### ***8.4.1 Studies on Entrepreneurial Characteristics Among Students***

Researchers have continuously shown that entrepreneurial characteristics exist among students (Kourilsky and Walstad 2007; Sharifah Kamaliah 1996). However, studies could not determine with absolute accuracy as to the age students begin to acquire such traits. One thing for sure is that these traits, if properly nurtured could result in the identification of a large number of successful entrepreneurs.

Lipper (1987) stated that the early training of children will make the difference. Adding that thinking differently and at times acting differently from other people, are part of an accurate description of a successful entrepreneur. In addition, he suggested that a winning environment needs to be created in which children learn to win and develop the habit of feeling good about themselves.

The existence of entrepreneurial characteristics among the young was noted in studies by Kourilsky (1977, 1980, 1990, 2007). In a study conducted in 1977, it was revealed that 25% of kindergarteners possessed the attributes of an entrepreneur. Characteristics such as need for achievement, willing to take risk were identified among them but the irony was that only 3% of high school youngsters in the same study were found to have such talent. In another study conducted in 1980, Kourilsky identified 14 entrepreneurial attributes which served as predictors of entrepreneurship in which persistence was most prominent.

The importance of education in nurturing entrepreneurial characteristics among students cannot be denied. Meyer (1992) emphasised that if entrepreneurship education is to prepare students for entrepreneurial ventures then it should provide experiences that assist in the development of entrepreneurial traits. In fact, according to Roslan (1993), entrepreneurship education program should be introduced and offered to high school students in order to encourage them to start their own businesses.

Preliminary findings from a study conducted by Sharifah Kamaliah et al. (2016) indicate that final year pre-service student teachers are instilled with entrepreneurial characteristics. The entrepreneurial characteristics found inherent within student teachers are as follows (Table 8.1);

It would be interesting to uncover factors attributed to this, some of the probable factors include the curriculum they have acquired during the course of study, the school-based experience, practicum or they are born with such characteristics.

It would be interesting to uncover factors attributed to this, some of the probable factors include the curriculum they have acquired during the course of study, the school-based experience, practicum or they are born with such characteristics.

#### **Insight 4:**

An important outcome generated from the literature review above suggested entrepreneurial characteristics prevailed within the young age group, but tend to diminish as youth embark on secondary education. This entails a rethinking on the part of entrepreneurship educators. The followings issues and questions could assist the latter in determining the next course of action.

**Table 8.1** Descriptive statistics on the acquisition of entrepreneurial characteristics among final year student teachers, cohort January 2013 of Teacher Education Institute, Technical Education Campus, Negeri Sembilan

	N	Minimum	Maximum	Mean	Std. Deviation
Influence strategies	112	2.00	5.00	4.1429	0.61303
Information seeking	112	2.00	5.00	4.1399	0.49145
Systematic planning	112	2.00	5.00	4.1250	0.56971
Efficiency orientation	112	2.33	5.00	4.1071	0.54472
Self-confidence	112	2.67	5.00	4.0923	0.54288
Assertiveness	112	2.00	5.00	4.0804	0.55750
Problem solving	112	2.67	5.00	4.0208	0.53745
Persistence	112	2.00	5.00	4.0179	0.61323
Seek opportunities	112	2.00	5.00	3.9970	0.60445
Initiative	112	2.33	5.00	3.9762	0.56369
Work quality concern	112	2.33	5.00	3.9464	0.56695
Persuasion	112	1.33	5.00	3.8214	0.63266
Commitment	112	1.67	5.00	3.4851	0.63260
Valid N (listwise)	112				

Sharifah Kamaliah et al. (2016)

1. Entrepreneurial characteristics are inherent in youth even at primary school level, as such, we need to harness and nourish them by allowing the appropriate empowerment to our students. Are our students feeling good about themselves?
2. Are educators providing the right classroom environment to encourage our youth to develop such traits by providing experiences that assist in the inculcation of entrepreneurial traits?
3. Are educators democratic enough to encourage students to be more engaged in teaching and learning, specifically in terms of thinking and acting differently? As in the words of Lipper (1987)... If Constructively Creative Divergent Thinking Equals Entrepreneur...How Can We Help Create More of Them?
4. The drop in the percentage of entrepreneurial attributes among students from kindergarten level to the secondary level as in the study by Kourilsky (1977) should serve as an eye opener for educators to reflect on how education has a tremendous effect on the development of entrepreneurial attributes.
5. There needs to be a rethinking on how we instil entrepreneurial characteristics among students, the business and entrepreneurship components within the subject Design and Technology at primary school level must be revived as entrepreneurial characteristics could be instilled better by having business and entrepreneurship education as one of its components or better still, introduce the subject entrepreneurship education as one of the subjects at primary and secondary school levels.

6. Have educators monitored to what extent have we been successful in instilling entrepreneurial characteristics among students despite the numerous project-based tasks given to them?
7. Would be researchers could definitely embed future research based on the pillars inherent within Islamic perspective on entrepreneurship.

## 8.5 Conclusion

Entrepreneurship is a very exciting field. It is multidimensional and acquires input from many bodies of knowledge ranging from Mathematics to History. Weaving perspectives of Islam in entrepreneurship would definitely enhance this level of excitement. Although Islam stipulates that a substantial amount of wealth could be generated from engaging in entrepreneurship, but then can everyone participate in entrepreneurship? In the context of career development, there has to be a compatibility between the person and the career chosen, hence this necessitates in the identification of the entrepreneurial personality. Educators play a crucial role in nurturing those identified with entrepreneurial characteristics into engaging in entrepreneurship as their chosen career. Ultimately, entrepreneurship when grounded within the perspectives of Islam would not only generate wealth to the entrepreneur and the ummah at large but more importantly one attains the blessings of the Al Mighty when the pursuits are directed towards the achievements of Falah.

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# Chapter 9

## MIM: Muslim Industrialists & Manufacturers—A Platform for Muslim-to-Muslim Businesses Without the Need of Halal Certification



B. A. Asbi and M. S. A. Yajid

**Abstract** This paper outlines a new and innovative way of conducting businesses among Muslims who are in the halal industry worldwide and who are either manufacturing halal products (food, beverages, cosmetics, and medical pharmaceuticals) or are in the halal food service industry (fast food, fine dining restaurants, and mass catering) or providing shariah-compliant services (finance, education and training, health, tourism, legal counsel, logistics, fashion and lifestyle, media and entertainment, etc). This innovation was first introduced by the first author in MIHAS 2014. For many decades beginning with Malaysia's successful JAKIM halal certification program introduced in 1990s, businesses that involve halal products and services have been regulated and controlled by the halal certification and auditing system established by respective government or local Muslim Association authorities and this practice is well accepted by Muslims and non-Muslims in countries that have either majority or minority Muslim population. In recent years many Muslim countries such as UAE, Pakistan, and Indonesia are slowly introducing their own halal logos of which halal certification has to be legally applied by manufacturers who want to export halal products or services to these countries. The resulting global scenario with different halal certification logos and systems is not a financial encouragement to the manufacturing sector who will no doubt need to spend more on different legal halal certification requirements in different countries. Furthermore, the many halal logos by different countries will only add to the confusion for Muslim consumers worldwide. To address this forthcoming problem, an association of Muslim professionals and businessmen in the above industry is formalized using the acronym MIM which stands for Muslim Industrialists & Manufacturers and the members of this organization are given formal recognition as the legal owners of businesses who are Muslims by faith. We believe that Muslim business owners who are recognized under such an association may conduct business transactions to other businesses and consumers and customers who desire halal products or shariah-compliant services

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from these Muslims without the need of halal certification based on the fact that the business owners are of the Muslim faith.

**Keywords** Component · Global halal industry · Muslim-to-Muslim businesses

## 9.1 Introduction

The global halal market is huge. At USD2.3 trillion worth of value (State of the Global Islamic Economy Report 2014), it is one of the largest market segments of trade and businesses in the world. This is made possible because of the 1.6 billion Muslims around the world (<http://www.pewforum.org/2012/12/18/global-religious-landscape-muslim/>) who need to consume halal products such as food (manufactured or served), cosmetics, pharmaceuticals and to employ shariah-compliant services such as finance, Islamic banking, Islamic insurance, health, education and training, tourism, legal counsel, logistics, fashion and lifestyle, media and entertainment, etc. The reason for Muslims wanting these halal products and services is because of the faith in the religion of Islam as a way of life.

This huge global halal market is projected to grow to USD3.9 trillion by the year 2019 (State of the Global Islamic Economy Report 2014). This is because the world's Muslim population is expected to increase by about 35% in the next 20 years, rising from 1.6 billion in 2010 to 2.2 billion by 2030 (<http://www.pewforum.org/2012/12/18/global-religious-landscape-muslim/>) and these young Muslim consumers who will be better informed and more technology-biased shall be looking for products and services that are not only halal or shariah-compliant but also of high quality.

## 9.2 Halal Markets

The Global Halal Market (State of the Global Islamic Economy Report 2014) can be further categorized into food, fashion and lifestyle, tourism, media and entertainment, cosmetics and pharmaceutical industries. The halal food market valued at USD1.3 trillion is by far the largest component registering 17.7% of global expenditures in 2013 followed by fashion and lifestyle market valued at USD266 billion, media and entertainment at USD185 billion, tourism at USD140 billion, and cosmetics and pharmaceuticals at USD72 billion.

The top five countries for the global halal markets of food, fashion and lifestyle, tourism, media and entertainment, cosmetics and pharmaceuticals combined based on 2013 data are Turkey (USD251 billion) followed by Indonesia (USD 211 billion), Iran (USD141 billion), Pakistan (USD 108 billion) and UAE (USD 38 billion) (State of the Global Islamic Economy Report 2014).

The regional halal market of the 10 ASEAN countries which formally begins as a single economic community of 600 million people in 2015 is valued at USD1.3 trillion (<http://www.tradeandexportme.com/2014/02/a-landscape-of-malysias-halal-industry/>) and this will make it approximately 60% of the global halal market. And Malaysia alone has captured 30% of this ASEAN halal market (<http://www.mb.com.ph/ph-eyes-to-capture-30-of-1-4-b-asean-halal-market-by-2016>).

With only 5% of its population being Muslims, Thailand is the sixth largest halal food exporter in the world. The domestic halal food market in Thailand grows around 20 percent a year. Almost a third of the 30,000 food factories in Thailand are involved in halal food production (<http://www.worldoffoodasia.com/index.php?q=halal>). Worldwide top countries that are major exporters of halal products are Brazil, US, India and China which are also non-Muslim nations.

As the global halal market grows in leaps and bounds, the halal industry will face the same challenges just like any other industry in areas such as standardization and compliance, certification, ingredient and raw material supply, global positioning and branding, logistics and supply-chain integrity, human-capital development, consumer awareness and education, and lean industrial management.

## 9.3 Halal Certification

### 9.3.1 *Malaysia*

Malaysia leads the world in establishing a systematic and regulatory system for certifying companies that claim to manufacture products that are labeled as halal with the introduction of the JAKIM halal logo as early as in 1994 which is now a label that is not only well accepted by consumers but also is one that is instantly recognized internationally.

JAKIM is also planning to open its own analytical lab in late 2015 for halal testing of food and all other non-food products which will make it a one-stop center in Malaysia for certification and auditing and testing as well as research.

In addition to JAKIM, there are also other government centers that are involved in halal R&D activities such as UPM's Halal Products Research Institute, UIA's International Institute for Halal Research & Training (INHART), USIM's Institute for Halal Research & Management (IHRAM) and UITM's Halal Management Science.

Recently, an independent private lab TPM Biotech has been accredited by JAKIM which can run commercially produced samples for halal testing which is an addition to the existing government-run Chemistry Department laboratory (<http://www.worldhalalsummit.com/malaysia-jakim-appoints-tpm-biotech-as-halal-panel-laboratory/>).



### 9.3.2 *Other Countries*

Thailand has its own Halal Science Center in Chulalongkorn University which operates the halal testing activities in addition to research and development work while certification is conducted by the Central Islamic Committee of Thailand.

Last year Indonesia has passed a new halal labeling law which will be enacted fully by 2019 for all producers of food that are declared halal will be required to have halal certificates. In addition to food and beverages, the law will affect most consumable products such as medicines, cosmetics, chemicals, and biological products. Under this new law, MUI (Ulama Council of Indonesia) will no longer be responsible for halal certification which will now be under a new organization to be called BPJPH (Halal Product Guarantee Agency).

In the Philippines, there are 18 certifying halal agencies in the country but only nine are members of the Federation of Halal in the Philippines which are deemed the more credible halal suppliers (<http://www.worldhalalsummit.com/malaysia-jakim-appoints-tpm-biotech-as-halal-panel-laboratory/>).

Despite being a country with a relatively large Muslim population, Pakistan has no governmental certification body. In March 2015, the International Centre for Chemical and Biological Sciences (ICCBS), University of Karachi set up a special laboratory at its Industrial Analytical Centre, dedicated to the testing of Halal products (food, cosmetics, and pharmaceuticals). The ICCBS also aims to provide future leaders in the Halal industry arena as well as the required well-trained human capital to cater the needs of the Halal industry in the research, development, innovation and commercialization of Halal food, pharmaceuticals and consumer products as well as various shariah-compliant service industries like tourism and hospitality (<http://www.dailytimes.com.pk/sindh/09-Mar-2015/iccbs-ku-sets-up-halal-testing-laboratory>).

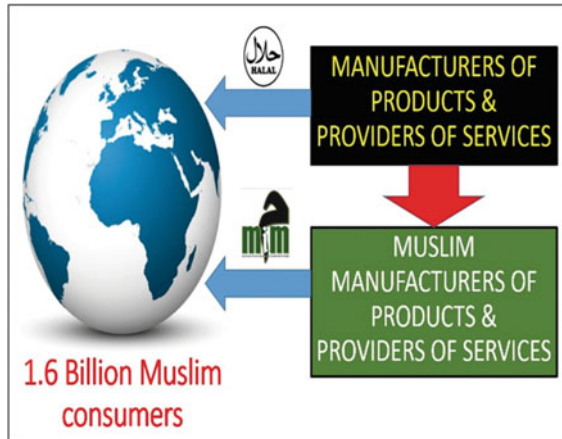
### 9.3.3 *Muslim-to-Muslim Businesses*

In October 2014, we decided to set up an association of professionals who are involved directly with the manufacturing of products (food and non-food) or with the provision of services (finance, health, education and training, legal counsel, etc) that represent a wide diversity of business activities but in which the only common characteristic is that the business owners are all of the Islamic faith (Fig. 9.1).

The association is registered as Muslim Industrialists & Manufacturers or MIM for short. The acronym is so chosen because by design MIM also stands for the Arabic alphabet “mim” which stands for Muslims in Arabic which is the language of the Quran.

The basic idea of this new way to conduct business is as follows:

- Business owners are Muslims by faith
- These business owners sell products or services to Muslim consumers who formally recognize the former as Muslims



**Fig. 9.1** The Muslims-to-Muslims Business Transaction via MIM

- The formal recognition is done by virtue that the Muslim business owners are members of MIM
- The question of halal or shariah-compliance does not arise because this is a strictly Muslim-to-Muslim business transaction
- In this innovative model of Muslims-to-Muslims businesses, there is no need for the halal certification of products or services.

In this manner, a new model is hopefully envisioned for years to come in which Muslim business owners can conduct businesses to other Muslim businesses or consumers irrespective of what types of products are produced or what types of services are provided. This will eliminate the need for business owners to apply for halal logos which are currently different for different countries which will result in millions in savings. This will also eliminate the confusion among Muslim consumers arising from the different halal logos from different countries.

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# Chapter 10

## Marketing Mix of Thai Halal Food Products Instant in Indonesia



Nurme Hasa, Pakorn Limyothin, Wiwat Jankingthong  
and Chutima Wangbenmad

**Abstract** The purpose of this research was to study the importance of marketing mix of Thai instant food for Indonesia customer's decision to purchase by collecting data from Muslim consumers in Jakarta Indonesia from 18 years old and above. The total of respondents was 400. The findings are as follows. The importance of marketing mix factors influenced the consumer for the decision to purchase. For product the mix factors were, (1) Food safety standard (2) More flavors to choose (3) Modern and new packaging ideas (4) More benefits to offer (5) taste (6) Clearly identify food ingredients and Halal Logo (7) Famous brand and (8) A new taste updated. For price the mix factors were, (1) Various price of each product (2) Reasonable price compare with nutritive value (3) Reasonable price compare with competitors (4) Reasonable price for the customer by respectively. For place the mix factors were (1) Near home/office (2) Accessible to customer (3) Product placement could easily buy and (4) Decoration that can attract customers. For promotion the mix factors were (1) Exhibitions on halal Thai foods (2) Using social media/online advertising (3) Using TV and radio media for advertising (4) Provide sample tastes of product (5) Personal selling at point of purchase and (6) Sales promotion respectively.

**Keywords** Product mix · Price mix · Place mix and promotion mix · Muslim consumers · Indonesia

### 10.1 Introduction

The word “Halal” is an Arabic word that its meaning in general is “permissible” which in opposite of “Haram” as it means “forbidden”. Halal food product means the food that does not contain any forbidden mixture and material, or it is not contrary to Islamic principles and laws, or it is called “Haram food/material”. The forbidden food for Muslims are pork, alcohol, dead animal, and corpse including food processing and methods that is contrary to Islamic principles and laws such as the animal that is not

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killed and it is killed in the incorrect way according to Islamic laws. In addition, the forbidden mixed foods such as pig as from its bone, blood, fat, skin and entrails which has the detail of it because at present, gelatin is produced from pig's skin to be mixed of odor and ingredient of ice cream, yogurt, jelly, capsule, medicine, cosmetics, and sausage. If those products are not guaranteed by Islamic organization, it means those are forbidden (Department of trade promotion, Jakarta, Indonesia 2011).

At present, the population in the world is approximately 6000 million, and the estimated people who believe in islam is 1500–1800 million or a quarter of population in the world. It makes Halal food play more important roles for Thailand exports. Meanwhile, the biggest Halal market is in Asia with the value of 657 Billion US dollars. For halal business, it is covering all businesses, ranging from fresh food. Food, frozen foods, cosmetics, pharmaceuticals, spices, herbs, logistics, with a value up to 2.8 billion dollars, and increasing not less than 10% every year (Aree and team 2013, p. 1).

As Muslims are a quarter of the world population, in 2006 Thai Instant Halal Food Products has been certified halal standard for 1433 cases of certified food from the Central Islamic Committee of Thailand, with more than 10,000 types. So, it makes Thailand a great source of producing Halal food in the world. In 2011 and 2012, the value of exporting Halal products were 19,780 and 22,563 million bath which expanded during a period of 2 years (the year 2011–2012) with value. Thailand's Halal export has expanded continuously, which is expanding at a rate of 14.07% compared to the same period in the year 2012 (Manager online 2012). For Thai, Instant Halal Food Products that will be available in Indonesia, need to be certified halal logo issued by Indonesia only to ensure that the products labeled Halal according to religious practices. In the last 1–2 years, Thailand's exporters faced many problems in exporting halal food products to Indonesia.

The main reasons are: (1) Indonesia did not accept and believe the Halal certificate from some of organizations in Thailand that Thailand is a Buddhist country and the majority of the people are Buddhist. (2) Thai Instant Halal Food Products that are sold in Indonesia are not yet well known and accepted by consumers too. It decreased the Thai Instant Halal Food compared to the halal food products imported from Muslim countries. And (3) the marketing of Thai Instant Halal Food Products is not accessible and responded by customers fully and extensively (Export-Import Bank of Thailand, 2008 cited in Aree and team 2013). Therefore, the entrepreneurs of Thai Instant Halal Food Products are required to define the right marketing mix strategy in order to respond the needs of target group because the marketing mix is the key strategies for creating awareness, recognition, and confidence in the products.

From the information above, the researcher was interested in studying the marketing mix of halal food products in Indonesia which would be more useful in the development of business and supporting Thailand halal food business more effectively. Halal food Business can bring this research results into useful improvement, and they can define the strategic marketing mixed of Thai Instant Halal Food Products in response appropriately to the target group and researchers and academics at

can bring research results to continue on doing research or writing performance of the marketing mix of Thailand's halal food products in Indonesia.

## **10.2 Review of Literature**

Researcher offered concept, research theory including documentation, and related research on the marketing of Thai Instant Halal Food Products in Indonesia by studying from academic papers and related researches below.

## **10.3 Concept of Halal Food**

Bunjong Binkasun (2004) said "Halal is a food language. The meaning of "Halal" in general is "permissible". When applied to religious, it means "approved by religion", that means. Muslims well approve or consent to consume according to the law of Islam. By the word "Halal" the opposite is "Haram", which means "disapproved or forbidden." According to General Linguistics for the religious meaning, "Haram" is "What Muslims are not approved or not given to consume as stated by commandments of Islam.

## **10.4 Global Halal Market Conditions**

Global Halal food market is likely to grow steadily throughout the Muslim world as consumers of Halal food. As the Muslim population is growing continuously, it also makes Halal product market grow along with it. Additionally, the Halal market also covers non-Muslim countries, but they have a lot of Muslims such as China and India. These are the important potential market to export halal food as well, and the global Muslim market will have confidence on Halal standard of developed countries more than developing or underdeveloped countries.

Surely, the confidence will affect the export of halal food in various countries, and Thailand is a manufacturer and exporter of agricultural products. However, the export of Thailand's halal food also was quite small when compared to the total export value of Thai food, including Halal certification in Thailand that lacks confidence because of being a Buddhist country as the majority of people are Buddhist.

## 10.5 Concept and Theory of Marketing Mix

Kotler and Armstrong (2003) said “marketing mix is a marketing tool that can be controlled in mixing tools to respond the needs and satisfaction of target customers. Marketing mix consists of everything a business needs to convince influential products of the Company as 4 Ps: Product, Price, Place and Promotion.”

## 10.6 Research Methodology

This research intends to investigate the importance of the marketing mix of Thai Instant Halal Food Products in Indonesia. Descriptive statistics was used to analyze. This research aimed to study the personal factors effect on marketing mix of Thai Instant Halal Food Products in Indonesia as it is a survey research as follows:

## 10.7 Population and Samples

In this study, the study population is Muslim consumer group that are 18 years or above who used to consume Thai Instant Halal Food Products and lived in Jakarta, Indonesia by calculating on the sample group in case of unknown population and a large population by expecting the mistake will not be exceeded 5% with the confidence of 95% by using W.G. Cochran’s formula. The sample in this research study is Accidental Sampling with every qualified one who used to buy Thai Instant Halal Food Products, in accordance with the characteristics of the population to the number of studying.

## 10.8 Research Tools

The tools in this research are queries based on objective research and conceptual framework by the study of documents and related researches in the various forms of questions in sequential systems to evaluate what the researcher wants with the questions guide to the questionnaires used in research. It is divided into two parts as follows:

Part 1: Personal factors of the respondents.

Part 2: The importance of the marketing mix effect on purchasing of Thailand halal food products in Indonesia with five-level measurements as follows:

Significance level	Score(s)
The most important	5
Very important	4
Moderately important	3
Less important	2
The least important	1

The interpretation of each opinion relies on evaluation score as follows:

Scores	Interpretation
4.21–5.00	The most important
3.41–4.20	Very important
2.61–3.40	Moderately important
1.81–2.60	Less important
1.00–1.80	The least important

### 10.9 Validity and Reliability

The researcher examined the quality precision tools and confidence with the process of

1. Content Validity: The researcher took the completed and improved questionnaires approved by dissertation advisors then presented to three experts considering about Face Validity of the questionnaires with the coverage of the questions compared to the research objectives. As well as the definition of the variables measuring, the appropriateness of the wording and number of questions, the consistency of the question and answer format including all three experts provided the scores and feedback on how to improve it with the evaluation criteria defined numeric values are as following:

+1 means that the questions are consistent with the objective.

0 means not sure or ambiguous questions.

–1 means that the questions are not consistent with the objective.

Then bring the scores of all three experts to find Index of Item Objective Congruence: IOC by using the criteria to consider questions that have a consistency index ranging from 0.50 up with the formula as follows:

$$IOC = \frac{\sum R}{N}$$



IOC means Index of Item Objective Congruence

$\Sigma R$  means the sum of experts' opinion scores

$N$  means the numbers of experts.

The results of considered that the experts appeared that all questions were consistent with index values ranging from 0.50 up, and the researcher has updated the text more correctly and completely from receiving experts' advice.

Reliability is operated by "Try Out" updated with Muslims consumer group age 18 years or above who used to consume Thai Instant Halal Food Products and live in Jakarta, the capital of the Republic of Indonesia. Perri and Bellamy (2012) mentioned the minimum number of samples to monitor quality assurance that there would be at least 30 samples or more, using Alpha Coefficient following the method of Cronbach (1990) which value the confidence from 0.41–0.70, which means questionnaires have moderate confidence level, but if the value confidence from 0.71–1.00, it means the questionnaires have high confidence level. For this questionnaire, the confident value is 0.79–0.89.

## 10.10 Data Collection

Scope of places in the distribution query tools are to gather information. Questionnaires and training were provided to collect information helpers to know about the objectives, randomization methods, and knowledge about Thai Instant Halal Food Products by asking "Are you a Muslim?", "Have you ever consumed Thai Instant Halal Food Products?", and if they are the target group, they will be submitted to answer the questionnaires.

## 10.11 Analysis and Statistic Data

The data collected from samples was analyzed by computer program, and the statistics in data analysis are descriptive.

## 10.12 Research Result

Data from 400 respondents was edited, processed, and analyzed. Tables 10.1, 10.2, 10.3, and 10.4 show the importance of marketing mix that influenced consumer for decision to purchase. Most respondents were female accounted for 60.3%, age was in the range between 18 and 23 years old accounted for 27.6%, the education level was in Bachelor's degree accounted for 59.8%, occupations were students accounted for 30.7% and income average monthly in 1000–1500 RM accounted for 28.1%

**Table 10.1** The frequency and percentage of personal information

Characteristics		Frequency	Percentage %
Gender	Male	158	39.7
	Female	240	60.3
Age	18–23	110	27.6
	24–29	95	23.9
	30–35	77	19.3
	36–41	42	10.6
	42–47	32	8.0
	Over 47	42	10.6
Education level	Lower school	72	18.1
	Diploma	65	16.3
	Bachelor	238	59.8
	Postgraduate	23	5.8
Occupation	Students	122	30.7
	Private employee	96	24.1
	Maid/Steward	55	13.8
	Private business	49	12.3
	Government employees	34	8.5
	Other	42	10.6
Income average monthly	Lower 1000 RM	82	20.6
	1000–1500 RM	112	28.1
	1501–2000 RM	72	18.1
	2001–3000 RM	38	9.6
	2501–3000 RM	30	7.5
	Over 3000 RM	14	3.5
	No income	50	12.6
Total		398	100

In Table 10.2, the product mix was determined, the result showed that all product mixes were very important, however the food safety standard was the most important influence for Muslim Indonesia consumers decision to buy Thai Halal Food Products Instant.

In Table 10.3, the price mix was determined, the result showed that various prices of each product was the very important influence for Muslim Indonesia consumers decision to buy Thai Halal Food Products Instant.

In Table 10.4, the place mix was determined, the result showed Accessible to customer and near home/office were the very important influence Muslim Indonesia consumers decision to buy Thai Halal Food Products Instant.

**Table 10.2** The importance of product mix influence on the decision to purchase

Product mix	$\bar{x}$	S.D.	Total
Food safety standard	3.74	0.685	Very important
More flavors to choose	3.65	0.780	Very important
Modern and new packaging ideas	3.47	0.828	Very important
More benefits to offer	3.47	0.881	Very important
A new taste	3.38	0.885	Very important
Clearly identify food ingredients and Halal Logo	3.42	0.936	Very important
Taste	3.44	0.979	Very important
Famous brand	3.41	1.000	Very important
Total	3.50	0.46	Very important

**Table 10.3** The importance of price mix influence on the decision to purchase

Price mix	$\bar{x}$	S.D.	Total
Various price of each product	3.43	0.879	Very important
Reasonable price compare with nutritive value	3.30	0.875	Moderately important
Reasonable price compare with competitors	3.29	0.965	Moderately important
Reasonable price to the customer	3.21	0.980	Moderately important
Total	3.30	0.41	Moderately important

**Table 10.4** The importance of place mix influence on the decision to purchase

Place mix	$\bar{x}$	S.D.	Total
Accessible to customer	3.41	0.796	Very important
Near home/office	3.50	0.912	Very important
The decorating was beautiful	3.36	0.907	Moderately important
Product placement could easily buy	3.39	0.920	Moderately important
Total	3.41	0.58	Very important

Finally, in Table 10.5, the promotion mix was determined, the result showed Exhibitions on halal Thai foods and near using social media/online advertising were the very important influence Muslim Indonesia consumers decision to buy Thai Halal Food Products Instant.

**Table 10.5** The importance of promotion mix influence on the decision to purchase

Promotion mix	$\bar{x}$	S.D.	Total
Using TV and Radio media for advertising	3.23	0.936	Moderately important
Using social media/online advertising	3.40	0.918	Moderately important
Personal selling at point of purchase	3.16	0.945	Moderately important
Exhibitions on halal Thai foods	3.42	0.858	Moderately important
Provide sample tastes of product	2.18	1.104	Less important
Total	3.41	0.58	Moderately important

### 10.13 Discussion

By getting the result of this research which product and place are the most importance influences on customer buying decision of Thai Halal Food Products Instant. The results are consistent with findings in studies of food-buying behavior in Vietnam (Nguyen et al. 2015) that show each marketing mix elements has a significantly positive effect on the purchase of frozen food as well as the standardized regression coefficients revealed that product ( $\beta = 0.313$ ), and place ( $\beta = 0.258$ ) was the most influential variable that accounted for the variation in buying behavior. The result also supported with the analysis of product, price, place, promotion, and service quality on customers' buying decision of convenience store: a survey of young adult in Bekasi, West Java, Indonesia, which found product, (convenience store offer high quality products) and place (convenience stores are easy to find) were the most affecting influence on customer buying decision of Convenience Store: A Survey of Young Adult in Bekasi, West Java, Indonesia (Andreti et al. 2013).

### 10.14 Marketing Implication

This study suggests that Thailand exporter with a specific focus on the three most influential factors of product and place because it influences Indonesia Muslim consumers to buy Thai Halal Food Products Instant. Key marketing implications are presented as follows.

Product mix factors were food safety standard, more flavors to choose, modern and new packaging ideas and more benefits can eat every day and place mix was Convenience Near home/office.

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# Chapter 11

## Towards Devising Islamic Advertising Theory



Kalthom Abdullah, Ahasanul Haque, Faruk Ahmed and Ali Shafiq

**Abstract** Advertising plays a significant role on socioeconomic fronts. It not only lubricates the economic traffic, but also raises the standard of living by offering newer and better products. But at the same time advertising is not without criticism. Critics say advertising is the cause of many socio-economic evils. Polluting the moral and cultural values, encouraging overspending and materialism, and general dissatisfaction with products while offering little added value are some of its common criticisms. With the rise in unethical practices in contemporary advertising without any hope of improvement, the practitioners and consumers are searching for ‘sustainable’ alternatives. Islamic advertising offers a solution—theoretically so far. There are general guidelines in the Holy *Quran* and the *Sunnah* regarding how an Islamic mode of advertising should be. The Islamic scholars have done a commendable job of extracting specific guidelines from them, yet a comprehensive theory for Islamic advertising is to be formed. Previous research has mainly focused on conventional advertising with only a glimpse on theory of advertising. This research’s aim is to seek a prevalent gap and strive to develop a comprehensive theory of Islamic advertising.

**Keywords** Contemporary advertising · Islamic advertising · Advertising theory · Islamic advertising theory · Ethical advertising · Ethics in Islam

### 11.1 Introduction

Contemporary advertising has become the art of deception, it targets the emotions rather than reason, exaggerates claims, makes people spend unnecessarily, promotes materialism, fans sexism and vulgarity, makes promises that are often undelivered, insults certain groups, and many more on social and economic front. This is found

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by researchers over a period spanning almost a century. The same findings are equivalently shared by scholars of West and the East, non-Muslims and Muslims.

The non-Muslim scholars have tried to find solution to such practices in the form of ethics in advertising. Several famous theories were developed and applied in advertising context too. But ethics, which by nature lack enforcement, just could not prove enough and consequently, ethical advertising remains an oxymoron.

The recent wake of events has given a new dimension to explore. Scholars are actively looking for answers to life's typical problems in the pages of Islamic religion. Islamic banking, Islamic finance, Islamic economics, are just a few. Islamic management, Islamic tourism, Islamic hospitality, are the newcomers.

Islamic advertising is also surfacing lately and it is within this concept that this effort will focus on. Islam claims to have solutions for all problems of life. It is only a matter of time when such answers are revealed. Perhaps it is a high time to reveal the solutions in Islam regarding contemporary advertising.

It sounds an exciting idea if an attempt is made to extract any guidance related to advertising and promotion from the Islamic Holy scriptures, and moulded into a theory. Such a theory would stand tall against the contemporary ill-practices of advertising and would completely revolutionize the advertising industry.

From the past literature on advertising ethics, some issues have been of concern due to the irrational effect of it on human and social norms, and purchase behavior from the economic and psychological perspectives. Deception from hiding harmful things, misleading for wrong information, hiking price, exaggerating offer, and erotic appeal, all are commonly observable in commercials as the part of advertising functions in recent days clearly indicate unethical advertising practiced from a productive system. It is surprising that there was no ethical development research of this industry in the previous scholarly work, and for this reason, society being affected by unethical advertising seems to be hopeless. Islamic advertising, a perfect concept that derives from Shariah codes, can be researched and practiced to ensure highest ethical value in advertising activities, while contemporary advertising moves with increasingly contradictory, unethical issues, not with minimizing contradiction like what Islamic advertising can do. Furthermore, Shariah codes are clearer for human activity than any other principles or codes in human history, and exception will not be made in search of Islamic advertising and its highest value.

- Can Islamic advertising theory, derived from Islamic Holy scriptures, answer the unethical practices prevalent in contemporary advertising?
- What are the underlying principles of Islamic advertising?
- Can such a theory be practical enough to work in contemporary world?

## 11.2 Theoretical Framework

### *Arousal*

Though arousal was studied very little, it is explored that it is important as found in the two comprehensive models of consumer behavior and in the area of consumer novelty seeking behavior. Arousal is the degree of tension in the body which is a physiological state which gives rise to attention and search in the consumer decision-making process. In the context of Islamic stimuli, arousal caused by such stimuli can be thought to relate directly to attention toward the particular advertisement and may be mediated by the consumers' innate motivational state. Psychological and perhaps physiological tension produced by the disequilibrium may then cause increased cognitive activity directed towards the ad and/or the advertised product. This enhanced level of information processing then will interact with the consumer's stable value system to produce an affective evaluation of the ad and, consequently, the product being advertised. The overall product image can thus be affected by the interaction of the type of stimulus object (and the context in which the stimulus is presented) with the structure of values and beliefs held by the receiver of the advertising message.

### *Selective Perception*

Selective perception may be used to understand the effects of advertising stimuli. It is a complex process by which consumers select, organize, and interpret sensory stimulation (Berelson and Steiner 1967, p. 141). Selective perception can be used as the theoretical basis for studying Islamic ads. Research results in the area of absolute thresholds, differential thresholds, and sensory projection of ambiguous stimuli may provide important clues as to how consumers ultimately interpret and evaluate advertisements using Islamic themes. The absolute threshold marks the lower limit of sensory stimulation. In the Islamic advertising, product message should fall above the absolute perceptual threshold before the Islamic theme are understood by audience. The differential threshold is the minimum difference between two or more stimuli. It can cause a change in discrimination between conventional ads and Islamic ads to produce a "just noticeable difference" (or j.n.d.).



### *Self-Concept*

Self-concept (or self-image) theory may also make a contribution. There are some theoretical and empirical work in self-concept. According to the theory, Islamic ads with both actual and ideal self-concept can influence audience. An Islamic male's self-concept impacts male audience and an Islamic female's self-concept impacts female audience.

### *Emotion Theory*

The emotion plays a role in the faith aspects. Emotion theories commonly suggest that emotions enforce coherence across multiple response systems and the empirical support for this coherence among emotion experience, behavior, and physiology is surprisingly limited (Mauss et al. 2005). The belief in God depends on how far the teachings in these beliefs are able to fulfill his emotional needs. Effect of religious belief consists of three aspects: the effect on the psychology or affective, the effect on man's cognitive, and the effect on man's psychomotor. Two important factors: "tranquillity" and "balanced soul" are found in the religious belief and the effect on the psychology or affective. Religion and the tranquility of the soul share a very close relationship. The belief in religion provides the tranquility of the soul to human being. Muslim audience can strengthen their beliefs from Islamic product message, and raise increased emotion to purchase the products promoted based on Islamic advertising theory.

### *Relational Theory of Personality*

Relational theory is likely to be most important recent development in psychoanalysis (Aron 1995; Mitchell 1988, 1995, 2014), which was derived of both object relations theory within psychoanalysis and interpersonal theory of Harry Stack Sullivan (1953). The theory downplays the importance of wishes and plays important role in social interaction, which helps develop a person's personality. In Islamic perspective, the theory help develops a standard personality of audience through the learning of product messages because children learn how to respond to our environment from social interaction which is also made based on the product message broadcasted through mass media.

### *Transformation Theory*

Physiological, psychological, and sociological growth or maturation arise throughout an adult's lifetime. Learning by reflecting critically on one's own experiences, assumptions, beliefs, feelings, and mental perspectives in order to construe new or revised interpretations often associated with adult learning. In an advertising with Islamic value, audience perhaps learn Islamic teaching and change their cognitive structure to satisfy god.

### *Ethical Theories*

The field of ethics (or moral philosophy) involves systematizing, defending, and recommending concepts of right and wrong behavior. Philosophers today usually divide ethical theories into three general subject areas: metaethics, normative ethics, and applied ethics. Hoy (2005) described the following three aspects of ethical theories:

1. Metaethics, concerning the theoretical meaning and reference of moral propositions, and how their truth values (if any) can be determined.
2. Normative ethics, concerning the practical means of determining a moral course of action.
3. Applied ethics, concerning what a person is obligated (or permitted) to do in a specific situation or a particular domain of action.

In Islamic advertising, product or service companies have responsibility to find out the ethical value according to Quran, Sunnah, Izma, and Qiyas.

### *Legal Theories*

*Legal Theory* draws contributions not only from academic law, but from a wide range of related disciplines in the humanities and social sciences, including philosophy, political science, economics, history, and sociology. Legal theory is how a jurist can find a suitable and well-accepted verdict by following different theories such as sociology, economics, and political science. Islamic legal theory involves different aspects of human life: humanity, sociology, politics, freedom, and economics and so on, which help product and advertising companies to develop an Islamic message that will not clash with any holy scriptures. The concept of *maslaha* is contemporary Islamic legal theory. An analyzed writings on *maslaha* by leading jurists from the late thirteenth to nineteenth century to the 1380s/1960s, namely al-Qāsimī, Rashīd Ridā, Mahmasānī, ‘Allāl al-Fāsī, Khallāf, and al-Būtī, which was the early reforming towards al-Tūfī’s expansive understanding of the principle of *maslaha* in the law-finding process (Opwis 2005).

## **11.3 Literature Review**

### ***11.3.1 Conventional Ethical Advertising***

Cunningham (1999) clarified advertising ethics as “what is right or good in the conduct of the advertising function”, which means what ought to be done, not what must be done legally. Ethics is an important topic in the advertising literature (Hyman et al. 1994), but it appeared that very little academic exploration on it has been consistent with what it should be. In the past studies, advertising was completely on the philosophical argument (Drumwright 1993), especially on “macro” and social effect perspective rather than “micro” and firm perspective (Hunt and Chonko 1987). Drumwright (1993) described a legal discourse among lawyers and regulators about

the rights of advertisers and issues about deception and fraud (e.g., Preston 1994; Prosser 1984; Stern and Eovaldi 1984); and a moral discourse primarily among philosophers, social critics, and ethicists about advertising's societal effects (e.g., Bishop 1949; Galbraith 1958; Leiser 1979; Pollay 1986; Pontifical Council for Social Communication 1997; Santilli 1983; Waide 1987). Recently, much ethical advertising endeavor has been on consumers' perceptions of potentially objectionable advertising (e.g., for persuasive appeals, for idealized imagery, for politicians, for dangerous products, and for targeting children) with empirical studies (e.g., Gulas and McKeage 2000; Latour and Henthorne 1994; Tinkham and Waver-Larisay 1994). Most work is on descriptive compared to normative.

The scholars revealed the unethical behavior among marketing practitioners, and explained it as "Predicting Unethical Behavior among Marketing Practitioners". As a follow-up research, they explored comparisons of ethical and unethical behavior among corporate and agency advertising managers (Ferrell et al. 1983). In-depth interviews taken at all levels in 29 agencies in eight cities, it was explored that advertising practitioners played the roles of moral muteness and moral myopia (Drumwright and Murphy 2004). A substantial burden of blame as a result of "unethical" advertising must go to the infant food industry (Jelliffe and Jelliffe 1977). The ethical perceptions and the perceived likelihood to engage in 20 unethical activities were examined from both the advertising professional and student perspectives; and the longer stay of males as agency personnel linked to less likely to engage in unethical activities (Keith et al. 2008). Many new drugs enter the Indian market that are mostly "metoo" products, not genuine innovations (Gopalkrishnan and Murali 2002). While positive news, the persuasiveness of negative news was present; and when the negative news is content-specific, consumers were able to separate the negative news effect (Wang 2008). The use of a strong overt sexual appeal was not expected by Chinese consumers and resulted in negative attitude toward the ad and the purchase intention; however, the degree of sexual content used in advertising has no direct influence on brand attitudes (Tai 1999). The study shows that consumers think advertising often overlook broad ethical norms according to a function of their relativism and idealism (Treise et al. 1994). Unethical advertising triggers unsafe products, and poverty problems of minority groups (Hay and Gray 1974). Unethical advertising should be criticized; only with a concerted effort will improve ethics in advertising in the future (Murphy 1998a, b).

### 11.3.1.1 Islamic Advertising

Perhaps most noticeably, Islamic marketing is very different from the conventional approach to promotion (Abuznaid 2012). Irrespective of which element in promotional mix is in question, it has to follow the Islamic ethical principles (Anwar and Saeed 1996; Rice 1999; Al-Buraey 2004; Abdullah 2008; Akhter et al. 2011; Bari and Abbas 2011). These ethical principles ask for truthfulness, justice, trust, sincerity, brotherhood, and knowledge to be placed ahead of any action related to promotion. It is for this reason that the underlying basis for all promotional activities are honesty

and truthfulness. If there are any faults or weaknesses in the product, they must be told outright (Anwar and Saeed 1996; Rice and Al-Mossawi 2002; Al-Buraey 2004; Arham 2010; Bari and Abbas 2011; Haque et al. 2011; Abuznaid 2012). This comes directly from the Sunnah of Prophet Muhammad SAW, an avid trader he was, who had this self-imposed obligation to tell the faults or defects in the product he would sell (Arham 2010).

Then, several other commonly observed unethical practices in contemporary advertising are also strictly prohibited in Islamic means of promotion; for example exaggeration, deceit, promoting wasteful practices, indecent behaviors, etc. (Anwar and Saeed 1996; Saeed et al. 2001; Rice and Al-Mossawi 2002; Al-Buraey 2004; Abdullah and Ahmad 2010; Arham 2010; Haque et al. 2010; Bari and Abbas 2011; Haque et al. 2011; Abuznaid 2012). This implies Islamic manner of promotion to be honest, trustworthy, portraying good character and family orientation, not exaggerating, containing *halal* and wholesome products, etc. Similarly, the Prophet Muhammad SAW had warned, “Whoever bears arms against us is not one of us, and whoever cheats us is not one of us.”

### Methodology

This research will be based on qualitative study mostly. Content analysis has been done to extract any inscriptions related to advertising and Islamic advertising. For this, the Holy *Quran*, the *Ahadeeth* of Prophet Muhammad (SAW), and the writings of Muslim/non-Muslim scholars has been studied. The study of the first two was not confined to the available translation, but also extended to *tafaasir*. The material extracted from these Holy Scriptures then was compared against that given by scholars. The same material was compared against the contemporary theories on ethical advertising. This study suitable under critical theory paradigm in qualitative research approach influences change of structures, policies, and procedures of contemporary advertising of organizations.

## 11.4 Analysis

### 11.4.1 Scriptures

The Quranic scriptures support a rather radical libertarian approach, where man-made approach is more complex for human being, which is said in many Suras (Quranic verses). One of the best hadith is a saying of the Prophet that

... to seek knowledge is a sacred duty on every Muslim, male and female.

Surah Al-Mujadila 58:11 actually states that

Allah will raise up to high ranks and degrees, those of you who have acquired and been granted knowledge.

To a religious Muslim, the creation of supportive environments is the essence of Quran and Sunnah. As Haidar (1984) points out: the arrogant and reckless use of knowledge and technology is a betrayal of Allah's trust in humankind, and turns humankind into a sadistic exploiter of God's creation. Quran and Sunnah are full of references to the obligation of people to protect the environment and natural resources and to make the land beautiful. Sura Al Araf describes some forbidden human conducts as

Do not withhold from people the things that are their due, and do not mischief (corrupt or pollute) on the earth after it has been set in order; that will be best for you, if you have faith (7: 85).

According to these Quranic verses and Hadith, Islamic clearly shows a better way of advertising for a strong sense of people and community in deciding on purchasing halal products and services. Quran and Sunnah stress the importance of social organization through community life and mosque meetings. Individual development and acquisition of appropriate knowledge are essential components of such community life. In the modern technological age, Islamic advertising can create Islamic or Shariah-compliant messages regarding products or services.

Sura Al Baqarah suggested human to do right things in all aspects in of life. It was found that conventional ethical advertising failed to promote real message religiously, mentally, socially, and economically, where right deeds that are little claimed from ethical point of view are absent for human being.

Honesty has been emphatically stressed upon Muslims many a times: "And spend in the way of Allah and do not throw [yourselves] with your [own] hands into destruction [by refraining]. And do good; indeed, Allah loves the doers of good" (2:195). "But among them is he who says, "Our Lord, give us in this world [that which is] good and in the Hereafter [that which is] good and protect us from the punishment of the Fire." (2:201). "And of the people is he whose speech pleases you in worldly life, and he calls Allah to witness as to what is in his heart, yet he is the fiercest of opponents." (2:204). "O you who have believed, enter into Islam completely [and perfectly] and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy." (2:208). "But if you deviate after clear proofs have come to you, then know that Allah is Exalted in Might and Wise." (2:209) "And do not make [your oath by] Allah an excuse against being righteous and fearing Allah and making peace among people. And Allah is Hearing and Knowing." (2:224).

From the above verses it is a learning for human that they should be honest, non-destructive, good deeds, good speeches from heart, avoiding human-made guideline leading to Satan's way that a human might follow, and following a path that Allah has prescribed throughout the Quran.

Hisba is an Islamic system of accountability, usually toward an overseer of the market and public morals, which indicates a system of accountability through which the community designates a person or group that would monitor and guide proper procedure and decision-making. Sura Al-Imran tells us to be with good things.

Let there arise out of from among you a party inviting to all that is good. (3: 103)

Sura Nisa makes us understood about good things that come from Allah and bad things come from bad practices of human inspired by Iblis.

What comes to you of good is from Allah, but what comes to you of evil, [O man], is from yourself. And We have sent you, [O Muhammad], to the people as a messenger, and sufficient is Allah as Witness. (4:79)

In addition, as against the prevalent practice, women should not be depicted as mere tools of promotion and used unnecessarily (Rice and Al-Mossawi 2002; Alserhan and Alserhan 2012; Bari and Abbas 2011; Haque et al. 2011; Abuznaid 2012). Neither should any gender or race be ridiculed or stereotyped. These are the values explicitly mentioned in Sura *al-Hujrāt* of the Holy Quran, which are as

O believers, let not some men among you laugh at others; it might be that the (latter) are better than the (former); nor let some women laugh at others; it may be that the (latter) are better than the (former); nor defame not be sarcastic to each other; nor call each other by offensive nicknames; ill-seeming is a name connoting wickedness, and those who do not desist are (indeed) doing wrong. (49: 11)

In advertising, woman model must be according to Quran and Sunnah; otherwise women's role in advertising will be far deviant from Shariah-compliance or Islam. Muslim community expect Shariah-compliant advertising for every products that are mentioned *halal* in the Holy Quran.

Audience and people of company can do their work as found in Sura Al-Kahf of the Holy Quran

Verily as for those who believed and did righteous deeds, certainly we shall not make the reward of anyone who does his (righteous) deeds in the most perfect manner to be lost. (18:30)

Sura Al-Mulk clarifys us that people are able to manage everything including advertising activity according to Quran as it tells

It is He who has made the earth manageable for you, so traverse ye through tracts and enjoy of the sustenance which he furnishes: but unto him is the resurrection. (67:15)

Human character will be some traits developed based on Quran and Sunnah. The following Hadiths are expressing an ideal behavior of a person who are able to do every work as both type of books suggests.

Hadith #21.

Do not imitate those people who says, if people be good to us, we will be good to them in return; and if they are bad to us, we will take revenge for it; rather strengthen your heart in such way that you be your best when people are good, and if they are bad to you, you will still remain with your goodness towards them.

Hadith #25.

Every Path (*Deen*) has its virtuous characteristic. For Islam this is *Haya* (characteristics of self-respecting shyness/politeness).

### Hadith# 29.

Truly enlightened is that person who is enlightened about his *nafs* (self, psyche) and one who keep preparing for the eternal next life; and in reality that person is ignorantly fool who follow only the desire of his lower-self and at the same time keep hope of reward from Allah.

### Hadith #35.

Three habits bring liberation and three habits bring destruction. The liberating habits are: (1) To be mindful and fear Allah both openly and in private (2) To speak the truth and just in every state, be it in elation and in frustration. (3) To be modest in spending both in time of prosperity and in time of adversity. The destructive habits are: (1) To meet demands of the impulses of the lower self (*nafs*). (2) Miserliness (3) Self-boasting arrogance which is the worst.

If one engages in decent Ibadah (worship), but has terrible Akhlaq (manners), then the Ibadah will not make up for the deficiency in character. However, if one has excellent Akhlaq and decent Ibadah, the excellent Akhlaq may make up for the deficiency in Ibadah. We extract this teaching from the Hadith of the Prophet (pbuh) in which he was informed about two women

One woman prayed, fasted and performed all of her extra acts of worship, but she was extremely rude to her neighbors. The Prophet (pbuh) said that if she continues in this lifestyle, then her final abode would be the hellfire. The Hadith then mentions another woman who did not pray or fast much but only fulfilled her obligations in regards to people, like being kind to her neighbors. The Prophet (pbuh) said that if she continues in this lifestyle, then her final abode in the hereafter would be Paradise.

It was revealed that Akhlaq, Iman, and Ibadah are related. Akhlaq has greatest magnitude in developing Iman and Ibadah because if Akhlaq is weak then both Iman and Ibadah will be weak. So, Akhlaq leads to human to do Ibadah.

“The best blessing a man has been given is good Akhlaq.” “I advise you to be upon good Akhlaq and to be silent for long period of time for by the One in whose Hand my soul is mankind cannot do anything better than this.” “The best of those who have Iman are those who have best Akhlaq”

Islamic advertising require Muslim people to excellent Akhlaq, Iman, and Ibadah; otherwise people involved in Islamic advertising with weak Akhlaq, Iman, and Ibadah would lead to misdeed and sinful work that goes against Quran and Sunnah. Product or service message in Islamic advertising would be well-designed, well-led and well-controlled if advertisers character is excellent.

Tauhid is a workshop for Morality or *Akhlaq*. To conceive the oneness of God into the deep heart leads to human to Akhlaq, Iman, and Ibadah. Quran and Sunnah require Muslims to develop tough Iman and Akhlaq. However, Quran and Sunnah leads someone to develop Akhlak, Iman, and Ibadah, but perfection of the three is quite impossible without Tauhid because if a person does not feel God from deep heart he can never truly believe in His creatures and their service.

To conclude, the Islamic means of promotion are to assist in real time the consumers for better decision-making regarding the products by providing true and accurate information, without exaggeration or other unethical means.

### 11.4.2 Coding and Interpretation

#### *Quran and Sunnah*

Quran and Sunnah is a saying attributed to the Islamic prophet Muhammad (a hadith), namely I have left among you two matters by holding fast to which, you shall never be misguided: the Book of God and my Sunna. It is an often quoted saying regarding the sources of Islam. The authenticity of this hadith is rejected by many Shi'a. The concept itself is not rejected, as most Muslims hold that Islam is derived from two sources: one being infallible and containing compressed information—the Qur'an—and another being a detailed explanation of the everyday application of the principles established in the Qur'an: The Sunnah, or the living example of Muhammad.

#### *Tauhid*

Tawhid is the godly concept in the Qur'an. It is the basis to faith and conviction of man regarding the existence and oneness of Allah SWT (al-Ikhlās, 112:1–3). According to Islamic theology, human beings are born with an innate inclination of *Tawhid* (Oneness), which is encapsulated in the *fitra* along with compassion, intelligence, ihsan and all other attributes that embody what it is to be human (Cowan 1994). It is for this reason that some Muslims prefer to refer to those who embrace Islam as reverts rather than converts, as it is believed they are returning to a perceived pure state. The perfect embodiments of *fitra* were Abraham and Muhammad.

Allah's *fitrah* here refers to Allah's creations. Human is created by Allah to have the religiosity instinct that is the *Tawhidic* concept. If a man does not adhere to the *Tawhidic* concept, then that is not proper. The non-adherence to the tauhidic concept is directly attributable to the external influences that they receive when they were born in this world. "Every child is born in a state of purity", narrated by Abi al-Husayn Muslim b. al-Hajjaj al-Qusyairi al-Naisaburi Muslim (1983). The innate characteristic of man that has a need for religious belief is accepted and discussed by scholars in the West. Immanuel Kant (1724–1804 AD) and Carl Gustav Jung (1875–1961 AD) are amongst those early scholars that have discussed at length about this concept.



In the religious belief concept, there actually exist the psychological elements. This is because the beliefs and conviction on something takes place in our mind which is characteristically internal in nature or is something that cannot be seen and cannot be shaped. A man's belief on something is a consequential result of his belief to that particular something. The man's conviction arose based on the understanding and knowledge on that thing. Knowledge, on the other hand, is a result of observation and proving of the existence of that particular thing. It is based on this that man uses his mind to make choices. A person makes a choice to believe a thing based on his understanding and knowledge on the reality and existence of that thing. It can thus be surmised that the acceptance of the mind is the deciding factor to what is believed (apart from the *hidayah* factor from Allah from the perspective of Islam). In addition, we can also understand that this faith concept is related to man's internal aspects.

### *Akhlaq, Iman, and Ibadah*

Practice of virtue, morality, and manners in Islamic theology and *falsafah* (philosophy). It is most commonly translated in English dictionaries as; disposition, nature, temper, ethics, morals, or manners (of a person). A soul that is balanced is a result of a soul that is serene. A balanced and controlled soul gives rise to a good personality with admirable behavior. Religious belief also gives rise to a strong personality. From a serene and balanced soul, an individual's steadfast personality is formed and not easily swayed by external elements that are contradictory to the teachings of his faith. This provides the consequence to the man's behaviorism. Meanwhile, a strong soul can also cause a person to be able to withstand any challenges faced in his life and he will not easily surrender or give up.

The view on a particular knowledge as secular and is not from Islam is a corollary thinking process that is not accurate. All good knowledge must be learned. All positive knowledge shares the benefit in this world and in the hereafter. There should not be a division between the religious knowledge and the secular knowledge as long as the knowledge is good and provides benefit to man's life.

Faith can be the motivating factor that moves and advance man. There will be elements that are driving force of a person to perform whatever that is categorized as goodness according to his faith. This enables him to improve the life's activities. Contemporary societies weakened forces that come from deep-rooted religious values. The Islamic empire was the result of genuine strive by God conscious Muslim (New Straits Times 8/1/1994). Motivation is continuous because the faith enables a person not to give up easily. If a person depends on his god, he feels that that his self is owned. It becomes his responsibility to constantly serve devotedly and serve his owner. Faith is a relationship between the mind and body. The behaviorism of man is very much dependent upon faith. A person's behavior is firmly grounded to the teachings of his faith.

Belief influences human Social Effect. "Justice" and "Peace" are strongly correlated. Belief in any religion advocates justice. The religious belief can bring forth justice. Justice should occur among the devotees of the same faith. However, justice cannot perhaps be guaranteed to people of different faiths in some teachings. In this context, the effect of religious belief that should bring forth justice is to bring justice

to all mankind. It is not that the teachings of the faith are wrong instead is caused by the misunderstanding or wrong doings of the devotees of the faith. Religious Belief and Humans' Relationship are significantly related. The teachings in all belief of religion affect the interaction or relationship among men.

### *Islamic ethics*

Islamic ethics defined as “good character,” historically took shape gradually from the seventh century and was finally established by the eleventh century. It was eventually shaped as a successful amalgamation of the Qur’anic teachings, the teachings of the Sunnah of Muhammad, the precedents of Islamic jurists, the pre-Islamic Arabian tradition, and non-Arabic elements (including Persian and Greek ideas) embedded in or integrated with a generally Islamic structure. Although Muhammad’s preaching produced a “radical change in moral values based on the sanctions of the new religion and the present religion, and fear of God and of the Last Judgment”, the tribal practice of Arabs did not completely die out. Later Muslim scholars expanded the religious ethic of the Qur’an and Hadith in immense detail.

### *Shariah-law*

Sharia (shari’a), Islamic sharia, Islamic law is the religious legal system governing the members of the Islamic faith. It is derived from the religious precepts of Islam, particularly the Quran and the Hadith. The term *sharia* comes from the Arabic language term *sharī’ah*, which means a body of moral and religious law derived from religious prophecy, as opposed to human legislation (Rehman 2007).

### *Message*

The list below summarizes the stages in the design of communication strategies to support the realization of promotional objectives. In the launch of a new or redesigned or rebranded product these stages would form the steps in the planning of a promotional campaign. However, many organizations are concerned not only with specific promotional campaigns, but also with maintaining a continued awareness and positive attitude to their products. In such circumstances, while each of these stages remains important, they will not necessarily always be visited in the sequence identified below: The stages of designing conventional marketing communication strategies are identify target audience; determine communication objectives; design the message; select communication channels; establish promotional budget; decide on promotional mix; measure results.

### *Channels and Audience*

Communication channels refer to the way this information flows within the organization. In this web known as communication, a manager becomes a link. Instructions or decisions flow upwards, downwards, or sideways depending on the position of the manager in the communication web. In telecommunications, the term channel noise level has the following meanings: The ratio of the channel noise at any point in a transmission system to an arbitrary level chosen as a reference. The noise power

spectral density in the frequency range of interest. An audience is a group of people who participate in a show or encounter a work of art, literature (in which they are called “readers”), theater, music (in which they are called “listeners”), video games (in which they are called “players”), or academics in any medium.

### *Individual and Social effect*

Audience is a group of people to whom advertising messages are presented. Every individual sees advertising in a channel with some other known or relatives and discuss about the contents of advertising. Among them, innovator group or first group was formed to buy products and influence other social members in buying this product which expresses the personality and others symbols of human behavior. In Islamic advertising, audience can choose to buy advertised products individually and influence other people of society to buy, which is guided by Quran and Sunnah. Individual and social effect would be positive as opposed to contemporary ethical advertising.

## **11.5 Discussion**

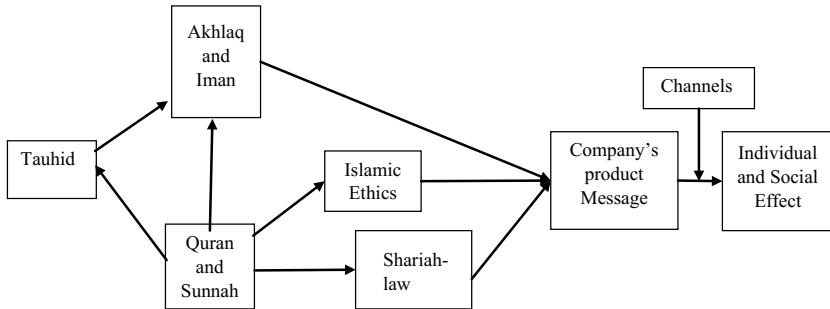
Quran and Sunnah enlightens people from every aspect of their life because Islam is the complete code of life. When a person reads Quran and Sunnah, he feels Allah is the only creator of the universe and can do whatever he wants and gives anything pleasant or pain for people. When one believes it from one’s deep heart he is inspired to follow what is said in the holy Quran and Sunnah. After discovering the biggest truth in human life he would be eager to change what is habituated with. This *Tauhid* influences one to build Akhlaq and Iman for a decent Ibadah for satisfying God, which means that developing and broadcasting message as an Ibadah will be excellent according to Quran and Sunnah. From the Quran, some codes can be legitimated by Parliament for ruling advertising activities, and as ethics and legal aspects, some codes that are not legitimate can be followed by advertisers for excellent product messages.

The proposed theory of Islamic advertising requires not only an excellent-character person to develop message but also an excellent investigator to justify the message based on Islamic ethics and *Shariah-law* aspects originated from Quran, Sunnah, Izma, and Qiyas. Emotion theory and transformation theory link Quran-Sunnah to Tauhid. Tauhid linking to Akhlaq and Iman is well grounded on relational theory of personality. Different ethical theories support Islamic ethics as contemporary ethics are supported for a linkage between religion and ethics or good words and ethics. Legal theories depend on different disciplined theories such as social, political, economic and so on. Advertisers should find social, political, economic, physiological, and psychological aspects that can support Islamic advertising messages; so there is a link between Quran-Sunnah and *Shariah-law* and company’s Islamic advertising message about products or services. Overall, Quran and Sunnah

help human to develop advertising message for products or services congruent with Quranic verses and Hadiths.

## Appendix

Islamic advertising theory framework.



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# Chapter 12

## Factors Influencing Muslim Tourists Satisfaction Travelling to Non-Muslim Countries



Nik Ramli Nik Abdul Rashid, Yong Azrina Ali Akbar, Jamilah Laidin and Wan Shahrul Aziah Wan Muhamad

**Abstract** Dinar Standard, a New York based marketing research and advisory firm has estimated that the global Muslim tourism market is worth \$126.1 billion in out-bound expenditure. This is approximately 12.3% of the total global tourism expenditure in 2011. The same report has also forecasted that the Muslim tourist spending is expected to grow further to \$192 billion by 2020, representing 13.4% of the global tourism expenditure. According to the World Travel Market Global Trend Report (2007), tourism among Muslims has the potential to become a resilient market and would be the target by industry operators and other relevant stakeholders. Although these travels statistics might be related to religious obligations (such as performing the *Hajj* and *Umrah*), it is also expected that travel for leisure and social purposes also holds a significant portion of the market share. Due to this development, non-Muslim countries (such as Japan, New Zealand, Thailand and others) have recently reacted positively by taking into consideration the requirements of the Muslim travellers. This study is an attempt to empirically justify the factors that are considered important to Muslim travellers and its impact on their travel satisfaction. Based on previous qualitative studies, four destination attributes of these non-Islamic countries are explored, namely the availability of halal food, access to prayer facilities, destination sociocultural characteristics and perceived safety and security. The population of this study are Muslim travellers who have visited non-Muslim countries for social and leisure purposes that are intercepted at the Penang International Airport. A few screening questions were asked before they are given the self-administered questionnaire. A total of 110 respondents participated in the survey, and the data collected from the questionnaire were analysed using the SPSS software. Respondents were asked to reflect and choose one of their preferred countries that they have visited, before answering the questionnaire items. Thailand seems to be one of the most visited non-Muslim countries (34.5%), followed by Singapore (21.4%). Other countries included Vietnam, Hong Kong, Japan, Australia, China and Korea. The result from the multiple regression analysis showed the three factors as having a significant and positive influence on tourist satisfaction, namely Safety and Security ( $\beta = 0.565$ ,

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$p < 0.01$ ), the Destination's Social-Cultural Attraction ( $\beta = 0.324, p < 0.01$ ), and finally Availability of Halal Food ( $\beta = 0.188, p < 0.05$ ). Availability of Prayer Facilities does not have a significant influence on the dependent variable. The result of this study seems to show that there is no significant difference between the travelling motivation of Muslims and the general travelling population. Tourism stakeholders (from both public and private sectors) should continue to stay focused on assuring the safety-security for the visitors, while highlighting on the unique and beautiful social and cultural aspects of the destination as the main strategy. Of course, information about the availability and location of halal food outlets is also important. Considering the flexibility found in the *syariah* for *musafirs* (such as *solat jama' qosar*, *solat* on a moving vehicles, etc.) it is actually not surprising to find that availability of prayer facilities having no significant relationship with travel satisfaction.

**Keywords** Halal tourism · Destination attributes · Tourist satisfaction · Halal food · Prayer facilities

## 12.1 Introduction

According to [muslimpopulation.com](http://muslimpopulation.com), Muslim population is increasing at 1.84% in the year 2014 which is 2.08 billion compared to 2.04 billion in the year 2013. Pew Research Center reported Muslims will grow more than twice as fast as the overall world population between 2010 and 2050 and, in the second half of this century, will likely surpass Christians as the world's largest religious group. The reasons for this fast growth are high fertility rate and forbidden religious switching. This growth of the Muslim population has created an increased interest in the halal market, including in the tourism industry.

Dinar Standard, a New York based marketing research and advisory firm has estimated that the global Muslim tourism market is worth \$126.1 billion in outbound expenditure. This is approximately 12.3% of the total global tourism expenditure in 2011. The same report has also forecasted that the Muslim tourist spending is expected to grow further to \$192 billion by 2020, representing 13.4% of the global tourism expenditure. Another study conducted by MasterCard and CrescentRating revealed Muslim travel market was worth \$145 billion, with 108 million Muslim travellers representing 10% of the entire travel economy and is forecasted to grow to 150 million visitors by 2020 (which is 11% of the market) with an estimated expenditure projected to grow to \$200 billion. This optimistic trend is contributed by the growth of younger and educated Muslim with a larger disposable income which has an increased propensity to travel. With this ongoing trend, Muslim travel could continue to be one of the fastest growing travel sectors in the world.

Even though the above accounts of the Muslim travel market are approached in general, there are in actual fact important diverse aspects of that market. These significant diverse aspects might be associated to demographics or psychographics background of the Muslim society. It would be reasonable to suggest that the



diversity elements could be reflected by the purpose of the visit and choice of travel destinations. This study is an attempt to explore the factors that influence Muslim travel satisfaction when choosing a non-Muslim majority country as the destination choice. The perceptions of Muslim travellers of the destination attributes are divided into two groups, religious-related (*availability of halal food and prayer facilities*) and non-religious-related (*security-safety and social-cultural attractions*). This study will compare and look into the level of importance attached to the dimensions of destination attributes and their influence on tourist satisfaction.

## 12.2 Literature Review

### 12.2.1 Halal Tourism

Halal means something that “lawful” or “permitted” by Syariah law. Muslims are guided based on the Holy Al-Quran and Hadith in their daily life activities. According to Duman (2011), Halal tourism is a tourism activity by Muslims that originate from Islamic motivations and are realized according to Shariah principles. Islam advocates the Muslims go to travel around this earth for the purpose of education, achieving spiritual, social and physical benefits (Shakona et al. 2015; Zamani-farahani and Henderson 2010; Eid and El-Gohary 2015). The concept of Halal, meaning permissible in Arabic, is not just being applied to food, but it includes any Shariah compliant products ranging from bank dealings to cosmetics, vaccines and tourism. Halal Tourism also is a form of tourism for Muslims who prefer to utilize services, facilities and activities compliant with Islamic principles. This means offering tour packages and destinations all over the world that are particularly designed to cater for Muslim considerations and address Muslim needs. The fundamental of Halal tourism includes the components such as Halal hotel, Halal transportation, Halal food premises, Halal logistics, Islamic finance, Islamic travel packages and Halal spa (<http://www.halaltourismconference.com>). According to Asad et al. (2016), Halal tourism refers to the provision of a tourism product and service that meets the needs of Muslim travellers to facilitate worship and dietary requirement that conform to Islamic teachings. Motivations are not always or entirely religious. Participants could be pursuing similar leisure experiences to non-Muslims, albeit within parameters set by Islam, and destinations are not necessarily locations where Shariah or full Islamic law is enacted (Henderson 2010).

### 12.2.2 Tourist Satisfaction

Satisfaction is one of the important elements that needs to be considered by product and service provider. Kotler et al. (2006) emphasized that tourist satisfaction

depends on degree of realized success in delivering the products and services in relation to tourist expectations. Only in the case that expectations are surpassed will the tourist be delighted (Kotler et al. 2006). This approach in conceptualizing tourist satisfaction also follows the Expectancy-Disconfirmation Theory (Oliver 1993). This theory posits that customers form their satisfaction with a target product or service as a result of subjective (or direct) comparisons between their expectations and perceptions. Research by Churchill and Suprenant (1982) has indicated that customer satisfaction determinants differ between goods offerings and service encounters. Knowledge of customer expectations and requirement is essential because it provides an understanding of how customers define the quality of service and facilitates the development of the customer satisfaction questionnaire (Hayes 1997).

### 12.2.3 Destination Attributes

Leiper (1995) explains that destinations are places towards which people travel and where they choose to stay for a while in order to experience certain features or characteristics—a perceived attraction of some sort. Cooper et al. (1998) define destinations as the focus of facilities and services designed to meet the needs of the tourists. Some studies have been conducted to identify the destination attributes that influence tourist visiting certain destination. Eusebio and Vieira (2011) conducted research on 923 visitors domestic and international tourists to build a sample that would be as representative as possible of the tourism market in the Central Region of Portugal. Zhou (2005), studied on price, culture, entertainment and relaxation, beautiful scenery, pleasant weather and climate, accessibility, safety, friendly attitude of local people toward tourists and service as destination attributes elements. The sample of the study was selected at the Cape Town International Airport, after the international tourists finish their trip to Cape Town and are preparing for departure. Kaur et al. (2016) found that local cuisine and food outlets, hotels and restaurants, famous handicraft and parking facilities are important destination attributes of Indian tourism destination.

In discussing travel destinations, Muslim scholars such as Eid and El-gohary (2015), Al Jahwari (2015) and Battour et al. (2011) proposes that Islamic physical attributes of destinations such as the inclusion of Halal food, prayer facilities, Islamic entertainment, Islamic dress codes, general Islamic morality and the Islamic call to prayer has positive effect on customer satisfaction. Battour and Ismail (2014) and Abodeeb et al. (2015) find that the availability of Islamic norms and practices related to tourism at the destination like lack of public consumption of alcohol and public gambling activities, general Islamic morality, worship facilities.

The present study summarizes destination attributes into two perspectives, which are religious-related (*availability of halal food and prayer facilities*) and non-religious-related (*social-cultural attractions and safety-security*) and are discussed in the following section.

### 12.2.3.1 Availability of Halal Food

Previous research have suggested that religious beliefs toward Halal (lawful and allowed) and Haram (forbidden) can influence Muslim's travel behaviour (Shakona et al. 2015; Shakona 2013). According to Shafaei and Mohamed (2015) as Muslims are required to stick and comply with Islam values while travelling, the availability of Halal food is an importance attributes that they search when choose a travel destination. The following verse, asks Muslims follow the regulations set out in the Quran with the need to recognize what food is permitted to be consumed (Tieman 2013; Zailani et al. 2015). The al-Quran says, "*And eat of the things which Allah has provided for you, lawful and good, and have Taqwa of Allah in Whom you believe*" (5:88). Other verses from the Quran mentioning about the importance of lawful and good food include 2:172; 8:69; 16:114; 116; 6:145; 5:3–5.

### 12.2.3.2 Prayer Facilities

Muslims are required to practice Islamic commitments in everyday life and when travelling (Zamani-farahani and Henderson 2010) especially in order to perform prayer as stated in the Quran: "*And be steadfast in prayer; practice regular charity; and bow down your heads with those who bow down (in worship)*" (2:43)). Other verse that instructs the obligation of Muslims to perform prayer includes 2:3, 45, 153, 238; 4:101–103; 5:55. Studies by Al-Hamarneh and Steiner (2004), Syed (2001) states that the prayer facilities is one of the pivotal facilities for Muslims. While according to Battour et al. (2011), easy access to worship places (Masjid/prayer room) and availability of the Quran and the Qiblah direction pointer are highly prioritized tangible attributes for Muslim before they consider go to travel. Later studies by Battour and Ismail (2014) and Abodeeb et al. (2015) also found the similar finding.

### 12.2.3.3 Sociocultural Factor

Studies done by Funk and Bruun (2007), Kozak (2002), Maoz (2007) confirms that culture is one of the most important factor of tourist motivations to decide about certain destinations and also is a reference point to explain the source of cross-cultural preferences between different tourist generating countries. The cultural tourism recently become as the fastest growing segment of the tourism industry because there has been a trend towards an increased specialization among tourists. This trend is evident in the rise of the volume of tourists who seek adventure, culture, history, archaeology and interaction with the local people (Hughes and Allen 2005; Nuryanti 1996). Gonaim and Saad (1999) in their research identify several types of cultural attraction that usually have in certain countries such as (a) Historical, cultural, and educational sites, (b) Distinctive educational trends, (c) Original artistic products, (d) Museums, (f) Festivals, and (g) Economic activities that attracted tourists. Another types of cultural attractions are (a) Holy locations, (b)

Historical sites, (c) Traditional building, (d) Handcraft and artistic products, (f) Traditional market, and (g) Economic activities cultural (Al-Ahmari 1999). Bailey and Sood (1993) and McDaniel and Burnett (1990) suggested that tourists visit religious heritage sites religion contribution to the formation of culture, attitudes and values.

#### **12.2.3.4 Safety/Security While Visiting**

Safety and security is one of the most important factors that could influence quality in tourism. Tourists are more concern about these aspects before deciding to stay at any country. A safe and secure environment is a key to attracting any tourist to a destination. Previous studies report a very high relationship between a safe travel environment and the number of tourist arrivals to a particular destination (MasterCard-CrescentRating Global Muslim Travel Index 2015). The impact of the September 11 terrorist attacks on the USA in 2001 has changed the world tourism industry (Al-Hamarneh and Steiner 2004). Since then, the tourism industry experienced a big change in the travelling moods and patterns of international tourists. Non-Muslim tourists felt travelling to Muslim countries as a risk, whereas Arabs and Muslim communities felt being misunderstood and unwelcome in non-Muslim countries (Al-Hamarneh and Steiner 2004), especially in the USA, United Kingdom, Australia and the European nations where strict travel policies for Arab tourists exist (Shafaei and Mohamed 2015).

### **12.3 Methodology**

#### ***12.3.1 Population and Sampling Procedure***

The population of this study are Muslim travellers that have at least visited one foreign non-Muslim majority country either on their own or with a tour operator. A purposive sampling technique was used, where samples are intercepted at the Penang International Airport and was asked a screening question to determine their suitability as respondents for the study. They were also required to reflect a non-Muslim majority country that they have visited before going on to answering the questionnaire. After a week at the airport, a total of 110 questionnaire sets were successfully collected for the study.

#### ***12.3.2 Validity and Reliability of Measure***

The questionnaire items used for this study were adapted from earlier established studies. However, to ensure rigour the measures for all validity and reliability was

again tested with new data. The validity of all the constructs was determined by Factor Analysis method, using the Principle Component extraction with Varimax rotation. Guidelines as recommended by Hair et al. (2006) are strictly followed. Only factor loading of more than 0.45 are accepted and no cross-loading is allowed. Factor having just 2 items or less are also dropped from the analysis. The Exploratory Factor analysis for the independent variable (destination attributes) results showed a range of loadings between 0.46 and 0.94. The measure of sampling adequacy (Kaiser-Meyer-Olkin) is 0.73 and the Bartlett Test of Sphericity is significant. All the items resulted into 4 factors with their relative explanatory power (eigenvalues) 5.14, 3.15, 2.00 and 1.69, cumulatively capturing 66.6% of the variance thus confirming its construct validity. The reliability test using Cronbach Alpha showed an acceptable internal consistency ranging between 0.723 and 0.946. (Table 12.1).

**Table 12.1** Factor analysis for dimensions of destination attributes (IV)

Questionnaire items	I	II	III	IV
Halal food 2	<b>0.994</b>	0.099	0.170	0.117
Halal food 3	<b>0.940</b>	0.142	0.154	0.105
Halal food 1	<b>0.919</b>	0.133	0.183	0.140
Halal food 4	<b>0.811</b>	0.175	0.197	0.046
Security-safety 4	0.031	<b>0.868</b>	0.218	0.007
Security-safety 3	0.082	<b>0.861</b>	0.109	0.044
Security-safety 2	0.226	<b>0.830</b>	0.085	0.014
Security-safety 1	0.272	<b>0.725</b>	0.061	0.132
Prayer facility 4	0.089	0.093	<b>0.841</b>	0.083
Prayer facility 3	0.080	0.151	<b>0.798</b>	0.009
Prayer facility 2	0.229	0.046	<b>0.763</b>	0.085
Prayer facility 1	0.294	0.173	<b>0.738</b>	0.064
Social-culture 6	0.044	0.116	0.052	<b>0.806</b>
Social-culture 5	0.068	0.012	0.069	<b>0.744</b>
Social-culture 3	0.026	0.028	0.051	<b>0.679</b>
Social-Culture 7	0.085	0.133	0.094	<b>0.610</b>
Social-culture 1	0.114	0.080	0.160	<b>0.503</b>
Social-culture 2	0.052	0.120	0.057	<b>0.486</b>
Eigen values	5.138	3.145	2.000	1.689
% of variance	19.96	16.13	15.08	14.50
Kaiser-Meyer-Olkin	0.741			
Bartlett's test of sphericity	0.000			
Cronbach alpha	<b>0.95</b>	<b>0.83</b>	<b>0.72</b>	<b>0.87</b>

## 12.4 Analysis

### 12.4.1 Descriptive Statistics

Majority of the respondents are above 31 years old (58%), married (54%), and male (54%). The countries most visited by the respondents are Thailand (34%) and Singapore (21%), followed by Vietnam, China, Japan, and Hong Kong. This is quite similar with the data obtained from MasterCard-CrescentRating Global Muslim Travel Index (2015) shown in Table 12.2. The mean score for the dependent variable is 4.03, indicating they agree that their visits have been satisfactory. The mean score for dimensions of destination attributes are 3.15 (availability of halal food), 3.32 (prayer facilities), 3.82 (social-culture attractions), and 3.70 (concern for safety-security).

### 12.4.2 Multiple Regression Analysis

To test the predictive ability of the independent variables and test all the hypotheses, the multiple regressions analysis was carried out. All assumptions that are prerequisite for the multiple regression analysis, such as multicollinearity, normality, treatment for outliers and others are all taken into account before the test is carried out. The result of the analysis summarized in Table 12.3 shows that the 47% of the independent variables could be assigned for the variation in the dependent variable ( $R^2 = 0.474$ ,  $p < 0.001$ ). Analysing the coefficient value of the individual dimension of destination attributes shows that *concern for safety-security* has the strongest

**Table 12.2** The top 10 non-OIC destinations in the GMTI 2015

Rank	GMTI 2015 ranking	Travel destination
1	9	Singapore
2	20	Thailand
3	25	United Kingdom
4	30	South Africa
5	31	France
6	32	Belgium
7	33	Hong Kong
8	34	USA
9	35	Spain
10	36	Taiwan

Source MasterCard-CrescentRating Global Muslim Travel Index (2015)

**Table 12.3** Multiple regression analysis

Dependent variable: tourist satisfaction		
Destination attributes	Standard coefficient	Hypothesis
Available of halal food	0.188*	Support
Prayer facilities	0.128	Not supported
Social-cultural attraction	0.324**	Support
Safety of the destination	0.565**	Support
<i>R</i> -squared	0.4743	
<i>F</i> change	17.960*	

\* $p < 0.01$ ; \*\* $P < 0.001$

Destination attribute and tourist satisfaction

influence ( $\beta$  0.565,  $p < 0.001$ ) followed by *social-cultural attractions* ( $\beta$  0.324,  $p < 0.001$ ) and availability of halal food ( $\beta$  0.188,  $p < 0.001$ ). *Prayer facilities* do not have a significant influence on tourist satisfaction.

## 12.5 Discussions and Conclusion

The objective of this study is to appreciate what is considered significant for Muslims when experiencing a tour to non-Muslim majority country. The reason for exploring these particular travel destinations is due to the fact that it has become one of the favoured destinations for Muslim tourism market segment. However, there is an assumption that we would like to highlight when we refer to the Muslim market segment. From a marketing perspective, we would have to agree that the Muslim community itself is diverse, not only between countries but also within a country, like Malaysia. As such, generalizing any community on religious pretext as being thoroughly homogenous is inaccurate, either from the perspective of religious practices or a persons' religiosity. This study has shown that apart from the religious requirements during a travel, the practical and core reasons of a social visit are still quite similar as to any other tourist market segments; that is, the experiencing of new social-cultural events with assured safety-security. From the data analysis, the most important destination attribute is ensuring one's own safety-security during the visit. The need to ensure safety-security is of course a reflection of the person's perception toward risk. For Muslims, this feeling of insecurity or risk during international travel could be justified by the portrayal of Islamophobia in the international media. As such, all the stakeholders relevant to the Muslim tourism market segment have to be explicit in reassuring this fear or anxiety when offering their travel or tourism products. The role of credibility and trustworthiness of those involved in the tourism industry (tour operator, hotels, etc.) is crucial in addressing this security-safety factor.

As could be observed from the data analysis, the religious components of the travel destination attributes have provided mixed, though not thoroughly unexpected result. As for availability of halal food, the influence over tourist satisfaction is not as strong as the two destination attribute discussed earlier. Halal food does not certainly mean gourmet like cuisine. In fact where food is concern the Quran stated, "...and eat and drink but waste not by extravagance, certainly Allah likes not those who waste by extravagance" [al-A'raaf 7:31]. Allah's Messenger (pbuh) said: "We are a people who do not eat until we are hungry. And if we eat, we do not eat to our fill". But still, even as lesser devout Muslims, having stronger feeling over what is consumed is something very much expected of, over other religious obligations.

Although MasterCard and CrescentRating (2016) put prayer facility as a "need to have" rating for Muslim travellers, the data analysis from this study found it having no significant influence over tourist satisfaction. This contradiction is not totally unexpected taking into consideration the element of flexibility in performing the prayers (*solat*) especially as *musafir* (travellers). The Quran says, "And when you travel throughout the land, there is no blame upon you for shortening the prayer" (4:101). Apart from the flexibility in *solat* allowed for travellers, two other factors might also justify the data analysis outcome. First, compared to the circumstances during travel, the act of *solat* is performed on totally different foundations. The al-Quran says, "So from wherever you go out [for prayer, O Muhammad] turn your face toward al- Masjid al-Haram, and indeed, it is the truth from your Lord. And Allah is not unaware of what you do" (2:149). As such, Muslims performing the *solat* is not at all restricted by any physical encumbrances. Second, the prayer facilities (*qiblat* and prayer time) as mentioned in the rating are too trivial for a Muslim performing the *solat*, and can in fact be easily available on modern electronic and communication devices. There is also an earlier study by Nassar et al. (2015), which found that the availability of Muslim-oriented amenities and services such as praying facilities is not important factor that determines Muslims go to travel.

In conclusion, the knowledge about tourism destination attributes and how it could affect Muslim travellers need to be translated into systematic and effective marketing strategies for tourism industry stakeholders. However, as mentioned earlier, an element that must be taken into consideration is the diverse nature of the Muslim tourist market segment. Future studies should include existing demographic and social diversity in the Muslim community as moderating the eventual relationship between destination attributes and tourist satisfaction.

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# Chapter 13

## Empowering Halal in Waqaf Land Property Management Using Geographic Information System (GIS) Tools



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**Abstract** Halal does not rest on food and beverages alone, it covers all aspects of our life including the way things are managed such as management of waqaf. Waqaf is one of the Islamic instruments for eradicating poverty and improving socioeconomic situations. There are various means of waqaf such as land, money, and property. This research was carried out to understand the problems and challenges faced by management in the waqaf institute pertaining to waqaf land. The research was conducted by reviewing literatures on waqaf management, analyzing waqaf documents and conducting discussion with Perlis Islamic Religious Council or known as Majlis Agama Islam Perlis (MAIPs) staffs. The scope of this research is land properties in Perlis that have been designated as waqaf lands by Majlis Agama Islam Perlis (MAIPs), an Islamic institution that managed all waqaf welfare in Perlis. This study have highlighted several issues on the inefficient management of waqaf land due to improper documentation of the land, inconsistent measuring standard of land between Malaysian and international standards and inaccessibility of records for such properties. These situations often lead to illegal intrusion to waqaf land and manipulation of waqaf information by disrespectful parties. In addition, most of these lands are left idle without any benefits gain from the properties. This is against the Islamic teaching of reaping rewards from waqaf land. Therefore, to address these problems, it is important to look into the capabilities of geographic information system (GIS), an integration of geographical functions in the information system in helping the administration of the waqaf land. This paper will discuss the development of GeoWaqaf application which integrate two types of databases which are nonspatial and spatial (map) databases. Nonspatial database contains records on land ownership and land use which are extracted from land title grant. The spatial (map) information like Mukim, Lot number or Land Office number and coordinates of land also were extracted from the same source but must undergo classification of land ID and coordinate uniform process into current cadastral coordinate system before they can be stored in the spatial (map) database. The ability of GeoWaqaf application to syn-

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chronize these data from two separate databases will enable waqaf administrators to obtain accurate query of waqaf land position quick and accurately. The ability to access accurate information of waqaf land and view the land position and its surrounding will help in effective management of the waqaf land. In addition, waqaf administrator will be able to plan a new development strategy for the respective land thus fulfilling its capacity as the economic drivers for the country development.

**Keywords** Land management · Socioeconomic development · GIS database

## 13.1 Introduction

Halal does not rest on food and beverages alone, it covers all aspects of our life including the way things are managed such as management of waqaf. Waqaf is one of the Islamic instruments for eradicating poverty and improving socioeconomic situations. There are various means of waqaf such as land, money, and property. For waqf land, several model of instruments is used to benefit from the endowments. Among these are debt-based instruments that include Build, Operate and Transfer, Self-Finance instrument such as lease (ijarah) and substitution of waqf land (istibdal) and Islamic securities instruments (Hasan and Abdullah 2008; Mustafa and Ogunbado 2015). Islam has outlined these methods to help the Muslim economies. However, data shows the usage of waqf land is still in infancy stage.

This study was carried out to understand the problems and challenges faced by management in the waqaf institute pertaining to waqaf land. This paper highlighted three inefficient managements of waqaf land which are improper documentation of the land, inconsistent measuring standard of land between Malaysian and international standards and inaccessibility of records for such properties. These situations often lead to illegal intrusion to waqaf land and manipulation of waqaf information by disrespectful parties. In addition, most of these lands are left idle without any benefits gain from the properties. These situations are against the Islamic teaching of reaping rewards from waqaf land. Even though many studies have suggested the benefits of waqf to society, surprisingly, it has not been fully utilized (Ali et al. 2016).

Thus, this study was carried out to understand the problems and challenges faced by management in the waqaf institute pertaining to waqaf land. This study has highlighted several issues on the inefficient management of waqaf land due to improper documentation of the land, inconsistent measuring standard of land between Malaysian and international standards and inaccessibility of records for such properties. These situations often lead to illegal intrusion to waqaf land and manipulation of waqaf information by disrespectful parties. In addition, most of these lands are left idle without any benefits gain from the properties. This is against the Islamic teaching of reaping rewards from waqaf land. Sanusi and Shafiai (2015) have suggested the use of the latest technology in database management to cater for the needs of waqf institutions. Therefore, to address these problems, it is important to look into the capabilities of geographic information system (GIS), an integration of geographical

functions in information system in helping the administration of the waqaf land. The significance of the research lies in the ability to integrate geospatial data (map) into Waqaf Information System where the use of digital map will improve e-Waqaf performance by having the ability to show the location of the waqaf properties. The development of this function will enable MAIPs waqaf management to have easy access to location of waqaf property.

## 13.2 Research Background

Islam is a comprehensive, integrated and holistic religion that governs and interweaves all aspects of life (Ahmad 2007). According to Arif and Shamsher (2013), the wealth management in Islam is strictly guided by Shariah (Quran and the Sunnah), and comprises the (i) process of wealth generation, (ii) accumulation, (iii) protection, (iv) purification, and (v) distribution. Wealth, although earned through efforts, is owned by as well as come from Almighty Allah SWT. Wealth is owned by the Omnipresent and is given to humans for establishing good deeds to be done on earth. Humans are just the vicegerents entrusted with the responsibility to manage the given wealth and must be accountable as to how the humans used the wealth. Thus, individuals are encouraged to benefit from their wealth not only during their life but also after death. One of the ways to do so is through waqaf.

Waqaf refers to religious voluntary donations in cash or property (such as land or building), and payment for shariah-compliant projects such as mosques or religious schools. Waqaf is one of the sources of Islamic economic system that helps to develop a distinct solution to a wide class of public problems. Waqaf is a vital tool in Islamic countries for social protection as it assists in poverty reduction among low- and middle-income nations as it helps to initiate developmental programs for poor and vulnerable citizens. Thus promoting human development and economic growth.

Web information system has given significant impact on every aspect of personal and working life. Web information system is an information system that uses Internet web technologies to collect, publish, and maintain information and consists of several web applications, information components, specific web functionality-oriented components, and other non-web components. Today, web-based system runs on diverse complex application such as expert system, transactional system and variety of e-commerce application. The inception of Geographic information system (GIS) allows geographic phenomena in the real world to visualize digitally in various ways. By zoning specific areas and utilizing mapping technique to create composite information for waqaf properties, authorized institutions are able to efficiently create, manipulate, analyze and display all types of information both in text and geographic form. Works by Kumar et al. (2014) show that the ability of Google sketch to create 3D city model of Chennai, India. By mapping property crimes for a period of 3 years, the researchers were able to provide valuable information concerning property crimes in the city. The social and infrastructural characteristics of these areas were included to enable the localization of criminal activity.

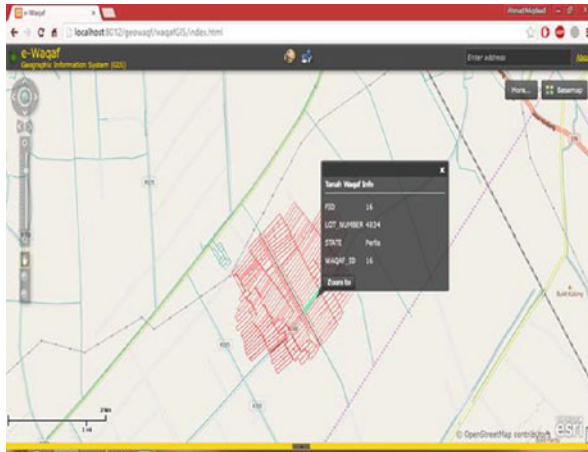
According to Sabran (2002), it is the mutawalli (manager) obligation to govern the Waqf properties to the best interest of the beneficiaries once Waqf founder had determined the type of management of his/her Waqf. First priority is to preserve the property and second to maximize the revenues of the beneficiaries. The revenues are used for the welfare of the society including social, spiritual, and economical objectives, which are distributed among the poor and the needy, mosques, schools, graveyards, orphans, widow, old folk's, etc.

### 13.3 Research Methodology

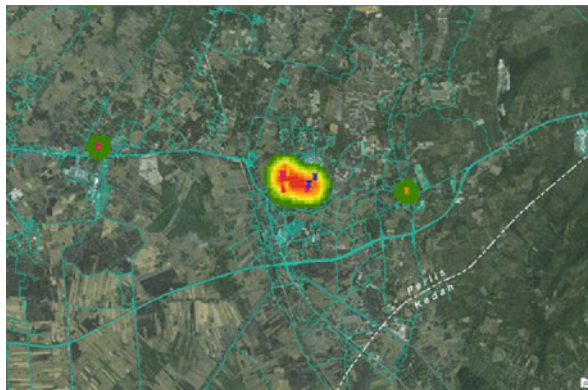
The methodology for this study consisted of six activities which are data collection, knowledge acquisition, analysis, design, and lastly the development waqaf database, geodatabase and web information system. First, the research was conducted by reviewing literatures on waqaf management, analyzing waqaf documents and conducting discussion with Perlis Islamic Religious Council or known as Majlis Agama Islam Perlis (MAIPs) staffs. The scope of this research is land properties in Perlis that have been designated as waqaf lands by Majlis Agama Islam Perlis (MAIPs), an Islamic institution that managed all waqaf welfare in Perlis. Secondary data collection was done by reviewing the land grants specifically in Perlis. The knowledge acquisition was interview sessions with MAIPs managers. The purpose of conducting the interview was to understand and identify the problems encountered and procedures used by the waqaf management. The interview was also aims to stimulate information that is unattainable in the literature. The analysis activities focused on analyzing documents and interview transcripts. Two techniques used were Data Flow Diagram (DFD) to chart the flow of the procedure and Entity Relationship Diagram (ERD) to design the logical database for waqaf data. Development of the geodatabase was done through ArcGIS application and construction of the GeoWaqaf prototype was completed using Dreamweaver application (Sharifah-Lailee et al. 2016).

### 13.4 Analysis and Discussions

GeoWaqaf has the ability to show the locality of specific waqaf properties after waqaf information are generated as shown in Fig. 13.1. The functions provided by this application allow authorities to digitally visualize the properties thus assisting in their decision-making process such as determining the value of the properties in case of istibdal is necessary or planning future development of the properties. Scaling the real world into computer screen size makes the decision maker able to interpret and appreciate the location of waqaf land and its surrounding activities. Thus, the MAIPs can make their planning and decision toward economic activities either to generate income by developing the waqaf land or aid the local council to boost the value of surrounding properties. Hence, this system is also open the opportunity to automated



**Fig. 13.1** Detail information on each Waqaf property



**Fig. 13.2** Hotspot for Waqaf properties

the property valuation by analyzed all the data gathered. The challenge is to develop all the required data and it is may costly and time-consuming.

Figure 13.2 shows the result of hotspot mapping according to number of waqaf land in the area. Analysis of the hot spot using GIS software enabled waqaf management to identify areas within Perlis state. Hotspot mapping focusses on highlighting areas, which have higher than average of waqaf properties. The map shows red if the area has higher than average of waqaf land, yellow color if the land is only several acres and if less than an acre the spot will be shown as green.

By mapping property information, it is possible to provide valuable information concerning properties in the surrounding environment. By including information such as the social and infrastructural characteristics of the area, it is possible to analyze the relationship between property clusters and their spatial neighborhood

properties. This will enable the localization of specific social and economic activities thus aiding-related organizations such as MAIPs in their decision-making process.

Islamic management is a specific approach developed according to the Islamic principles, which guide the managers in managing the organization. It started with setting the organizational objectives, vision and mission, company's values, code of conduct and ethics, the process of decision-making, recruitment, employees training and developments and strategies in managing the business.

Organization is a totality concept. At this point, the responsibility for effective organization as whole where there needs to push the practice of Islamic management agenda to be the forefront for the management development of Waqf organization. As waqf is able to develop ummah, AbHasan et al. (2015) call for good governance and administration of waqf management. Moreover, to handle inefficient experts or professionals that unable to do proper planning, financing, and implementing project, Ismail et al. (2015), have also recommended the institution to be empowered according to maqasid shariah. The suggestion is in line with the Islamic concept of human as khalifah and practiced the leadership abilities of admitting their act as an ibadah (worshipping), working towards mardhatillah (Allah's pleasure) which lead into efforts that invite goodness and forbid evil (al- amrbi'l-ma'rufwa al-nahy 'and al-munkar). Accordingly, Mustafa and Ogunbado (2015) also suggest a proper team with good governance.

Ismail et al. (2015) have also discovered the improperly written records that lead into difficulty to identify the land plots, size, and locations of waqf land. Therefore, the use of GIS is able to benefit waqf institution as it leads into a more efficient and effective measure in identifying the exact plots. The benefits of application of GIS as discovered in this study are as follows:

- (1) Information from the land grants are stored in the information database. This will aid waqaf management in sorting the ownership of the waqf land.
- (2) Information about families of the "pewaqif" are also stored in the same database allowing the managers to cross-reference the information if ever there are trespassers on the properties.
- (3) Information about the locality of the waqaf land are stored in the geodatabase will allow the managers to be able to pinpoint the exact location of the properties thus avoiding trespassing incidents by MAIPs.
- (4) The real geographic phenomena of the waqaf lands can be visualized digitally.
  - a. Able to understand the specific social and economic activities of the surrounding area.
  - b. Able to visualize digitally the social and infrastructural characteristic of the surrounding area.
  - c. Able to analyze the relationship between property clusters and their neighborhood properties.

Ahmed et al. (2015) have discovered that Malaysia and Singapore have an efficient management of waqft especially in istibdal and hukr. Istibdal is a concept which allows an exchange of waqaf land with another property that provides similar service



or income. This is permissible as long as the provision does not contradict with the founder interest. Meanwhile, *hukr* refers the act of selling a right to use the waqf property to a lessee. In other words, it is a long lease with advance lump sum payment. The lessee must pay a large amount of money in advance and use his resources to develop that property. The risk is on the lessee and he will continue using the property as long as he pays the rent to waqf administrator.

### 13.5 Future Work

Future work on this study will include the use of 3D application to capture the buildings on the specific waqaf land and surrounding areas. This will aid waqaf management deciding the best economical strategies for future development of the property.

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# Chapter 14

## Islamic Hybrid Securities: Analysis from Malaysia Islamic Capital Market



Mohamad Nizam Jaafar, Balkis Haris, Amirul Afif Muhamat and Ismail Ahmad

**Abstract** Albeit Malaysia is considered as one of the key active players of Islamic Financial Market industries, there are still limited studies that have been conducted on the hybrid securities issuance in the Islamic capital market. The underlying objectives of this study are to enrich the literature review by providing comprehensive analysis of the hybrid securities on Malaysia Islamic capital. There are several theories that related for the motivation of the firms to issue hybrid securities such as risk-shifting exercise (Green in *J Finan Econ* 13:115–136, 1984), backdoor equity financing (Stein in *J Finan Econ* 32:3–21, 1992) and sequential financing problem (Myers in *J Finan Econ* 47:83–102, 1998) respectively. Besides, there are several other benefits of hybrid securities features that the firms could leverage by opting to hybrid securities. By exploring hybrid security issuance among Shariah compliance firms will also fill up the gap of lacking of awareness and understanding of security market against the essential of the instruments in financial system.

**Keywords** Capital structure · Risk-shifting exercise · Backdoor equity financing hypothesis · Backdoor equity financing · Sequential financing problem

### 14.1 Introduction

The need for raising capital is escalating in conjunction with the growth of the firm's business. The two most common ways of raising external capital are either by issuing equity or via incurring debt, respectively. Obtaining capital via equity from the public is carried out in the stock market. Meanwhile, securing debt is normally by either borrowing the capital from the financial institutions or by issuing debt securities such as commercial papers, bonds and notes. Alternative to debt and equity, the firms could also issue hybrid security which has gradually become one of the important capital or securities issuance choice. Hybrid securities also generally are deeply within the issuer's capital structure. Typically, hybrid securities are ranking lower to other

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forms of debt but higher to common stock. As a result, the rating agency and regulator always give good rating to the issuers when they are analysing the issuers' capital structure position.

The literature offers several hypothesis that motivated the issuance of hybrid issuance, namely, risk-shifting exercise (Green 1984), backdoor equity financing (Stein 1992) and sequential financing problem (Myers 1998). The reason for Green (1984) to propose the risk-shifting hypothesis is to address the issue of minimizing agency cost which arises from the conflict of interest between bondholder and shareholders. Stein (1992) through his backdoor equity hypothesis proposed on how the firms are using hybrid as the substitute for common equity as indirect financing in order to minimize the cost related to direct equity offering. Meanwhile, Myer (1998) extend Stein's model (1992) of "backdoor equity hypothesis" by including sequential financing problems. Myer (1998) claims that issuing hybrid securities offer lower financing cost as hybrid financing carry lower coupon rates than straight debts (due to the conversion option features) and has the possibility to sell off at premium prices.

This study's objective is to analyse the Islamic hybrid securities in Malaysia capital market. Section 14.2 summarizes the theory capital structure particularly on the hybrid capital structure. Section 14.3 discusses the benefit of hybrid securities and Sect. 14.4 presents the instruments of hybrid securities available in Malaysia. Section 14.5 concludes the paper.

## 14.2 Literature Reviews

The foundation of the modern theory of capital structure was initiated from Modigliani–Miller (M&M) theorem, established by Modigliani and Miller (1958). This theory stated that a firm's capital structure choice does not affect the firm's value when the capital market is perfect or efficient with the assumption of there is no taxes imposed, no issuing cost for raising capital via debt or equity and no agency cost, respectively. Nevertheless, it is contradict to the real-world practice which eventually attributes to several other theories which were also found to challenge these studies and define the optimal capital structure for the firms in various perspectives such as agency theory (Jensen and Meckling 1976; Smith and Warner 1979; Pinegar and Wilbricht 1989), asymmetric information (Myers and Majluf 1984), pecking order theory (Myers and Majluf 1984; Myers 2001; Fama and French 1998), bankruptcy cost (Florackis 2008), risk shifting (Green 1984; Lewis et al. 1999) and backdoor equity financing (Stein 1992; Lewis et al. 1999).

The popular dispute among practitioners on why they are choosing for issuing the hybrid securities instead of debt, i.e. convertible bond is because of the cost factor. Convertible bond carries lower coupon rate as compared to the normal bond and subsequently permit the issuers to sell the security at a premium over the current prices where the conversion price is higher than the stock price (Myers 2000). This is in line with Mayer's model of Sequential Financial problem (Myers 1998) which is extension from the 'backdoor equity hypothesis model' (Stein 1992).

Stein (1992) proposed in the backdoor equity financing theory that the firms are able to delay issuance of equity via hybrid financing when they face high degree of informational asymmetries cost making less attractive to issue equity. As such, convertible debt stand for a financing option that diminished the unpleasant selection costs of an immediate sale of equity. This facilitates the firms to issue equity without having to acquire higher financial risk. Thus, Lewis et al. (1999) argue that although convertible debt issuers may have firm characteristics that are similar to equity issuers, leveraged firms that are optimistic about their future investment opportunities but that are subject to significant information asymmetries are more likely to choose convertible debt or straight debt. However, Stein (1992) notes should the firm that having significant asymmetric information proceed with the issuance of straight debt may attribute to firms to face other value decrease costs. When the financial distress is very expensive, firms that are highly gearing and have poor future cash flow will relinquish straight debt issues. Consequently, financial distress costs prevail over unfavourable selection costs. Stein (1992) concludes that convertible bonds are a replacement for equity and that this substitute is most probable to take place in firms facing major information asymmetries and high financial distress costs.

### **14.3 The Benefits of Hybrid Securities in Malaysia Capital Market**

Hybrid securities are very crucial in capital market. It offers the solution for the conflict of interest between manager and shareholders. Traditionally, the firm always issues either debt or equity in raising capital. Nevertheless, there is always divergence of interest between manager and shareholder. The limited liability of equity holder gives them greater value for investing in more risky projects. This is because when the investment work in favour of the firm, the shareholder has unbounded upside potential. However, if the investment fails, the debt holder will have to bear all the losses. The bondholder responds to the unfavourable risk that is being exposed to them by charging higher yield to the issuer/shareholder to compensate their risk which is known as the cost of risk shifting. As a solution, hybrid securities such as convertible bond allowed the manager to venture into high-risk business with lower cost as the convertible bond is carrying lower interest rate than the normal debt instrument. In addition, the feature of conversion option in the convertible bond permits the bondholder to gain maximized upside prospect of the business venture. The convertible also reduces the value of the shareholders' residual claim which discourages the shareholder to endeavour in more risk projects.

In line with backdoor equity financing theory, hybrid securities also allow the firms to delay issuance of equity when they face high degree of informational asymmetries cost making less attractive to issue equity. As such, convertible debt stands for a financing option that diminished the unpleasant selection costs of an immediate sale

**Table 14.1** The securities outstanding in Malaysia capital market as at December 2014

Type securities	Islamic securities	Conventional	Total	% Islamic instruments
Equity	817	923	923	89
Debt	457.0	534.0	1010	45.2
Warrant	25	199	199	12.5
Preferred stock	1	9	9	11.0
Convertible bond	3	45	48	0.06
Loan stock	0	35	35	0

Source <http://www.sc.com.my>, 15 February 2015

of equity. This facilitates the firms to issue equity without having to acquire higher financial risk.

Other benefits of hybrid securities are allowing high-risk firm (high asymmetric) to secure capital for expansion. According to Stein (1992), when the firm that is having significant asymmetric information proceeds with the issuance of straight debt, it may attribute to firms to face other value decrease costs. When the financial distress is very expensive, firms that are highly gearing and have poor future cash flow will relinquish straight debt issues. As an alternative, the firms can always opt for hybrid securities. In addition, hybrid securities such as convertibles bond also allow firms to take advantage of the tax deductibility of the coupon payments until conversion occurs. This assists the firms to achieve maximize shareholders' value.

Hybrids securities also generally are deeply subordinated within the issuer's capital structure. Typically, hybrid securities are ranking junior to other forms of debt but senior to common stock. Therefore, the rating agency and regulator always give good rating to the issuers when they are analysing the issuers' capital structure position. Nevertheless, the real benefits of a hybrid security are depending on its 'equity-like features' or 'debt-like features' characteristics of the firms. From a rating agency and bank regulatory perspective, more equity-like hybrids generally receive more favourable treatment as the issuer is considered having less debt which is subsequently lowering the bankruptcy risk. Meanwhile, from the tax perspective, more debt-like hybrids offer more favourable tax treatment for issuers.

Despite various benefits that can be obtained by issuing hybrid securities to the firms and capital market, there are very limited hybrid security instruments in Malaysia capital market inclusive of Malaysia Islamic capital market. The most dominant hybrid securities that are being issued by most of the firms are preferred stock, company warrant convertible bond/loan stock. Please refer Table 14.1, on the details of hybrid securities which are currently outstanding in Malaysia capital market.

## **14.4 Instruments of Hybrid Securities in Malaysia Islamic Capital Market**

There are various types of securities in Malaysian capital market that can be classified as hybrid such as bond with convertible loan, bond with warrant, structured warrant, company warrant, loan stock and others. The details of the instruments are discussed as follows.

### ***14.4.1 Warrant***

In general, there are two major types of warrants issued in Malaysia capital market, namely, the company warrant and structure warrant, respectively. The company warrant is being issued by the firm itself that required capital meanwhile the structure warrants are issued by a third party such as stockbroker of financial institutions that give holders the right, but not the obligation to buy or sell the underlying instrument in the future for fixed price. The money raise by structure warrant will not be received by the company. Considering, the structure warrant is not issued by the company itself, we decided to exclude this instrument from our model and only focus on company warrant.

Company warrant or transferable subscription right (TSR) provides the holder the right but not the compulsion to buy or subscribe for a new ordinary share at the certain exercise price within the certain given period of time (exercise period). If the investors do not subscribe the share upon the expiry period of the exercise, the warrant will become worthless and this warrant is known as call option. Warrant is the hybrid securities that have the feature of equity.

The value of the warrant is calculated based on the underlying asset of the original ordinary share of the issued firm. The theoretical price of the warrant is the difference between the market price of the issuance firm and the exercise price. Nevertheless, in the normal circumstances, the market value of the warrant is stated at premium in conjunction with the lower capital outlay and speculative reasons. The price of the warrant will be determined by the expiry date of the warrant.

### ***14.4.2 Loan Stocks—Secured, Unsecured, Redeemable and Irredeemable***

Loan stock is one of the hybrid securities with debt features that are commonly issued by various firms in Malaysia capital market. Loan stocks appear to be uniquely Malaysia hybrid securities. Despite there are non-convertible loans in the market, most of the firms normally issue loan stock with convertible features as the non-convertibles loan stock will have to carry a higher coupon rate.

### 14.4.3 *Convertible Loan Stock (CULS)*

CULS is one of the loan stocks that are convertible to other instruments which are normally to equity. CULS investors received the benefit of bonds such as interest from the coupon rate and also have the possibilities of capital appreciation upon converting CULS to equity. In essence, it may be similar to fixed income debt instrument awaiting conversion into equity at the predetermined dates. At first quick look, one could think that CULS is compatible with convertible bond. Indeed, CULS can be considered as Malaysian version of convertible bond.

CULS can be offered in the structure of redeemable (RCULS) or irredeemable (ICULS) convertible unsecured loan stock. In the case of ICULS, the investors are required to convert the ICULS into ordinary shares upon the maturity period. Meanwhile, for RCULS, the investors have the option whether to convert the RCULS into ordinary shares or redeem the RCULS itself from the issuing company at their par value.

The advantages of issuing CULS are to attract more investors to buy the instrument considering the additional features of conversion privilege. CULS is also lowering the firm's cost of borrowing as it is bearing lower coupon rate. Besides, the issuing firm also could benefit the capital gain upon conversion of CULS into shares.

### 14.4.4 *Preferred Stock (PS)*

- Preferred stock (PS) is also known as preference share which is one of the most prominent hybrid securities instruments. It has the combination of both features of bond and equity. Nevertheless, in terms of ranking for claiming of asset in case of liquidation, PS is senior to common stock but lower to bond. PS also has more priority in terms of dividend payment over common stock.
- Equally to bonds, preferred stocks are evaluated by the credit rating agencies. In general, the rate for PS is generally subordinate to bonds considering PS's dividend payment is not guarantee and PS holders' claims are junior to those of all creditors.
- Generally, PS has priority over common stock in dividend payments. Nevertheless, the preference is not a guaranteed payment of dividends, but the company is obligated to reimburse the stated dividends on PS prior to paying any dividends on common stock.
- Besides, PS also has the features of *cumulative* or *non-cumulative*. A cumulative PS entails that should a company unable to make any dividend payment (or any amount below the stated rate), it must make the payment for it in the future. Meanwhile, non-cumulative PS, if no dividend is declared and the company fails to pay on time, no accumulate dividend is required to be paid to the shareholders in the future.
- Preferred stocks gives a firm an option form of financing as the dividend payment is not fixed. As such, a firm that defers dividends is not considered default and

unaffected is its credit rating. Comparing to traditional debt, a missed payment would put the company into a default status.

- PS can also be used by the firm to prevent any hostile takeover, by creating PS with a poison pill (or forced-exchange or conversion features) which are exercised upon a change in control. A firm normally issues a number of classes of PS. The firm requires stage amount of financing, with respective stage receiving separate rights and having a different class of PS. Such a company might have 'Series A Preferred', 'Series B Preferred', 'Series C Preferred' and common stock.

Despite the above, there are only nine firms that have issued PS in Malaysia. Due to limited firms for studies, we have excluded PS in our model of study.

#### ***14.4.5 Convertible Bond***

This is an instrument that offers the bondholders or the investors the right to convert from fixed rate securities of bond to certain number of the shares at the agreed conversation price and rate. This instrument is preferable for the investors who are looking for the mixture of fixed income and equity. The investors could benefit from the capital appreciation during the conversion of this instrument. In addition, the investors could benefit from the dividend stream. In other words, convertibles appeal to investors who seek both the cash flow and safety of a bond while still enjoying the prospects of capital appreciation should the company's ordinary shares perform well.

For issuers, they can benefit from the lower cost since CB's coupon rate is lower than normal bond. They also could gain from capital appreciation during conversion exercise.

To date, there are 48 numbers of convertible bonds currently outstanding in Malaysia with only 3 or 0.06% which consists of Islamic convertible bond. The details of Islamic convertible bond issued in Malaysia Islamic capital are as follows:

- Subordinate Convertible Sukuk (Bond) issued by Maybank in 2005 under the contract of Bai Bitamin Ajil.
- Subordinate Convertible Sukuk (bond) issued by AmIslamic Bank Bhd in 2006 under the contract of Musyarakah.
- Sukuk mushārahah issued by Rafflesia Capital Limited in 2006 known as Khazanah TMB exchangeable sukuk musharakah.

#### ***14.4.6 Warrant Bond***

As mentioned before, warrants alone are securities that give the rights, but not obligation, to buy equity of a company at a specific price and period. Warrants are usually issued in combination with other securities, namely, bonds and equities. Warrant



**Table 14.2** The issuance of convertible bond and bond warrant in Malaysia

Year of issuance	Securities	
	Convertible bond	Warrant bond
2010	9	4
2009	7	0
2008	3	0
2007	3	4
2006	4	0
2005	6	0
2004	5	0
2003	10	0

Source <http://www.sc.com.my>, 13 February 2015

bonds are detachable which permit the investors to sell warrant but keep the bond. This feature provides the option to the issuer to set different maturities for bonds and warrants. Unlike convertible bond, warrant bond is not callable. As a result, the number of issuance for bond warrant is not very encouraging. Table 14.2 provides the details of hybrid bond securities issuance in Malaysia.

## 14.5 Conclusion

Islamic finance has emerged as one of the most important segments in financial system. Started from a humble beginning, Islamic finance had evolved into a complete set of financial system consisting of banking, insurance, money market and capital market and equally compatible with the conventional financial system. Islamic finance has registered tremendous growth ever since its inception and eventually surpasses the growth of conventional system. In addition, there is remarkable trend among non-Muslims society to start employing Islamic finance instruments for their financial requirement.

Hybrid security is one of the instruments availed in capital market. Hybrid securities have its owned niche that caters the requirement for certain circumstances that could not be fulfilled by the traditional form of capital neither debt nor equity. First, hybrid securities are useful to address the issue of agency cost between the manager and shareholders. Second, hybrid securities permit the firm that is having high cost of issuing equity due to asymmetric information to raise capital at lower price. Lastly but not least, hybrid securities allow the high-risk firm to invest into positive NPV project at lower cost.

Despite the advanced stage of Malaysia Islamic capital, the issuance of Islamic hybrid securities among the Shariah compliance firms is very low. As such, by exploring hybrid security issuance among Shariah compliance firms will also fill up the gap

of lacking of awareness and understanding of security market against the essential of the instruments in financial system.

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# Chapter 15

## Halal in the Land of the Atheist



**Risyawati Mohamed Ismail**

**Abstract** In recent years, halal food has become one of the most crucial economic drivers around the world. Worldwide, the export of halal food has increased exponentially thus indicating that the acceptance and demand of halal food is beyond the conventional Muslims-dominated countries. Besides the growth in numbers and economic strength among Muslims, the transmigration of Muslims diaspora, coupled with an increased manifestation of Islam and cultural identity further drove the widespread globalization of halal food. Despite the general acceptance of halal food, many government and policy makers are becoming agitated and reacting negatively to the halal “movement”. This study was done through an interview with halal restaurants operators as well as its patrons. Result from this study indicated that halal in China, particularly in Ninxia region is more complicated as it is rooted together with ethnicity, trust between different religions, as well as the different views posed by the younger generation of Hui Muslims. The findings in this study hopefully will serve as the platform for wider and deeper research on the complexity of halal in China.

**Keywords** China · Halal · Ningxia

### 15.1 Introduction

Islam remains as the most popular religion in China among the five religions recognized by the communist state. China Religion Survey conducted by Beijing’s Renmin University reported that Islam has the largest followers under 30 year olds. Pew Research Centre in 2010 reported that there were 23.3 million Muslims living in China and predicted the numbers to significantly increase to 30 million by 2030. Most Chinese Muslim, particularly the Hui inhabited areas known as autonomous regions and one of the most well known for its production of halal food is Ningxia Autonomous Region (NAR). The Muslims in this area, similar to other diaspora of

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169

Muslims around the globe has been experiencing a rise in numbers and is thriving economically. Ningxia's GDP grew by 11.5% to RMB 232.66 billion in 2012 alone. Ningxia's halal food industry is worth about USD 700 m a year and it is the driving force rejuvenating the impoverished region. NAR is basically located in the northwest of China and North China border and is equipped with a comprehensive transportation network in railway, highway, shipping as a whole, forming a central region, East into the Hexi Corridor, Xinjiang, convenient channel and then to Central Asia, Europe, and other countries (Liu 2015). Up to date, NAR has built 15 halal parks, focusing on the production of halal food and Muslim's products. This economic initiative, supported with a vast and solid infrastructure clearly demonstrates the serious intention of this region to be a global player in the halal ecosystem.

However, in recent months, halal food has ignited provocation and negative response in China. Several incidents have caused a significant uproar, calling for a halt on the emerging halal economy in China. Ethnic Affairs Committee of the National People's Congress had previously drafted a national law aimed to regulate halal food, seen by many as Beijing orchestrated an effort to support the million dollar industry. However, the national law was abruptly dropped in June, in the heel of several incidents involving the Muslims community. Among them are the attacks on a Xining halal confectionary selling pork in May while in Shaanxi, hundreds of Muslim took to the streets protesting against halal restaurants selling alcohol. While these showed dissonance among the Muslims against the threat on their religious practices, an incident such as in Xinjiang, where several foreign media reported on Muslim shopkeepers being forced by government officials to sell alcohol and cigarettes in their shops also showed how the authorities are also meddling in the Muslims way of life. This research was done on Muslim and non-Muslim communities operating halal restaurants and stall in the region of Ningxia, Yinchuan, China. The main objective of this research was to observe the general sentiment of Ningxia denizens toward halal food culture. Due to language barrier, a translator was used during this study.

## 15.2 Literature Review

Food and nationalism is another perspective to politics provided by global communities that are heavily embedded in day-to-day activities. Muslims have a long history of enduring various hardship and endurance that included civil wars, enforced resettlement and by being in a communist country, religion suppression. Islam remains as the most popular religion in China among the five religions recognized by the communist state. China Religion Survey conducted by Beijing's Renmin University reported that Islam has the largest followers under 30 year olds. Pew Research Centre in 2010 reported that there were 23.3 million Muslims living in China and predicted the numbers to significantly increase to 30 million by 2030. Out of the 55 national minorities officially identified under the 1982 national census, 10 are Muslims, categorized by tradition. The 10 are the Hui, Uygur, Kazakh, Dongxiang, Kirghiz, Salar,

Tadzhik, Uzbek, Baoan, and Tartar. Among all 10, the Hui is most acculturated to the Chinese Han, and is the only one using Chinese as their first language.

Predominantly by numbers in comparisons to the other nine minorities, the Hui adheres to the Islam way of life diligently. Barbara Pillsbury has summarized three main criteria by which the Hui is used to specifically define and identify them. The criteria are through their inherited Muslim blood, through believing in the only “True God”, Allah and through the following of the customary, longstanding inherited Hui way of life. Such way of life entails observing traditional Islamic practices such as the use of Arabic language for prayer, marrying within the Muslim community, and observing the Islamic dietary laws. Interestingly, it is this last practice (consuming only *halal* food in accordance to the Islamic Sharia’ law) that has come to serve as a symbolic determinant of the Hui identity (Newby 1998). The Muslim Hui has long withstood various suffering and devastation in trying to preserve their Muslim identity even before the Cultural Revolution, continued into the Republican era, causing tension between Muslim and non-Muslims. The central government of the People’s Republic of China’s recognition of Islam has caused the classification of the Hui as a “nationality” based on their religious landscape (Newby 1998). Such move suggested that the tendency of the government to interpret Islamic practice as evidence of ethnic distinctiveness propagandized the underlying desire to see the politically charged religious identity replaced with a more acquiescent “national” identity. The move however, was welcome by the Hui, well aware that this may be the best manner required in preserving their faith.

### 15.3 Research Method

This is an exploratory research and the research approach taken was qualitative research through interviews. All data was recorded by the researcher over the period of 3 days. The sampling method used is event sampling. In this approach, interviews were made on the general attitude of halal restaurants operators and patrons around Ningxia. Through this method, the reaction from both Muslims and non-Muslim respondents were documented. Due to time limitation, only two restaurant owners and one patron were interviewed.

Questions related to perception toward halal acceptance, halal authenticity, and various inter religion relationship in regards to halal consumption were asked. For the purpose of this paper, three main elements are focused on, in regards to halal consumption. All respondent was made aware of the reason behind the interview and consent was given to record the details of the interview.

## 15.4 Findings and Discussion

For ease of comprehension, the findings are presented into sections in accordance with the questions. Details of the respondents are as stated below:

Respondent 1—is a Muslim restaurant owner. The 26 year-old owned a restaurant-cum-motel, operated with 100% Muslims staffs. The restaurant serves authentic Yinchuan meal with specialization in hotpot meals.

Respondent 2—is a non-Muslim owner of a halal restaurant (observed halal certificate on the wall behind the pay counter), offering various dishes.

Respondent 3—is a 36 year-old Muslim teacher, who patrons halal restaurants with a wife, who is studying in Malaysia.

### **“What is your general opinion in regards to halal acceptance among Muslims and non-Muslim in Ningxia?”**

All three respondents agreed that halal acceptance is generally positive among Ningxia residents regardless of whether they are Muslims or non-Muslims. However, respondents 1 and 3 voiced out their concern in regards to non-Muslim capitalizing on the halal economy while not really understanding the basic principle of halal haram. Respondent number 3 basically voiced out how during his many visits to Malaysia, he did not see any halal restaurants offering alcohol simultaneously. Respondent 1 also mentioned his concern in regards to halal being capitalized by non-Muslims as he does not believe that this approach is correct. He pointed out that many halal restaurants in Ningxia offered non halal dishes such as exotic meals, i.e., friend scorpions. Such remark was confirmed by respondent number 2, as despite being certified as halal restaurant, she too served fried venomous insects and alcohol. When asked if her patrons are Muslims, she had no idea. She mentioned, however, that halal restaurant is good for business as the halal community is quite large in Ningxia and she thinks it is halal compliance if she does not sell pork.

### **“As patrons and halal business owners, do you believe that halal offering around Ningxia are trustable and genuinely halal?”**

Respondents 1 and 3 again voiced out their concern in regards to halal restaurants operated by non-Muslims and halal restaurants that offer alcohol in their menu. Respondent 1 noted how when visiting a factory in Malaysia looking for business, he decided to reject the collaboration because he saw a Buddha statue in the office of the Malaysia business owner. So, his doubt on halal non-Muslim business owners was not just localized. Respondent 3 expressed his concern when dining out, and he described how he would always go into the restaurant and ask for the owner or verified with the waiter/waitress whether the owner is a Han or a Hui. A Hui owner will signify that it is a genuinely halal restaurant as Hui are Muslims.

To avoid all the hassle of asking, he rather dined out in his Muslim's friend restaurants. Respondent 2 reiterated the fact that her restaurant was halal certified indicating that she has followed all requirements needed to offer halal menu.

**“Do you believe that Ningxia halal industry could be a huge driving force and would it positively impacted the life of Chinese Muslim here”**

Respondent 1 went on to relegate the success stories among Ningxia Muslim youths and how they are becoming rich because of halal business. However, he thinks that this is just the beginning and he is looking forward to collaborate with overseas halal business owners. At this point, he thought that focusing on the export market is the best strategy. Respondent 3 expressed his concerns in regards to halal supply chains. In his opinion, the halal supply chain should be handled and operated by Muslims so as to ensure the halalness of the product offered. He was clearly skeptic about the notion that non-Muslim business operators will maintain and conform to all the requirement of halal food production as he was very much convinced that they are in the business only for profit making. Respondent 3 expressed the desire to expand her halal business as she is convinced that halal business is very lucrative.

Based on these interviews, earlier findings showed that there is a different sentiment in regards to halal consumption among people of Ningxia. While non-Muslim business owners viewed halal as a form of business, their Muslims counterpart, from the perspective of business and as consumers pays more attention to the value of halal in term of religion. Being Muslims, halal consumption is more than just buying from halal certified premises, instead, it pointed further toward their trust being based on the religion of the source provider. Halal is not taken at face value but looked at with all seriousness that every part of the business is scrutinized, even something as trivial as an office decoration. From these interviews, it seemed that Muslims in this region also harbored serious doubt on the integrity of the halal supply chain. Their insistence is that only Muslims should be responsible for providing halal food, and clearly indicated a deep-seated trust issue on the basis of religion and ethnic group.

What is quite surprising is the fact that these are the opinion of the younger generations of Ningxia Muslim, and probably also explained why Islam had become such a popular religion among the youths in China. It seemed that even the youngsters identify strongly toward their inherited religion and showed diligence and determination to conform and follow the requirement of the Sharia law. Opening and operating their own halal business seemed like the best option in their opinion, in order to maintain and preserve their religious practice. By doing so, they believe that they are enabling themselves and fellow Muslims to consume “authentic” halal food, without worry that it might be tampered with that could make it non halal.

## **15.5 Conclusion**

Based on these findings, it is safe to conclude that these young Muslims view halal from more than just the production of food free of pork and alcohol. They are viewing halal from an inclusive views that not only look at the process of producing food, but regards any associated un-Islamic practice (such as in possession of Buddha’s statue inside the halal food premise) as a part of the food “halalness”.

Such sentiment was not shared by their non-Muslim counterpart who viewed halal as just any other business, to operate and make a profit. Further study needs to be conducted in the future in order to investigate all these findings from a wider perspective and involving more Ningxia residents in order to understand more the intricate components of halal consumption in China. Perhaps in doing so, we would be able to understand the provocation, negative sentiments as well as the innuendo behind the so-called “halal movement”.

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# Chapter 16

## Tourists' Satisfaction on the Products and Services in Dry and Shariah-Compliant Hotel: A Case Study in Hotel Industry in Selangor



Nik Rozilaini Wan Mohamad, Mashita Abdul Jabar, Mohd Taufik Zamri, Azien Jamin and Norfadhilah Mohd Akhuan

**Abstract** The increase in demand for halal products and services together with the increasing population of Muslim community, have encouraged new opportunities for the expansion of new hotel concept, Dry and Shariah-compliant hotels. Dry hotel is a hotel where alcoholic beverages are not served or consumed or totally banned in the hotel premises. The main of this research is to study on the threshold attributes offered at Dry and Shariah-compliant hotel in one of three star-hotels in Shah Alam, Selangor, Malaysia and investigate what are highly preferred by guests. This research investigates the various attributes offered at Dry and Shariah and what is the level of satisfaction of customers towards Dry and Shariah-compliant hotels products and services by applying the Kano Model of Customer Satisfaction, which featured three factors such as threshold attributes, performance attributes and excitement attributes.

**Keywords** Component · Shariah-compliant hotel · New tourism product · Kano model · Islamic tourism · Malaysia

### 16.1 Introduction

In recent years, it has been observed that there is a growing demand in a new tourism trend and concept such as 'Islamic tourism' or '*halal*' hospitality which is similar to the concept of *Halal* food which had been recognized in many countries, especially those in the Middle East (World Travel Market 2007 as cited in Battour et al. 2011). In the international tourism industry, after 11 September 2000 incident, a tourist from the Middle East to UK and US has drastically dropped and shifted to other Muslim countries such as Malaysia (Salleh et al. 2010 cited in Nor and Daud 2012). In Islam, travel is regarded as an instrument for fostering unity among the *Ummah*. The Islamic concept of tourism stresses that the sacred goal of submission to the ways of God (Graburn 1977 as cited by Din 2001).

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Shariah-compliant hotels are one of the products which may be developed to cater to this growing market. Malaysia is a multiracial country with Islam being the largest practiced religion, approximately 61.4% Muslim followers which is equivalent to 17.7446 million. The *halal* industry which consists of *halal* food, pharmaceuticals, cosmetics, packaging and logistics products as well as in services are emphasized by many countries, especially Malaysia. According to the Malaysia Tourism Industry Forecast to 2013, Malaysia has emerged as one of the top tourist destinations in the world. As far as Islamic tourism and halal hotel is concerned, Malaysia has the potential development of Islamic tourism and hospitality industry as Malaysia has the arts, heritage and unique culture of the Malay Muslims (Samori and Rahman 2013). Therefore, this paper investigates the attributes which will attract and increase the satisfaction Shariah customer at a Shariah-compliant hotel in one of the three-star hotels in Selangor, Malaysia. Shariah-compliant Hotel in one of the three-star hotels in Selangor, which has developed and emphasized their hotel as a Shariah-compliant hotel by providing Muslim-friendly services. Shariah-compliant hotel is run and operated based on certain Islam laws called Shariah laws, which Muslims abide and adapt their lifestyle to. In addition, these hotels serve only serve halal food and products with legitimate certifications. Alcoholic beverages are totally banned in the premise and the financial planning is in accordance to Islamic financing.

According to the Operation Manager, the reason for bringing the Islamic concept into the hotel is because it is important to cater the needs of Muslim travelers who are increasing in number. Especially, when there is a worldwide growth of demand for this type of hotel concept. Hence, this three-star hotel in Selangor has embarked to set a benchmark as a Shariah-compliant hotel in Malaysia. They have Muslim-friendly services offered, which include prayer room, direction of *qiblat* in each room, prayer veils, Quran, *Yassin* and hand bidet in the toilet for ablution. Every prayer time the *Azan* will also be heard in the rooms. In addition, this hotel has a large prayer room or *surau* with a full-time *Imam* to lead daily prayers. Furthermore, it is compulsory for Muslim female staff to wear Muslim costumes which cover the *aurat*. It is also compulsory for all the Muslim staffs to pray during prayer time and each staff is given time provision to perform prayers. As a Shariah-compliant hotel, this three-star hotel in Selangor also provides *halal food*. The increases in demand for halal products and services together with the increasing population of Muslim community have encouraged new opportunities for the expansion of new hotel concept, Dry and Shariah-compliant hotels. Dry hotel is a hotel where alcoholic beverages are not served or consumed or totally banned in the hotel premises. As for Syariah-compliant hotels, they must follow the overall Islamic values which include from sources of capital to their daily operation. Guided by the Islamic law, the precepts of which are founded upon the Quran, the Sunnah (the practices and sayings of Prophet Muhammad PBUH) and *Fiqh* (jurisprudence, the opinion of Muslim legal scholars). Dry and Shariah-compliant hotel is an innovative and creative service developed in the hotel industry. The existence of Shariah hotel or Islamic hospitality is being built beyond Gulf countries in Asia. Business Development Research Consultants (BDRC), a market research consultancy company based in the United Kingdom conducted a research in 2010. It was revealed that Middle East hotel guests showed

high interest in the new hotel concept. The Middle East accounts for around 10% of world tourism and considerably higher spends per trip for travelers from the region. Furthermore, the influx of Middle East tourists to Malaysia provides immense opportunities.

## 16.2 Research Objectives

The main research objectives of this study are the following:

- A. *To investigate whether Threshold attributes offered at Dry and Syariah-Compliant hotels is highly preferred by guests.*
- B. *To investigate whether Performance attributes offered at Dry and Syariah-Compliant hotels is highly preferred by guests.*
- C. *To investigate whether Excitement attributes offered at Dry and Syariah-Compliant hotels is highly preferred by guests.*

### 16.2.1 Literature Review

Researchers have used the Kano Model and Socratic questions as guidelines to make questions to measure the level of customer satisfaction towards Dry and Shariah-compliant hotels products and services. There are three attributes adapted from the Kano Model used to measure customer satisfaction which is threshold, performance and excitement attributes. The Kano Model of customer satisfaction divides product attributes into three categories which are threshold, performance and excitement. A competitive product meets basic attributes, maximizes performances attributes and includes as many 'excitement' attributes as possible at a cost the market can bear. All margins, column widths, line spaces and text fonts are prescribed; please do not alter them. You may note peculiarities. For example, the head margin in this template measures proportionately more than its customary. This measurement and others are deliberate, using specifications that anticipate your paper as one part of the entire proceedings, and not as an independent document. Please do not revise any of the current designations.

#### A. *Threshold Attributes*

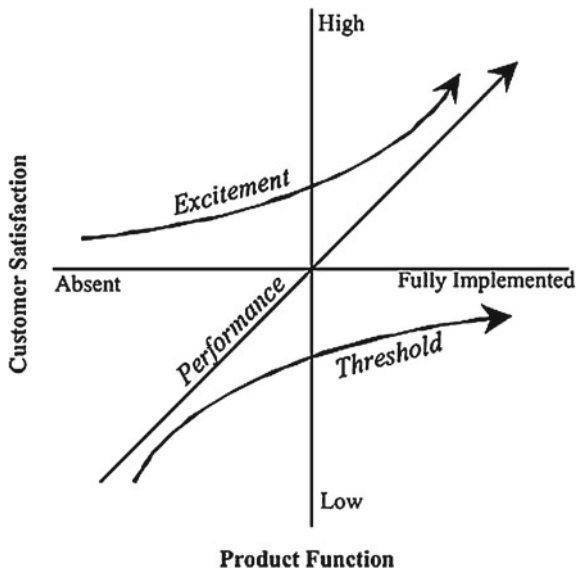
Threshold (or basic) attributes are the expected attributes or 'must-be' of a product, and do not provide an opportunity for product differentiation. Increasing the performance of these attributes provides diminishing returns in terms of customer satisfaction; however, the absence or poor performance of these attributes results in extreme customer dissatisfaction. Their fulfillment will not increase satisfaction since customer expects their provision and takes them for granted (Shahin and Nekuie 2011).

### B. *Performance Attributes*

Performance attributes are those who provide more or faster are better. This attribute will improve customer satisfaction by increasing the value on the existing products and services. Conversely, an absent or weak performance attribute reduces customer satisfaction. These attributes will form the weighted needs against which product concepts will be evaluated. The price for which the customer is willing to pay for a product is closely tied to performance attributes.

### C. *Excitement Attributes*

Excitement attributes are unspoken and unexpected by customers but can result in high levels of customer satisfaction. However, their absence does not lead to dissatisfaction. According to Arash et al. (2012) which is proposed by Breyfogle et al. (2001), excitement attributes often satisfy latent needs which mean that the customer gets more than they are expecting. This type of quality also known as ‘wow’ factor. In fact, since the customer may not be aware of them and do not explicitly express or expect them, fulfilling them leads to more than a proportional satisfaction (Fig. 16.1).



**Fig. 16.1** Kano model of customer satisfaction by Kano et al. (1984)

### ***16.2.2 Research Methodology***

Researchers have used the Kano Model and Socratic questions as guidelines to make questions to measure the level of customer satisfaction towards Dry and Shariah-compliant hotels products and services. There are three attributes adapted from the Kano Model used to measure customer satisfaction which is threshold, performance and excitement attributes.

This investigation is to investigate whether threshold attributes, performance attributes or excitement attributes offered at Dry and Shariah-compliant hotel is highly preferred by guests. This research will use the qualitative method and the data will be collected by semi-structured interview. The semi-structured interview involves prepared questioning guided by identified themes in a consistent and systematic manner interposed with probes designed to elicit more elaborate responses. Thus, the focus is on the interview guide incorporating a series of sub-themes to be covered during the interview to help direct the conversation towards the topics and issues about which the interviewers want to learn.

Conducting semi-structured interviews requires a great deal of care and planning before, during and after the interviews with regard to the ways questions are asked and interpreted. The semi-structured interview was used with guests at this three-star hotel in Shah Alam to obtain their level of satisfaction towards threshold attributes, performance attributes or excitement attributes offered by the hotel. The information was used to analyze which attributes is highly preferred by guests. This hotel was selected because it claims that it is a fully Shariah-compliant hotel. This hotel is open for both Muslim markets as well as non-Muslim, local and international visitors. The examples of Islamic conducts currently being practiced by the hotel are Islamic dress code policy for Muslim female staff, larger prayer halls, full-time imam and religious teacher's services. Other than that, the hotel also does not serve alcoholic drinks and fully serve halal food certified by local Islamic religious council, the hotel also offers meeting packages that provide zamzam drink, dates and raisin as snacks. Meeting rooms are also provided with doa' and hadith prayer books for participants. The amenities offered are in line with the Islamic tradition and from the Sunnah of the Prophet Muhammad s.a.w. By offering such amenities, this hotel provides alternative for Muslim travelers to relax their minds and the same time learns how to reflect and strengthen their faith for non-Muslims, it is a viable alternative to seek new experience by staying at a hotel which does not serve alcoholic drinks and lead to a healthy lifestyle.

This research study concludes the concept of Dry and Shariah-compliant hotel has a demand among the consumers, and it needs to be promoted to both Muslim and non-Muslim. The market needs to be clearly defined in order to effectively promote such product and services. Based on the discussion, it shows that excitement attributes give the highest satisfaction level of guests towards Dry and Shariah-compliant hotel because of the uniqueness and it is different from conventional hotels.

There are several market segmentations for hotel industry such as business travelers and leisure travelers which have their own needs and requirements when choosing

a place to stay. For example, for Muslim travelers, especially who travel with family may prefer to stay at a hotel that provides non-alcoholic beverages and halal foods.

Nevertheless, the concept of Shariah-compliant hotel requires further explanation in terms of its definition and attributes. Many guest and hotel operators are expressing their concerns regarding Shariah-compliant hotels especially in terms of standardization and what constitutes a Shariah-compliant hotel. This ill-defined concept of Shariah may lead to confusion and frustration among their important stakeholders such as hotel owners, managers and hotel guests. Many of the respondents agree this hotel has implemented the Dry and Shariah-compliant hotel concept, however, the hotel should do some improvement to ensure the concept is fully applied. Based on the respondent's answer, the hotel should take into consideration regarding their services provided especially in terms of efficiency and facilities quality. The hotels need to hire more staffs or rescheduling the staff shift hours in order to ensure the effectiveness of the services provided.

In the case of Malaysia, to expand the idea of setting up Dry and Shariah-compliant hotel is very important for the destination marketers to develop Islamic tourism products and services due to the increasing number of Muslim tourists. Malaysian government aspires for the country to be an Islamic tourism hub among the Islamic tourist in the world by setting up of Islamic Tourism Council. Being an Islamic country, Malaysia has the capability and ability to cater to the needs of Islamic tourist. Many Islamic countries such as Saudi Arabia, Bahrain, Kuwait, Oman and Qatar have huge potential to be the market for Malaysia and they are coupled with high spending power. With the well acceptance among Muslim and non-Muslim towards the Islamic products such as Islamic banking and investment, it is hoped that such practices can be extended to the hotel sector as well with the rising demand of Islamic tourism. Since De Palma hotel was the pioneer of Dry and Shariah-compliant hotel in Malaysia, it should be a benchmark for other hotels to apply this concept.

#### (a) Sampling Method

This research applied non-probability sampling which is a subjective judgment to determine the unit of population to be included in the sample. This research used convenient sampling. According to Kumar et al. (2013), convenience sampling refers to the collection of information from members of the population who are conveniently available to provide it. It involves picking up any available set of respondents convenient for the researcher to use. In this research, the most convenient way to find the sampling unit is to interview around 40 guests in one of this three-star hotels in Shah Alam to measure their level of satisfaction by using threshold attributes, performance attributes or excitement attributes offered at Dry and Shariah-compliant Hotel. The qualitative design used in this research is approach based. Qualitative samples tend to be purposive, rather than random. According to Miles and Huberman (1994), the qualitative research mostly interested in, have logic and a coherence that can reduce uninteruptable data. This research has to adapt the variables of the conceptual framework from the Kano Model (1984) which has three attributes. The first attribute is threshold or basic attributes which is the expected attributes or a product that the hotel must provide. Next is the performance attributes that is those

which are generally better will improve customer satisfaction and an absent or weak performance attributes reduces customer satisfaction. Lastly, excitement attributes which is unspoken and unexpected by customers can result in high levels of customer satisfaction. However, their absence does not lead to dissatisfaction.

#### (b) Typology of Questions Used In Research Interview

The interview will be using Socratic questions. Socrates was one of the greatest educators who taught by asking questions and thus drawing out answers from his pupils. The overall purpose of Socratic questioning is to challenge accuracy and completeness of thinking in a way that acts to move people towards their ultimate goal. The first type of questions by Socrates is a conceptual clarification questions. It is to get the respondents to think more about what exactly they are asking or thinking about, prove the concepts behind their argument and use basic 'tell me more' questions that get them to go deeper. Next, probing assumptions which make the respondents think about the presuppositions and unquestioned beliefs on which they are founding their argument. Other than that is probing rationale, reasons and evidence which when the respondents give a rationale for their arguments, dig into that reasoning rather than assuming it is a given. People often use unthought through or weakly understood supports for their arguments, questioning viewpoints and perspective by showing the respondents that there is another valid, equally and viewpoints besides from their arguments.

#### (c) Reliability Test

Qualitative research used Cohen's Kappa as a statistical method to measure reliability. According to Cohen (1960), Cohen's Kappa is an index of the degree of agreement among interviewers that is commonly used to measure the level of agreement between two set of score the method to summarize the agreement between pairs of observations is to calculate the percentage of respondents' answers to be the same on the two occasions. According to Galton (1982) as cited in Smeeton (1985), Cohen's Kappa measures the agreement between two interviewers only. The equation for Cohen's Kappa is,

$$\frac{\text{Pr}(a) - \text{Pr}(e)}{1 - \text{Pi}(e)}$$

where  $\text{Pr}(a)$  is the relative observed agreement among interviewers and  $\text{Pr}(e)$  is the hypothetical probability of chance agreement, using the respondents' answers to calculate the probabilities of each interviewer randomly saying each category. If the interviewers are in complete agreement then  $k = 1$ , while if there is no agreement among the interviewers by chance  $k = 0$ .

### 16.2.3 Findings

There are three attributes adapted from the Kano Model used to measure customer satisfaction which is threshold, performance and excitement attributes.

For the threshold attributes, 29 out of 40 respondents said that it is good that the hotel provides non-alcoholic beverages and halal foods for guests. It is because most of the Malaysians is Muslim. Besides that, it also guarantees that the hotel provides halal foods because there is a halal certificate and Muslim can eat without any doubt. There is also respondent said that it is okay for Muslim, however, he or she did not sure about non-Muslim acceptance. According to Yusof and Zulikfli (2013), there is a question regarding the acceptance of non-Muslim on Shariah-compliant hotel. For non-Muslim, they will get new experience by staying at a hotel that provides non-alcoholic beverages and lead to a healthy lifestyle. One of the respondents have a view on the social problems perspective, whereby providing non-alcoholic beverages, this three-star hotel in Shah Alam can ensure that there is no drunkard causing a disturbance on other guests.

For performance attributes, 25 out of 40 respondents agree that the hotel provides a large function room. The function rooms are large enough to cater the male and female guests separately and they feel comfortable to organize any events there. However, 12 respondents said that the function rooms at the old building are smalls and not comfortable but the new ballroom is large enough. Besides that, six respondents also said that the function rooms is comfortable, however, hotel management can improve their maintenance and size of the room. Seven respondents were unsatisfied with the function rooms and suggested the hotel to upgrade the function rooms and improve their service quality.

15 out of 40 respondents had a response on their opinion about this three-star hotel in Shah Alam provides 'telekung', Quran as well as 'qiblat' direction in the guestroom. The respondents agree that by providing the 'telekung', Quran and 'qiblat' direction caused convenient to the guest. However, the respondents were not sure of the hotel providing 'telekung' at every guestroom or not. One of the respondents suggested that the hotel itemized 'telekung' under additional charges just in case the hotel management is afraid that the guest will bring it home or to recover the cost of providing it.

17 respondents said that the food and other facilities cleanliness is okay and the food are of high quality. Besides that, the facilities are hygienic and they are satisfied with it. However, two respondents said that the overall cleanliness is okay, but they were not satisfied with the toilet cleanliness.

For excitement attributes, 18 out of 40 respondents gave a positive response regarding the decoration concept of this hotel. Most of the respondents mentioned that the hotel did not put or display any art depicting the human or animal form that reflects the Shariah concept, and it can attract guests to come to this hotel. Besides that, the hotel uses flowers and abstract design in the building and also hanging the prayer time screen also demonstrated the view of Islamic hotel which impressed most of the guests who stay at this hotel and increase the customer satisfaction. Most of



the respondents show their excitement about the existence of full-time imam at De Palma Hotel Shah Alam prayer room. The presence of imam is believed to give a high level of satisfaction among the hotel customers. Most of the respondents felt impressed after they knew about the existence of full-time imam, which has never been practiced in other hotels in Malaysia.

Half of the respondents gave a positive opinion on the staff dress code at this three-star hotel in Shah Alam while the other half respondents said it did not fully follow the Islamic concept and it can be improved. One of the respondents viewed that the Islamic hotel staffs not only need to cover their hair but they should wear a loose uniform that cover the body shape and also their chest. There is a cutting at De Palma hotel staff uniform, especially for women staff. There are also respondents that said that it is okay for the female staff to wear pants because their works involve a lot of movements.

Based on the respondent's answer, all three attributes help to increase customers' satisfaction level at this three-star hotel in Shah Alam. However, the excitement attributes give the highest level of satisfaction among the guests especially with the existence of full-time imam at the prayer room that other conventional hotel does not provide. Most of the guests show their interest when they know that the hotel provides full-time imam.

This research is applying qualitative method rather than Triangulation method. By using Triangulation method, it can improve an evaluation by ensuring that the limitations of one type of data are balanced by the strengths of another. This will ensure that the understanding is improved by integrating different ways of knowing. Besides that, Triangulation method can establish the validity of qualitative study by analyzing research question from multiple perspectives. The researchers suggest that future researcher used investigator Triangulation, which involve two different investigators in the analysis process. The findings between investigators will be compared and if the findings reach the same conclusion, the confidence in the findings would be increased.

Other than that, further research could be conducted by interviewing a wider scope of target markets especially the non-Muslim consumers towards their acceptance and satisfaction on Dry and Shariah-compliant Hotel. This research could be further replicated by studying the demand for Dry and Shariah concept based on the customers' satisfaction on other tourism components which are transportations, food and beverages, entertainment and so on. Future researchers can also compare the study among seven continents which are Asia, Africa, Australia, Russia, Europe, South America and North America to analyze the demand between the continents and improve the strategy for marketing the Dry and Shariah concept at different geographic locations.

This research study concludes the concept of Dry and Shariah-compliant hotel has a demand among the consumers and it needs to be promoted to both Muslim and non-Muslim. The market needs to be clearly defined in order to effectively promote such product and services. Based on the discussion, it shows that excitement attributes give the highest satisfaction level of guests towards Dry and Syariah-compliant hotel because of the uniqueness and it is different from conventional hotels.

There are several market segmentations for hotel industry such as business travelers and leisure travelers which have their own needs and requirements when choosing a place to stay. For example, for Muslim travelers, especially who travel with family may prefer to stay at a hotel that provides non-alcoholic beverages and halal foods.

Nevertheless, the concept of Shariah-compliant hotel requires further explanation in terms of its definition and attributes. Many guest and hotel operators are expressing their concerns regarding Shariah-compliant hotels especially in terms of standardization and what constitutes a Shariah-compliant hotel. This ill-defined concept of Shariah may lead to confusion and frustration among their important stakeholders such as hotel owners, managers and hotel guests.

Many of the respondents agree that this three-star hotel in Shah Alam has implemented the Dry and Syariah-compliant hotel concept, however, the hotel should do some improvement to ensure the concept is fully applied. Based on the respondent's answer, the hotel should take into consideration regarding their services provided especially in terms of efficiency and facilities quality. The hotels need to hire more staffs or rescheduling the staff shift hours in order to ensure the effectiveness of the services provided.

In the case of Malaysia, to expand the idea of setting up Dry and Shariah-compliant hotel is very important for the destination marketers to develop Islamic tourism products and services due to the increasing number of Muslim tourists. Malaysian government aspires for the country to be an Islamic tourism hub among the Islamic tourist in the world by setting up of Islamic Tourism Council. Being an Islamic country, Malaysia has the capability and ability to cater to the needs of Islamic tourist. Many Islamic countries such as Saudi Arabia, Bahrain, Kuwait, Oman and Qatar have huge potential to be the market for Malaysia and they are coupled with high spending power.

With the well acceptance among Muslim and non-Muslim towards the Islamic products such as Islamic banking and investment, it is hoped that such practices can be extended to the hotel sector as well with the rising demand of Islamic tourism. Since this hotel was the pioneer of Dry and Shariah-compliant hotel in Malaysia, it should be a benchmark for other hotels to apply this concept.

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# Chapter 17

## The Moderating Effects of Employee Tenure Towards the Relationship Between Leadership Competencies and Employee Engagement Among Muslim Staff at Public Universities in East Coast Malaysia



Narehan Hassan, Mazuin Mat Halif, Sharrifah Ali, Rozilah Abdul Aziz and Muhamad Hafiz Suhaimi

**Abstract** The main purpose of this research was to investigate the moderating effects of employee tenure (energetic, purposeful working experience) towards the relationship between leadership competencies (Leadership Communication [LC], leadership emotional intelligence [EI], leadership integrity [LI] and Employee Engagement). The study was conducted at three selected public universities in the east coast of Malaysia which employed almost 100% Muslim employees, namely Universiti Malaysia Terengganu (UMT), Universiti Sultan Mizan Zainal Abidin (UNiSZA) and Universiti Teknologi MARA, Kelantan (UiTMCK). A correlational design was adopted and questionnaires were distributed using convenience sampling ( $N = 298$ ). The results revealed positive and significant relationships between two factors in leadership competencies (leadership communication and leadership emotional intelligence) and employee engagement. However, the study found a negative and significant relationship between leadership integrity and employee engagement. Further analyses revealed that the perceived level of LC and EI were moderately high ( $M = 3.94$ ,  $M = 0.49$  and  $3.89$ ,  $M = 0.47$ ) but was found to be low for LC ( $M = 2.89$ ,  $SD = 0.467$ ). Hierarchical regression analyses were conducted to investigate if employee tenure (energetic and purposeful working experience) moderates the relationship between leadership competencies and employee engagement. It was found that employee tenure in general did not moderate the relationship. The most influential factor on employee engagement was leadership communication followed by leadership integrity. It is recommended that leaders in these highly dense Muslim employees should focus on improving their perceived level of integrity in order to

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escalate employees' engagement. It is the only factor that did not relate to employee engagement for employees in these institutions as they felt that their leaders did not possess such quality. It is imperative in Muslim-led institutions that integrity is an embedded persona that should naturally fit in that organizations. Therefore, the researchers highly recommend that leaders improve all elements in leadership competencies. In addition, the researchers also recommend future research to be carried out on other Muslim-led industries using different methodologies, enlarging the sample size, and use qualitative research approach.

**Keywords** Leadership competencies · Employee tenure and employee engagement

## 17.1 Introduction

The issue of employee engagement has been recognized as one of the main business drivers that springs impact towards an organization's overall success. Kahn (1990) who introduced the concept of employee engagement defined it as the involvement of organizations' employees where they express themselves physically, cognitively and emotionally during role performances during the engagement (Kahn 1990). Gatenby et al. (2009) reported that employee engagement issue is growing interest especially in leadership studies. Snell (2009) reported that engaged employees work beyond their job descriptions and toward organizational objectives and according to Gallup (2010), engaged employees contribute to organizational success through a linkage between company reputation and stakeholder value. Employee engagement can be quantified. It was reported that India had the highest percentage of engaged employees (45%) compared to Japan (11%).

In Malaysia, this issue is known as a new human resource practice in the last decade for many organizational uncertainties (Yong et al. 2013). However, for the academic community, the concept of employee engagement is still new, and therefore, the concept needs rigorous seminal studies to validate it (Yong et al. 2013).

Through employee engagement, the competencies and qualities needed in order to develop better leaders in the future can be ascertained. Many studies analyzed the core elements of leadership from different researchers (McLagan 1983; Rothwell 1996; Smith 2008) but may or may not be directly adapted to the Malaysian settings (Yiing and Kamarul Zaman 2009). A good leader will take advantage and turn into a change agent to fully utilize the external environment and drive the organization's performance (Salleh and Sulaiman 2013).

In addressing employee tenure as the possible agent for employee engagement, it was found that too little research was conducted. Even though little research was conducted to study the elements of employee tenure and employee engagement, it is necessary to consider whether tenure moderates the relationship between the three dimensions of leadership competencies and employee engagement. While tenure

rises, employees may become more autonomous and, although they remain engaged, their satisfaction with supervisor and co-workers may diminish (Rice 2009).

## 17.2 Statement of the Problem

According to U.S. Department of Commerce Bureau of Economic Analysis (2009), volatility occurs in the financial performance of several industries due to the decline of the U.S. economy, as evidenced by a \$250 billion decrease in the gross domestic product from 2008 to 2009 and this has resulted in the decrease of employee engagement (Campello et al. 2010). In addition, it had been reported that approximately \$300 billion in lost productivity annually in the United States was due to disengaged employees (Attridge 2009).

Of late, scandals relating CEOs in nonprofit organizations have brought into question the actions and behaviors of top leaders that relate to employees having lack of engagement in the workforce (Godfrey 2013). Perhaps, the study on tenure on employee performance was conducted by Rice (2010). The research tested tenure as the moderator of the relationship between dimensions of work engagement and satisfaction with co-workers and supervisor. It was found that the amount of time spent in the current organization can potentially boost job performance (Rice 2010).

## 17.3 Research Objectives

The specific objectives of this study were:

1. To determine the levels of organizational leadership competencies at selected public universities in east coast of Malaysia.
2. To find out if employee tenure moderates the relationship between leadership competencies and employee engagement.
3. To investigate the most influential dimension of leadership competencies towards employee engagement.

## 17.4 Research Questions

The research questions of this study were:

1. What are the levels of organizational leadership competencies at selected public universities in east coast of Malaysia?
2. To what extent does employee tenure moderate the relationship between leadership competencies and employee engagement?

3. Which dimension of Leadership Competencies has the highest influence Employee Engagement?

## 17.5 Literature Review

### Leadership Competencies and Leadership Integrity

Dai et al. (2010) defined leadership competencies as a collection of personal characteristics needed for successful performance based on managerial or element of leadership performance. Leadership competencies have created an increasingly positive relationship between self-knowledge, self-confidence, and leader effectiveness based on numerous studies (Hassan et al. 2010). In addition, Stroud (2009) studied leadership competencies in terms of integrity and linked it to employee engagement and found that there was a moderate, positive relationship between leadership integrity and employee engagement ( $r = 0.57, p < 0.01$ ). One important and major finding of the study was that the higher leaders' competencies, the greater employee engagement in organizations.

Godfrey (2013) reported that if a leader is dishonest, it would impact the organization negatively. Thomason (2013) reiterated that in recent years, integrity issues known as corporate scandals appeared on the front page of newspapers across the United States when dishonesty was reported and this has increased radically. The public in general would have reduced trust if they perceived an organization lacked in integrity (Thomason 2013).

In addition, Palanski and Yammarino (2009) stated that integrity is an orientation between deed and word and that authentic leadership normally aligned with the concept of integrity. Palanski and Yammarino (2009) suggested that the culture of an organization can be highly regarded with sound integrity if it was led by ethical managers. Besides, as mentioned by Johnson (2009), the trust of followers could be lost due to a leader's moral foundation which would be undermined without integrity. Hence, the direction of the organization and the mission with the vision of a leader could be questioned without the trust of followers (Thomason 2013).

### Leadership Competencies and Emotional Intelligence

Having high emotional intelligence will induce energetic and dedicated employees. Researchers agreed that employees who have emotional intelligence would be advantageous to develop, understand, perceive, and cope with emotions in an effort to be more personally effective (Heindel 2009).

According to Othman et al. (2011), there was a significant relationship between emotional intelligence and career effectiveness. It was further proposed that employees can evaluate their strengths and weaknesses through emotional intelligence abilities. Thor (2012) also found a significant relationship between emotional intelligence and work engagement in process improvement experts.

Emotional intelligence is regarded as an attribute leaders should possess as it will impact the motivation of employees and the climate of the company (Shatali 2011). Emotional skill is vital especially for those who occupy higher positions because they will benefit greatly from the employees who will do their job in a positive manner (Shatali 2011).

### Leadership Competencies and Leadership Communication

As mentioned by Greenidge (2010), good communication skill is a significant aspect of a leader. By communicating effectively, leaders convey thoughts and ideas accurately to others and this will in turn improve organizational performance. Communication is the link made between oneself to others; thus connectivity at all levels of the organization can be shaped by having effective communication.

Greenidge (2010) reported that there existed a moderate and significant relationship between the communication style of the leaders and the level of employee engagement among employees in the private sector. Hackman and Johnson (2009) believed that leadership skill is linked to a leader's communication style. Leadership communication plays a main role in the corporate transformation process. This is because leadership communication is inevitable in engaging employee during the transformation effort. Shared vision among employees must be communicated by effective leaders (Thriller 2011).

In addition, Golightly (2009) recommended that there is a need for a systematic approach to match the complexity of running an organization through effective internal communication. To achieve that, the leader's communication style can be determined through preferences, self-awareness of personal traits and personality (Golightly 2009).

Hanke (2009) stated that communication styles can be classified as expressive or spirited, soft hearted and bold and cool or preserving. Besides, not everyone can use the style of communicating to accommodate the situation and at the same time have difficulty in making the transition and display a dominant style. In addition, the environment also influences the style of communication using by leaders, whereas flexibility is central to communicate with effective in the workplace. Leaders use the expression or spirited style of communication is known as optimistic and enthusiastic. Instead of speaking emotionally and rapidly when using their entire body to assist in the communication process, leaders also show a high degree of caring for persons (Hanke 2009).

### Employee Tenure

In the past few decades, employee tenure was not given the attention as an important variable in research investigation (Bartelme 2012). Rice (2009) reported that even new employees who are engaged in their work will be primarily satisfied with co-workers and supervisor and as their tenure increases, they may become more autonomous. If the behavior continues their satisfaction with co-workers and supervisor may also increase (Rice 2009). In addition, Lerato and Oladele (2011) in their studies on job tenure defined the term as the period an employee's time spent in an



organization. Lerato and Oladele (2011) conducted a study to examine if job tenure was related to job satisfaction among university employees and found a strong and positive correlation between job tenure and job satisfaction.

## 17.6 Employee Engagement

Balain and Sparrow (2009) defined engagement as

A positive attitude held by the employees to the organization and its values. An engaged employee is aware of business context and works with colleagues to improve performance within the job for the benefit of the organization. The organization must work to develop and nurture engagement, which requires a two-way relationship between employer and employee (p. 9).

As revealed by Balain and Sparrow (2009), leaders can improve employee engagement by understanding their roles to promote, communicate, and implement an organization's visions. In addition, Macey et al. (2009) reported that making a culture of enhanced engagement requires attention especially in a wide range of human capital issues ranging from who gets hired to how they are brought on board. Besides, Hewitt Associates (2009) reported that engagement is reflected in the percentage of respondents who agree or strongly agree with the six core statements that related to definitions of say, stay, and strive. There are links between increased productivity and financial performance in order to gain higher levels of engagement.

Kowske et al. (2009) described employee engagement as the degree in which employees felt motivated and have contributed to organizational success, while willing to complete an important task to achieve organizational goals. In addition, Federman (2009) reported that high engagement in the workforce also mirrors loyal, committed employees who invest their skills and talents in an effort to make the organization successful. However, disengaged employees contribute to the ruin of a company in term of absenteeism, nonparticipation, unethical conduct, brand image, providing poor customer service and in some instances, influence others with a negative attitude (Carter 2012). Similarly, Robinson (2010) agreed by saying that disengaged employees actively sought to promote their noninterest or lack of alignment with the goals of the company.

### Job Characteristics and Employee Engagement

Job characteristics theory was introduced by Hackman and Oldham (1975). The theory proposed five core job characteristics (skill variety, task identity, task significance, autonomy, and feedback) which influenced work outcomes. Remo (2012) analyzed the core characteristics and reported that skill variety denotes to the skills needed for an employee to perform a task; task identity is the involvement of an employee from the beginning of a task till completion; task significance is when an employee feels that the task is important to the organization; autonomy takes place when an employee feels that he or she has the freedom to schedule the tasks and

carry them out; and finally feedback is when an employee gets direct information or impact on how well the task was done.

Grant and Sonnentag (2010) proposed two different psychological mechanisms related to job characteristics and affective reactions. Jobs may lead to positive effects especially towards job satisfaction when they are placed high on the core characteristics of variety, identity, autonomy, and feedback. The positive effect will be more meaningful if the task is complex. Grant and Sonnentag (2010) also mentioned that jobs that are highly significant usually lead to positive affective reactions and may cause a medium or high level of arousal due to the psychological experience in contributing to the well-being of others (Grant and Sonnentag 2010).

#### Organizational Culture and Employee Engagement

Remo (2012) reported the association of organizational culture and work engagement in US military. In addition, Alarcon et al. (2010) also found a strong and positive relationship between organizational culture and work engagement through a trusting work environment and supporting co-workers. Hence, employees need to experience social support from their co-workers and managers and in turn will be more engaged with their work (Remo 2012). Further, Young (2012) also found a strong, positive relationship between organizational culture and employee engagement.

## 17.7 Leadership Competencies

American Society for Training and Development (ASTD) model

The ASTD leadership competencies model concept is one of the ways to confirm the leadership qualities can be improved and enhanced. Currently, this model is used in the competencies model in the United States as a rule in hiring employees and to provide better delivery during training and development. This model states what people need to know and must do in order to be successful in the organization.

Salleh and Sulaiman (2013) reported that several aspects of employee competencies must be present among leaders to achieve organizational performance. The elements of employee competencies are vision, critical thinking, self-confidence and assertiveness, and effective communication are reported to enhance leadership competencies. Salleh and Sulaiman (2013) revealed that leaders need to have a sense of vision under the personal leadership competencies. Leaders with vision can give an advantage to the organization in the long run. The leader must express the vision to employees and take full responsibility towards achieving organizational performance. In critical thinking, leaders use the skill to overcome problems and arrive at solutions. In enhancing self-confidence and assertiveness, it is vital to have high confidence as a leader because it will motivate the employees to attain an organization's goal, whereas assertiveness is an integral part of effective leadership especially in communication.

Effective communications can occur only when the receiver understands the message from the sender. In an organization's case, the sender would be the leader and the

receivers are employees. Hence, leaders should realize that effective communication involves both giving and receiving and that leaders should be good listeners first by processing the information before giving any feedback. This will improve leadership quality (Salleh and Sulaiman 2013).

### ***17.7.1 Conceptual Framework (Appendix 1)***

The conceptual framework depicts the relationship between leadership competencies from Stroud (2009), Heindel (2009) and Greenidge (2010) and employee engagement model by Remo (2012). The moderating variable is employee tenure model by Rice (2009). Three elements were laid out under the independent variable: leadership integrity, leadership communication, and leadership emotional intelligence. The dependent variable consists of two elements which are job characteristics and organizational cultures.

## **17.8 Methodology**

### ***17.8.1 Research Design***

A correlational research design was used in this research. Correlational research shows the existence of any relationship between and among variables. According to Salkind (2012), correlational research is used to identify how one or more variables relate to one another. It also shows how one or more pieces of information predict a particular outcome.

### ***17.8.2 Sampling Frame***

The sampling frame used in this study was the employees at three public universities at the east coast of Malaysia. These universities are known to employ about 98% of Muslim employees. The universities selected were Universiti Malaysia Terengganu (UMT), Universiti Sultan Mizan Zainal Abidin (UNIZA) and Universiti Teknologi MARA Kelantan (UiTMCK). The permission to distribute questionnaires was obtained from the Human Resource Executive from these universities.

**Table 17.1** Population of the study

Institutions' name	Population ( <i>N</i> )
Universiti Malaysia Terengganu (UMT)	1277
Universiti Sultan Zainal Abidin (UNIZA)	1289
Universiti Teknologi MARA Kelantan (UiTMCK)	630
Total population	3196

### 17.8.3 Population

The population for this study was Muslim employees at selected Public Universities in the states of Kelantan and Terengganu, Malaysia. The total numbers of staff in these institutions were 3196 as displayed in Table 17.1.

### 17.8.4 Sampling Technique

Sekaran and Bougie (2011) stated that sampling refers to the process of selecting a number of elements from the population. The sampling technique used for this study was the nonprobability sampling, which was convenience sampling. Convenience sampling refers to a captive or easily sampled population without randomization (Salkind 2012). Sekaran and Bougie (2011) stated that convenience sampling refers to the gathering of information from members of the population who are conveniently available to provide it. The researchers used this technique because it was quick and easy to get respondents and because of the limitation of this study which was Muslim respondents. Questionnaires were conveniently distributed to the Muslim employees in the selected public universities.

### 17.8.5 Sample Size

According to Salkind (2012), by selecting largest sample, sampling error can be reduced and that the samples were more representative of the population. The researchers decided to use 10% of the population in each university by stratifying each university and then chose 10% of each as depicted in Table 17.2. Since the given population of this study was 3196, the researchers chose 320 respondents that represented 10% of the population in this study as outlined in Table 17.2. According to Hair et al. (2010), a sample size that is greater than 100 is considered appropriate and acceptable for data analysis.

**Table 17.2** Sample size

No.	University		
1.	Universiti Malaysia Terengganu	1277	128
2.	Universiti Sultan Zainal Abidin	1289	129
3.	Universiti Teknologi MARA Kelantan	630	63
	Total	3196	

**Table 17.3** Summary of items in the instrument

Section	Dimensions	Item	Sources
A	Demographic information	4	Researchers
B	Leadership competencies:		
	Leadership communication	12	Michael (2011), Harris (2006) and Dave (2013)
	Leadership emotional intelligence	12	Bennett (2011) and Shatali (2011)
	Leadership integrity	12	Guclu (2012) and Marshall (2012)
C	Employee tenure	12	Rice (2009)
D	Employee engagement		
	Job characteristics	11	Said and Munap (2011), Rineer (2012) and Reeves (2010)
	Organizational culture	12	Remo (2012)

### ***17.8.6 Instrumentation***

The instrument was constructed from the combination of seven studies to measure the theoretical model of this study. The questionnaire was divided into three (3) sections: Part A (Demographic Profile), Part B (Elements of Leadership Competencies), Part C (Employee Tenure), and Part D (Employee Engagement). The summary is presented in Table 17.3.

### ***17.8.7 Reliability of Instrument***

Cronbach's alpha was used to measure a set of variables that measure the constructs under investigation as laid out in Table 17.4.

**Table 17.4** Reliability statistics for each dimension ( $n = 298$ )

Scales	Pilot test ( $N = 50$ )	Actual study ( $N = 298$ )
Leadership communication	0.908	0.955
Leadership emotional intelligence	0.899	0.908
Leadership integrity	0.949	0.813
Employee tenure	0.925	0.878
Energetic employees	0.911	0.846
Purposeful working experience	0.902	0.789
Job characteristics	0.925	0.936
Organizational culture	0.940	0.775

**Table 17.5** Survey return rate ( $n = 320$ )

	$n$	Return rate (%)
Number of responses	320	100.00
Number of unusable questionnaires	19	5.937
Number of valid questionnaires	301	94.06
Outliers	3	0.93
Total valid questionnaires	298	93.12

## 17.9 Findings and Discussions

This study, a total of 320 questionnaires were conveniently distributed to employees at selected public universities in the east coast of Malaysia as outlined in Table 17.5. A representative from each university as well as the researchers distributed the questionnaires using convenience sampling. Six percent ( $n = 19$ ) of the questionnaires was found to be incomplete or unusable. Another three questionnaires were found to be the outliers during multiple regression analysis and thus deleted.

### ***17.9.1 Profile of Respondents***

Majority of the staff was female (67.4%), aged between 30 and 40 years old (52.2%), from the general employee category (52.5%) followed by middle level management (27.9%), and majority of them (34.6%) held diploma as their highest academic qualification.

### ***17.9.2 Normality***

After data screening and cleaning were conducted, violation of the assumption was checked by running the descriptive statistics. The results of skewness and kurtosis values were attained and the fell in the range of  $\pm 3$ . The researchers then continued with finding the answers for research questions.

#### **Research Question One**

##### **What are the levels of organizational leadership competencies at selected public universities in east coast of Malaysia?**

Research question one was investigated using descriptive statistics by computing the means and standard deviations for the elements under leadership competencies which were leadership communication, leadership emotional intelligence, and leadership integrity. The interpretation of the scores is based on Best's Principle (Thaoprom 2004). The minimum–maximum scores were divided by three ranges of scores and interpreted as high, medium, and low as depicted below:

- Scores between 1 and 2.33 = Low Leadership Competencies
- Scores between 2.34 and 3.67 = Medium Leadership Competencies
- Scores between 3.68 and 5.00 = High Leadership Competencies

Based on the results portrayed above, the level of the overall leadership competencies among employees at selected public universities in east coast Malaysia was found to be in the medium range. Individual component was led by leadership communication which is considered high ( $M = 3.9447$ ,  $SD = 0.49117$ ) followed by leadership emotional intelligence which is also considered high ( $M = 3.8960$ ,  $SD = 0.47025$ ). Leadership integrity was found to be medium ( $M = 2.7528$ ,  $SD = 0.30169$ ). The results are shown in Table 17.6.

#### **Research Question Two**

##### **To what extent does employee tenure moderate the relationship between leadership competencies and employee engagement?**

Two sub-domains of moderating variable were tested as outlined in the hypotheses below:

- H<sub>1</sub> Employee Tenure moderates the relationship between Leadership Competencies and Employee Engagement.

**Table 17.6** Level of leadership competencies

Variables	N	Mean	Std. deviation	Level
Leadership communication	298	3.9447	0.49117	High
Leadership emotional intelligence	298	3.8960	0.470725	High
Leadership integrity	298	2.7528	0.46786	Medium
Overall leadership competencies	298	3.5312	0.30169	Medium

H<sub>1a</sub> Energetic Employees moderates the relationship between Leadership Competencies and Employee Engagement.

H<sub>1b</sub> Purposeful Working Experience moderates the relationship between Leadership Competencies and Employee Engagement.

The findings of the hierarchical multiple regressions were based on the two moderating variables named Energetic Employees and Purposeful Working Experience.

Table 17.7 shows the regression model which explained the percentage of variance in the dependent variable, which was employee engagement. Model one explained 20.2% of the variance. Model two explained 20.9% of variance with 0.7% of increment and model three explained 21.5% of the variance with 0.5% increment in the total variance explained. Moreover, it was found that there is no significant influence of employee engagement; employee tenure on the relationship between leadership competencies which were leadership communication, leadership emotional intelligence, and leadership integrity. The interaction effect of employee tenure did not strengthen the relationship between leadership competencies and employee engagement and hypothesis was rejected. (Employee Tenure:  $\beta = 0.498$ ,  $p = 0.723$ ,  $\beta = 0.299$ ,  $p = 0.832$ ,  $\beta = 0.466$ ,  $p = 0.329$ ).

Table 17.8 shows the hierarchical regression model which explained the percentage of variance in the dependent variable, which was employee engagement. Model one explained 20.2% of the variance. Model two explained 22.4% of variance with 0.21% of increment and model three explained 23.1% of the variance with 0.7% increment in the total variance explained. Moreover, it was found that there is no significant influence on employee engagement; energetic employees on the relationship between leadership competencies which were leadership communication, leadership emotional intelligence, and leadership integrity. The interaction between energetic employees and employee engagement did not strengthen the relationship between leadership competencies and employee engagement and hypothesis was rejected. (Energetic Employees:  $\beta = 0.185$ ,  $p = 0.871$ ,  $\beta = 0.737$ ,  $p = 0.529$ ,  $\beta = 0.135$ ,  $p = 0.735$ ).

Table 17.9 shows the regression model which explained the percentage of variance in the dependent variable, which was employee engagement. Model one explained 20.2% of the variance. Model two explained 20.3% of variance with 0.1% increment and model three explained 21.2% of the variance with 0.9% increment in the total variance explained. Hence, it was found that there was no significant influence of



**Table 17.7** Hierarchical regressions between employee tenure, leadership competencies and employee engagement

Variables	Model 1	Model 2	Model 3
<i>Independent variables</i>			
Leadership communication	0.391	0.369	0.065
Leadership emotional intelligence	0.090	0.048	-0.137
Leadership integrity	0.166	0.173	-0.270
<i>Moderator</i>			
Employee tenure		0.106	-0.579
<i>Interaction term</i>			
—Leadership communication*employee tenure			0.498
—Leadership emotional intelligence*employee tenure			0.299
—Leadership integrity*employee tenure			0.466
R square	0.202	0.209	0.215
R square change	0.202	0.007	0.005
F change	24.830	2.700	0.638
Sig. of F change	0.000	0.101	0.591
F	24.830	19.405	11.321
Sig.	0.000	0.000	0.000
Durbin Watson			1.777

purposeful working experience on the relationship between leadership competencies which were leadership communication, leadership emotional intelligence, and leadership integrity. The interaction between purposeful working experience and employee engagement did not strengthen the relationship between leadership competencies and employee engagement and the hypothesis was rejected. (Purposeful Working Experience:  $\beta = 0.828$ ,  $p = 0.537$ ,  $\beta = -0.364$ ,  $p = 0.776$ ,  $\beta = 0.982$ ,  $p = 0.076$ ).

## 17.10 Discussions

The findings of the study revealed that the overall employee tenure did not moderate the relationship between leadership competencies and employee engagement. Both dimensions under tenure which were energetic employee and purposeful working experience did not moderate the relationship between leadership competencies and employee engagement. Hence, this study found that even employees who have worked for so long these institutions did not increase their engagement level. This finding is supported by Smallidge (2011), who found that tenure was negatively correlated with the dyadic dimension of communication apprehension.

**Table 17.8** Hierarchical regression of energetic employee and the relationship between leadership competencies and employee engagement

Variables	Model 1	Model 2	Model 3
<i>Independent variable</i>			
Leadership communication	0.391	0.366	0.256
Leadership emotional intelligence	0.090	0.012	-0.382
Leadership integrity	0.166	0.179	0.055
<i>Moderator</i>			
Energetic Employee		0.179	-0.454
<i>Interaction term</i>			
—Leadership communication*energetic employees			0.185
—Leadership emotional intelligence*energetic employees			0.737
—Leadership integrity*energetic employees			0.135
<i>R</i> square	0.202	0.224	0.231
<i>R</i> square change	0.202	0.021	0.007
<i>F</i> change	24.830	8.101	0.931
Sig. of <i>F</i> change	0.000	0.005	0.426
<i>F</i>	24.830	21.098	12.447
Sig.	0.000	0.000	0.000
Durbin Watson			1.782

### Research Question Three

#### Which dimension of Leadership Competencies has the highest influence Employee Engagement?

The multiple regression analysis was used to address which variable in a set of variables was the best predictor of an outcome. In this study, multiple regression analysis was used to explore which variables in leadership competencies namely leadership communication, leadership emotional intelligence, and leadership integrity as the best predictor of employee engagement at public universities in east coast of Malaysia.

Table 17.9 shows the multiple regression analysis between leadership competencies and employee engagement. The result indicated  $R^2$  is 0.202, in which all independent variables such as leadership communication, leadership emotional intelligence, and leadership integrity explained 20.2% of the variance (*R* square) in employee engagement, with Sig. of *F* value was 0.000. From the results of this analysis, the researchers found that leadership communication was the most influential factor of leadership competencies on employee engagement ( $\beta = 0.391, p < 0.05$ ) followed by leadership integrity ( $\beta = 0.166, p < 0.05$ ). Therefore, the findings from this analysis indicated that leadership communication significantly contributed to the prediction of employees' engagement.

**Table 17.9** Hierarchical regression of purposeful working experience and the relationship between leadership competencies and employee engagement

Variables	Model 1	Model 2	Model 3
<i>Independent variable</i>			
Leadership communication	0.391	0.398	-0.135
Leadership emotional intelligence	0.090	0.097	0.323
Leadership integrity	0.166	0.164	-0.762
<i>Moderator</i>			
Purposeful working experience		-0.029	-0.787
<i>Interaction term</i>			
—Leadership communication* purposeful working experience			0.828
—Leadership emotional intelligence* purposeful working experience			-0.364
—Leadership integrity* purposeful working experience			0.982
<i>R</i> square	0.202	0.203	0.212
<i>R</i> square change	0.202	0.001	0.009
<i>F</i> change	24.830	0.236	1.087
Sig. of <i>F</i> change	0.000	0.628	0.355
<i>F</i>	24.830	18.633	11.123
Sig.	0.000	0.000	0.000
Durbin Watson			1.767

## 17.11 Discussions

Greenidge (2010) found that leaders whose communication faithfully aligned with the organization's core values and whose values were shared by members of the organization discovered that their communication was directly linked to the organization's culture. Deficiencies in communication are often responsible for misrepresentation and misinterpretation. The style of communication used by a leader is determined by their personality and affects the reactions of others to the message. The content of messages from leaders, along with the media chosen, is also an important element in determining the culture of the organization. The content of a message and the media used individually and collectively affect the leader's communication style and become ingrained in the way things are done in the organization. Various leaders use different models of communication. The style of communication used by the leader produces different organizational outcomes, whereas a communication style determines how the leader relates messages and how the culture is affected (Greenidge 2010).

As a result of this study, a new generated conceptual framework is presented. Both dimensions of the moderator variable were named after factor analysis process (Appendix 2).

## 17.12 Recommendations

According to MacLeod et al. (2009), employees should be placed right at the center stage of the organization for them to be engaged. Kruse (2012) stated that employee engagement comes from one's relationship with his or her supervisor and the manager as these personnel are the ones who encourage their subordinates to be committed to their jobs, teams, and the organizations they work for. Furthermore, it was found in the study that having a good communication skill among leaders is what it takes to make an employee feels engaged. Macleod and Clarke (2009) reported that organizations which truly engage and inspire their employees will produce world-class levels of innovation, productivity, and highly charged employees with high performance. The following are recommended for managers to help seek to engage their employees:

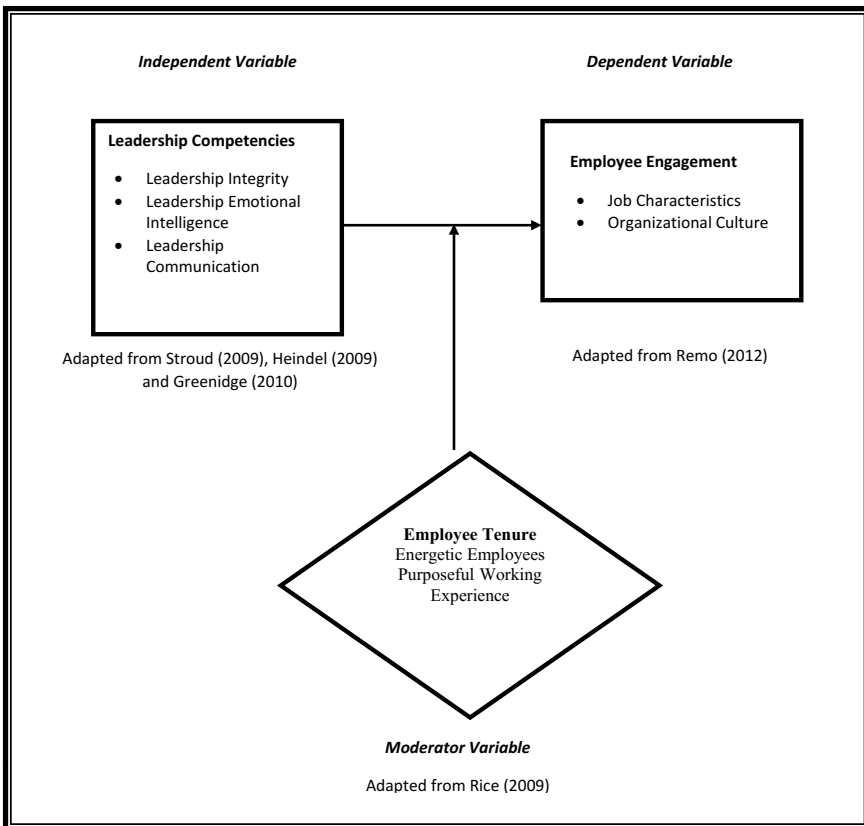
1. Showing appreciation—it has been established that when a manager who demonstrates appreciation to employees will produce highly engaged teams.
2. Giving staff empowerment—empowered employees have increased sense of ownership in their organization and they appear to be more proactive and willing to embrace change. When employees feel that they are being empowered, they would feel more enthusiastic about their responsibilities. They would like to seek self-fulfillment through both personal and organizational achievements. Research conducted by the Society for Human Resource Management's (2012) reported autonomy and independence as top drivers for both employee satisfaction and employee engagement.
3. Recognition—Kruse (2012) noted that recognition is one of the four things employee engagement depends on. Research also confirms that recognition is an essential part of job satisfaction and engagement (Cengia 2012).
4. Giving consistent feedback—the study revealed that giving consistent feedback is one way leaders can effectively engage employees. Wright (2012) has established that research has confirmed that receiving performance feedback is one of the top employee retention drivers.
5. Training and development—allowing employees the opportunity to develop their skills and abilities is one of the top 10 factors revealed in the study that helps engage employees (Gebauer and Lowman 2009).

Other recommendations include knowing the employees by spending time with them. This will send the right message that the employer cares for them and wants to be part of their development. It may help the employees change their views about the company to a more positive experience. It is also suggested that employers to grow with them by inspiring them through small discussions, doing work with them,

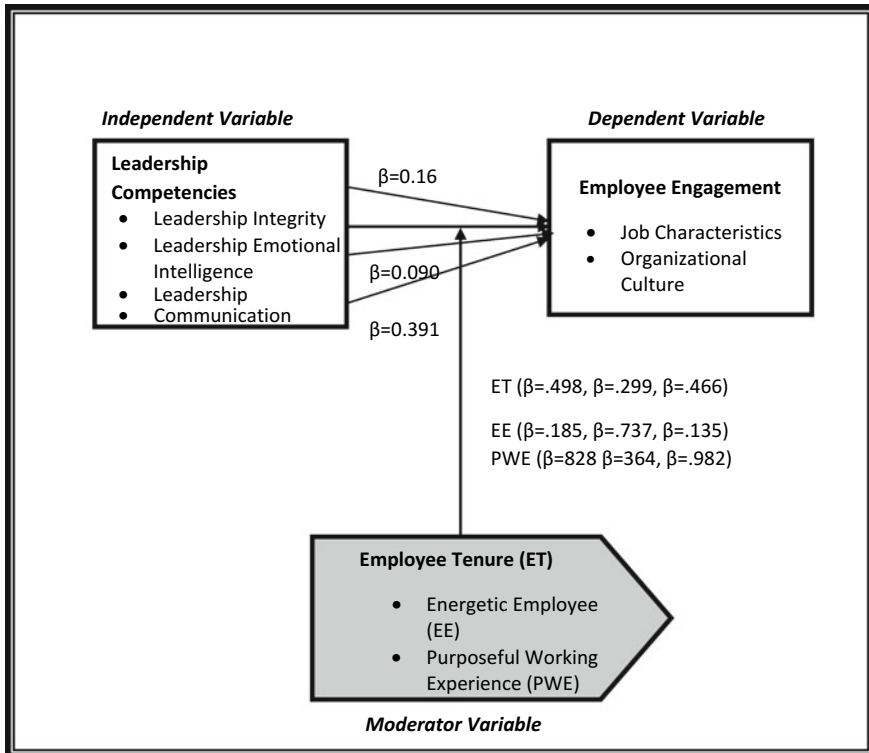
making them feel that they are important to the organizations and reward them appropriately.

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### Appendix 1: Conceptual Frameworks the Moderating Effect of Employee Tenure Towards the Relationship Between Leadership Competencies and Employee Engagement



## Appendix 2: Generated Conceptual Framework for the Influence of Employee Tenure on the Relationship Between Leadership Competencies and Employee Engagement



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# Chapter 18

## Understanding the Abstract and Psychological Concepts of Brand Loyalty for Halal Market Industry



Abaidullah Mustapha, Faridah Hassan and Mariati Abdul Rahman

**Abstract** The existence of the global Halal food market makes the study of brand loyalty is inevitable. Several Muslim countries had expressed their intentions to become the primary trading hub for the international Halal food industry. Thousands of Halal firms are now operating under different brands creating competition just like any other market industries. The Halal market has one common objective which is Syariah compliance involving food policy makers, governments, universities to discuss standardization and certification framework involving brands. This paper is about managing brands for the Halal market industry dealing specifically with brand loyalty issues. Brand loyalty is an abstract concept which is potentially applied to products, services or organizations/institution like retail and food industries. Being an abstract concept, brand loyalty can be interpreted in many different ways and difficult to define alone. Brand loyalty is not only abstract but psychological in nature involving behaviour and attitude. Not surprisingly, brand loyalty can be attitudinally visualized in terms of beliefs towards a brand involving perception, understanding and thoughts towards a brand or conceived in terms of feeling involving liking and devotion towards a brand.

**Keywords** Halal market · Brand loyalty · Attitude · Behaviour · Theoretical framework · Conceptual framework

### 18.1 Introduction

Competition in the Halal food market is inevitable. The competition does not only exist between halal companies but also with non-halal companies throughout the world. The top global exporters of Halal food comes from Australia and New Zealand for beef and mutton respectively followed by Brazil and Singapore for other miscel-

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laneous Halal products which can cast doubt on their status as truly Syariah compliance food. The study on brands and brand management is important in differentiating products and services which are Syariah compliance. However, it must be noted that Halal food is not only consumed by Muslims but also otherwise depending on the branding concept and philosophy put forward to consumers.

## **18.2 Brand Loyalty Within Halal Market Dynamics**

Brand and brand loyalty are different in meaning and contribute differently to the market dynamic. Despite different interpretations and meanings, brand and brand loyalty are not totally disconnected. Building a strong brand alone will not be sufficient without creating brand loyalty. Brand loyalty is required to maintain long-term relationship with customers regardless of religion just like how Kentucky Fried Chicken (KFC) and McDonald (MD) had captured global market without religious discrimination. Uncles et al. (2003) defines brand loyalty as something that customers may demonstrate to brands, activity, services, product categories or stores. This generalize definition implicates the relationship between brand and brand loyalty. While researchers know that brand is physical in nature comprises of a name, phrase, design, symbol or combination of these physical appearances to identify the goods, services like hotel and retailing stores, the abstract and psychological properties/functions of brand loyalty are less clear and surrounded by ambiguities.

## **18.3 Why Halal Branding?**

### ***18.3.1 Retain the Faithful Attract New Consumers***

Researchers agreed that business organizations should protect the long-term interest of the customers so that these long-term relationships would enhance their profitability (Dick and Basu 1994; Oliver 1999; Grossman 1998). Other researchers suggested that long-lasting relationships (brand loyalty) are beneficial for business organizations to increase sales, earning continuous profits, lower costs and other tangible benefits (Reichheld et al. 2000; Berry 1995; Bolton 1998) and brand loyalty as a source of competitive advantage (Bharatwaj et al. 1993). Realizing the importance of brand loyalty to firms, researchers are interested to identify the brand loyalty dimensions and determinants.

### ***18.3.2 Clearing Ambiguities in Halal Brand Loyalty***

It is still ambiguous on the question of what motivates consumers to commit buying a brand time after time or their switching behaviour. Since identifying the psychological commitments of brand loyalty is complex, which has led to numerous definitions, then researchers had studied brand loyalty using multiple approaches namely one-dimensional approach, two-dimensional approach and multi-dimensional approach.

## **18.4 The Dimensions of Halal Brand Loyalty**

Based on literature review, research on brand loyalty had adopted three (3) approaches and these approaches had evolved according to the different theoretical framework, different conceptual models, and different methodology being used by researchers (Khan 2009; Alhabeeb 2007; Worthington et al. 2009). Numerous definitions of brand loyalty had emerged since the early studies on brand loyalty (Copeland 1923; Brown 1952; Churchill 1942).

### ***18.4.1 Psychology of Halal Brand Loyalty for Mankind***

The explanation for the existence of halal brand loyalty is abstract and psychological in nature which provides rooms for multiple approaches to halal brand loyalty research. The psychological factor of brand loyalty under consideration being emphasized by contemporary researchers is mostly attitudinal and emotional factors underlying explanation of halal brand loyalty. Contemporary researchers show that behavioural loyalty alone is not a sufficient indicator of loyalty (Jacoby and Kyner 1973). Even though behavioural loyalty approach makes loyalty measurable it does not provide explanation on the existence of loyalty. The explanation for the existence of loyalty is abstract and psychological in nature which provides rooms for multiple approaches to halal brand loyalty research not only among the faithful but for the whole of mankind.

### ***18.4.2 Attitudinal and Behavioral Loyalty Towards Halal Brands***

- Khan (2009) suggests tools measure attitudinal loyalty including preference, buying intention and willingness to recommend. Rundle-Thiele and Bennett (2001) measures attitudinal loyalty with the intention to engage in positive words of mouth and commitment to repurchase.

- According to Reichheld (1996), attitudinal loyalty involving emotion is much stronger and longer lasting than behavioural loyalty. However, one-dimensional approach either behavioural or attitudinal still generates inconsistencies and debate in the marketing literature. The consumers are theoretically separated as behaviourally or attitudinally loyal which leads to a loyalty matrix into different categories, of low, moderate and high to depict the real loyalist, vulnerable loyalist and prospective loyalist.
- Halal brand loyalty can be studied from one-dimensional approach either behavioural or attitudinal approach

### ***18.4.3 Two-Dimensional Approach of Halal Brand Loyalty***

The one-dimensional approach later evolved into a two-dimensional approach or composite approach in order to equally share their advantages and disadvantages. However, Worthington et al. (2009) debate that the behaviour-attitude is not fully applicable to the business-to-business sector, recommendation, search and retention context. Debates among researchers imply that brand loyalty studies are not a simple one or two-dimensional concept but a complex construction involving multiple dimensions. Based on the Tripartite Theory of Attitude, Worthington et al. (2009) argue that consumers' behaviour is a combination of cognitive loyalty, affective (emotional) loyalty and behavioural loyalty which are psychological and abstract in nature leading to different interpretations and definitions again.

### ***18.4.4 Cognitive, Affective and Conative Aspects of Halal***

#### **18.4.4.1 Brand Loyalty**

- Dick and Basu (1994) had developed and presented cognitive, affective and conative antecedents to explain consumers' loyalty towards a brand but Oliver (1997) presented a slightly different antecedents comprising of cognitive, affective and behavioural. Later, Oliver (1999) presented the progressive manner of consumers' loyalty in the order of cognitive loyalty, affective loyalty, conative loyalty and behavioural loyalty suggesting that attitudinal loyalty leads to behavioural loyalty. Oliver (1999) interprets cognitive loyalty as loyalty based on information such as price and features. Worthington et al. (2009) interpret that cognitive commitment to a brand as the decision to stay with a brand comprise of psychological preference for a brand consisting of positive beliefs and thoughts about purchasing a brand on the next purchase occasion.
- The Researchers have expanded the one-dimensional and two-dimensional loyalty to include additional dimensions of loyalty. There are five (5) traditional dimensions of loyalty namely behavioural, attitudinal, cognitive, affective and conative

loyalty. In addition, there are several brand values that affect consumers' loyalty like brand image (brand personality and brand values), trust (trustworthiness and dependability), commitment (devotion, switching cost and lack of competition), importance of relationship (importance of product, cost and riskiness), word of mouth (probability for referrals and willingness to recommend), satisfaction (satisfaction with brand and satisfaction with service) suggesting the multi-dimensional concept of brand loyalty. Alhabeeb (2007) suggests that several brand values (commitment and trust) should also be included as loyalty dimensions.

- Since the work of Copeland (1923), no consensus has been reached on the definition of brand loyalty which reflects the complex and evolutionary nature of brand loyalty. The complex and evolutionary nature of brand loyalty has been acknowledged by researchers like Alhabeeb (2007), Khan (2009), Fournier (1998), Oliver (1999), Reichheld (2003) and Worthington et al. (2009). Initially, brand loyalty was regarded as repeated purchase behaviour only (Cunningham 1956; Farley 1964) then evolved to include attitudinal dimension and multi-dimensional constructs (Dick and Basu 1994; Oliver 1999).
- Later, the studies on brand loyalty had included research on the nature of different dimensions of brand loyalty and exploring the relationship of individual determinants on loyalty. Jacoby and Kyner (1973) had defined brand loyalty as “a biased behavioural response expressed over time by a decision making unit with respect to one or more alternative brands out of a set of brands and being a function of psychological processes”.
- Another brand loyalty interpretation by Oliver (1999) is “a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, causing repetitive same brand or same brand-set purchasing, despite situational influences or marketing efforts”. Later, Reichheld (2001) posits that brand loyalty as the willingness of someone to make a personal sacrifice or other investment for the strengthening of a relation.
- Then, Chegini (2010) interprets brand loyalty as theory and guidance leadership and positive behaviour including repurchase and support which may control new potential customers. Therefore, brand loyalty research can be approached by using different ways and being interpreted differently by different people. On the other hand, consumers may be highly loyal on one dimension but show low loyalty on other dimensions.

## 18.5 Theoretical Framework for Halal Brand Loyalty Studies

Researchers use relevant theories extracted from the body of knowledge most suited to their research questions and objectives. Academic research must be supported by a theory which shows the relationship of variables and the studies of Halal brand

loyalty is of no exception. This section will review theories related to brand loyalty by discussing the main and underpinning theories that support the variables relationship.

Developing theoretical framework is essential to choose the best theory that fit the research purpose which gives coherency, outline possible courses of action and presenting a preferred conceptual framework. Theoretical framework is an intermediate theory that attempts to connect all aspects of research inquiry including problem definition, research purpose, methodology, data collection and result analysis. While moving from theoretical framework (TFW) to conceptual framework (CFW) a researcher might discover missing variables that warrant research undertaking. However, researchers must be critical when using a theory because all theories are subjectively measured with a certain degree of assumptions. The effect of attitude on behaviour is a significant research area within psychology. The following theories are commonly used in research pertaining to marketing and consumer behaviour: Theory of Planned Behaviour, Theory of Reasoned Action, Elaboration Likelihood Model and Tripartite Theory of Attitude.

The Theory of Planned Behaviour and the Theory of Reasoned Action was formulated by Ajzen (1991, 2002) after trying to estimate the discrepancy between attitude and behaviour. This theory suggests that a person's behaviour is determined by intention to perform the behaviour and the intention is a function of attitude towards the behaviour and the subjective norm. The best predictor of behaviour is intention which is the cognitive representation to perform a given behaviour and intention is considered to be the immediate antecedent of behaviour.

According to this theory, the intention is determined by three variables: attitude towards the specific behaviour, their subjective norms and their perceived behavioural control. The assumption is that, the more favourable the attitude and the subjective norm and the greater the perceived control the stronger the person's intention to perform the behaviour under study. Later, an alternative model was suggested by Fazio (1999) called Motivation and Opportunity as Determinants (MODE) which proposes that motivations and opportunities for deliberative attitude-related behaviour to occur. Unlike the Theory of Planned Behaviour, MODE proposes the dual process that expects deliberative attitude- behaviour linkages. The Theory of Reasoned Action proposes the prediction of behavioural intention involving predictions of attitude and predictions of behaviours.

The Elaboration Likelihood Model (ELM) was formulated by Cacioppo and Petty (1979) to explain attitude guide decisions and other behaviours. The key variable in this theory is involvement, the extent to which an individual is motivated involving cognitive processes such as evaluation, recall, critical judgement and inferential judgement. The Expectancy Value Theory was proposed by Fishbein and Ajzen (1974) provides useful explanation of social behaviours and related to Behavioral Decision Theory or Subjective Expected Utility Theory and also the Expectancy Value Theory.

The Tripartite Model of Attitude Structure was introduced by Breckler (1984) where he posits that attitudes have a cognitive (belief) component, an affective (feeling) component and a conative component (natural behavioral tendency) because an individual's response to an object or a person is coupled with beliefs and feelings. The

Tripartite Model of Attitude Structure evaluates the validity of three components: affect, behaviour and cognition.

Rosidah (2005) had presented a conceptual framework based on the Theory of Planned Behaviour and Theory of Reasoned Action to examine the hypothesized linear relationship between attitudinal and behavioural loyalty constructs. While moving from the theoretical framework to the conceptual framework, Rosidah (2005) had explored the gap of moderating effect of trust in the satisfaction—attitudinal loyalty—behavioral loyalty model to produce a distinctively differentiated model from Dick and Basu (1994) and Sheth et al. (1999).

Faridah Syed Alwi and Vinhas Da Silva (2006) had adopted the Tripartite Theory of Attitudes to empirically test a conceptual framework of antecedent relationship and the consequences of the corporate brand image (CBI) on cognitive, affective and conative behavioural responses in retail corporate branding. Dick and Basu (1994) and Sheth et al. (1999) had presented their conceptual framework to study brand loyalty based on the Tripartite Theory of Attitude by addressing several gaps.

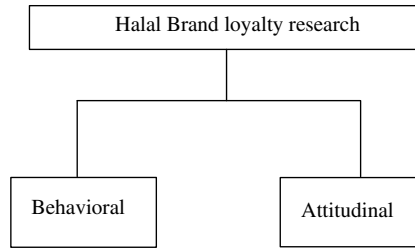
Halal market industry should undertake the study of brand loyalty at the infancy stage so that it will mature together with the industry. Halal market industry must realize that brand loyalty is abstract and psychological in nature for long-term sustainability of the Halal market industry in the global market not only targeting the faithful but mankind as a whole.

Researchers in this area need to understand the abstract and psychological concepts of brand loyalty in order to identify the suitable research objectives in accordance with Syariah rules and regulations. Researchers can investigate the nature of different levels or dimensions of brand loyalty or exploring the brand value that influences brand loyalty for Halal products and services.

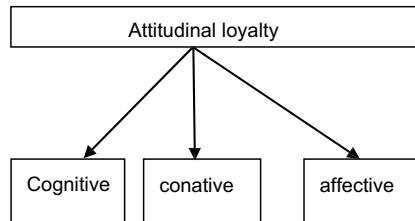
As for now, brand loyalty is interpreted in different ways and can be interpreted differently by different people. Reichheld and Schefter (2000) posit that brand loyalty research is necessary due to its economic and competitive necessity. However, brand loyalty research undertaking is particularly challenging due to its abstract and psychological phenomena. This article endeavours to provide a better understanding of the dimensional structure of brand loyalty by reviewing the relevant literatures involving the theoretical and conceptual framework of brand loyalty in an effort to reduce the ambiguity surrounding the dimensions and brand value of brand loyalty especially for the global Halal market (Figs. 18.1 and 18.2).

A richer understanding of Halal brand loyalty is beneficial to create loyal consumers not only among the faithful but also others that make repeat purchases over a long period of time. In addition, loyal customers bound to refer new customers by their words of mouth (WOM) thus providing another rich source of profits. The study of halal brand loyalty is continuing to increase in complexity and the concept continues to expand. It is still dubious what dimensions and brand value that should be included when conceptualizing and measuring halal brand loyalty. So, Muslim researches are encouraged to endeavour into this area of marketing for the benefit of ummah and mankind.





**Fig. 18.1** Two approaches in conducting Halal brand loyalty research either behavioural or attitudinal approach



**Fig. 18.2** Attitudinal loyalty comprises of cognitive loyalty, affective loyalty and conative loyalty  
Adapted from the Tripartite Model of Attitude as proposed by Rosenberg and Hovland (1964)

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# Chapter 19

## Customer Satisfaction Toward Sharia Compliant of Hotel Design and Operation



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**Abstract** Malaysia is known as one of the best destinations for tourists. Hotel tourism helps to boost her economy by attracting and alluring people to visit the countries. Data shows that tourists' arrivals into Malaysia are encouraging in 2015 despite the economic slowdown. Moreover, travelling is part of knowledge accumulation and becomes a trend now especially among the Millennials. Most travellers are found to have a positive attitude towards many changes. Thus, it is imperatives for hotel industry to offer facilities and accommodation that satisfy and delight customers for repeat businesses. Previous studies show that customers satisfaction towards hotel industry are based on hospitality, accommodation, food and beverages, recreation, entertainment and other value-added services. As there are a high number of Muslim travellers who comprised a big market segment with high spending pattern, they are a lucrative market in tourism businesses which must be addressed properly by the hotel industry. Most of these Muslim travellers who check-in at hotels expect basic amenities for them to perform their religious duties. In lieu of this situation, Malaysia has launched the Muslim-friendly standard for hotels in 2015. The standard provides guidelines for hotel industries to become Islamic-friendly hotels or better known as sharia-compliant hotels. However, the question remains. Does hotel design and operation that reflect sharia-compliant aspects has a relationship with their satisfaction? Therefore, this study intends to capture the Muslim travellers' perception on these aspects. The sample comprised of young travellers who visited Penang. A set of questionnaires were distributed to travellers in Batu Feringghi and Tanjung Bungah as these are the two most visited places in Penang. Data were analyzed using a two-step approach; an assessment for measurement model and structural model using Smart-PLS. The result supports both hypotheses. The study contributes in term of motivating the industry players to prepare for an increase demand from these customers. In addition, it is expected that there will be a spill over of interest among non-Muslim travellers in patronizing the Muslim-friendly hotel as it offers many value-added facilities. This will eventually enhance the sustainability of the tourism industry in Malaysia.

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**Keywords** Islamic values · Millenials · Tourism

## 19.1 Introduction

Halal is characterized as permissible, allowable, highest quality and universal aspects that portrays in Islamic lifestyles. Initially, a discussion on halal was centred only on food and beverages. However, as knowledge expands, society starts to understand Islam as a way of life. Therefore, it is been applied in all aspects of human activities including in tourism.

Tourism industry is one of the key drivers for economic development as it provides job opportunities and encourage other businesses to grow along with the demand created by the industry. As the number of Muslim travellers is projected to grow to 178 million by 2020 (COMCEC 2016), and Malaysia remains as top ten in the world for Muslim visitors, most hotels begin to offer Islamic tourism and sharia-compliant aspects in their hotel. The studies of tourism have started many years ago and there are a number of authors and researchers who have written on Islamic tourism and its relationship with the religion of Islam, but the amount of knowledge on it is still at an infancy stage (Kamarulzaman et al. 2014). Since the concept of sharia-compliant hotel is a new concept, there are limited studies that focus on its ability to satisfy customers (Razalli et al. 2013). However, sharia-compliant criteria is a creative and innovative concept that is aligned with elements of safety, healthy and eco-friendly environment (Salleh et al. 2014a). Thus, the concept will attract all travellers regardless of their nationality and religion as Islam advance a universal concept in daily practices.

On top of that, sharia-compliant hotels stress on the sharia values in hotel operation and design. Accordingly, the design of hotel must consider the needs of Muslim to perform their daily duties (Salleh et al. 2014a). Basically, location, food, staffs and services contribute to customers' satisfaction. Recent study by Zhou et al. (2014) suggest the design of hotel attributes contributes differently towards customers' satisfaction. Hence, besides of staff efficiency, the hotel features which include room layout, size, cleanliness and room amenities contribute in explaining customers' satisfaction. Yet, studies on this area is scant which require further investigation (Kamarulzaman et al. 2012). Therefore, this paper intends to investigate on the relationship between design and operation of a hotel and customer satisfaction. The study is significance as it offers an empirical result on the benefits of having sharia-compliant aspects to attract customers.

The paper is arranged as follows. After a brief introduction of the topic, a section on previous literatures is presented follow by research method and findings. Then a section on discussion and conclusion is presented at the end of the paper.

## 19.2 Islamic Tourism

Islamic tourism attracted many tourists through its Islamic culture. Battour and Ismail (2014), further elaborated that marketers have targeted the Muslim tourists market as Muslim tourists have high purchasing power. They also stated that Malaysia is the premier country that has succeeded in marketing itself as an ideal destination for Muslim tourist who are looking for enjoyable ecological tourism that is accordance to Islamic custom and traditions. Moreover, Malaysia, Indonesia and Singapore are the top three countries that received high number of Muslim arrivals (Dinar Standard and Crescentrating LLC 2012; Shafaei and Badarudin 2015). As a popular Muslim destination, there is a high demand among these markets. Chookaew et al. (2015) suggest that “Islamic tourism integrates more religious conservative motivations that try to valorize a conservative Islamic lifestyle and underline its incompatibility with Western type of tourism practices currently dominating the modern tourism industry”. Therefore, they present different consumption pattern which require the industry to adjust their offering to these lucrative market.

Various scholars have presented definitions on the concept of Islamic tourism. These include the place Muslims frequented such as religious sites, the indulgence with locals while respecting the communities, environments and learning about each culture. Other scholars broaden the concept by suggesting Islamic tourism includes all facets as long as it resides under the parameter of Islam and does not go against the Islamic values (Henderson 2010). All in all, by understanding that Muslim life is guided by Quran and Sunnah (Sriprasert et al. 2014) enables the hoteliers to provide facilities required by Muslim which include all aspect starting from the food until the financial of the tourist. In order to encourage the Islamic tourism, each destination should provide accommodation that can fit the needs and wants of Muslims tourists by offering sharia-compliant hotel.

As Halal tourism provides a great opportunity from the perspective of businesses and also the growth of other related activities (Zailani et al. 2011), it contributes towards the introduction of sharia-compliant hotel or Islamic hotel in Malaysia. Saad et al. (2014) suggested sharia-compliant hotel as a hotel that provides services which follow the rule of Islam. Currently, the practices of sharia-compliant hotel concept are still new in Malaysia. There were several hotels in Malaysia that are introduced as a sharia-compliant hotel. Somehow, after a detailed investigation, those hotels could be categorized as a dry hotel instead of sharia-compliant hotel since the focus was only on halal food and beverages (F&B), while ignoring the others practices such staff dressing code, facilities and Islamic financial were not applied in the hotel. These circumstances may lead into false consumer’s understanding about the true sharia-compliant hotel concept. Lack of understanding of the hotel authorities and lack of consumer’s awareness could cause misunderstanding about the real concept of sharia-compliant hotel.

Studies by Rosenberg and Coufany (2009) and Saad et al. (2013) have suggested several elements under hotels operations and design. In terms of operation, hotels can serve only halal food and beverages, provide staffs according to gender in dif-

ferent floors, staffs with decent dress code and providing prayer and quran in the rooms. Meanwhile, for sharia-compliant design, both agreed on direction of qiblat in the room, separate floors for single male, females and families and appropriate entertainment. Previous scholars have discussed several challenges with regard to implementation of sharia-compliant hotels. Idris and Abdul Wahab (2015) opined that there should be a call for a standardized sharia-compliant hotels on its operation, management and practices. Similarly, other scholars (Henderson 2010) have also mentioned on the needs for standards, or requirement for sharia-compliant hotels. These aspects have been handled by the introduction of Muslim-Friendly guidelines by Malaysia Standards in 2015. It outlines the criteria that hotel management can follow in order to comply with Muslims requirement. The other challenges that most hotels feel uncomfortable as mentioned by Hesham et al. (2013) and Rosenberg and Coufany (2009) was the capacity management issues such as gender separation, facilities separation for males and females and rooms for praying. However, for a hotel to accommodate these challenges is not that difficult as creativity and proper planning is sufficient. Proposing a schedule for using the gymnasium and separate counter for males and females is appropriate.

### 19.3 Methodology

This study is a cross-sectional study on the factors that explained the customer satisfaction based on Islamic-friendly design and operation of sharia-compliant hotel among Muslim traveler in Malaysia. This section will highlight data collection procedure, measurement, pre-analysis data and data analysis techniques.

Data were collected using self-administered survey to the travellers in the area of Batu Feringghi and Tanjung Bungah. There were three variables that involve in this study namely customer satisfaction, design and operation of the hotel. The measurement was adapted from various scholars; customer satisfaction (Dev and Heesup 2014; Xun and Yibai 2016), design and operation (Saad et al. 2014; Salleh et al. 2014a). There were 19 items included in the measurement: customer satisfaction (4 items), design (4 items) and operation (11 items). All items were measured using five-point Likert scale ranging from '1' as strongly disagree to '5' as strongly agree. From a total of 384 questionnaires distributed, only 130 questionnaires were returned and qualified for further analysis.

Data were examined and coded into Statistical Package for the Social Sciences (SPSS). Pre-analysis data found there was no missing data, data appeared to be normal and free from multicollinearity issue. In order to achieve the objectives of this study, data were analyzed further using Smart-PLS—SEM based on a two steps approach proposed by Wong (2013) using on guideline given by Hair et al. (2014), which are the assessment for measurement model and structural model.

## 19.4 Results

Prior to analyzing the data, a preliminary analysis was conducted to eliminate the possible problems related with data that may lead to the insignificance result (Tabachnick and Fidell 2014). There were no missing values reported for this set of data. All variables appear to be normally distributed. The value of variance inflation factors (VIF) of each predictors reported as 1.554 which indicated that items are free of multicollinearity issue (Hair et al. 2010; Sarstedt et al. 2014). Table 19.1 presents profile of respondents in this study. Majority of respondents are female (58.5%), age between 18 and 23 years old (50.8%), single (69.2%), obtained a bachelor (43.8%), students (46.9%), and most of them have experience of less than one week stay in any particular hotel (82.3%).

### 19.4.1 Measurement Model

All measures in this model are reflective constructs. The estimates in the path-modeling show that the algorithm for this model converged after iteration 7 which indicates normal estimation (Hair et al. 2014). Result summary for the measurement model is presented in Table 19.2. Results from this study show that the value for composite reliability (CR) is 0.909 (Customer Satisfaction), 0.826 (Design), and 0.909 (Operation) respectively. The result demonstrated that all variables have a high level of internal consistency reliability.

Validity assessment for reflective measurement model was evaluated using convergent and discriminant validity. In order to test convergent validity, the authors examined the indicator of outer loadings for all items, and the average variance extracted (AVE) (Hair et al. 2014). There are three variables involved in this study; customer satisfaction, design and operation measures using 18 continuous items. One item from operation has been removed due to the low loading. The result for this study exhibits that the value for AVE of the measured variables are 0.716 (Customer Satisfaction), 0.548 (Design), and 0.510 (Operation). All AVE are reported above 0.500, hence the convergent validity for constructs is adequate (Hair et al. 2014)

Discriminant validity for this model is measured using Cross Loadings Table and Fornell-Larcker Criterion (Hair et al. 2014). The squared AVE values represented by value on the diagonal of the table and the inter-construct correlations value represented by off the diagonal. It can be seen that all AVE values are higher than inter-construct showed by correlation values, hence, it can be concluded that this model has achieved a discriminant validity (Hair et al. 2014) Detail is presented in Table 19.3.

**Table 19.1** Profile of respondents

No	Description	Frequency	Percentage (%)
1	Gender		
	Male	54	41.5
	Female	76	58.5
2	Age		
	18 to 23	66	50.8
	24 to 29	17	13.1
	30 to 35	5	3.8
	36 to 40	23	17.7
	41 to 45	11	8.5
	Above 46	8	6.2
3	Marital status		
	Married	39	30.0
	Single	90	69.2
	Others	1	0.8
4	Education		
	SRP/PMR and below	5	3.8
	SPM	17	13.1
	STPM/Diploma/A-level	17	13.1
	Bachelor degree	57	43.8
	Master	30	23.1
	Ph.D.	3	2.3
	Others	1	0.8
5	Occupation		
	Government	44	33.8
	Private sector	14	10.8
	Student	61	46.9
	Others	11	8.5
6	Duration of staying		
	Less than one week	107	82.3
	One week	4	3.1
	More than one week	19	14.6
Total respondents, $N = 130$			



**Table 19.2** Result summary

Latent variable	Item	Loading	Composite reliability	AVE	Discriminant validity
Customer satisfaction	CS1	0.881	0.909	0.716	Yes
	CS2	0.851			
	CS3	0.869			
	CS4	0.779			
Operation	OP1	0.694	0.826	0.55	Yes
	OP 2	0.889			
	OP 3	0.732			
	OP 4	0.620			
Design	D1	0.852	0.909	0.510	Yes
	D2	0.687			
	D3	0.694			
	D4	0.527			
	D5	0.868			
	D6	0.853			
	D7	0.863			
	D8	0.525			
	D9	0.626			
	D10	0.504			

**Table 19.3** Discriminant validity (Fornell-Larcker Criterion)

Variables	(1)	(2)	(3)
(1) Customer satisfaction	<b>0.846</b>		
(2) Operation	0.631	<b>0.740</b>	
(3) Design	0.575	0.597	<b>0.714</b>

### 19.4.2 Structural Model

Once the model has achieved its reliability and validity, the authors performed an assessment for structural model to answer the hypotheses. The predictive power,  $R^2$  for customer satisfaction is 0.46, indicates that the latent variables (design and operation) are able to explain 46% variance in the endogenous variable. This study further analyze the changes of  $R^2$  value when a specific variable is omitted from the model using effect size,  $f^2$ . The result indicates that operation has more effect, 0.238 while compared to design, 0.113 toward customer satisfaction. The analysis for predictive relevance was also been conducted using blindfolding procedure through an omission distance of seven. The result indicates that the predictive relevance of the model where  $Q^2$  value is 0.309.

**Table 19.4** Result of structural model

Research objective	Relationship	B	t-Value	Sig	Remark
ROa	Operation → customer satisfaction	0.447	5.861	0.000	Supported
ROb	Design → customer satisfaction	0.308	4.117	0.000	Supported

**Fig. 19.1** Structural model for this study

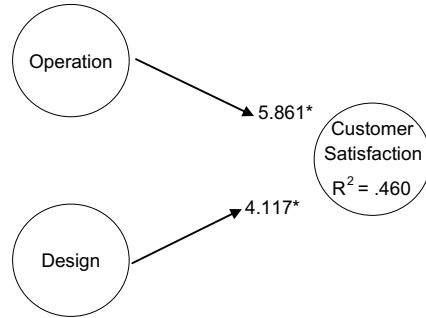


Table 19.4 summaries the result for Structural Model. The result indicates that operation ( $\beta = 0.447, p = 0.000$ ) and design ( $\beta = 0.308, p = 0.000$ ) has significant effect with customer satisfaction. Figure 19.1 exhibits the structural model for this study.

### 19.5 Discussion

This main objective of this study is to investigate on sharia-compliant hotel and customer satisfaction among Muslim Malaysia travellers in Malaysia. These objectives have been detailed out into two hypothesis.

The first objective of this study is to investigate the relationship between operation and customer satisfaction in sharia-compliant hotel. The result of this study shows that operation has a significant influence toward customer satisfaction. This result is aligned with previous scholars who found operation has a positive impact to satisfaction (Ali 2016). Moreover, literatures among hotel management scholars found that hotel operation is one of the primary evaluations among guests to choose their preferred accommodation (Ogle 2009). Hotel operation is also one of the attributes of sharia-compliant hotels (Jurattanasan and Jaroenwisana 2014). In Malaysia, there are various hotels that started to adopt the hotel operation based on sharia-compliant hotels as they realized of benefits gained from this concept (Salleh et al. 2014b).

The second objective of this study is to examine the relationship between design in sharia-compliant hotel and customer satisfaction. This study revealed that hotel design has a significant relationship with customer satisfaction. Previous literature

found that, a well-designed guestroom is able to promote a positive feeling among hotel guests which contribute to their satisfaction (Ogle 2009). Also Johns (1993), explained that the aim of hotel design was to enhance the quality of guests' experience, therefore the design need to be carefully plan to enrich the concept highlighted by a particular hotel. Hoteliers need to be aware with the changes of trends and needs of its guest (Jayawardena et al. 2013). For Malaysian market, a study showed that most of travellers are Muslims, hence the concept of sharia-compliant hotel is seen as a strategic directions for hoteliers in Malaysia (Samori and Rahman 2013). As Muslim travellers' characteristics may differ from non-Muslim travellers, providing basic facilities is important for them to perform their religious duties. Muslim travellers are more concerns about the need of *ibadah* as one of the important attributes in their future staying decisions (Ryu et al. 2012; Samori and Rahman 2013; Yusof and Muhammad 2010).

## 19.6 Conclusion and Recommendation

Sharia-compliant hotels do not only serve halal food and beverages, but its operations, design and financial must also complies with sharia law (Sahida et al. 2011) that stipulated Muslims code of conducts. This study attempts to delineate the issue of providing compatible facilities for Muslim travellers. The objectives are to determine the design and operation of sharia-compliant aspects with customers' satisfaction. The results show these two aspects significantly explain customers satisfaction. The respondents in this study are mostly the millenials who are female, single and educated. Their purchasing power is projected to increase in the near future. Moreover, these young people will also projected their values into their families in the near future. Therefore, hotel industries can capture this upcoming market by preparing the necessities. Moreover, as Islam touches on every aspects of life, it promotes safety, security, cleanliness and eco-friendly environment. Hence, facilities in accordance with sharia-compliant hotel only benefit Muslim community, but also for all travellers despite of their nationalities and races (Samori and Rahman 2013) as it offers spiritual experience which is not rooted in religion (Rosenberg and Coufany 2009). For repeat businesses and increase in customers loyalty, hotel management should consider the findings as beneficial for them to take further action.

However, this research is not without limitation. One of it is due to sample size that consists of all locals visiting Penang island which is famous for its beaches. For further investigation, a research that replicates this study can be conducted at other places with different categories of tourists. Perhaps the hotels can include the questions in their customers feedback form which will encourage more participants and increase robustness of data.

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# Chapter 20

## Eliciting Salient Beliefs for the Practice of the MS2300:2009 Halal Core Values Among Medical Professionals



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**Abstract** The 2016 World Halal Conference theme ‘Beyond the Economy’ seeks to bring Halal to the next level; beyond economic reasons while maintaining economy at the forefront (YB Dato’ Sri Mustapa Mohamed, MIHAS 2016). A vanguard in Islamic economy, Malaysia is promoting itself to be a Global Halal Hub in 2020 with Halal as a prominent source of economic growth against an opportune RM8.4 trillion global Halal market. The Eleventh Malaysia Plan (2016–2020) had identified strategies involving the Halal industry coupled with Tourism and Private Healthcare. In the league for medical tourism (Zappei 2015) that generated a revenue of RM730 million (Star 2016), Malaysia is the number one destination for Muslim travellers (ITC 2015) and is luring Muslim medical tourists with Halal health services (MIMS 2016). As a dominant economic tool (Banu 2016), tourism had supported key sectors and overall income level for Malaysians (Shahbaz et al. 2016). Halal however is not just a brand, it is a divine brand and a way of life for the Muslims, and the sanctity of Halal must be guarded. Even the most minute of food to the Muslims is a route to the soul; ‘O mankind! Eat of that which is lawful and wholesome in the earth, and follow not the footsteps of the devil. Lo! he is an open enemy for you.’ (Al-Baqarah verse 168). There is a burgeoning concern on the wrongful use of Halal signage, porcine tainted food and revocation of Halal certificates as they signal producers’ and providers’ disregard for the sanctity of Halal. Such issues had remained unanswered and are worrying both Muslims and non-Muslims (Aziz and Chok 2013). There appear to be a lack of knowledge and information on the Halal brand (Said et al. 2014) and understanding of the Islamic Compliance Quality Management Principles (Othman 2013). Malaysia has 12 different Halal standards including a Value-Based Management System, the MS2300:2009 Value-Based Management System-Requirements from an Islamic Perspective at its helm. The standard delineates universal virtuous core values namely piety, moral and quality and at its crux, to encourage employees to act as servant and vicegerent of All-Mighty Allah as the highest stakeholder. Working on the assumption that if members of the organization practices piety, morality and quality, there will be no issue of non-halal food

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and services, and this study had adopted the Theory of Planned Behaviour (Ajzen 1991) to elicit readily accessible behavioural outcomes of practicing the Halal core values of piety, moral and quality, and the normative and control factors associated with them. The elicitation was done individually using a free response format as suggested by Ajzen (2006). Respondents were 20 medical professionals from two different medical institutions. Fourteen behavioural beliefs relating to self, group and other organizations emerged from the piety domain, fifteen from the moral domain and ten from the quality domain. Seven groups of people were identified as normative referents while control factors include family obligations, unanticipated events, work and obligatory religious rituals.

**Keywords** TPB · Halal core values

## 20.1 Introduction

The principles of Halal and Haram underscore the essence of the Islamic Law or shariah. Al-Halal (the lawful) are those that which is permitted, with respect to which no restriction exists and the doing of which the Law-Giver, Allah has allowed and Al-Haram (the prohibited unlawful) are those that which the Law-Giver has absolutely prohibited (Al-Qaradawi 1999). Generally, the shariah is predicted on the benefits of both individual and community with a general purpose of protecting life, religion, intellect, family and property (Kamali 2008). The Halal industry as a whole must therefore be safeguarded not just for the sake of the country's economy alone but for the well-being of the ummah while at the same time ensuring integrity and quality of the Malaysian Halal brand globally.

Malaysia is blessed to have been recognized globally as the most advanced Islamic economy. Currently striving to become a Global Halal Hub in 2020, it is supported by the Malaysia Halal Council and the promising value of its Halal exports; total Halal exports in the first half of 2015 were valued at RM19.5 billion and contributing 6% to overall exports against a background global Halal market valued at RM8.4 trillion. To date, there are 5726 Halal certified companies in Malaysia providing 250,000 jobs with 80% of them belonging to non-Bumiputeras.

The Halal industry's prominence is clearly delineated in The Eleventh Malaysia Plan (2016–2020) alongside that of Tourism and Private Healthcare. Health travel is the current gem, performing relatively better than larger economic sectors such as automotive, agriculture and electronics (ETP 2010) with expected income reaching RM10 billion in 2020 (KKMM 2010), and is in the league among Asia's booming medical tourism (Zappei 2015). In 2015, more than 880,000 health travellers visited Malaysia and generated a revenue of RM730 million (Star 2016). Creating a niche, Malaysia aspires to become the choice for Halal health services and Halal certified hospitals (MIMS 2016), a combination of Halal, Tourism and the Medical services. Competition is stiff among industry players and may promote greater tendency for

unethical conduct among medical professionals even though there are 36 Acts, 7 Guidelines and 103 circulars related to health travel (Quek 2013).

Health professionals have been found to compromise and relax their professional code for political or economic reasons at the expense of public hygiene and health interests (MMC 2007). To generate additional funds they resort to performing unnecessary operations, fraudulent billing of insurance claims, poor diagnosis and over prescription of drugs especially so when it involves third-party payments such as the government or insurance companies (Milovanovic 1997). In Malaysia, the national objectives of accessibility, affordability, equity and quality health care in the private health sector remain an insurmountable challenge (Rosnah et al. 2011) and the upward trend in medical malpractices (Hambali and Khodapanahandeh 2014) is a case for worry. Tan Sri Dato Seri Dr. Hj Mohd Ismail Merican who then was the President of the Malaysian Medical Council & Director General of Health, Malaysia had been concerned that the medical profession's credibility and trustworthiness were being questioned and had suggested the need to return to the very root of the tenets of the profession, 'Above All, Do No Harm' and to a 'just culture (Merican 2010). Though Halal health service is in its infancy, it would auger well for Malaysia to develop medical professionals who adopts a value system that translates well with the Islamic meaning of Halal. This rhymes well with the 2016 World Halal Conference theme 'Beyond the Economy' (YB Dato' Sri Mustapa Mohamed, Minister of International Trade and Industry in his opening speech of MIHAS 2016).

Halal is a divine brand, a gift from the Divine underscored by virtuous values revealed in the Quran, 'a guidance for mankind and clear proofs for the guidance and the criterion (between right and wrong)' (Quran 2:185) that relates to the self with the self, and the self with others. Adhering to such virtues would invariably translate into Halal products and services because the Shariah-compliant faith and ethical values generate specific behaviour that requires Halal earning, fairness in spending and Halal utility (Ghassan 2015) while virtues are indicative of common good and dynamism (Gotsis and Grimani 2015) and a standard of conduct.

Malaysia had been in the forefront in Halal Standards. Apart from standards for procedures and quality of product, it has even a Value-Based Management System-Requirements from an Islamic Perspective; the MS2300:2009, a standard that delineates three core values; piety, moral and quality and is focused at encouraging employees to act as servant and vicegerent of Allah as the highest stakeholder while encouraging ethical behaviours in all undertakings, and achieving optimum performance at all levels.

The wilful defiance of Halal rules and regulations such as the wrongful use of Halal signage and porcine tainted products signalled producers' and providers' disregard for the sanctity of Halal in many parts of the world. It may even infest the infant halal medical services but such issues remain unanswered despite their considerable impact on economic and social development.

There is a dearth need for new knowledge but lack of rigour in much Halal research especially those related to the MS2300:2009. To date, there appear to be only 13 articles recorded in google scholar that touched on the MS2300:2009. Most are mentions in the passing while a small number had chosen only to describe the



standard. Empirical studies in this area are indeed lacking. The current research seeks to bridge this gap by providing an insight into various dimensions that promote the practice of piety, moral and quality among health professionals. The Theory of Planned Behaviour (Ajzen 1991) had suggested that a person's intention to behave in a certain way is determined by three (3) different beliefs; behavioural, normative and control. The purpose of this study is to elicit these three salient beliefs present in the minds of medical professionals to practice piety, moral and quality in their professional capacity.

## 20.2 Literature Review

The meaning of Halal had not been fully understood and thus requires a more extensive definition to the Halal brand (Said et al. 2014) and congruence must be determined between employees, organizations, the leadership, customers, shareholders and other stakeholders (Othman 2013). What can be better than the values and rules stipulated in the Quran and hadith to tie up the interests of everyone? Complex decisions such as this however require resolution of conflicting and competing forces of attraction and repulsion. In general, one's choice of behaviour (B) has been found to be largely influenced by attitudes (A), subjective norms (SN) and one's perceived behavioural control (PBC) (Ajzen 2006)

$$B \approx [w_1I + w_2PBC]$$

and

$$I \propto [w_1A_B + w_2SN + w_3PBC]$$

Ajzen (1991) Theory of Planned Behaviour (TPB) had been extensively used to answer questions on deliberate and planned behaviour though with criticisms and a call for it to retire. Currently, still in style, it is able to answer questions on planned behaviour in full awareness that a behaviour acted out may result in unanticipated positive or negative consequences or even unfavourable reactions from others. These looping of action and feedback are likely to change a person's behavioural, normative and control beliefs and future actions, thus the need to elicit respondents' salient beliefs in specific contexts and elicited anew from a representative sample of the research population (Ajzen 2015).

TPB had been used to predict lapses in professionalism of medical students (Jha et al. 2016), medical related behaviours of patients (Bohon et al. 2016; Jha et al. 2016; Lash et al. 2016; Zomahoun et al. 2016), physician's decisions for treatment (Weiss et al. 2016; Wiedyaningsih et al. 2016), Halal purchases (Hashim and Musa 2016; Hussain et al. 2016; Khan and Azam 2016; Mohd Suki and Abang Salleh 2016; Wibowo and Ahmad 2016), Halal integrity (Mohamed et al. 2016), prescription of

Halal medicine (AzilahHusin, Ghazali, & Mohd) and pro-environmental behaviour (De Leeuw et al. 2015).

Medical professionals involved in various medical roles such as occupational medicine physicians, physician of various subspecialists, nurses, and public health subject matter experts (Manlapaz et al. 2016; Rosenberg et al. 2015). They are expected to strike a proper balance between adopting science and technology skills and mastering the 'Art of Healing'(Mahmood et al. 2015) and that requires high levels of internal control and self-directedness (Davidson 2012). Since Halal is all about goodness and wholesomeness, medical professionals who practice Halal core values will, without doubt, be able to strike this balance.

### **20.2.1 Salient Beliefs**

TPB postulates that behaviour is a function of salient information, or beliefs, relevant to the behaviour and because salient beliefs are readily accessible in memory they may be elicited to predict future behaviours. Three kinds of salient beliefs have been distinguished; *behavioural beliefs* which are assumed to influence attitudes toward the behaviour, *normative beliefs* which constitute the underlying determinants of subjective norms and *control beliefs* which provide the basis for perceptions of behavioural control (Ajzen 1991). The overall predictive validity of the theory had been significant and that intention and behavioural control were able to predict actual behaviour. Such salient beliefs will be elicited in order to predict actual practice of Halal core values. Among the salient beliefs found for using Halal products are knowledge and awareness, religion obligation, cost benefits, business support and reputation (Jaffar et al. 2016). Ajzen (1991) had suggested that for matters relating to moral issues, personal feelings of moral obligation or responsibility could add to the predictive power to the model.

#### **20.2.1.1 Behavioural Beliefs (BB)**

Behavioural beliefs (BB) are attitudes toward the behaviour or 'the degree to which a person has a favourable or unfavourable evaluation or appraisal of the behaviour in question' (Ajzen 1991). Behaviours that are believed to provide desirable outcomes are generally more favoured than those that do not.

#### **20.2.1.2 Normative Beliefs (NB)**

NB or subjective norms are perceived social pressures to perform or not to perform the behaviour. They concern the likelihood that important referent individuals or groups approve or disapprove of performing a given behaviour. Salient referents

include friends, parents and other members of the community or organization that the person belongs to.

### 20.2.1.3 Control Beliefs (CB)

CB are closely related to the presence or absence of resources or opportunities, and impediments and obstacles for the performance of the behaviour and can be measured by the extent a person perceives the ease or difficulty of performing such behaviour. Ajzen (1991) is of the opinion that this control varies across situations and suggested that it is most compatible with Bandura's (1982, 1991) concept of perceived self-efficacy or one's 'judgment of how well one can execute courses of action required to deal with prospective situations'.

## 20.2.2 Halal and Haram

Halal and Haram underscore the essence of the Islamic Law or shariah. Al-Halal (the lawful) are those that which is permitted, with respect to which no restriction exists and the doing of which the Law-Giver, Allah has allowed and Al-Haram (the prohibited unlawful) are those that which the Law-Giver has absolutely prohibited: anyone who engages in it is liable to incur the punishment of Allah (Al-Qaradawi 1999). Halal encompasses a Muslim's total way of living; what he eats and uses, and his behaviour towards himself and towards others. Its purpose is to ordain the good and forbid the evil. Practicing Halal is a form of ibadah and in compliance to the shariah. Auda (2008) had quoted Ibn al-Qayyim's (d.748 AH/1347 CE) meaning of shariah; '*Shariah is based on wisdom and achieving people's welfare in this life and the afterlife. Shariah is all about justice, mercy, wisdom, and good. Thus any ruling that replaces justice with injustice, mercy with its opposite, common good with mischief, or wisdom with nonsense, is a ruling that does not belong to the shariah, even if it is claimed to be so according to some interpretation.*' The purpose, *telos* or maqasid of the shariah may be viewed from the perspective of necessity that has been grouped into necessities (*darurat*), needs (*hajiyat*) and luxuries (*tahsiniyyat*). The general maqasid include preserving of faith, soul, wealth, mind, offspring and honour or in general referred as *darurat* or necessities. Thus, acts committed in line with such purpose are considered to be in adherence to the shariah and are therefore Halal. The Halal core values suggested in the MS2300:2009 denote Shariah-compliant behaviours seeking to achieve the maqasid of the shariah. Such values are therefore universal and applicable to man's life and roles. The research suggests that the practice of such values would invariably result in good human relations and quality products and services.

### 20.2.3 The MS2003:2009 Halal Core Values

The MS2300:2009 is Value-Based Management System-Requirements from an Islamic Perspective. It is a Malaysian Standard that consists of a guideline and certifiable requirements which prescribes the framework for an organization to establish a management system based on Islamic Values. The core purpose is to encourage employees to be responsible servants of All-Mighty Allah. These core values are Piety (*Taqwa*), Moral (*Akhlaq*) and Quality (*Itqan*).

#### 20.2.3.1 Taqwa (Piety)

*Taqwa* is mentioned many times in the Qur'ân especially those that relate to individual behaviour and social relations. *Taqwa* is an Islamic term which refers to Piety. It is basically taken from the Arabic verb '*waqa*' which simply means self-defence or avoidance. Allah commands, '*taqwa* is the only and greatest standard of one's nobility and worth' (Qur'ân 49:13) and 'This is the Book (the Qur'ân), whereof there is no doubt, a guidance to those who are Al-Muttaqin (People of *Taqwa*)' (Qur'ân 2:2). Some of the common translations of *taqwa* in English are piety, heeding or being and God fearing. Dr. Jamal Badawi sums up the meaning of *taqwa* as 'an attitude which combines elements of caution, God fearing and above all being God conscious' (Jamal 2010) and is manifested in behaviours shown in Qur'ân 'True piety does not consist in turning your faces towards the east or the west—but truly pious is he who believes in God, and the Last Day; and the angels, and revelation, and the prophets; and spends his substance—however much he himself may cherish it—upon his near of kin, and the orphans, and the needy, and the wayfarer, and the beggars, and for the freeing of human beings from bondage; and is constant in prayer, and renders the purifying dues; and [truly pious are] they who keep their promises whenever they promise, and are patient in misfortune and hardship and in time of peril: it is they that have proved themselves true, and it is they, they who are conscious of God' (Qur'ân 2:17) and by the Hadith of The Prophet Muhammad ﷺ, 'Piety is good manner, and sin is that which creates doubt and you do not like people to know it' (Sahih Muslim, 32:6195). *Al Taqwa* simply means to put between yourself and the punishment of Allah a protection, by abiding by the Laws (Orders) of Allah and refraining from what Allah has forbidden. The Standard MS2300:2009 had included Trustworthiness (I'timaniyyah), Justice (Adalah), Sincerity (Ikhlas), Honesty (Amanah), Gratefulness (Shukur) and Courage (Shuja'ah) as subdimensions of *Taqwa*.

#### 20.2.3.2 Akhlaq (Moral)

The word *Akhlaq* derives from the Arabic word *khulq*. In Islam, ethics and values belong to the discipline of *Akhlaq* and compulsory to be learned by all Muslims (Ishak and Osman 2015) as it produces positive acts, the practice of virtue, morality

and manners. If the behaviour is good then the state of akhlaq is good and likewise it is bad then the behaviour is bad. Imam al-Ghazali had defined 'Akhlaq as an established state (of the soul) from which action proceeds easily, without any need for reflection and deliberation (Hakim 2016) and the Prophet Muhammad ﷺ is the role model for morality'. Allah commands 'And verily you (O Muhammad ﷺ) are on an exalted standard of character' (Qur'ân 68:4). Basically, akhlaq is translated in English as Islamic behaviour, disposition, good conduct, nature, temper, ethics, morals or character of a person. The moral code in Islam is directed at building Islamic personalities which live by faith in God and accept the responsibility as trustees of God on earth who ordain the good and forbid the evil and who practice good, balanced and wholesome living. Lack of practice of the moral code in one's life is therefore evidence of weak faith. Moral values found in the MS2300:2009 include Caring (*Ihtimam*), Cooperation (*Ta'awun IMusa'adah*), Courtesy (*Mulathofah/Adab*), Humility (*Tawaduk*), Tolerance (*Tasaamuh*), Respect (*Ihtiram*).

### 20.2.3.3 Itqan (Quality)

The term *Itqan* is taken from the Arabic word '*atqana*' which brings to mean that to have things comprehensively made or to organizing things in perfect order. In Arabic, the word '*Itqan*' is used as an indication to the level of quality. Allah s.w.t specifically used the word '*atqana*' in Surah an-Naml which was used to describe a scene in the Hereafter, which says: 'And you see the mountains and think them firmly fixed, but they shall pass away as the clouds pass away. (Such is) the artistry of Allah, who disposes of all things in perfect order, for He is well acquainted with all that you do.' (Qur'ân 27:88). The verse indicates that Allah's doings are done with *Itqan*. Thus, quality associates directly to Allah s.w.t and Muslims are to ensure that all activities in their daily life are at the best level of performance. Moreover, the Prophet s.a.w said: 'Allah loves to see one's job done at the level of *Itqan*' (Narrated by AI-Baihaqi) (MS2300:2009). Values included under the dimension of quality or *Itqan* include Learning (*Ta'ailum*), Discipline (*Intidzam*), Commitment (*Iltizam*), Innovativeness (*Tajdid*), Efficiency (*Iqtidar*) and Effectiveness (*Syiddah al-Maf'ul*).

## 20.3 Methodology

The aim of this research is to elicit salient beliefs of medical professionals on the practice of Halal core values suggested in the MS2003:2009 namely piety, moral and quality.

The researcher had adopted Ajzen's TPB steps for eliciting salient beliefs.

- 20.3.1 Step 1: *Defining the behaviour*: The behaviour of interest in this research is the practice of three Halal core values; Taqwa/piety, Akhlaq/moral and Itqan/quality

- *Taqwa* or Piety has been operationalized as Trustworthiness (*I'timaniyyah*), Justice (*Adalah*), Sincerity (*Ikhlas*), Honesty (*Amanah*), Gratefulness (*Shukur*) and Courage (*Shuja'ah*).
- *Ahlaq* or Moral includes the values of Caring (*Ihtimam*), Cooperation (*Ta'awun* *IMusa'adah*), Courtesy (*Mulathofah/Adab*), Humility (*Tawaduk*), Tolerance (*Tasaamuh*), Respect (*Ihtiram*).
- *Itqan* or Quality are reflected in the values of Learning (*Ta'llum*), Discipline (*Intizam*), Commitment (*Iltizam*), Innovativeness (*Tajdid*), Efficiency (*Iqtidar*) and Effectiveness (*Syiddah al-Maf'ul*).

20.3.2 Step 2: *Specify the research population*: The research population are all medical professionals in Malaysia

20.3.3 Step 3: *Develop open ended questions to elicit salient beliefs*: Questionnaire Format: five or six lines are provided to each question in order for the respondents to transfer their thoughts

- Instructions: Please take a few minutes to tell us what you think about the possibility of practicing piety, moral and quality in your professional practice. Please list the thoughts that come immediately to mind. Write each thought on a separate line. In this research;
  - Piety involves values of Trustworthiness, Justice, Sincerity, Honesty, Gratefulness and Courage.
  - Moral relates to the values of Caring, Cooperation, Courtesy, Humility, Tolerance, and Respect.
  - Quality refers to the values of Learning, Discipline, Commitment, Innovativeness, Efficiency and Effectiveness.

20.3.3.1 *Behavioural outcomes*: Part A

- Question 1a: What do see as the *advantages* of practicing piety (Trustworthiness, Justice, Sincerity, Honestly, Gratefulness and Courage).
- Question 1b: What do see as the *disadvantages* of practicing piety.
- Question 1c: What *comes to mind when you think about* practicing piety.

Note: these questions are repeated for the values of moral and quality.

20.3.3.2 *Normative referents*: Part B

There might be individuals or groups who would think that you should or should not practice piety, moral and quality.

- Question 1: Please list the individuals or groups who would approve or think that you *should practice* piety, moral and quality.
- Question 2: Please list the individuals or groups who would disapprove or think you *should not practice* piety, moral and quality.
- Question 3: Sometimes when we are not sure what to do we look to see what others are doing. Please list the individuals or groups in the medical profession who are *most likely* to practice piety, moral and quality.

- Question 4: Please list the individuals or groups in the medical profession who would *least likely* practice piety, moral and quality.

#### 20.3.3.3 Control factors: Part C

- Question 1: please list any factors or circumstances that would make it *easy or enable you* to practice piety, moral and quality.
- Question 2: please list any factors or circumstances that would make it *difficult or prevent you* from practicing piety, moral and quality.

#### 20.3.4 Administering the elicitation of salient beliefs questionnaire:

- *identify sample respondents for pilot test*: as a rule of thumb, the pilot study should include a sample of between 25 and 30 participants representative of the general research population. Respondents for the pilot test were 15 medical professionals from a large hospital while another ten respondents were taken from a much smaller district hospital. The elicitation was done individually in a free response format. Ajzen (1991) is of the opinion that the beliefs elicited come readily and spontaneously to mind and are assumed to be the prevailing determinants of attitude toward the behaviour, subjective norm and behavioural control and may not be the beliefs identified when employing focus groups. He is also of the opinion that by:
  - encouraging group discussions, beliefs or ideas elicited by individual group members or focus groups may result in the selection of beliefs that are not readily accessible for most people.
  - *Study setting*: the research was conducted as a field study; in the environment where the medical professionals perform their normal duties.

20.3.5 *Constructing sets of salient beliefs*: a content analysis was conducted in response to the questions and a list of modal salient outcomes, referents and control factors was developed

## 20.4 Results and Discussion

From the content analysis, a myriad of the most frequently mentioned beliefs had emerged as shown in Table 20.1.

Perceived moral obligations such as religious and family obligations have emerged as important control factors. Moral issues take an added salience with respect to moral behaviours (Ajzen 1991). Salient referents or ‘important others’ for medical professionals to practice piety, moral and quality while performing their professional roles had included organization’s leaders, family members, peers and also religious leaders and referents. Drivers for practicing *piety* appear to be more closely related to performance and organizational outcomes while *moral* was believed to produce better interpersonal relationships, while *quality*, to personal development. The research had suggested that there are salient beliefs associating the practice of Halal core values would create a win-win outcome for the organization, its employees and customers.

**Table 20.1** Most frequently mentioned behavioural beliefs normative beliefs and control beliefs

Behavioural beliefs			
<i>Taqwa/piety</i>			
Trustworthy	Improved teamwork	Others are more confident to deal with you	Better work outcome
Sincere	Lead a more blissful life	Better quality work that meets standards	People are more friendly to you
	More efficient work		
Honest	Ensures that work is done as required	Develop trust among members of the organization	
Grateful	More sincere in performing work	Always in a better mood	
Courageous	Develop great leadership	Improves the organization performance	Better respected
<i>Ahlaq/moral</i>			
Caring	You can understand others better	Develop better relationship among employees	Allows you to have empathy on others
Cooperative	Better work outcomes	Organizational targets are achieved	Jobs get completed quickly
	Increased productivity	Less hurdles in getting job done	
Courteous	More respected by peers	Better bonding among members of the organization	Facilitate communication
Humble	More comfortable working together	Relationship between members become stronger	Create harmonious working atmosphere
Tolerance	Make work easier for everyone	Facilitate smooth running of the work	
Respect	Provide a calm working environment		
<i>Itqan/Quality</i>			
Open to learning	Promote personal development	Develop self-belief	
Discipline	Ensures better time management	Support personal success	
Committed	Better work outcomes	Improves self-confidence	
Innovative	Improves quality of work	Promote thinking in the future	Well developed organization

(continued)



**Table 20.1** (continued)

<b>Behavioural beliefs</b>			
Efficient	Improves organization’s quality		
Effective	Improves organization’s quality		
<b>Normative beliefs</b>			
<i>Influencers</i>	Heads of department	Heads of units	Peers
	Subordinates	Family members	Friends
	Other organizations that we deal with	Other government agencies that we deal with	
<b>Role models</b>			
Piety	Religious leaders	Religious referents	Heads of units
	Family members (parents and spouse)	Peers	
Moral	Family members	Peers	
Quality	Heads of department	Peers	
<b>Control beliefs</b>			
Work load	Family obligations	Work-related stress	
	Unanticipated events	Religious obligations	

Previous literature have found that productive employees are proxies for quality employees (Butler et al. 2016) and they create customer value (Sripathi and Rani 2016) while healthy interpersonal relationships contributed to healthy interpersonal outcomes such as prosocial behaviours and harmonious interactions and also healthy intrapersonal outcomes (Vicaria and Dickens 2016) such as healthy mental health (Read and Laschinger 2015). Positive interpersonal relationships therefore improve both personal and organizational outcomes (Dachner and Miguel 2015).

## 20.5 Conclusion and Recommendation

The Malaysian Halal industry has much to gain from this research. It may be extended to include other Halal related industries. As regards the Halal health services, the beliefs elicited would provide a general guideline for developing future research and intervention strategies for making Malaysia a leader in Halal health services.

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# Chapter 21

## Extending Theory of Planned Behaviour Approach to Understand the Muslim Consumers' Intention to Patronize Retail Stores



Abang Sulaiman Abang Salleh and Norazah Mohd Suki

**Abstract** Muslim consumers' maintain their Islamic identity and *halal* principle knowledge by patronizing stores with *halal* images and purchasing genuine *halal* products. The goals of this study are to examine the impact of Muslim consumers' attitude, subjective norm, perceived behavioural control and *halal* principle knowledge on their intention to patronize retail stores. Data received from 480 valid samples of Muslim consumers located in Kuching, Sarawak, Malaysia was analysed using the partial least squares structural equation modelling (PLS-SEM) technique using SmartPLS 2.0, a second-generation analysis software to test complex models with latent variables. Empirical results of PLS-SEM approach revealed that consumers' attitude, subjective norm and perceived behavioural control do significantly affect Muslim consumers' behavioural intention to patronize retail stores, except *halal* principle knowledge. Of these four predictors, the subjective norm turned out to have the strongest impact on Muslim consumers' intention to patronize retail stores. Consumers are subjected to social normative push where the forces may come from family members, friends, colleagues, teachers, communities, etcetera. Muslim consumers are always motivated to consume lawful food and to refrain from taking the unlawful one as they seriously integrate the religious knowledge into their life as much as possible and they may patronize stores that match their religious values and beliefs. This research study offers guidelines to the retailers, marketers and the authorities in enhancing marketing strategies and the implementation of stricter *halal* consumption laws. The key theoretical contribution relates to the insertion of the *halal* principle knowledge in the matter of consumer behavioural intention to patronize retail stores in Malaysia by applying the theory of planned behaviour as the guiding principle.

**Keywords** Halal principle knowledge · Attitudes · Subjective norm · Perceived behavioural control · Behavioural intention

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247

## 21.1 Introduction

The halal principle, which has been specified clearly in the holy book of Islam—Al-Qur'an (Al-Qardhawi 1995; Assadi 2003; Mohamad Hashim 2011), becomes the main reference to the Muslim consumption and dietary prescription acknowledged in this study. The halal principle plays an essential role in the life of Muslims that it gives guidance on what to consume and which one to avoid. If halal is permitted, then, haram (an opposite term to halal) is prohibited (Al-Qardhawi 1995; Mohamad Hashim 2011). Being able to fully understand the principles would make Muslims become more sensitive and particular to what foods they are after. As the principle of halal is meant for all Muslims to follow, foods and many other products primarily generated under halal prescription may always perfectly become an alternative consumption to the non-Muslims as well. This was proven true in a study conducted by Golnaz et al. (2010) who claimed that both attitude and intention to purchase halal food products can be seen as an increasing trend among the non-Muslims.

Muslim consumers' maintain their Islamic identity and *halal* principle knowledge by patronizing stores with *halal* images and purchase genuine *halal* products. The commitment to go for halal consumption, however, does not only rest on Muslim consumers all alone but must also be carried out by Muslim business people as well (Bonne and Verbeke 2008b; Norazah and Abang Sulaiman 2016). As purveyors of Muslim's needs and wants, they are in the best position to identify the appropriate halal status of foods or goods they put up for sale. In a study on entrepreneurial personality, Solahuddin and Che Zarrina (2011) concluded that the personality of Muslim entrepreneurs should align with the holistic teaching of Islam. Corresponding to this, Possumah et al. (2013) noted a great accountability shouldered by Muslim entrepreneurs in pursuing the halal principle. With this to be taken into consideration, care should be strongly upheld as to what kind of commodities to produce and circulate in the economy.

Halal consumption is an essential issue to the Muslims, yet only a small portion of academic researchers has the courage to explore further. Most articles on halal have been inscribed to include several areas of research study which include agriculture and consumer behaviour (Bonne and Verbeke 2006, 2008a, b; Bonne et al. 2007), food science and technology (Riaz and Chaudry 2004), cultural anthropology (James 2004) and nutrition and dietetics (Lawrence and Rozmus 2001). This fact was further supported by Alserhan and Alserhan (2012) who found out that among the identified four billion consumer groups (e.g. India, China, Women and Muslim), Muslim consumer is the least studied. Hence, the goals of this study are to examine the impact of Muslim consumers' attitude, subjective norm, perceived behavioural control and *halal* principle knowledge on their intention to patronize retail stores.

As Muslim markets are getting bigger and indispensable, due to their distinctive needs and wants, research on halal should not be limited to research areas at hand. Instead, it should be broaden to other Islamic marketing areas such as the Muslim consumer, Islamic market segmentation, the Muslim consumption pattern, global events and the Muslim consumer, the global halal market and the halal supply chains,

halal excellence centres, e-marketing in Islamic markets, Islamization of commerce, etcetera (Alserhan 2010). Therefore, a significant relationship between principle in halal and haram and other variables in this study would show that the research is topical.

## 21.2 Literature Review

This study incorporated *halal* principle knowledge onto the theory of planned behaviour (TPB) model in order to understand the Muslim consumers' intention to patronize retail stores.

## 21.3 Attitude

Attitude towards behaviour is referred to consumers' evaluation of a particular behaviour which normally will end up in a spectrum of positive and negative perception. Consumers' beliefs in consequences produced by such behaviour have become an important platform to develop appropriate attitude (Ajzen 2005). Consumers must have projected the intended outcomes before pursuing the behaviour. A positive attitude to perform a set of intention has become an important basis for consumers to like or dislike patronizing a store. Korgaonkar et al. (1985) avowed that consumers' attitude significantly influenced retail store patronage. On the same basis, Eastlick and Liu (1997) showed that attitude towards retail stores affects consumer's attitude towards shopping programmes. In a meta-analytical study on determinants of retail patronage, Pan and Zinkhan (2006) suggested that consumers' attitudes towards retail stores are important antecedent of shopping frequency. In other words, a high degree of favourable attitude towards such behaviour will surely drive consumers to have a thought of experiencing the targeted behaviour. Earlier works by Shah Alam and Nazura (2011) and Mukhtar and Butt (2012) disclosed that attitude holds a significant and positive effect on halal food purchasing intention. They noted that greater intention to purchase halal food products is to be drawn from consumers' positive attitude towards halal food. Thus, in tandem with earlier works, the current study hypothesizes the following:

H1: Attitude positively affects Muslim consumers' behavioural intention to patronize retail stores.

## 21.4 Subjective Norm

Subjective norm is related to consumers' perception towards social normative push (Ajzen 2005). Family members, friends, colleagues, teachers and communities are examples of parties that may possibly produce the forces. The determination to perform and not going to perform a particular behaviour is related to the approval from these groups of people. Daneshpour (1998) and Siddiqi (1992) avowed that Muslims hold a strong social value which they commonly share with other members, and put less attention to differentiation. The Islamic teaching, according to Ott et al. (2003), forms the basis of community life. This was further supported by Alserhan (2011) who reported that Islam encourages people to interact, cooperate and do some collective actions so that they know each other. This was further supported by Mukhtar and Butt (2012) whose research finding showed that subjective norm was the most influential predictor to consumers' behavioural intention. Research results in Al-Nahdi (2008) affirmed that consumers' intention to patronize foodservice premises was found out to be positively associated with subjective norm. The same conception was further discussed in Shah Alam and Nazura (2011) that social pressure is remained essential in influencing consumers' intention to purchase halal food. Based on the prior review of the literature, the following hypothesis is formulated:

H2: Subjective norm positively affects Muslim consumers' behavioural intention to patronize retail stores.

## 21.5 Perceived Behavioural Control

Perceived behavioural control refers to consumers' ability to execute the intended behaviour and their perceived ease or difficulty when performing the behaviour (Ajzen 1985). The simplicity of performing the behaviour would give rise to bigger possibility of engaging in the actual behaviour. Lam and Hsu (2006) agreed that consumers' perceived behavioural control is basically affected by their past experiences which later excite intention and behaviour. This is in line with the view emphasized by Ajzen (2002) who express that consumers develop confidence in carrying out their behavioural intentions when they have some form of actual control. A study carried out by Shah Alam and Nazura (2011) found that perceived behavioural control is an important factor to be held before purchasing halal food. Consistent to these research results was the one produced by Bonne et al. (2007) in regards to consumer intention to consume halal meat. Likewise, the research results also conformed to Al-Nahdi (2008) that a significant relationship does present between perceived behavioural control and the intention to patronize food service premises. Thus, it is hypothesized that:

H3: Perceived behavioural control positively affects Muslim consumers' behavioural intention to patronize retail stores.



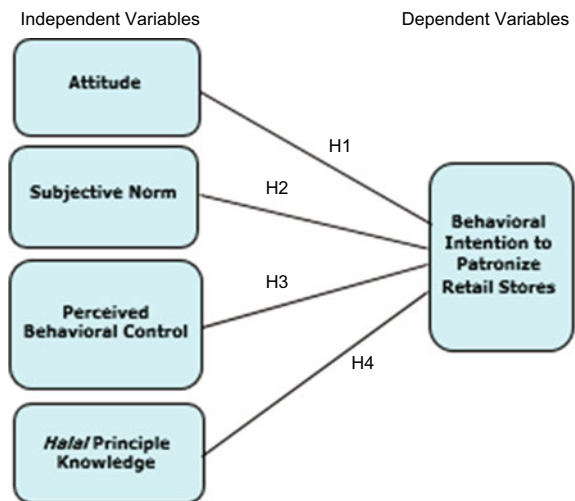
### 21.6 Halal Principle Knowledge

*Syariah* law clearly ruled that all Muslims must adhere to *Halal* principle by consuming only the lawful and stay away from the unlawful as well as consuming the *haram* is punishable (Mohamad Hashim 2011). From small, they were taught to strictly obey to religious with regards to what to consume, what not to consume, and how, when and where to consume it. Norazah (2014, p. 227) noted that ‘Muslim consumers’ faith or trust may be linked to the perception that products and services endorsed by the celebrities are in line with *Shariah* principles which are consistent with Islamic principles’. Fundamentally, they are well guided by the *syariah* dietary law that it describes what is fit to be consumed and what is not. They also engage in worship and reject a *haram* (Alserhan 2010). The cognitive aspect of Muslims’ religious belief and knowledge of halal principle positively impact their intention to take *halal* products (Mukhtar and Butt 2012). Hence, the influence of *halal* principle knowledge on behavioural intention should never be underestimated. Based on these findings, the following hypothesis is postulated:

H4: *Halal* principle knowledge positively affects Muslim consumers’ behavioural intention to patronize retail stores.

Ensuing from the afore-mentioned literature, this research has proposed a theoretical framework as illustrated in Fig. 21.1.

Fig. 21.1 Proposed theoretical framework



## **21.7 Methodology**

### ***21.7.1 Participant and Procedure***

A self-administered questionnaire was distributed to 500 Muslim consumers located in Kuching, Sarawak, Malaysia in July 2016 over a period of 2 weeks via the snowball sampling method. Of this, 480 were completed and usable for analysis of data, which amounted to a valid response rate of 96%. This sample size is considered acceptable as Hair et al. (2010) noted that the sample size should be greater than 100 for accuracy. Samples must have come into contact with retail shopping experience as this may turn out to be a strong basis to evaluate stores' halal images. The only general retail shopping experience is required to make it eligible to participate in the study.

### ***21.7.2 Questionnaire Development***

The questionnaire was prepared in three sections. Respondent's demographic characteristics are presented in Section A, and their degree of understanding about *halal* principle is outlined in Section B. The final section, Section D requires respondents to furnish response on aspects like attitude, subjective norm, perceived behavioural control and behavioural intention to patronize retail stores which were adapted from Francis et al. (2004). The measurement items for halal principle knowledge were measured using four items borrowed from Al-Mubarakpuri (2003). This multi-item questionnaire utilized the 7-point Likert-type scale ranging from 'strongly disagree' (1) to 'strongly agree' (7).

### ***21.7.3 Statistical Technique***

Partial least square structural equation modelling (PLS-SEM) approach, a second-generation analysis software to test complex models with latent variables, using SmartPLS 2.0 is the statistical technique applied in this research due to it evades biases in the parameter estimation in regression analysis (Hair et al. 2014).

**Table 21.1** Demographic profile of respondents

	Frequency	Percentage
<i>Gender</i>		
Male	132	27.5
Female	348	72.5
<i>Research faction</i>		
Born Muslim	461	96.0
Muslim convert	19	4.0
<i>Age</i>		
21–25 years old	73	15.2
26–30 years old	71	14.8
31–35 years old	69	14.4
36–40 years old	82	17.1
41–45 years old	94	19.6
46–50 years old	49	10.2
51–55 years old	37	7.7
56–60 years old	5	1.0
<i>Monthly income (RM)</i>		
1000 and less	52	10.8
1001–2000	100	20.8
2001–3000	132	27.5
3001–4000	136	28.3
4001–5000	47	9.8
5001–6000	8	1.7
6001–7000	4	0.8
7001–8000	1	0.2

## 21.8 Data Analysis

### 21.8.1 Demographic Profile of Respondents

The demographic profiles of the respondents are presented in Table 21.1. Respondents in the survey are distributed into 27.5% males and 72.5% females from a total sample size of 480 respondents. The data indicate that respondents with ‘born Muslim’ status are dominating the survey with about 96% of the total sample. Age for all ranges seems reasonably scattered. Most respondents (19.6%) are aged in-between 41 and 45 years old while the minimum number is in the age range of 56–60 years old (1%). About 59.2% of the respondents receive their monthly income at RM3000 or less.

### 21.8.2 *Partial Least Square Structural Equation Modelling*

PLS-SEM approach was evaluated via a two-stage data analysis: measurement model and structural model.

#### 21.8.3 *Measurement Model*

In the measurement model, the reliability and validity of the construct items were examined via several tests namely composite reliability, convergent validity and discriminant analysis. **Reliability** of the construct items was verified via Cronbach's alpha whereby the results in Table 21.2 depicts all values were surpassed 0.70, inferring strong reliability among the construct items.

The assessment of factor item loadings, average variance extracted (AVE) and composite reliability (CR) were meant to check the **convergent validity**. Table 21.2 shows that the AVE was greater than 0.50, and the CR was beyond 0.70. Indeed, all factor item loadings outdone the cut-off value of 0.60 with no cross loadings (see Table 21.3). The results infer that convergent validity was attained which followed suggestions by Hair et al. (2014).

Next, **discriminant validity** was gauged by comparing the square root of the AVE with the correlations. Table 21.4 exhibits that the square roots of the AVE were all outdistance the correlations, and followed the recommendations of Fornell and Larcker (1981), signifying that there was apposite discriminant validity.

#### 21.8.4 *Test of the Structural Model*

In the structural model, the hypothesized relationships were tested by running a bootstrapping procedure with a resampling of 5000 iterations. Table 21.5 presents that all independent variables (i.e. attitude, subjective norm, perceived behavioural control and halal principle knowledge) accounted for 46% of the total variance explained in Muslim consumers' behavioural intention to patronize retail stores ( $R^2 = 0.460$ ).

Specifically, attitude ( $\beta_1 = 0.231$ ,  $t$ -value = 3.151,  $p < 0.05$ ) had a significant impact on Muslim consumers' behavioural intention to patronize retail stores. Thus, H1 is confirmed. Next, H2 hypothesizes that subjective norm has a significant relationship on Muslim consumers' behavioural intention to patronize retail stores. H2 is fortified as a significant linkage transpired between subjective norm and Muslim consumers' behavioural intention to patronize retail stores ( $\beta_2 = 0.302$ ,  $t$ -value = 4.842,  $p < 0.05$ ). Besides that, an inspection of the  $t$ -values shows that the effect was also significant between perceived behavioural control and Muslim consumers' behavioural intention to patronize retail stores ( $\beta_3 = 0.287$ ,  $t$ -value = 4.846,  $p < 0.05$ ), which validates H3. Furthermore, the influence between halal principle knowledge

**Table 21.2** Reliability and validity analysis

Variables	Items	Standardized loadings	Cronbach's alpha	Composite reliability	Average variance extracted
<i>Attitude</i>					
	ATTD10a	0.785	0.849	0.896	0.589
	ATTD11a	0.804			
	ATTD12a	0.745			
	ATTD2a6a	0.793			
	ATTD4a5a	0.736			
	ATTD9a	0.737			
<i>Subjective norm</i>					
	SND22b	0.840	0.819	0.901	0.694
	SND23b	0.800			
	SND24b	0.862			
	SND27b	0.829			
<i>Perceived behavioural control</i>					
	PBCD36c	0.734	0.735	0.776	0.537
	PBCD39c	0.665			
	PBCD40c	0.794			
<i>Halal principle knowledge</i>					
	HPB11	0.748	0.710	0.834	0.626
	HPB7	0.827			
	HPB8	0.797			
<i>Behavioural intention</i>					
	BID47d	0.699	0.766	0.821	0.606
	BID49d	0.822			
	BID50d	0.809			

and Muslim consumers' behavioural intention to patronize retail stores is posited in H4. Scores on the path coefficients indicate that halal principle knowledge unsuccessful to impact Muslim consumers' behavioural intention to patronize retail stores ( $\beta_4 = -0.002$ ,  $t$ -value 0.047 and  $p > 0.05$ ), causing, H4 cannot be secured.

## 21.9 Discussion and Conclusion

This study examined the relationships between attitude, subjective norm, perceived behavioural control and *halal* principle knowledge towards Muslim consumers' behavioural intention to patronize retail stores. Empirical results of PLS-SEM

**Table 21.3** Factor item loadings and cross loadings

Factor items	Attitude	Subjective norm	Perceived behavioural control	Halal principle knowledge	Behavioural intention
ATTD10a	<b>0.785</b>	0.394	0.341	0.304	0.413
ATTD11a	<b>0.804</b>	0.404	0.311	0.407	0.408
ATTD12a	<b>0.745</b>	0.412	0.342	0.363	0.399
ATTD2a6a	<b>0.793</b>	0.456	0.344	0.396	0.458
ATTD4a5a	<b>0.736</b>	0.443	0.389	0.426	0.470
ATTD9a	<b>0.737</b>	0.416	0.380	0.402	0.418
SND22b	0.432	<b>0.840</b>	0.493	0.238	0.442
SND23b	0.336	<b>0.800</b>	0.447	0.293	0.408
SND24b	0.484	<b>0.862</b>	0.483	0.294	0.445
SND27b	0.548	<b>0.829</b>	0.516	0.343	0.557
PBCD36c	0.408	0.460	<b>0.734</b>	0.253	0.460
PBCD39c	0.160	0.339	<b>0.665</b>	0.132	0.318
PBCD40c	0.396	0.469	<b>0.794</b>	0.254	0.434
HPB11	0.411	0.254	0.191	<b>0.748</b>	0.267
HPB7	0.379	0.252	0.271	<b>0.827</b>	0.275
HPB8	0.401	0.355	0.254	<b>0.797</b>	0.196
BID47d	0.363	0.427	0.410	0.192	<b>0.699</b>
BID49d	0.536	0.495	0.445	0.294	<b>0.822</b>
BID50d	0.391	0.389	0.455	0.246	<b>0.809</b>

Note Bold values are item loadings which surpassed the beginning value of 0.600

**Table 21.4** Correlation coefficient

Factors	Correlation coefficient	Square root of AVE	Skewness	Kurtosis
Attitude	0.458 <sup>a</sup>	0.767	-2.909	8.307
Subjective norm	0.525 <sup>a</sup>	0.833	-2.424	7.312
Perceived behavioural control	0.378 <sup>a</sup>	0.733	-1.381	2.918
Halal principle knowledge	0.257 <sup>a</sup>	0.791	-4.481	23.700
Behavioural intention	1.000	0.778	-1.584	2.378

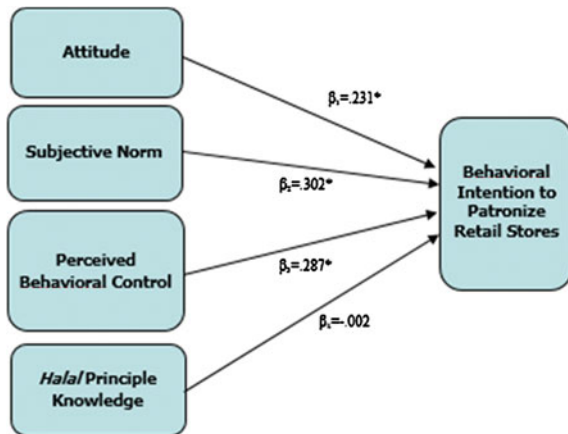
<sup>a</sup>Correlation is significant at the 0.01 level (2-tailed)

**Table 21.5** Structural relationships on behavioural intention

Paths	Path coefficients	Standard error	t-value	Results
Attitude → behavioural intention	0.231 <sup>a</sup>	0.073	3.151	H1 supported
Subjective norm → behavioural intention	0.302 <sup>a</sup>	0.062	4.842	H2 supported
Perceived behavioural control → behavioural intention	0.287 <sup>a</sup>	0.059	4.846	H3 supported
Halal principle knowledge → behavioural intention	-0.002	0.043	0.047	H4 not supported

Notes <sup>a</sup>*p* < 0.05; *R*<sup>2</sup> = 0.460

**Fig. 21.2** Results of structural model *p* < 0.05



approach, as illustrated in Fig. 21.2, revealed that attitude significantly influenced Muslim consumers’ behavioural intention to patronize retail stores. Hence, H1 was supported. More precisely, attitude scored the third highest reading in standardized beta coefficient and this makes it the third largest contributor in explaining respondents’ intention to patronize retail stores. The result of the study is consistent with quite a number of past research results in which a positive relationship between attitude and patronage behaviour was clearly noticed. For example, Eastlick and Liu (1997) and Pan and Zinkhan (2006) suggested that consumers’ attitudes towards retail stores are important antecedent of shopping frequency and shopping programmes. In another study on determinants of retail patronage, Korgaonkar et al. (1985) agreed that consumers’ attitude significantly influenced retail store patronage.

This study showed that H2 was strongly supported as subjective norm has a positive and significant influence on Muslim consumers’ behavioural intention to patron-

ize retail stores. Interestingly, subjective norm scored the highest standardized beta coefficient, inferring as the utmost prevalent factor to be considered when it comes to patronizing retail stores among Muslim consumers'. The finding is comparable to the works of Ajzen (2005) who affirmed that consumers are subjected to social normative push where the forces may come from family members, friends, colleagues, teachers, communities and etcetera. Ajzen (1991) and Taylor and Todd (1995) suggested that people's behaviours are potentially be influenced by those who are living closely by their sides and people often do something based on their perception of what others think they should do. In the case of product choice, similar conception was shared by Webster (2000) and Yoh et al. (2003) who conform to the pressures bring about by friends and family members. Respectively, Sukato (2008) affirmed that family members and friends had the most impact to change men's buying patterns. Indeed, Sweeney and Soutar (2001) noted that social value drives consumers' purchase attitude and behaviour.

Likewise, the path estimate results of PLS delineates that perceived behavioural control significantly affects Muslim consumers' behavioural intention to patronize retail stores. Consequently, H3 does conform to the empirical data. However, its relationships were moderate. This factor was ranked as the second most important factor for the respondents to affect their behavioural intention to patronize retail stores. This finding supported prior research studies. For example, Astuti and Martdianty (2012) found that perceived behavioural control is tagged positively to students' entrepreneurial intention. The power of perceived behavioural control in consumers seems very much to rely on past experiences in performing the behaviours and things that facilitate them to execute the actions. Therefore, the study's finding offers full support that strong perceived behavioural control will lead to a high possible intention to patronize retail stores.

In contrariwise, this study found that halal principle knowledge does not possess a significant relationship with Muslim consumers' behavioural intention to patronize retail stores. This demonstrates that they put less emphasis on the aspect of halal principle knowledge in regards to their behavioural intention to patronize retail stores, hence undermining H4. According to Al-Alak and Eletter (2010), Muslims are responsible and accountable to Allah (swt) for all things that they do and they are directed to follow the law of Syariah to guide their every action. In other words, the behaviour of the Muslims is determined by Islamic regulations, principles and values. This notion is strongly supported by Ather et al. (2011) who believed that Muslim consumers are driven by a balanced of materialistic and spiritual motivating forces. Muslims are always motivated to consume lawful food and to refrain from taking the unlawful one. In Swimberghe et al. (2009), the consumers' religious commitment have been found to significantly influence store loyalty. It was reported in those studies that deep and sincere religious individuals will integrate the religious knowledge into their life as much as possible and they may patronize stores that match their religious values and beliefs.

This research study offers guidelines to the retailers, marketers and the authorities in enhancing marketing strategies and the implementation of stricter *halal* consumption laws. The key theoretical contribution relates to the insertion of the *halal*



principle knowledge in the matter of consumer behavioural intention to patronize retail stores in Malaysia by applying the theory of planned behaviour as the guiding principle. Scholars such as Bonne and Verbeke (2008a), and Mohani et al. (2009) to name a few, seem to focus merely on religious values, halal logo and ambience respectively. Rezai et al. (2012), however, did discuss about halal principle but fell short to give the impression of a comprehensive principle. The halal principle, thus, should be seen in a wider perspective seeing that it provides Muslim consumers with a proper Islamic's consumption guideline and a useful insight to choose which retail stores to patronize. Therefore, the study suggests that a sincere adaptation of halal principle knowledge and halal image in retail stores is important for the reason that this will add value to the retail business, increase Muslim consumers' patronage and fulfil their corporate social responsibility to the Muslim communities. Future research is recommended to include additional variable like *halal* image to act as a mediating variable towards Muslim consumers' behavioural intention to patronize retail stores.

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# Chapter 22

## Digital Printing Motif on Muslim Fashion Trend in Indonesia



**Yunita Fitra Andriana**

**Abstract** The muslim fashion trend in Indonesia has been developing rapidly since the early 2000s. The trend started with the style that has festive details accessories, at that time most of the *hijabers* (the term for people who wear hijab) still tend to experiment with their style, add accessories, or wearing veils with a variety of alternative styles. As time goes by, the muslim fashion trend in Indonesia then turned into a simpler style, it more accentuates on the detail of cutting line or motifs on the fabric. In Islamic law, figural motifs or motif that reveals human is prohibited motif. Alternative motif that are often used in the muslim fashion and becoming a trend in Indonesia is a floral motif that seemed romantic and girly. In addition to floral motifs, other motifs such as geometric patterns and abstract motifs are also able to grow its own fans in the Indonesian Muslim fashion market. Due to high consumer demand, the need for unique and exclusive motif has been increasing. Nowadays, in the market of Indonesian muslim fashion, scarves and clothing that feature exclusive motifs have been a new trend. These motifs are exclusively designed and are not mass produced. The production techniques that have been chosen is digital printing on textiles because with this technique the motif can be designed with limitless creativity. This study uses qualitative aesthetic visual analysis. This method is used to outline specific style of motif design on digital printing textiles that has been a trend in muslim fashion in Indonesia on 2014–2016 (study cases: fashion collections of Itang Yunasz and Ria Miranda). Variety of the motif designs tend to show cool and pastels colors, displaying dynamic forms that look chic, elegant, and also natural.

**Keywords** Muslim fashion · Motif · Digital printing

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## 22.1 Development of Muslim Fashion in Indonesia

The muslim fashion in Indonesia has been developed rapidly. This development is accompanied by the transformation of the muslim fashion style, from a style that impresses conservative to the style that impresses young and trendy. The impact of this transformation is the increase in number of Indonesian population who wear hijab (hijab is Arabic, which literally means lid). If in the early stages of its development, hijabers (term for people who wear hijab) were dominated by mature women, hijab is now favored by the younger generation, and even reached popularity among teenagers. Many factors that have been triggering the development of muslim fashion in Indonesia are varied including, growth of Hijabers Communities, Hijabers Mom, and others, the emergence of young prominent scholars of Islam, who has charisma and fashionable, muslim fashion bazaar, hijab tutorial in social media and various internet sites.

According to Director General of Small and Medium Industries (*Usaha Kecil Menengah/ UKM*) of the Ministry of Industry, Euis Sa'idah, there are 20 million people in Indonesia are wearing hijab. This number is growing simultaneously with the development of the muslim fashion industry in Indonesia which is growing 7% each year (source: <http://www.kemenperin.go.id/artikel/4051/Mimpi-Indonesia:-Kiblat-Fashion-Muslim-Dunia> downloaded on February 4, 2017 10:22 GMT).

Muslim fashion style in Indonesia begins with the style adopted from Saudi Arabian and Yemenite style. "When Islamic scholars and traders from abroad came to Indonesia they not only brought with them ideas and goods, but also the fashion styles from their countries. Styles from Saudi Arabia as well as from Yemen became popular, especially when the men from those countries started to marry Indonesian women. Still the use of the Arabian abaya, a head-to-toe wrap covering the whole body" (Amrullah 2008: pg 22). Still according to Amrullah (2008: pg 23), the Muslim fashion designer at that time, Ida Royani and Ida Leman, preferred to popularize the dress shalwar qamiz because it is more easily modified and it is not identical with the very strict and conservative groups that have adopted Arabian styles such as the Tablighi Jamaat and some Salafi groups.

In the 2000s, the population of hijabers in Indonesia has increased and uneven across age levels and economic class. At that time, the media popularize the style of street hijab/ kerudung (kerudung means veil in bahasa) as stated by Amrullah (2008: pg 23), "The three big magazines focusing on Islamic fashion are *Noor*, *Paras*, and *Alia*, which promote a moderate use of body coverage, such as the use of *kerudung gaul* (street *kerudung*) which consists of a simple veil worn with pants, such as blue jeans, and a tight long-sleeved T-shirt." This street hijab/kerudung became controversy because this style of hijab accentuates body curves, and even the shape of some parts of the body are clearly visible. In addition to this style of street hijab, at that time also appeared formal and casual look combined with a variety of complicated hijab style. The hijabers at that time still tend to experiment with their style, add accessories, or wearing veils with a variety of alternative styles (Picture 22.1).



**Picture 22.1** Indonesian Hijabers (Source <http://www.pulsk.com/262584/Inilah-5-wanita-Indonesia-yang-populer-di-internet-baik-melalui-Instagram-ataupun-blog-yang-gayanya-jadi-acuan-hijabers.html> downloaded on February 4th, 2017 17:09 GMT)

As time goes by, the muslim fashion trend in Indonesia then turned into a simpler style, it more accentuates on detail of cutting line, fabric, or motifs. In Islamic law, figural motifs or motif that reveals human is prohibited motif. Alternative motif that became popular on muslim fashion in Indonesia is local motif like batik. Furthermore, some other motifs such as floral motif, geometric, and abstract motifs are also able to grow its own fans in the Indonesian Muslim fashion market. Due to high consumer demand, needs for unique and exclusive motif has been increasing. Nowadays, in the market of Indonesian Muslim fashion, scarves and clothing that feature exclusive motifs have been a new trend. These motifs are exclusively designed and are not mass produced. The production techniques that have been chosen is digital printing on textiles because with this technique the motif can be designed with limitless creativity (Picture 22.2).

## 22.2 Method of Research

This study uses qualitative aesthetic visual analysis. This method is used to outline specific style of motif design on digital printing textiles that has been a trend in Muslim Fashion in Indonesia on 2014–2016 (study cases: fashion collections of Itang Yunasz and Ria Miranda). Variety of the motif designs tend to use cool and pastels colors, displaying dynamic forms that look chic, elegant, and also natural.

Objects of this research are the motifs that produced with digital printing on textiles and used by the Indonesian Muslim fashion designers in the years 2014–2016. Case studies in this research are fashion collection by Itang Yunasz launched in 2014–2015 and fashion collection by Ria Miranda launched in 2016. The object is identified based on the aesthetics of its constituent elements, both its visible form and its contents that are not visible to the eye.



**Picture 22.2** Muslim Fashion Collection by Indonesian Designer, Itang Yunasz. He uses digital printing on textiles to develop his fabric (Source <http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim> downloaded on February 5th 16:10 GMT)

## 22.3 Theoretical Basis

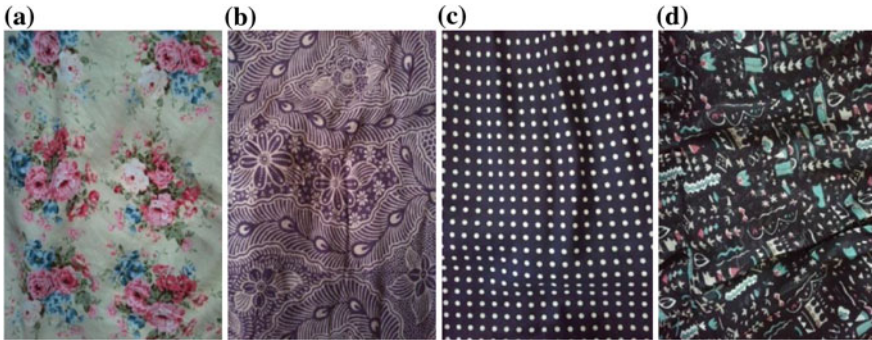
### 22.3.1 *Aesthetics*

As stated by Djelantik (1999: p 17) that the aesthetic elements consist of a form or appearance, value or contents, as well as the appearance or presentation. Appearance is what is seen by the eye, consisting of the shape and structure, with elements form consisting of point, line, shape, and space. Then there is the value which is an element that is felt, not just what is seen by the eye. Style is an element that is closely related between them, not just what it looks or appearance, but also closely related to value or content. In this study, the value or content is the impression gained from the motif and color selection that displayed in a number of Muslim fashion collection.

### 22.3.2 *Textile Motif*

Motif on textile materials can be produced by varying the types of yarns, fibers, or woven techniques, or also by way of finishing. Patterned textile including crepe, brocade, leno, damask, and furry textile (Nahari 2006: pg 29).

Motif on textile materials may be a consideration to determine the clothing cutting and accent. The motif should be adapted to the age and character of its consumers. According to Riyanto (2003: pg 141), motif on textile materials are divided into the following four types:



**Picture 22.3** Motif Textile Types: **a** naturalism, **b** *renggaan*, **c** geometrical, **d** abstract (Source Andriana 2013: pg 26)

1. Naturalism Motif consists of the shape of animals, plants, landscapes, and human.
2. *Renggaan* Motif (*renggaan* in bahasa means *stilasi*, which means styleing) modification of natural forms into a new form without eliminating the original form.
3. Geometrical Motif consists of squares, round, oval, triangles, and parallelograms.
4. Abstract Motif, form is not clear, maybe scribbles, a group of some motifs mixed together (Picture 22.3).

Also according to Riyanto (2003: pg 143), based on its size, motif on textile can be divided into the following two groups:

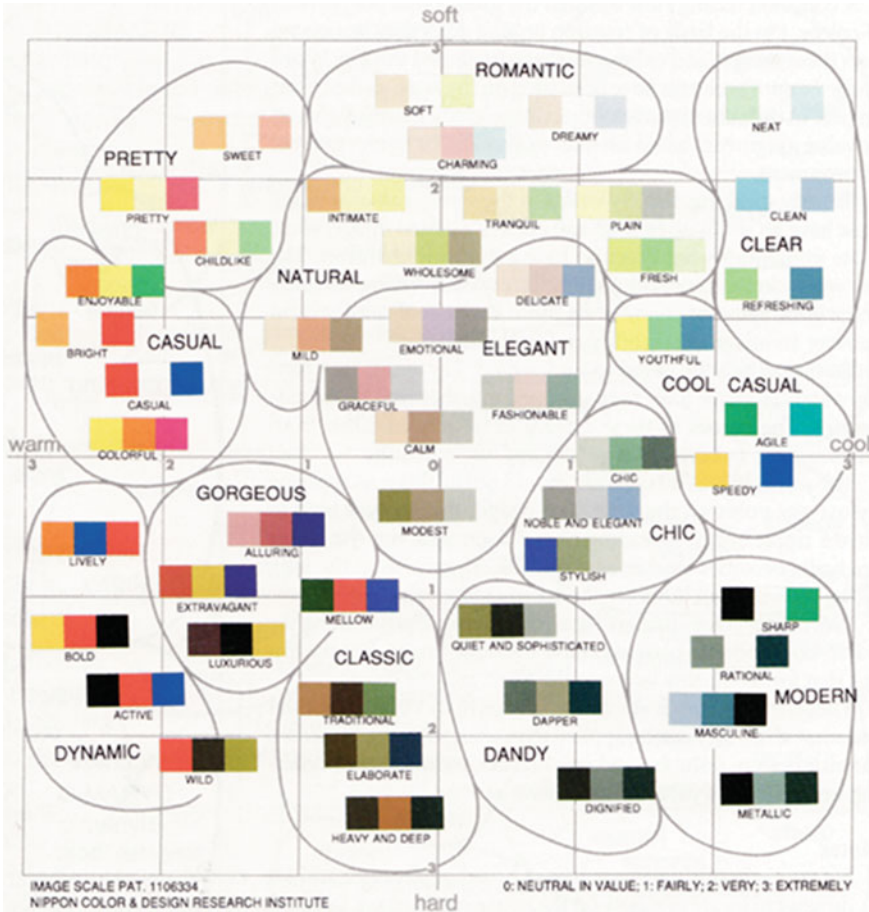
1. Large-sized motif consists of countable amount of motifs. Size of the motif is large and it gave impression which makes the body look fat.
2. Medium-sized and small-sized motif consists of uncountable number of motif. Size of the motif is small and it gave an impression which makes the body look slim.

Decoration on textile materials can be classified into, floral, folk, monotone, patchwork, liberty, conversational, batik, chintz, geometric, foulard, art nouveau, art deco, botanical, toile, stylize, Americana, shirtings, landscape, country French, wrap, paisley, abstract, and coordinate pattern (Joyce in Nahari 2006: p 29).

### 22.3.3 Colors

Color is the basic consideration to determine elements of fashion. The right texture textile can be wrong if the color is not right. Color also has a strong relationship with people emotional responses, culture, and symbols. For example, in western countries white color symbolizes the sanctity that is used in a wedding dress, but in India white color symbolizes sorrow and mourning (Stone 2006: pg 10).





Picture 22.4 Color Image Scale. Kobayashi, Shigenobu. 1990. Color Image Scale. Tokyo: Kodansha International, Ltd

According to Frings (1987: pg 130), color can be composed and divided into three groups: warm colors, cool colors, and neutral colors. Warm colors consist of red, orange, and yellow. Warm color classification is based on its correlation with the color of fire and sun. Warm colors are stimulating, aggressive, and passionate. While cool colors consist of soothing and refreshing colors. It is the color of the sea and the sky, which are blue, green, and purple. The last group is a neutral color, the colors that usually used as background color, which is included in the composition of the color display but does not grab the attention of other colors. Neutral color consists of white, black, beige, brown, and gray.

According to Darmaprawira (2002: pg 30), color can reveal the nature of femininity and masculinity of a person. Women generally prefer warm colors (family of yellow, orange, and red), pastels and soft colors. While men tend to prefer colors

that firm, dark, and cool (family of green, blue, and purple). Other than all the color theories above, this color image scale (Kobayashi 1990), also used to analyze the value or content which means impression that emerged from color selected by the Indonesia Muslim fashion designer (Picture 22.4).

### ***22.3.4 Digital Printing on Textile***

Digital printing on textile means print any motif digitally on fabric or textile. Technically there are two ways to print motif on textile, direct printing (print motif on textile directly), and indirect printing (use an intermediary medium, in this case usually a transfer paper) (Source: <http://www.digitalprintingindonesia.com/more-byfar-the-digital-textile/downloaded> on February 6th 14: 45 GMT).





Nowadays, in Indonesia, digital printing on textile is popular among fashion designers. They use it to develop their fabrics in order to have a unique and exclusive motif, this has also happened among the muslim fashion designers.

## **22.4 Analysis of Digital Print Motifs on Muslim Fashion in Indonesia**





### ***22.4.1 Fashion Collection of Itang Yunasz***

In the event of Jakarta Fashion and Food Festival 2014 (JFFF), designer Itang Yunasz launched his Muslim fashion collection entitled “Me and Her Sob.” In this collection, Itang Yunasz using digital printing techniques to put motifs on his fabrics. The motif was his collaboration work with a photographer who captured the beauty of Indonesian nature, including the color of the sea and cliffs in Bali, a gray haze in the Pacific Islands region, as well as the natural beauty of Garut. The following are a few of his collections that examined with the theory about the motifs and colors (Pictures 22.5 and 22.6).





Muslim fashion collection by Itang Yunasz in 2015 was launched in a fashion show in Jakarta Fashion Week event titled “Exotic Journey.” This collection is inspired by the exoticism of Sumba, eastern Indonesia. In this collection, Itang Yunasz also use digital printing to put motifs that inspired by Sumba woven fabric.

#	Fashion Collection	Analysis	
1.	 <p data-bbox="212 657 485 728">(Source: <a href="http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim">http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim</a> downloaded on February 5th 16:10 GMT)</p>	Motif Classification	Renggaan Motif, medium-sized
		Color	 <p data-bbox="783 331 818 354">Cool</p>
		Value and Content (Impression)	Chic, clear, and elegant
2.	 <p data-bbox="204 1210 477 1280">(Source: <a href="http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim">http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim</a> downloaded on February 5th 16:10 GMT)</p>	Motif Classification	Renggaan motif, medium-sized
		Color	 <p data-bbox="771 869 806 892">Cool</p>
		Value and Content (Impression)	Chic, calm, modest and elegant

Picture 22.5 Itang Yunasz Colour of the Sea

<p>3.</p>	 <p>(Source: <a href="http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim">http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim</a> downloaded on February 5th 16:10 GMT)</p>	<p>Motif Classification</p>	<p>Renggaan motif, medium-sized</p>
		<p>Color</p>	 <p>Cool</p>
		<p>Value and Content (Impression)</p>	<p>Refreshing, masculine, dandy, modern</p>
<p>4.</p>	 <p>(Source: <a href="http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim">http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim</a> downloaded on February 5th 16:10 GMT)</p>	<p>Motif Classification</p>	<p>Renggaan motif, medium-sized</p>
		<p>Color</p>	 <p>Cool</p>
		<p>Value and Content (Impression)</p>	<p>Masculine, dandy, and modern</p>

Picture 22.5 (continued)

#	Fashion Collection	Analysis	
1.	 <p data-bbox="203 677 615 733">(Source: <a href="http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasian-Cetak-Digital-Pada-Busana-Muslim">http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasian-Cetak-Digital-Pada-Busana-Muslim</a> downloaded on February 5th 16:10 GMT)</p>	<p data-bbox="640 195 756 252">Motif Classification</p> <p data-bbox="640 269 685 292">Color</p>	<p data-bbox="772 195 1009 252">Geometrical Motif, large-sized</p>  <p data-bbox="772 322 812 345">Cool</p>
2.	 <p data-bbox="203 1312 615 1386">(Source: <a href="http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasian-Cetak-Digital-Pada-Busana-Muslim">http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasian-Cetak-Digital-Pada-Busana-Muslim</a> downloaded on February 5th 16:10 GMT)</p>	<p data-bbox="640 830 756 887">Motif Classification</p> <p data-bbox="640 904 685 927">Color</p>	<p data-bbox="772 830 997 853">Abstract motif, large-sized</p>  <p data-bbox="772 957 812 980">Cool</p>
		<p data-bbox="640 998 756 1095">Value and Content (Impression)</p>	<p data-bbox="772 998 991 1021">Refreshing, natural, and chic</p> <p data-bbox="772 998 991 1021">Natural, chic, and elegant</p>


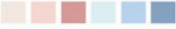

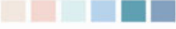
Picture 22.6 Itang Yunasz Digital Motif

<p>3.</p>	 <p>(Source: <a href="http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim">http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim</a> downloaded on February 5th 16:10 GMT)</p>	<p>Motif Classification</p>	<p>Abstract motif, large-sized</p>
		<p>Color</p>	 <p>Warm</p>
		<p>Value and Content (Impression)</p>	<p>Bold and bright</p>
<p>4.</p>	 <p>(Source: <a href="http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim">http://nova.id/Mode-dan-Kecantikan/Mode/Itang-Yunasz-Aplikasikan-Cetak-Digital-Pada-Busana-Muslim</a> downloaded on February 5th 16:10 GMT)</p>	<p>Motif Classification</p>	<p>Geometrical Motif, large-sized</p>
		<p>Color</p>	 <p>Cool</p>
		<p>Value and Content (Impression)</p>	<p>Modern and chic</p>


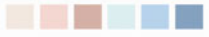


Picture 22.6 (continued)

### 22.4.2 Fashion Collection by Ria Miranda

In 2016, Ria Miranda launched a collection inspired by the beauty of the Raja Ampat islands, Indonesia. This collection entitled “Seashore.” The inspiring beauty of Raja Ampat islands displayed in a variety of motifs that applied to the fabric with digital printing techniques (refer to Picture 22.7).

#	Fashion Collection	Analysis	
1.	 <p data-bbox="248 949 604 1012">(Source: <a href="http://www.almazia.co/koleksi-baju-muslim-terlengkap-desainer-ria-miranda/">http://www.almazia.co/koleksi-baju-muslim-terlengkap-desainer-ria-miranda/</a> downloaded on February 5th 2017 21:24 GMT)</p>	Motif Classification	<i>Renggaan motif, larged-sized</i>
		Color	 <p data-bbox="742 583 780 606">Cool</p>
		Value and Content (Impression)	Romantic, clear, and chic
2.	 <p data-bbox="248 1499 604 1562">(Source: <a href="http://www.almazia.co/koleksi-baju-muslim-terlengkap-desainer-ria-miranda/">http://www.almazia.co/koleksi-baju-muslim-terlengkap-desainer-ria-miranda/</a> downloaded on February 5th 2017 21:24 GMT)</p>	Motif Classification	<i>Renggaan motif, larged-sized</i>
		Color	 <p data-bbox="742 1141 780 1164">Cool</p>
		Value and Content (Impression)	Refreshing, romantic, clear, and chic





Picture 22.7 Ria Miranda Seashore

<p>3.</p>	 <p>(Source: <a href="http://www.almazia.co/koleksi-baju-muslim-terlengkap-desainer-ria-miranda/">http://www.almazia.co/koleksi-baju-muslim-terlengkap-desainer-ria-miranda/</a> downloaded on February 5th 2017 21:24 GMT)</p>	<p>Motif Classification</p>	<p><i>Renggaan</i> motif, larged-sized</p>
		<p>Color</p>	 <p>Cool</p>
		<p>Value and Content (Impression)</p>	<p>Refreshing, romantic, clear, and chic</p>
<p>4.</p>	 <p>(Source: <a href="http://www.almazia.co/koleksi-baju-muslim-terlengkap-desainer-ria-miranda/">http://www.almazia.co/koleksi-baju-muslim-terlengkap-desainer-ria-miranda/</a> downloaded on February 5th 2017 21:24 GMT)</p>	<p>Motif Classification</p>	<p><i>Renggaan</i> motif, larged-sized</p>
		<p>Color</p>	 <p>Cool</p>
		<p>Value and Content (Impression)</p>	<p>Refreshing, romantic, clear, and chic</p>





Picture 22.7 (continued)



In the event of Jakarta Fashion Week 2017 (was started on October 2016), Ria Miranda launched a collection titled “Foresta” inspired by the beauty of the Green Mountain National Forest in Vermont, USA. In this collection, Ria Miranda also uses digital printing on textiles for displaying the motifs that inspired by the beauty of the forest (refer to Picture 22.8).

#	Fashion Collection	Analysis	
1.	 <p data-bbox="212 836 600 936">(Source: <a href="http://wolipop.detik.com/read/2016/10/27/075346/3330404/233/inspirasi-hutan-bernuansa-cerah-dalam-rancangan-busana-ria-miranda">http://wolipop.detik.com/read/2016/10/27/075346/3330404/233/inspirasi-hutan-bernuansa-cerah-dalam-rancangan-busana-ria-miranda</a> downloaded on February 5th 2017 21:57 GMT)</p>	Motif Classification	<i>Renggaan</i> motif, larged-sized
		Color	 <p data-bbox="769 548 836 569">Neutral</p>
		Value and Content (Impression)	Natural, elegant and chic
2.	 <p data-bbox="212 1335 600 1381">(Source: <a href="http://wolipop.detik.com/read/2016/10/27/075346/3330404/233/inspirasi-hutan-bernuansa-cerah-dalam-rancangan-busana-ria-miranda">http://wolipop.detik.com/read/2016/10/27/075346/3330404/233/inspirasi-hutan-bernuansa-cerah-dalam-rancangan-busana-ria-miranda</a> downloaded on February 5th 2017 21:57 GMT)</p>	Motif Classification	<i>Renggaan</i> motif, larged-sized
		Color	 <p data-bbox="769 1065 836 1086">Neutral</p>
		Value and Content (Impression)	Natural, elegant and chic

**Picture 22.8** Ria Miranda Foresta

<p>3.</p>	 <p>(Source: <a href="https://moeslema.com/1346">https://moeslema.com/1346</a> downloaded on February 5th 2017 22:10 GMT)</p>	<p>Motif Classification</p>	<p><i>Renggaan</i> motif, large-sized</p>
		<p>Color</p>	 <p>Cool</p>
		<p>Value and Content (Impression)</p>	<p>Natural, elegant and chic</p>
<p>4.</p>	 <p>(Source: <a href="https://moeslema.com/1346">https://moeslema.com/1346</a> downloaded on February 5th 2017 22:10 GMT)</p>	<p>Motif Classification</p>	<p><i>Renggaan</i> motif, large-sized</p>
		<p>Color</p>	 <p>Neutral</p>
		<p>Value and Content (Impression)</p>	<p>Natural, elegant and chic</p>

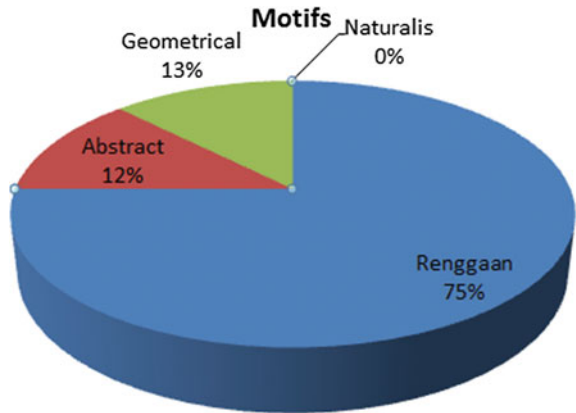
Picture 22.8 (continued)

## 22.5 Results and Discussion

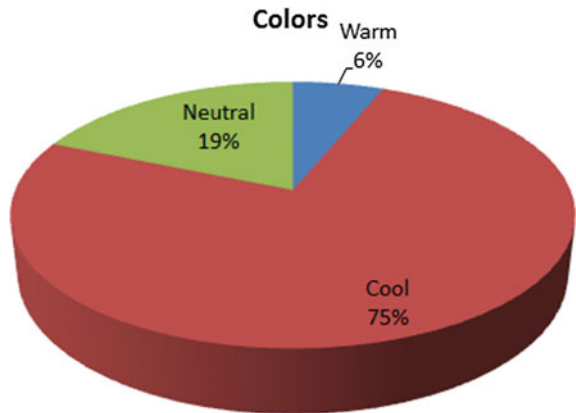
After the analysis process on digital printing motifs of fashion collections by Itang Yunasz and Ria Miranda during years, 2014–2016 it can be summarized as follow:

1. Analysis result of digital print motif (Graphic 22.1).
2. Analysis result of digital print motif (based on its color) (Graphic 22.2).
3. Analysis result of digital print motif (based on its color impression) (Graphic 22.3).

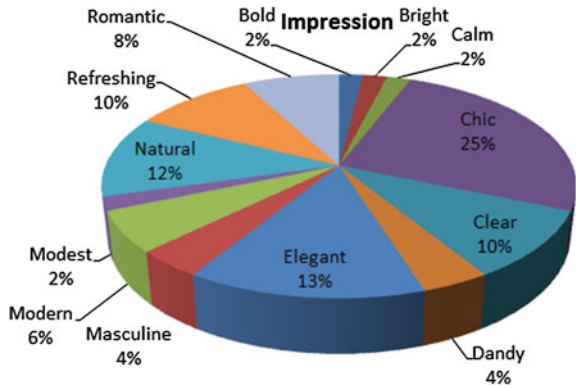
**Graphic 22.1** Analysis result of digital print motif



**Graphic 22.2** Analysis result of digital print motif (based on its color)



**Graphic 22.3** Analysis result of digital print motif (based on its color impression)



## 22.6 Conclusion

Based on those analysis results, it can be concluded that Indonesian Muslim fashion, which uses digital print on textile technique tend to use renggaan motif, a modification of natural form into a new form without eliminating its original form. In addition of that, Indonesian Muslim fashion tends to use cool color group and pastel colors as its selected color. The impression of its collections look chic, elegant, and natural. This analysis result can be used as a reference to design digital print motif for Indonesian Muslim fashion.

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# Chapter 23

## Comparative Study of Islamic Quality Standard for Hotel in Malaysia and Indonesia



Vanessa Gaffar, H. P. Diyah Setyorini and Norain Othman

**Abstract** The Islamic quality standard (IQS) is a standard that has been designed for hospitality organizations particularly hotels that are interested to apply the basic Islamic practices in their operation. The star ratings for hotels do not consider the sensitivity of Muslim community with the presence of alcoholic beverages, non-halal food and activities against the teaching of Islam. The emergence of an increase of Muslim travelers in the global market is a significant concern for the tourism business players to meet the demand of this market. Indonesia has the largest Muslim population in the world and Malaysia on the other hand has shown an increase of Muslim tourists arrival namely from Muslim countries. However, few hotels in both countries are not operating in accordance to the Islamic standards. This research aims to examine the planned behavior, perceive value and awareness of tourists in Indonesian and Malaysia towards the behavioral intention in choosing Islamic Quality standard hotels. A total of 450 questionnaires were distributed and analyzed using the path analysis. This study has managerial implications for hoteliers to meet the challenging market demand of Muslim travelers and attracting high yield tourists market.

**Keywords** Islamic quality standard · Planned behavior · Perceive value · Halal

### 23.1 Introduction

The Muslim market is of great significant and the number of Muslim travelers is expected to increase in future as the global population increases and the prosper-

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ity in Muslim countries such as Brunei, Indonesia, Malaysia, and Singapore (Scott and Jafari 2010). More than 50 Muslim countries and about 1.6 billion Muslims are the potential and lucrative market. United Nations World Tourism Organization (UNWTO) report that international tourism continued its momentum with a 5% growth, or an additional 52 million international tourists, recorded a world total of 1087 billion arrivals in 2013. Muslim tourism contributed \$141 billion that is more than 10% of the global tourism, 78% from 57 OIC Muslim—majority countries and 22 from Western Muslim minority countries. The world's Muslim population will increase from 1.6 billion in 2010 to 2.2 billion by 2020 and Muslims will make up 26.4% of the world's total projected population of 8.3 in 2030 (Pew Research on Religion & Public Life Project, retrieved from [www.pewforum.org](http://www.pewforum.org)).

Islamic tourism is new to most tourism scholars and there are few studies carried out by researchers in integrating the teaching of Islam and tourism theories. Traveling and exploring for the purpose of seeking knowledge, enriching one's experience and improve one's character has been encouraged by Islam. Hence Islamic tourism can be defined as "tourism activities, development of product and services, marketing strategies according to Islamic values, principles and guidelines targeted to Muslim tourists for knowledgeable and holistic travel" (Othman et al. 2010). The development of Islamic tourism gives rise to the various tourism businesses such as tour operators, airlines, restaurants and hotels to restructure their services towards halal or syariah compliance or Muslim-friendly to meet the demand of the growing Muslim market.

## 23.2 Islamic Tourism in Malaysia and Indonesia

Malaysia registered an estimated 5.44 million Muslim tourists in 2012 (equivalent to 21.75% of Malaysia's total tourist arrivals for the same year) compared to 5.22 million in 2011. The Islamic Tourism (ITC), under the Ministry of Tourism and Culture (MOTAC) was officially launched on 2009, established to assist MOTAC, in undertaking strategic tourism research and market intelligence as well as providing training and capacity-building services in relation to Islamic tourism. ITC serves as an advisor body particularly in matters pertaining to Islamic tourism and working continuously with stakeholders and industry players to make Malaysia as one of the Islamic tourist destination in the region. The roles and responsibilities of ITC are; (1) Undertaking strategic research on market intelligence for policy formulation; (2) Providing capacity-building in tourism human resource and professional service standards; (3) Information exchange and sharing of sustainable tourism best practices; and (4) Developing strategic partnership with governmental, inter-governmental and NGOs. Malaysia. In the global recognition, Malaysia has been voted as the top destination for Muslim tourists in 2011, 2012, 2013 and 2014, Malaysia scored 8.3 out of 10 leaving behind countries like UAE, Turkey and Indonesia and KLIA was also voted as the most Muslim-friendly airport in the world by Crescent rating Singapore. ITC identifies the potential Islamic tourism products in Malaysia such as history, royal heritage, Islamic education, way of life, history of independence, nature, agrotourism,

comparative religion, architecture, sports and outdoor, arts and culture, health and wellness and business

The compositions of Islamic tourism definition introduced by ITC are as follows:

1. Islamic compliance. Halal food, Islamic hotel beneficial places, shariah-compliant trips.
2. Islamic Heritage and History. Example: Islamic museum.
3. Diversity among Muslim countries. For example, countries with majority of Muslim population, cultures and lifestyle creating sense of Islamic solidarity.
4. Islamic Programs and Projects. Example: Tilawah International Islamic seminars and conferences program.
5. Learning Islamic Debriefing. A lesson sharing and enrichment by tourist guide from tour session.
6. Searching for value-added elements and ideas. For example encouraging tourists to develop new perspectives of life and find a road map for improvement.

Othman et al. (2013) reported that more than 80% of the respondents agreed that Muslim tourists prefer to stay at “Muslim Friendly” accommodation and services with halal food and no alcohol, clean and hygienic environment, direction of qiblah in rooms, prayer mat provided and separate or different time schedule for male and female using the swimming pool and the gymnasium. This is supported by a study conducted by Creative Minds Media that shows the Muslim Travel Index Europe 2014, a research on the attitudes and behavior of majority Muslim populations to tourism in the future and their experiences of countries they have already visited in Europe. Does the traveler follow a Halal lifestyle whilst traveling abroad? Based on research that had been conducted, the most sought by Muslim tourist are “Halal Food” (67%), followed by “Overall price” (53%), and “Muslim-friendly experience” (49%). In another study carried by Creative Minds Media in Muslim Travel Index Europe 2014 surveyed on the attitude and behavior of majority of Muslim tourists visiting Europe whether the traveler follow a Halal lifestyle whilst traveling abroad. The results are as follows:

- Over half from Middle-East and Far-East have traveled to Europe for leisure purposes
- England, Italy, Turkey, France and Germany are the most popular destinations of choice
- Travelers from the Middle-East and Far-East are choosing to stay in apartments/flats over hotels
- Facilities that allow Islamic travelers to follow a Halal lifestyle are important to everyone when considering to travel abroad
- And providing Halal Food or appropriate praying facilities are the most important factors
- There is room for improvement amongst the popular destination countries as around one-third rate the facilities catering to a Halal lifestyle as “average”.

Islamic tourism can contribute to social conditions that may lead to positive changes to existing multi racial and cultural such as in Malaysia. Tourism plays an



important role in Indonesia. Indonesia is the fourth largest country with an estimated population of 252.8 million that comprises over 17,000 islands (19,919,440 km). Indonesia has the world's most populous Muslim-majority country of 86% of the total population. This means that Indonesia is the 19th largest country in terms of land mass and it has a high population density (retrieve from <http://worldpopulationreview.com/countries/indonesia-population/>). There is significantly an increase of domestic tourism in Indonesia and with the size and heterogeneity of the country makes tourism within Indonesia as a most interesting as international tourism. The most popular holiday destinations are the islands of Sumatra, Java and Bali (voted as the World Best Spa Destination). The World Islamic Tourism Conference (WITC) (2014) held on the 24 October 2014 in Jakarta shows the seriousness of Indonesia in promoting Islamic tourism. Mrs. Esthy Reko Astuty, Director General of Tourism Marketing, Ministry of Tourism and Creative Economy Republic of Indonesia in her presentation indicated the seriousness of the government to market "Wonderful Indonesia: A Muslim Friendly Destination" internationally. It is reported that the Middle-East tourists has increased from 98,2770 in 2012 to 132,679 in 2013, an annual growth from 1.3% to 1.6%. Indonesia promotes Muslims friendly destination through its unique culture and ethnic people, more than 600 mosques, beautiful island and beaches, and Islamic fashion center. Indonesia, develop the tourism sector for foreign tourists, as well as, domestic tourists. The development of domestic tourism is important because it could foster the economic distribution amongst provinces in Indonesia. It also increases the understanding between Indonesian people that consist of many different cultural backgrounds. Though the most population of Indonesian tourists are Muslim, they are not fully aware of the Islamic standards for hotel.

### **23.3 Islamic Quality Standard (IQS) for Hotels**

Standardization in tourism is a mean of developing facilities, procedures, and acts in a certain way to ascertain the quality of services given to the customer. Muslim traveler's need of practicing religious in daily routine activities sometimes has not been fulfilled by those developed in the international standard tourism practices. For example the provision of halal food, the provision of separate facilities for men and women, prayer facilities and times have not been considered in the international standard of hotels. Therefore, the developing of Islamic quality standard emerged not only for hotels but also tour packages, restaurants, airlines and travel activities. In non-Muslim countries such as Thailand, Japan, Korea, and Europe are seriously looking at this lucrative market. Thailand for example, has provided the most Muslim-friendly airport in South East Asian countries and attempted to provide halal food in most restaurants. Indonesia and Malaysia are also emphasizing on Islamic or halal tourism sectors. Tourism businesses such as the hotels have a big effort in developing the Islamic standardization on their hotel facilities and services. The contribution of visitors' expenditure on hotels has a significant impact on the country's tourism

revenue. Thus, the variety of services and products of hotel has been developed to meet the dynamic changes of tourist behavior and demand. The hotel association in many parts of the world has established the International hotel classification and standardization such as the “star rating system” (1–5 Star Hotel) in order to fulfill the needs and satisfaction of the hotel guest. However, not every standard imposed in the international standardization and classification system complies to the needs and demand of the Muslim tourists as they serve alcohol and non-halal food.

Muslim travelers have specific needs during traveling, especially while staying in the hotel, they need Halal food, prayer time schedule, Qiblat direction and other specific needs and demand for prayer facilities. Sometimes it is difficult for the Muslim travelers to choose a hotel during their travel because the hotel does not offer what they need. Hence, the Islamic Quality Standard (IQS 1–7) for hotels was being developed and introduced by the Universal Crescent Standard Center (UCSC) and Universiti Teknologi MARA (UiTM), Shah Alam in Malaysia. The 1st International Islamic Standard Conference 2012 was held on the 5–6 December 2012 at Putra World Trade Center, Kuala Lumpur Malaysia that was attended by more than 1000 delegates. The IQS was awarded to the hotels from Turkey and Malaysia, namely IQS 7 to Caprice Gold Palace, Istanbul, Turkey, IQS 5 for Termal Palace Hotel, Izmir, Turkey, IQS 3 to Grand Bluewave Hotel, Shah Alam, Malaysia and IQS 2 for De Palma Hotel Ampang, Malaysia. Indonesia, with the most Muslim population has not developed the Islamic Quality Standard for hotel. There are few hotels that practices the Islamic compliance in their hotel operation such as Narapati Hotel Bandung, Personal interview was conducted with the Director of Narapati Hotel Bandung that implement syariah guideline and it was reported that the occupancy rate drop after implementing the Islamic standard. The same case happens to Grand Blue Wave, Shah Alam, Malaysia, after receiving the IQS 3 award, the occupancy rate drops for 6 months but the increases gradually in the occupancy rate, more events and functions. Hence, this study focuses on the behavior intention of tourists towards the implementation of Islamic Standard Hotel (ISH) in Indonesia and Malaysia. The purposes of the research are as follows:

1. To understand how Indonesian and Malaysian tourists perceived on Islamic standardization for hotels based on the planned behavior theory, their perceived value, and their awareness.
2. To understand the behavioral intention on Islamic standardization for hotels.
3. To understand the relationship between the perception of the Indonesian and Malaysian tourists on Islamic standardization for hotels based on the planned behavior theory, their perceived value, and their awareness towards their behavioral intention for the hotel.

Theory of Planned Behavior (TPB) studies the reason of someone to do an action or known as theory of reasoned action (TRA) (Ajzen 1991; Ajzen and Fishbein 1980). TPB emphasize on the study of some important determinant of behavior to engage in a particular behavior. Behavioral intentions are assumed to “..capture the motivational factors that influence a behavior, they are indicators of how hard people are willing to try or how much effort they are planning to exert, in order to perform the

behavior.” (Ajzen 1991, p. 181). It substitutes three conceptually independent determinants of intention: attitude towards the behavior, subjective norm, and perceived behavioral control (Ajzen 1991, 2002). A meta-analysis of 185 studies indicated that the TPB accounted for 39% of the variance in intentions. Attitude was the strongest predictor of intention across studies, followed by perceived behavioral control and subjective norm. The relative importance of each antecedent varies across behaviors and situations.

## 23.4 Method

The data was taken from 450 samples of Indonesian and Malaysian tourists. The data analysis used in this research is quantitative analysis, in the form of testing the hypothesis by using statistical test and presents the results using tables and graphs. After accomplishing the data collection, the questionnaires were coded and entered into SPSS (Statistical Package for Social Sciences). All questions were converted to numerical type data. All rating-scaling questions were coded as scale data and they were analyzed by testing for normality. A ranking question was ordinal data and the other listing questions were treated as nominal data. An open-ended question in each questionnaire, that reviewed suggestions for improvement or additional comments of customers, was summarized by using Microsoft Excel 2007. In examining the relationship between variables, this research underwent a statistical calculation. Hence, path analysis is used to discover the relationship among variables in this research. Path analysis is used for testing the hypothesis of the research. In path analysis, the data are compiled and the correlation of each variable is tested.

## 23.5 Result and Discussion

In analyzing the data by path analysis, the first step to do was to establish the correlation matrix. The result is as follows (Tables 23.1, 23.2 and 23.3):

The matrix showed that the correlation between the perceived value (X1.2) to behavioral intention (Y) and the awareness (X1.3) to the behavior intention (Y) were higher than the correlation between the perceived value (X1.2) to the awareness (X1.3). While the result of each  $x$  variable was higher, it indicated that it has stronger relationship to the behavioral intention (Y). Moreover the relationship between the independent and dependent variable was considered to be significant, because the significant F change was lower than 0.05, as shown in the Model summary and ANOVA, below.

**Table 23.1** Pearson correlation

Correlations		Behavioral intention	The perceived value	The awareness
Pearson correlation	Behavioral intention	1.000	0.394	0.358
	The perceived value	0.394	1.000	0.211
	The awareness	0.358	0.211	1.000
Sig. (1-tailed)	Behavioral intention	–	0.000	0.000
	The perceived value	0.000	–	0.017
	The awareness	0.000	0.017	–

**Table 23.2** Model summary<sup>b</sup>

Model	<i>R</i>	<i>R</i> square	Adjusted <i>R</i> square	Std. error of the estimate	Change statistics				
					<i>R</i> square change	<i>F</i> change	<i>df</i> <sub>1</sub>	<i>df</i> <sub>2</sub>	Sig. <i>F</i> change
1	0.484 <sup>a</sup>	0.235	0.219	2.09068	0.235	14.863	2	97	0.000

<sup>a</sup>Predictors: (Constant), The awareness, the perceived value

<sup>b</sup>Dependent variable: Behavioral intention

**Table 23.3** Coefficient of perceived value and awareness<sup>a</sup>

Coefficients		Unstandardized coefficients		Standardized coefficients	<i>t</i>	Sig.
Model		<i>B</i>	Std. error	Beta		
1	(Constant)	3.201	1.320		2.426	0.017
	The perceived value	0.177	0.048	0.333	3.669	0.000
	The awareness	0.161	0.051	0.288	3.167	0.002

<sup>a</sup>Dependent variable: Behavioral intention

## 23.6 Conclusion

The conclusion was that, the perceived value and the awareness toward the Islamic Standard Hotel has played as the prominent role in increasing the behavioral intention of the tourists to stay at the Islamic Standard for Hotel. Hence, this result had implied that the effort to socialize the notion of Islamic Quality Standard Hotel has not only emphasize on the hotel business players, but also for the tourists. The business

players should be able to put and create the value for competing the new notion of standardization. They also need to give more effort on developing awareness for the guests. One example was given by the Narapati Hotel in Bandung, Indonesia. They put announcement at Agoda.com for the guests who will stay at their hotel. The announcement were some regulations of do's and don'ts of staying at the hotel based on Shariaa. The Grand Blue Wave Hotel in Malaysia has also given some notification for the tourists who stay there about some regulations based on Islamic Quality Standard for Hotel, such as the hotel do not serve alcohol, they have different operational hours at the swimming pool and gymnasium for male and female guests, the Chinese and Japanese restaurants and coffeehouse serves only *halal* food and beverages. Hence, the more value could be perceived and high awareness among guests would influence the behavioral intention of them to stay at Islamic Quality Standard (IQS) Hotels.

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# Chapter 24

## The Influence of Price, Brand Image, and Product Attribute to Consumer Attitude of Fast Food Restaurant in Jakarta



Bonita Dwi Cahyani and Francy Iriani

**Abstract** This study aims to determine how the Price, Brand Image, and Product Attribute variables influence on Consumer Attitudes in choosing Fast food Restaurants. This study used questionnaires distributed to 100 sample respondents. The sampling technique used in the survey is nonprobability sampling with incidental sampling type. The analytical method applied in this study is Multiple Linear Regression Analysis using SPSS software version 22. The result showed significance  $F$  value of  $0.000 < \alpha = 0.05$ . The value means that the Price variable ( $X1$ ), Brand Image variable ( $X2$ ), and Product Attributes variable ( $X3$ ) (including the product attribute—halal—sold in this Fast food Restaurant) all together have a significant effect on Consumer Attitude ( $Y$ ). The result of  $R^2$  (coefficient of determination) equals to 0.482, means independent variables, which are Price ( $X1$ ), Brand Image ( $X2$ ), and Product Attribute ( $X3$ ) 48.2% influence Consumer Attitude variable. Other 51.8% variables that are not discussed in this study influence Consumer Attitudes variable. Of the three independent variables, Product Attribute Variables have the most dominant influence on Consumer Attitude variables. The dominant influence can be seen based on the value of the largest  $t$  count of 4.592.

**Keywords** Price · Brand image · Product attribute · Consumer attitude

### 24.1 Introduction

Changes in lifestyle and diet caused by the people dense activities have made the fast food industry growing. People are more and more consuming fast food because of its quick and easy to find features. We conduct this research at fast food restaurant named KFC (Kentucky fried chicken). KFC's franchisee in Indonesia is PT. Fast Food Indonesia Tbk (FAST). The primary product of this fast food restaurant is fried

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chicken. This F&B franchise company achieved net profit growth of 55.79% or net profit worth Rp43.20 billion in the first half of 2016. The amount of this net profit and the first position on Top Brand 2016 shows that KFC is a fast food restaurant that is in demand by the consumer.

In this paper, researchers raised the issue of the influence of price, brand image, and product attributes on consumer attitudes in choosing a fast food restaurant. The location of the research is at KFC Plaza Kalibata. The reason for choosing the fast food restaurant is because fast food lovers much enjoy KFC in comparison with other fast food restaurants. According to the top brand 2016 list, KFC is number one. This research tried to know what factors that influence the consumer attitude in choosing this restaurant. Also, whether the halal feature on the product affects consumer attitudes. This study aims to explain the effect of price variables ( $X1$ ), Brand Image ( $X2$ ), and Product Attributes ( $X3$ ) on Consumer Attitudes ( $Y$ ).

## 24.2 Literature Review

Marketing is a social process whereby individuals and groups get what they need and want by creating, offering, and exchanging valuable products and services with others (Kotler and Keller 2016). The marketing concept suggests that an organization should meet the wants and needs of consumers, and always be close to them to provide products and services that consumers will buy and use appropriately (Peter and Olson 2013).

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A consumer attitude arises by his/her wants and needs for a product. Attitude is a predisposing learning to behave consistently favorable or unfavorable to a particular object (Schiffman and Wisenblit 2015). The three components of "attitude" according to Schiffman and Wisenblit (2015) are cognitive (knowledge and consumer understanding of KFC), affective (positive or negative feelings towards KFC), and conative (desire to buy or consume KFC products). The customers are judging from the product attributes, namely the elements of products that are considered essential by consumers and the attributes serve as the basis for the attitude that arises later. According to Kotler and Armstrong (2014), product attributes are the development of a product or service involves defining the benefits that the product or service will offer. These advantages are communicated and delivered by product attributes such as quality, features, style, and design. Product attributes provided by a Company, including the halal feature can be a factor to consumer attitudes in choosing a fast food restaurant, one of them is KFC.

Price and brand image are also significant for consumers in selecting a product. Price is the sum of money that the buyer pay for a product or service, or the sum of the value exchanged by customers for the benefit of owning or using a product or service (Kotler and Armstrong 2014). The price range of the goods offered by some fast food restaurants is quite varied and very competitive. Consumer considers the brand image of the product they want to consume. This variable also influences consumer attitudes and one of variable studied in this research. According to Keller (2013), the brand image is the customer's perception of the brand as reflected by the brand association created in user memory. The factors of the formation of brand image are, including strength, luck, and uniqueness of the brand association.

### **24.2.1 Price**

According to Kotler and Armstrong (2014), the price is a sum of money that put on a product or service or the sum of the value exchanged by customers for the benefit of owning or using a product or service. The three pricing strategies are as follows:

- Customer value-based pricing: Pricing based on the buyer's perceived value, not the cost of the seller.
- Cost-based pricing: Pricing based on production cost, distribution, and product sales along with a reasonable rate of return as a reward for the business.
- Competition-based pricing: Setting prices based on competitors' strategies, prices, costs, and market offerings.

According to Peter and Olson (2014), the definition of price is money that should be given by the consumers to buy goods or services. Usually, researcher looks at prices only in the context of some dollars required to exchange for the goods or services. According to Tjiptono (2015) Price is a monetary unit or other measures (including other goods and services) exchanged to obtain ownership or use of a good or service.

From the above definitions, we can conclude that the price is the accumulation of all values that a buyer exchanged to obtain benefits from products or services and additional facilities received, and certainly affordable by purchasing power, by the quality and allowances of the product. By charging a right or suitable price, a company can compete with its competitor.

### **24.2.2 Brand Image**

Keller (2013) stated that brand image is a consumer perception of a brand that reflects by the brand association created in customer's memory. Here is the general discussion of several factors that affect the brand image, as follows:



- The strength of brand associations: The deeper a person thinks about product information and relates it to existing brand knowledge, the stronger the resulting brand association is.
- Favorability of brand associations: Marketers create profitable brand relationships by convincing consumers that brands have attributes and benefits that can satisfy their needs and wants, so they form a positive and relevant brand assessment overall.
- The uniqueness of brand associations: The core of a positioning brand is that brands have sustainable competitive advantages or “unique selling propositions” that give consumers a strong reason why they should buy them.

According to Tjiptono and Diana (2016) brand image associates the consumer perceptions of a brand. The goal of a strategic effort to manage the brand image is to ensure that the consumer has a robust and positive association in mind about the company’s brand. Brand image elements consist of: (1) perception, because consumers perceive the brand; (2) cognition because consumer evaluates the brand cognitively; and (3) attitudes, as consumers shape their attitudes toward a brand after perceiving and evaluating the brand.

From some of the above understanding, we can conclude that brand image is a perception that is in the minds of consumers around the brand reputation, brand recognition, brand characteristics, and brand advantages compared to competitors that reflect in the benefits of products in meeting customers’ needs and desires.

### ***24.2.3 Product Attribute***

According to Kotler and Armstrong (2014), product attribute is the development of a product or service involves in defining the benefits that the product or service will offer. These advantages are communicated and delivered by product attributes such as quality, feature, and style and design.

- Product Quality: Product or service characteristics that depend on its ability to satisfy the stated or implied customer requirements.
- Product Features: A competitive tool to differentiate a company’s product from a competitor’s product.
- Style and design: Product concepts that describe their looks and benefits to add value to customers.

According to Peter and Olson (2014), Product attributes are the primary stimuli that affect affection, cognition, and consumer behavior. Consumers evaluate these attributes about their values, beliefs, and experiences in the past. Marketing and other information also affect the purchase and the use of the Products. It determines whether the customer will be satisfactory or not to the product.

From some theories that we discussed above, we can conclude that product attributes are elements of a product such as product quality, product variety, and

product design and the benefit of a product such as quality standards, product safety assurance, and Guarantee, those that can satisfy consumer needs and desires.

#### **24.2.4 Attitude**

Schiffman and Wisenblit (2015) said that Attitudes are an expression of inner feelings that reflect whether a person is favorably or unfavorably predisposed to some object. Peter and Olson (2013) said that attitude is a thorough evaluation conducted by a person on a conduit. By knowing the consumer's attitude, we can develop new products, repositioning the existing products, creating advertising campaigns, and predicting brand preferences as well as general purchase behavior. Attitudes have several important characteristics, such as Attitude have an object, have direction, intensity, and degree have structure. Attitudes are learned predispositions and are influenced by a situation. Three 'attitudes' components according to Schiffman and Wisenblit (2015) are as follows:

- The cognitive component: a component consisting of a person's cognition of the knowledge and perception of the features of an object of attitude that the individual gained direct experience with the subject matter of attitude and information from various sources.
- The affective component: The components that are the emotion and feelings of the consumer about the object of "attitude". The attitude is where we consider the evaluation because they capture its global judgment of the subject matter of perspective (i.e., the extent to which an individual perceives an attitude object as "profitable" or "unfortunate," "good or bad").
- The conative component: a component that reflects the possibility that an individual will perform a particular action or behave in a certain way relating to the attitude object imposed as an expression of the consumer's intention to purchase.

From some theories that cited above, we can conclude that attitude is an evaluation of knowledge and understanding, feelings, and the desire to buy back consistently, which emerged from consumers and formed by desire and needs that can create customer's confidence in a product.

#### **24.2.5 Hypothesis**

- Price Variables ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ) take effect simultaneously significant to the Consumer Attitudes ( $Y$ ) variable.
- Price Variable ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ) take effect partially significant to Consumer Attitudes ( $Y$ ).
- There is one variable that has dominant influence to Consumer Attitude ( $Y$ ) variable.

### 24.3 Research Method

Researchers test the hypothesis in the study by looking at the relationship between variables. Sugiyono (2013) stated that associative hypothesis (relationship) is a study that explains on how the influence of independent variables on the dependent variable. The analysis in this study uses regression analysis. The population of this study is all of KFC consumers in Plaza Kalibata. We choose the sample of this study by incidental sampling. We use Paul Leedy's formula to calculate the number of samples required in this study (Suharsimi 2013). The formula is like this

$$N = \left[ \frac{Z}{e} \right]^2 (P) (P - 1)$$

$$N = \left[ \frac{1.96}{0.10} \right]^2 (0.5) (1 - 0.5)$$

$$N = 96.04$$

To make the calculation easier, we rounded up the number and obtained a sample of 100 respondents. The sample selection in this research uses incidental sampling method. The technique of determining the sample by chance, i.e., anyone who by chance/incidental to meet the researcher can be utilized as research sample if seen by the person who happened to meet is suitable as a data source (Sujarweni 2016). For that, the researcher visited the KFC restaurant in Kalibata for one month at lunch and dinner, so that we obtained some samples required. Previously, to test the validity and reliability of the questionnaire, 30 samples were taken, after the questionnaire was valid and reliable Then we distributor the questionnaire to 100 research samples.

In this study, the measurement of the instrument of data collection (survey) uses the Likert scale. The Likert scale used is as follows:

- Strongly agree to be given a weight of 5
- Agree to be given a weight of 4
- Neutral given weight 3
- Not agreeing to be given a weight of 2
- Strongly disagree with weight 1.

The data obtained before presented in the form of information will be processed and analyzed using SPSS software version 22. As for this research data analysis as follows: descriptive analysis and multiple linear regression analysis with correlation and determination coefficient test, *F* test, and *t* test.

## 24.4 Research Findings and Discussions

### 24.4.1 Validity and Reliability Test

We test the validity and reliability for the questionnaire by processing the first 30 respondents answer. The value of  $r$  table can be obtained through table  $r$  product moment Pearson with  $df$  (degree of freedom) =  $n - 2$ , so  $df = 30 - 2 = 28$  with sig 5% so obtained  $r$  table value = 0.312. The item is valid if the value of  $r$  count  $> r$  table. The results are as follows: five questions on Price got the Pearson correlation value of: 0.393; 0.697; 0.638; 0.488 and 0.414, all of which are above its  $t$  table (0.312) means it are valid. Five questions on brand image got the Pearson correlation value of: 0.397; 0.427; 0.033; 0.377; 0.502 question on brand image number 3 is not valid but others are because it are above its  $t$  table (0.312). Five questions on Product attributes got the Pearson correlation value of: 0.627; 0.515; 0.718; 0.695 and 0.644, all of which are above its  $t$  table (0.312) means those questions are valid. Five questions on Consumer's attitude got the Pearson correlation value of: 0.268; 0.498; 0.528; 0.620 and 0.509. Question number 1 on Consumer's attitude is not valid. The rest are valid.

#### Results on respondent's answer to the questionnaire

1. **Price:** 74% respondents agreed to the sentence that the KFC products price are reasonable. 73% respondent decided that the price offered by KFC products are by the quality of the goods they received. 63% respondents agreed to the sentence of "the price of the product provided by KFC is in line with the benefits I get". But 57% of respondents are not agreed with the sentence of "The price of products offered by KFC is lower than other fast food restaurants," means that there are other fast food restaurants offers cheaper or the same price. 64% respondent said that they agreed to the sentence "There are additional facilities that I received when purchasing KFC products (such as free Wi-Fi, sauce refill, charger access, and service and a comfortable place)".
2. **Brand Image:** Only 40% respondents agreed to the sentence that they never heard of bad news on KFC. Other 64% said they have ever heard the rumors on social media although the stories might not be true. 69% respondents are very familiar with KC's products. 75% respondents agreed to the sentence "When I heard the phrase" Jagonya Ayam "(Best Fried chicken), I remembered the KFC product". The phrase "Jagonya Ayam" is a part of KFC jingle and respondents are familiar with that song on various social media, especially advertising on TV. 92% respondents agreed to the sentence "KFC has many outlets scattered in every region". It means that respondents can easily spot the KFC restaurants because there are 540 stores throughout Indonesia.
3. **Product Attributes:** 63% respondents agreed to the sentence "KFC has quality products." 86% respondents accepted the sentence "KFC has many varied menu options." 79% respondents admitted the sentence "KFC has several menu variants that are unique, and other fast foods are not offer that kind of products" (such

as KFC pom-pom, KFC bento rice box (oriental, black pepper, barbecue), and KFC cream soup). 57% respondents agreed to the sentence “KFC products have reached certain quality standards.” Not many respondents know or care that KFC products have a quality standard with the ISO certificate and halal certificate from MUI. 74% respondents agreed to the sentence that “KFC products are safe to eat because it is guaranteed halal.” The respondents know that the goods are halal (because of the logo put on its store front) but not so many know or care about the quality of the product, although more than 50% respondents care, this issue need management attention. More promotion on its halal and quality assurance will increase the consumer’s attention on the products.

4. **Consumer’s Attitude:** 74% respondent agreed to the sentence “I love the products that KFC offers.” The love of the product by its customer is one of the reason that in 2015 KFC got “Most Favorite Youth Brand.” 74% respondent agreed to the sentence “I’m interested in buying the KFC products next time.” 69% respondent agreed to the sentence “I believe that the goods KFC offers are safe to consume.” The statement “I am more likely to remember the KFC brand than other fast food restaurants”, answered neutrally by 92% of respondents. According to 42% of those surveyed, they tend to remember the KFC brand as a fast food restaurant, and 58% of respondents stated that not only the KFC brands they tend to forget as fast food restaurants.

### 24.4.2 Multiple Linear Regression Equation

The data processing result of this research that calculates the magnitude of influence between independent variables, namely Price (X1), Brand Image (X2), and Product Attribute (X3) to the dependent variable, Consumer Attitude (Y) are in Table 24.1.

Test results show that

**Table 24.1** Result of regression equation

Coefficients <sup>a</sup>					
Model	Unstandardized coefficients		Standardized coefficients		
	B	Std. error	Beta	t	Sig.
(Constant)	1.151	1.410		0.816	0.416
Harga	0.123	0.068	0.155	1.814	0.073
Citra_Merek	0.251	0.089	0.249	2.810	0.006
Atribut_Produk	0.391	0.085	0.435	4.592	0.000

<sup>a</sup>Dependent variable: Sikap\_Konsumen

Source Primary data, 2017

$$Y = 1.151 + 0.123 X_1 + 0.251 X_2 + 0.391 X_3$$

From the above equation can be interpreted as follows:

- Value  $a = 1.151$

The value of this constant indicates that if there is no variable Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ), then the value of Consumer Attitude ( $Y$ ) is 1.151 ( $X_1, X_2, X_3 = 0$ )

- Value of  $b_1 = 0.123$

The regression coefficient of Price variable ( $X_1$ ) shows that every increase of Price variable ( $X_1$ ), Consumer Attitude ( $Y$ ) will increase by 0.123 with other free variable assumption constant.

- Value  $b_2 = 0.251$

The coefficient of regression of Brand Image variable ( $X_2$ ) shows that every increase of Brand Image variable ( $X_2$ ), then Consumer Attitude ( $Y$ ) will increase by 0.251 with other free variable assumption constant.

- Value of  $b_3 = 0.391$

The regression coefficient of Product Attribute ( $X_3$ ) variables shows that every increase of product attribute variable ( $X_3$ ), then Consumer Attitude ( $Y$ ) will increase by 0.391 with other free variable assumption constant.

Based on the above interpretation, the amount of independent variable contribution to the dependent variable, among others is Price 0.123, Brand Image of 0.251, and Product Attribute of 0.391. We can conclude that Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ) have a positive effect to Consumer Attitudes ( $Y$ ).

### 24.4.3 Coefficient of Determination ( $R^2$ )

We calculate the ratio of “codetermination” to know the contribution of the independent variables. Namely Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ) to the dependent variable that is Consumer Attitude ( $Y$ ) by using the value of  $R^2$  (Adjusted  $R$  Square), as in Table 24.2.

The coefficient of determination calculates the magnitude of influence or contribution of independent variables to the dependent variable. From Table 24.2, we obtained  $R^2$  (coefficient of determination) of 0.482. Independent variables, namely Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attributes ( $X_3$ ) 48.2% will influence Consumer Attitudes variables. Other variables outside this study will affect 51.8% of the consumer attitudes.

The correlation coefficient shows the relation between the independent variables namely Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ). The relationship

**Table 24.2** Correlation coefficient and determination

Model summary				
Model	R	R square	Adjusted square	Std. error of the estimate
1	0.705 <sup>a</sup>	0.498	0.482	1.42452

<sup>a</sup>Predictors: (Constant), Atribut\_Produk, Harga, Citra\_Merek

Source Primary data, 2017

with the dependent variable that is Consumer Attitudes (*Y*), with the *R* value (correlation coefficient) of 0.705. The relationship between the independent variables, namely Price (*X*1), Brand Image (*X*2), and Product Attribute (*X*3) with the dependent variable which is Consumer Attitudes (*Y*) included in a dominant category because it falls in the range of 0.7–1.0. There is a positive relationship between the independent variables with the dependent variable. If the Price is cheaper, Brand image increases and Product attribute increases, the Consumer’s Attitude will increase too. The consumer will also prefer or tend to buy the Products.

### 24.4.4 Hypothesis I (F Test/Simultant)

*F* or model testing is used to determine whether the results of the regression analysis are significant or not. If the result is significant, then *H*0 is rejected, and *H*a accepted. Whereas if the result is not significant, then we accept *H*0 and we reject *H*a.

Based on Table 24.3, the value of *F* is calculated for 31.687, while *F* table ( $\alpha = 0.05$ ; df regression = 3; df residual = 96) is equal to 2.72. Since *F* arithmetic > *F* table is 31.687 > 2.72 or *F* significance value (0.000) <  $\alpha = 0.05$  then regression analysis model is significant. The analysis model is significant means that we reject *H*0 and accept *H*a. So we can conclude that the dependent variable (Consumer’s Attitude Level) is influenced jointly by the independent variable [Price (*X*1), Brand Image (*X*2), and Product Attribute (*X*3)].

**Table 24.3** *F* test/simultant

ANOVA <sup>a</sup>					
Model	Sum of squares	df	Mean square	<i>F</i>	Sig.
Regression	192.902	3	64.301	31.687	0.000 <sup>b</sup>
Residual	194.808	96	2.029		
Total	387.710	99			

<sup>a</sup>Dependent variable: Sikap\_Konsumen

<sup>b</sup>Predictors: (Constant), Atribut\_Produk, Harga, Citra\_Merek  
Source Primary data, 2017

### 24.4.5 Hypothesis II (T Test/Parsial)

T test is used to find out whether each of the independent variables partially has a significant influence on the dependent variable. Can also be said if  $t$  arithmetic  $> t$  table or  $-t$  arithmetic  $< -t$  table, then the result is significant. It means we reject  $H_0$  and accept  $H_a$ . Whereas if  $t$  arithmetic  $< t$  table or  $-t$  arithmetic  $> -t$  table, then the result is not significant. Not significant relationship means we accept  $H_0$  and reject  $H_a$ . We can see the results of the  $t$  test in Table 24.4.

Based on Table 24.4 results obtained as follows:

- T test between  $X_1$  (Price) and  $Y$  (Consumer Attitude) shows  $t$  arithmetic = 1.814. While  $t$  table ( $\alpha = 0.05$ ;  $df$  residual = 96) is equal to 1.671. Because  $t$  count  $> t$  table is  $1.814 > 1.671$  and significance value  $t(0.073) > \alpha = 0.05$ , then the effect of  $X_1$  (Price) on  $Y$  (Consumer Attitude) is not significant at alpha 5% (0.05). At this value, we accept  $H_0$  and reject  $H_a$ , so we can conclude that Price does not significantly influence the consumer attitude.
- T test between  $X_2$  (Brand Image) and  $Y$  (Consumer Attitude) shows  $t$  arithmetic = 2.810. While  $t$  table ( $\alpha = 0.05$ ;  $df$  residual = 96) is equal to 1.671. Because  $t$  count  $> t$  table is  $2.810 > 1.671$  and significance value  $t(0.006) < \alpha = 0.05$ , then influence of  $X_2$  (Brand Image) to  $Y$  (Consumer Attitude) is significant at alpha 5% (0.05). This means  $H_0$  is rejected and  $H_a$  accepted so it can be concluded that Consumer Attitude is significantly influenced by Brand Image.
- T test between  $X_3$  (Product Attribute) and  $Y$  (Consumer Attitude) shows  $t$  count = 4.592. While  $t$  table ( $\alpha = 0.05$ ;  $df$  residual = 96) is equal to 1.671. Because  $t$  count  $> t$  table is  $4.592 > 1.671$  and significance value  $t(0.000) < \alpha = 0.05$ , then influence of  $X_3$  (Product Attribute) to  $Y$  (Consumer Attitude) is significant at alpha 5% (0.05). This means  $H_0$  is rejected and  $H_a$  accepted so it can be concluded that Consumer Attitude is significantly influenced by Product Attribute.

Based on the results and explanation, we can see that of the three independent variables, Brand Image, and Product Attribute significantly affects consumer attitudes,

**Table 24.4** T test or partial

Coefficients <sup>a</sup>					
Model	Unstandardized coefficients		Standardized coefficients		
	B	Std. error	Beta	t	Sig.
(Constant)	1.151	1.410		0.816	0.416
Harga	0.123	0.068	0.155	1.814	0.073
Citra_Merek	0.251	0.089	0.249	2.810	0.006
Atribut_Produk	0.391	0.085	0.435	4.592	0.000

<sup>a</sup>Dependent variable: Sikap\_Konsumen

Source Primary data, 2017



while Price does not significantly influence. However, the most dominant influence on Consumer Attitudes is Product Attributes, because it has a coefficient beta (0.435) and  $t$  count the largest (4.592).

## 24.5 Discussion

- Price Variable ( $X_1$ )

Based on the results of data analysis, it is evident that the price variable has no significant effect on Consumer Attitudes. At  $t$  test between Price with Consumer Attitude shows  $t$  count = 1.814. While  $t$  table ( $\alpha = 0.05$ ; df residual = 96) is equal to 1.671. Because  $t$  count  $>$   $t$  table is  $1.814 > 1.671$  and significance value  $t(0.073) > \alpha = 0.05$ , then the effect of  $X_1$  (Price) on  $Y$  (Consumer Attitude) is not significant at alpha 5% (0.05). We can explain this finding that is because consumers are loyal and not affected by the price. This research is also the same conclusion as the previous study conducted by Yanti (2012). In her research, she found that Price variable has no significant effect to Consumer Attitude.

Based on our research, most respondents gave the agreed assessment of most of the statement items. That is the Price variable, meaning that consumers get the price according to the quality and benefits of the product, affordable according to purchasing power, and get additional facilities after purchase (free wi-fi, Sauce refill, charger access, as well as service and a comfortable place).

- Brand Image Variable ( $X_2$ )

Based on the results of data analysis previously, it is evident that Brand Image variables have a significant effect on Consumer Attitudes. In  $t$  test between Brand Image with Consumer Attitude shows  $t$  arithmetic = 2.810. While  $t$  table ( $\alpha = 0.05$ ; df residual = 96) is equal to 1.671. Because  $t$  count  $>$   $t$  table is  $2.810 > 1.671$  and significance value  $t(0.006) < \alpha = 0.05$ , the influence of  $X_2$  (Brand image) to  $Y$  (Consumer Attitude) is significant at alpha 5% (0.05). This finding is as expected because the KFC brand is well known and familiar to consumers. This research supported by previous research conducted by Ain and Ratnasari (2015). On their research, Brand Image variable has significant effect to Consumer Attitude.

Based on the respondents respond, most of the interviewees agreed with most of the statement items in Brand Image variables, meaning that consumers are very familiar with KFC restaurants, admitting that KFC has the characteristics they remember (Jingle "Jagonya Chicken"), and justify That KFC has many outlets scattered in every region.

- Product Attribute Variable ( $X_3$ )

Product Attribute and Consumer Attitude show  $t$  count = 4.592. While  $t$  table ( $\alpha = 0.05$ ; df residual = 96) is equal to 1.671. Because  $t$  count  $>$   $t$  table is  $4.592 > 1.671$  and significance value  $t(0.000) < \alpha = 0.05$ . The influence of  $X_3$  (Product Attribute) to

$Y$  (Consumer Attitude) is significant at alpha 5% (0.05). Product Attribute Variables have a value of beta coefficient (0.435) and  $t$  count biggest (4.592). That is, Product Attribute variables have the strongest influence compared to other variables so that the Product Attribute variable has a dominant influence on Consumer Attitudes. This finding is as expected because the elements of the development of a product have met the wants and needs of consumers. This research finding is supported by previous research conducted by Fibrianti et al. (2013). On their study, they concluded that the variable of Product Attribute significantly influences to Consumer Attitude.

Based on the questionnaires distributed, most respondents agreed on each item of the statements in Product Attribute variable. It means that the consumer acknowledged that KFC has a quality product, has many varied menu choices and there are menus not offered by other fast food restaurants. The product is known for its quality, and safe to eat because it is guaranteed halal.

## 24.6 Conclusion and Suggestion

### 24.6.1 Conclusion

Based on the calculation of multiple linear regression analysis

1. We conclude that Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ) have a positive effect to Consumer Attitudes ( $Y$ ).
2. The results obtained the value of  $R^2$  (coefficient of determination) is 0.482. Independent variable [Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attributes ( $X_3$ )] is 48.2% influence Consumer Attitudes variables. While the rest of the 51.8% other variables that we did not discuss in this study affect Consumer Attitudes variable.
3. The value of  $R$  (correlation coefficient) is 0.705. This correlation value indicates that the relationship between the independent variables, namely Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ) with dependent variable are Consumer Attitudes ( $Y$ ) is in a dominant category because it is at 0.7–1.0 intervals. The relationship between the independent variables, namely Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ) with the dependent variable which is Consumer Attitudes ( $Y$ ) is positive, that means if the independent variable is improved, the Consumer Attitude will also increase.
4. The simultaneous effect of each independent variable to Consumer Attitudes done by  $F$  test. The  $F$  test results of multiple linear regression analysis obtained the value of  $F$  calculated for 31.687, while  $F$  table ( $\alpha = 0.05$ ;  $df$  regression = 3; Residual = 96) was 2.72. Since  $F$  arithmetic  $> F$  table is  $31.687 > 2.72$  or  $F$  significance value (0.000)  $< \alpha = 0.05$  so it can be concluded that the regression analysis model is significant. We reject  $H_0$  and accept  $H_a$ . The finding said that the dependent variable (Consumer's Attitude Level) is influenced jointly by the independent variable (Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ )).

5. We test the partial influence of independent variable consisting of Price ( $X_1$ ), Brand Image ( $X_2$ ), and Product Attribute ( $X_3$ ) on Consumer Attitude by  $t$  test. From the results of multiple linear regression analysis, we conclude that of the three independent variables, Brand Image and Product Attribute influence on consumer attitudes affect significantly, while Price does not significantly affect consumer's attitude. However, the most dominant effect on Consumer Attitudes is Product Attributes, because it has a coefficient beta (0.435) and the largest  $t$  count (4.592).

### 24.6.2 Suggestions

We suggest based on the above conclusions, among others

1. We suggest KFC to maintain its performance against Product Attributes because this variable has a dominant influence on Consumer Attitudes.
2. We hope there will be further research on KFC consumer attitude by considering other variables that we did not include in this research.

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# Chapter 25

## Islamic Tourism: Emerging Trends, Challenges, and Opportunities in Tourism Industry of Malaysia



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**Abstract** The international tourism activity has grown and sustained substantially over the past few decades in terms of both the number of tourists and tourism receipts. While the world tourist arrivals and tourism receipts have been growing substantially over the years, world tourism market has witnessed some important changes in the direction of tourism. The OIC member countries, forming a substantial part of the developing countries, have also benefited from such positive change. There was an increasing trend when it comes to the number of tourists. As a group, the OIC countries attracted 174.7 million tourists in 2013, compared to 156.4 million in 2009. A similar increasing trend was also observed among the non-OIC countries. The non-OIC tourist arrivals increased from 48.8 million in 2009 to 60.7 million in 2013. One of the main driving factors to this positive development among the non-OIC countries is the emergence of Islamic tourism in which all tourism activities, services, facilities, and products are in line with the principles of Islam. The objective of this study is to assess the current trend of Islamic Tourism in Malaysia, in relative to the other Muslim countries from other continents, to identify the issues and challenges in promoting Islamic Tourism in Malaysia, and to assess the internal and external factors that influence the Islamic Tourism in Malaysia by identifying the opportunities and consequently, to propose recommendations which aims to develop the Islamic Tourism industry in Malaysia. Secondary data will be gathered and assessed to draw the strategies towards enhancing the Islamic Tourism of Malaysia in the long run. In conclusion, the growing number of Muslim tourists in Malaysia provides the occasions for evaluating the country's branding and marketing strategies as a preferred Islamic Tourism destination.

**Keywords** Islamic tourism · Islamic tourism attributes · Islamic tourism concept

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## 25.1 Introduction

The global development of the tourism industry also involves Muslims. This global development then gave rise to the Islamic tourism segment which consequently made them emerge into the limelight. According to a study conducted by a marketing agency, Islamic tourism classed as the world's third largest sector demanding halal products and services after the food and cosmetic industries (Sarah 2012). This scenario is consistent with the data that said by 2025, one-third of the world's population would be among Muslims (Navid 2012) and 22% of the visitors were from Muslim travelers (Abdul Ghani 2013).

### 25.1.1 *Trend of Islamic Tourism in Malaysia*

Tourism Malaysia (2017) released some key indicators to outline the overview of the tourism industry in Malaysia. There are 26.8 million tourist arrivals in 2016 with a value of tourist receipts amounting to RM 82.1 billion. This makes the average per capita expenditure of about RM 3068.2, and contributed to Malaysia's income from a number of receipts for shopping, is RM 26 billion. The average length of stay for tourists in Malaysia is 5.9 nights. The top ten tourist arrival in 2016 was from Singapore (13.3 million), followed by Indonesia (3.1 million), China (2.1 million), Thailand (1.8 million), Brunei (1.4 million), India (0.64 million), South Korea (0.44 million), Philippines (0.42 million), Japan (0.41 million), and United Kingdom (0.4 million).

In terms of Islamic tourism in Malaysia, the top five tourists from Muslim countries are from Indonesia, Brunei, Bangladesh, Saudi Arabia, and Pakistan. Malaysia generated income from Islamic tourism activities by per capita expenditure of Muslim tourist. The main contributor per capita expenditure was Saudi Arabia, amounting to RM 9459. The second contributor was from Kuwait with a per capita expenditure of RM 8494. Muslim tourists from Oman contributed about RM 7900 per capita expenditure and RM 7389 per capita expenditure of Muslim tourists in Malaysia was from the United Arab Emirates. Iran recorded per capita expenditure of RM 5880 from Muslim tourist in Malaysia.

The Islamic tourism is highly dependent on the variety of airlines which connect most of the Muslim countries such as Garuda Indonesia, Air Astana, Qatar Airways, Mahan Air, Emirates, Royal Brunei, Turkish Airlines, Etihad Airways, Kuwait Airways, and others. In Malaysia, Malaysia Airlines provides flights with a total frequency of 2762 flights weekly, at an average seat occupancy of 156,823 seats, weekly. On the same note, Malaysia received 810 flights weekly from the OIC countries.

In Malaysia, Islamic Tourism Center (ITC) is the responsible body in promoting Malaysia's Islamic tourism. ITC has been approved by the Government of Malaysia on the 20th of February 2009 and was officially launched on 16th March 2009

in Melaka. ITC is managed by a Board of Directors, and Chaired by Secretary-General, Ministry of Tourism and Culture, Malaysia. In addition to that, ITC is also responsible to undertake strategic research on market intelligence for policy formulation, providing capacity building in tourism human resource and professional service standards, information exchange and sharing of sustainable tourism best practices and developing strategic partnerships with the government and NGOs.

The government has been promoting Malaysia to the Middle East countries even before the September 11 crisis simply because the target market for Muslim tourists is huge. Tourism Malaysia offices are also located in OIC countries which include Almaty, Brunei, Dhaka, Dubai, Istanbul, Jakarta, Jeddah, Medan, and Tehran with the aim to promote Malaysia. Among the activities and programs that have been conducted to promote Malaysia are the “Arabian Travel Market”, “Middle East Sales Mission”, advertisement by the media, a corporate body as well as agents, and joint campaigns with airlines.

Malaysia has put lots of efforts in positioning itself as an Islamic destination which include promoting Islamic civilization via Islam Hadhari, developing halal tourism through the Halal Master Plan (2008–2020), having established strategies to encourage the Middle East tourists to go beyond the Klang Valley in 2005, intensive promotions in 2008 for Middle Eastern tourists, organize World Islamic Conference in 2008, hosting the first OIC Global Islamic Tourism Conference and Exhibition in 2008, establishing Islamic Tourism Center (ITC) in 2009, organized Tourism Malaysia’s promotion for Visit Malaysia Year in 2014, in the Middle East, and promoting a “feel-at-home” campaign to target the Middle East tourists.

### ***25.1.2 Trend of Islamic Tourism in Other Regions***

The world Muslim population in 2016 was about 2.18 billion. The biggest population of Muslim is in Asia with 1438.88 million, which is equivalent to 32.4% of the total population in Asia. The second biggest Muslim population in the world is in Africa with 637.67 million, which is equivalent to 53% of the total population in Africa. The third biggest Muslim population is in Europe with 56.52 million people equivalent to 7.7% of the total population in Europe. Meanwhile, the Muslim population in North America is 8.25 million followed by South America and Oceania with 2.15 and 0.66 million of Muslim population, respectively.

Based on Global Travel Muslim Index 2015, conducted by MasterCard-CrescentRating, Malaysia is ranked as the top OIC-country traveling destination, followed by Turkey, UAE, Saudi Arabia, Qatar, Indonesia, Oman, Jordan, Morocco, and Brunei. Meanwhile, for the non-OIC destinations, the top destination for Islamic Tourism is Singapore which is then followed by Thailand, United Kingdom, South Africa, France, Belgium, Hong Kong, USA, Spain, and Taiwan. Islamic tourism has expanded significantly worldwide. DinarStandard (2017) mentioned that Muslims globally spent a total worth of \$137 billion on tourism in 2012 and this amount is expected to reach \$181 billion in 2018. The global Muslim market is the biggest

compared to the rest of the world which is \$140 billion. Destination countries for Muslim tourists with the most population of Muslims are Malaysia, Turkey, and United Arab Emirates.

### ***25.1.3 Issues and Challenges of Islamic Tourism***

Even though the Islamic Tourism market is growing rapidly and has received a lot more attention from Non-Muslim governance countries, there are challenges and gaps that need to be encountered in order to promote Islamic Tourism to the next level. After Donald Trump's presidency, the global economy has been facing uncertainties and instability due to changes in policy, rules, and regulation. The recent policy of "Muslim Travel Ban" by Donald Trump affects six Muslim countries which include Syria, Iran, Sudan, Libya, Somalia, and Yemen (Devlin and Lockett 2017). On the same note, the ban of electronic devices from cabin luggage which applies to ten airports in Jordan, Egypt, Turkey, Saudi Arabia, Kuwait, Morocco, Qatar, and United Arab Emirate is also being talked about. These situations not only limit the movement of Muslims worldwide to travel but also may become the stepping stone to other big countries to apply the same regulation of "Muslim travel ban" as the United States is a powerful country and could influence other countries to apply the same policy. If this transpires, it may create the spillover effect to the Islamic Tourism industry.

Another challenge of Islamic Tourism is the acceptance of Islamic concepts and practices by other Non-Islamic countries. For instance, Muslim women that don the hijab are sometimes perceived as a threat by the locals. There was an incident at the Rome airport where the airport staff refused to allow a Muslim woman on a flight to London just because the woman was donning a hijab (Day 2017). This scenario clearly shows that the perception of Muslim by Non-Islamic country, especially towards Muslim women is still poor. In addition to that, the same may also cause trauma or reluctance to other Muslim women who wish to travel as well as the fact that and it creates a bigger gap and may hinder the industry's growth potential. In executing a well-developed Islamic Tourism program, the facilities, as well as the services, has to be Muslim-friendly, and a full understanding of the Muslim practice is required to make it work.

Lack of unified and global standards and certification is also another challenge to the Islamic Tourism industry. There are no unified international halal standards and certification arrangements for the tourism industry. Even among the majority of the OIC countries, there is no official body available at the national level to certify hotels and destinations according to the Islamic requirements (Organisation of Islamic Cooperation 2015). Financial support to promote Islamic tourism industry is still lacking as the segment is still new. Islamic tourism has not received enough financial resources. But, with the growing market size, there is hope to get the attention of the investors to invest in this industry.

Gender inequalities in many Muslim majority countries still exist. Female employment in the tourism sector, for instance, is a problem due to various social and cultural

reasons. Furthermore, women are also not allowed to travel alone in certain Muslim countries. Thus, a significant proportion of the global Muslim population is by-default eliminated from the Islamic tourism market. In terms of Islamic values and beliefs, there are variations even across OIC countries. It is with regards to the understanding and influence of the Islamic values and beliefs. These existing differences are also reflected in their tourism development policies. While, some OIC countries are more relaxed and welcoming towards the tourists, some others are more conservative and less interested. To grow the Islamic tourism industry, there is a need by the OIC countries especially to align and minimize the differences of values and beliefs to move forward and work together and have mutual understanding internally. This is important to strengthen the relationship among OIC countries in order to maximize the Islamic tourism industry's potential.

## 25.2 Literature Review

### 25.2.1 *Islamic Tourism Concept*

With an average of 8.6 million people visiting Mecca, Islamic tourism relates to people who are traveling to the sacred place to perform one of the pillars of Islam, pilgrimage practices (Zamani-Farahani and Henderson 2010). The concept of Islamic Tourism can also be considered as 'ibadah and da'wah where tourists travel from one place to another and this activity is seen as a blessing from God as long as any wrongdoings during the travel are avoided. In other words, it can also be translated as religious tourism, spiritual tourism, and cultural tourism in addition to the claims that characteristics of Islamic tourism itself are flexible, rational, simple and balanced (Laderlah et. al. 2011).

Zamani-Farahani and Henderson (2010) considered that Islamic tourism and Halal tourism are the same concepts and defined Islamic tourism simply as Muslims who prefer to stay within their culture. Definition of traveler includes immigration and recreation which cover business, studying, preaching, view of the world, getting information and learning, health, recreation, family, friends, and protection from the threats and the changing attitudes to the good pleasure of Allah. Islamic Tourism can cover any destination and involve entrepreneurs and non-Muslim tourists but it is different in terms of goals, values, activities, and products or services offered. In terms of interest, Islamic tourism is more focused on the motivation of the visit as a pilgrimage or Umrah but it is not limited to that. It can also involve objectives such as medical, sports, or education as urged in the Quran.

The difference in contrast to the existing conventional tourism is that Islamic Tourism must be Sharia compliance only. When it comes to activities, the word worship is God's instructions clear in calling for traveling and exploring beyond existing residence. Tourism will be counted if all the religious activities that took place during the period of travel is on the basis of getting the pleasure of Allah



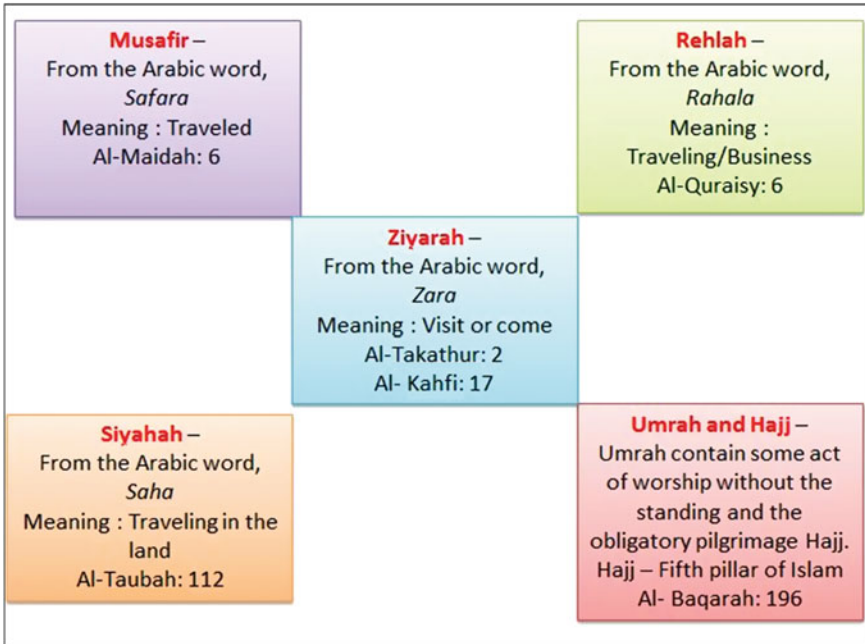


Fig. 25.1 Tourism in Islam perspective

SWT. In Islamic tourism, product offerings and service shall not be similar to what is offered by the existing tourism but it must be combined with the Shariah teachings as well (Fig. 25.1).

**25.2.2 The Need to Develop Islamic Tourism**

Islamic tourism can give high impacts on Malaysia’s tourism industry from the perspectives of economics, social, environment as well as politics. This is because Islamic tourism provides new peculiar and universal needs which will influence the development of the tourism industry in Malaysia. On the economic impact of Islamic Tourism, it has brought about the increasing number of travel agencies who pay great attention in developing Muslim tour packages both in Malaysia as well as abroad. This economic development will then help boost the income of Malaysia especially through the cash inflow from the Middle East tourists who are very well known for their high spending and high purchasing power. In addition to that the need to develop Islamic Tourism in Malaysia is also supported by the fact that Islamic tourism products can act as the medium to attract more tourists and act as a powerful weapon to meet the religious visitors’ vacation satisfaction (Bhuiyan et al. 2011) (Fig. 25.2).



Fig. 25.2 Tourism in Islam perspective

Islamic tourism seems to act as a factor or medium to establish the relationship between Muslims around the world. Leisure and mass tourism are usually related to negative impacts towards the local residents especially in terms of social and cultural impact (Marzuki et al. 2012). However, the relationship between tourism and religion can reduce the risk of negative encounters between tourists and the host (Weidenfeld and Ron 2008). This is due to the claims that it provides less negative tourism impact as it does not involve prohibited activities such as drinking alcohol, prostitution, and adultery, nor the public display of affection.

The advantages of easy and reachable destination between OIC countries also play its role since most of them are located within 6 to 7 h flying distance between Southeast Asia, in comparison to the European and American region (Henderson 2010). This helps both regions to cooperate with each other in all aspects. Moreover, it also contributes to the political stability and economic growth for both regions since a lot of flights between Muslim countries have been introduced.

Islamic tourism contributes less environmental impacts since this product usually relates to places with controlled activities such as visitation to mosques, consumption of Halal food and has the high consideration to cleanliness since Islamic teachings are very particular about it. Since the activities of Islamic tourism consists the appreciation of God’s creations, less vandalism will happen to the environment due to the belief that environment is also one of God’s creation that needs to be conserved and preserved.

### 25.2.3 Islamic Tourism Components

When it comes to the component of Islamic tourism, it is not just limited to the provision of Halal food but also includes hospitality services that comply with the Islamic Law (Shariah). This encompasses hotels, resorts, restaurants, and airlines that do not serve alcoholic beverages, offer food with halal certificates, and provide separate wellness facilities for women, prayer facilities, and a generally Muslim-friendly

environment. Tourists choose destinations that have attractions that are appropriate to be selected as a tourist spot. This is similar to the tourism requirements of Islam. The uniqueness of the society or culture in a destination may be a bet on Islamic tourism. The existence of heritage mosques or places of worship, whether in terms of intricacy or uniqueness would be able to be promoted as tourist attractions in order to introduce Islam to the public.

In the context of Islamic tourism, halal food served must not contain elements that are illegal or dubious. The difficulty to this is that it is often overlooked, especially when traveling to a country where the Muslims are only the minority, and travelers would face a difficult time in obtaining halal food for consumption. Also, in the context of Islamic tourism, accommodation must be Muslim-friendly in terms of facilities and services. It adds value to attract the Muslim residents. Facilities for clients such as translation of the Quran, Qibla direction, prayer mats, and separate swimming pools or usage time for members of the opposite gender are the basics that must be made available by a Muslim-friendly accommodation. While, in terms of services and operations, it must also comply with the Islamic body legislation.

Any activity in tourism must not conflict with the provisions of Islamic law. A visit to the mosque, historical places associated with Islam, Islamic-style monuments, or halal conferences are among the activities that can be filled in Islamic tourism itineraries and events. In addition to that, any existing activities can as well be continued as long as it adheres to the teachings of Islam as it regards as an act of worship to Allah SWT.

### **25.3 Research Methodology**

For this study, secondary data was collected from previous studies, Journal's newspapers, report and other reading materials. The information gathered was then analyzed using SWOT analysis. The SWOT analysis has been used widely as a research methodology in different areas of study. In tourism studies, the analysis frequently ends with the initial definition of various factors like strengths (S) and weaknesses (W), opportunities (O), and threats (T) of a destination. The SWOT analysis would highlight attributes and areas of strategies that need to be improved based on the comprehensive comparison and evaluation of the relationship between strengths and weaknesses, opportunities, and threats. The SWOT matrix used to further analyze the internal and external position of Islamic Tourism. SWOT analysis is a structured planning method or business tool that evaluates the four mentioned elements of an organization. Typically, the internal strengths and weaknesses at the top row of the two-by-two grid are considered by managers or users of the business tool. This may include, company image, structure, access to natural resources, capacity and efficiency, and financial resources. At the bottom row of the SWOT grid, the external threats and opportunities are then studied. This may include customers, competitors, trends in the market, partners and suppliers, social changes and new technology, and various environmental economic, political and regulatory issues. Strengths or

weaknesses and its external opportunities or threats (SWOT) analysis is an analysis of the strengths and weaknesses present internally in the organization, coupled with the opportunities and threats that the organization faces externally. SWOT analysis is categorized into strengths and weaknesses (internal matters) and opportunities and threats (external matters).

Once the SWOT analysis is conducted, strategies are then formulated through a “matching” exercise which consequently will develop a TOWS matrix. The TOWS matrix aims to identify both the short-term and long-term strategies with the objective of promoting Malaysia as Islamic tourism destination.

## **25.4 Findings**

### ***25.4.1 Strengths of Malaysia as an Islamic Tourism Destination***

Malaysia is one of the main tourist attractions for Muslim travelers has developed some strengths over the years as a result of the high Muslim tourist arrivals. The five daily prayers are of the utmost importance for Muslim travelers and a clean and conducive area is required to perform the obligation. Being an Islamic country itself, there is no hassle in locating prayer facilities, nationwide. The abundance of prayer spots is made available at tourist spots and public premises including shopping malls, petrol stations, and even eateries. In addition to that, the fact that Malaysia is a Muslim majority country, finding halal food for consumption is not a problem for the tourists. The rise in importance of Islamic Tourism in Malaysia has also brought about Islamic hotels and Sharia compliant hotels in Malaysia which would best serve the Muslim tourists in addition to the Muslim-friendly health care as well as the stability and safe state of a nation. What is more is that Malaysia is a country that is also rich with Islamic culture in which is portrayed on the Islamic artifacts, nationwide. Muslim tourists having great interests in the local Muslim culture and history would definitely find this interesting (Fig. 25.3).

### ***25.4.2 Weaknesses of Malaysia as an Islamic Tourism Destination***

To strive and be an excellent player in the Islamic Tourism industry, there a few setbacks or weaknesses that Malaysia is having that could hinder the growth potential of the industry should it fail to be taken care of. Among the few are the serving of alcohol in hotels and restaurants. Alcohol being a substance that is prohibited by the Islamic teachings is like a “taboo” to the Muslim community. Having it served publicly at eateries and hotels serves as a weakness for Malaysia to better excel as



Fig. 25.3 SWOT analysis of Malaysia as an Islamic tourism destination

Muslim travelers' destination, In addition to that, gambling areas which are also made available publicly and being a prohibited activity by the religion also serve as a weakness if it is not tackled properly. Separate salons for the opposite gender and separate areas for recreational activities such as swimming, also separate hotel rooms for unmarried couples which have yet to be widely commercialized, give the wrong perception and image of Malaysia to the Muslims travelers. Non-sharia-compliance entertainments mixing both men and women as well as the featuring of the Malay cultures and traditions that outweigh the featuring of religious aspects of Malaysia, on tourism websites also acts as a weakness for Malaysia in striving as an excellent industry player.

### 25.4.3 Opportunities for Malaysia in the Islamic Tourism Industry

The rise of the mobile app empowered traveler serves as an opportunity for Malaysia to better grasp and get hold of this segment of the market population. On the same note, the Generation Y of today who are also adventure seekers and avid travelers also serves as an opportunity for Malaysia as Generation Y or millennials are not necessarily technologically savvy; they are technologically dependent. There is also an opportunity for Malaysia's Islamic Tourism industry to work together with

the publication and media as well as travel agencies in enhancing potential traveler's awareness on Islamic offerings in Malaysia in order to influence them to have Malaysia as a travel destination. The fact that Malaysia is also a Muslim-rich culture society, where there are certain areas in the country where the economic activity also portrays the Islamic teachings, serves as an opportunity for the Islamic Tourism of Malaysia. State of Kelantan for example has Islamic-based attractions such as the Siti Khadijah Market where the sellers are all women. This can be used as an opportunity to strengthen the advertising of Malaysia as an Islamic tourism nation. In addition to that, other Islamic-based attractions include the Islamic Museum in Kelantan as well as the Islamic Civilisation Park in Kelantan. All this combined gives the opportunity to the Islamic tourism of Malaysia to rebrand and reposition itself as an Islamic travel destination.

#### ***25.4.4 Threats Faced by Malaysia in the Islamic Tourism Industry***

Countries, especially the OIC nation who pay great attention to the Islamic teachings in its daily conducts and operation, or in other words, has a rich culture rooted in Islam most likely will also operate based on Islamic values when it comes to their tourism industry. That being said, it is without a doubt these Islamic countries serves as a threat to Malaysia Islamic Tourism scene as these countries such as Turkey and Saudi Arabia would seem more favorable towards the Muslim travelers. The Islamic law in Malaysia which is perceived to be as relaxed due to the fact that the main law that governs the nation is a civil law also serves as a threat as it might give the wrong impression to other Muslim travelers that Malaysia does not fully exercise the laws in Islam. In addition to that, display of women in scanty clothing and nudity sun bathing on tourism websites also does not help in building a reputable Islamic Tourism image of Malaysia. At present, where the industry is too focused on Arab Muslim tourists, the industry is now faces the threat of losing Non-Arab Muslim tourists who also have high purchasing power and would greatly contribute towards the Islamic tourism income of Malaysia.

### **25.5 Conclusion and Recommendation**

The growing number of Muslim tourists in Malaysia provides the occasion for evaluating the country's branding and marketing strategies as a preferred Islamic destination. Malaysia with its multicultural setting, cuisine, and heritage is already a worthy destination, but it needs further enhancement with respect to Islamic tourism. By focusing on Malaysia's efforts in positioning itself as an Islamic hub this study has highlighted, by means of a SWOT analysis, critical issues pertaining to the branding

	<b>Threats</b> 1. Competition from Islamic countries such as Saudi Arabia which has a rich culture rooted in Islam. 2. Negative word-of-mouth due to the fact that Islamic law is relaxed in Malaysia. 3. Displays of women wearing scanty clothing and sun bathing naked in tourism websites tarnish Malaysia's Islamic image 4. Loss of Non-Arab Muslim tourists due to over- emphasis on Arab Muslim tourists	<b>Opportunities</b> 1. Branding and positioning Malaysia in Islamic tourism 2. The rise of the mobile-app empowered traveler. 3. Employment opportunities for Muslims from other countries 4. The rise in Gen Y Muslim Travellers. 5. Enhancing potential travelers' awareness about Islamic offerings of Malaysia through media and travel agents
<b>Weaknesses</b> 1. Alcohol serving in hotels and restaurants. 2. Gambling free areas. 3. No separate salon, recreational facilities and swimming pools for men and women. 4. No separate rooms/ floors for unmarried couples. 5. Non-Sharia compliance entertainments. 6. Featuring of Malay cultures and traditions rather than religious aspects on tourism websites.	<b>W-T</b> 1. Feature more Islamic elements of Malaysia in tourism websites in order to combat the perception of a relaxed Malaysian Islamic law. (W6T2) 2. To only allow non-sharia compliance activities during a certain time of the day/week to improve the tarnished Islamic image of Malaysia.(W5T3)	<b>W-O</b> 1. To feature more of Islamic related activities the country can offer in order to attract the rise in Gen Y Muslim Travellers; Mount Kina. (W6O4) 2. To only allow alcohol serving in restricted areas in hotels and restaurants as well as gambling areas to portray a strict law enforcement in order to have a better Islamic Tourism branding and positioning. (W1,W2,O1)
<b>Strengths</b> 1. Availability of prayer facilities at tourist spots and public premises. 2. Access to a wide variety of <i>halal</i> food for Muslim tourists (including fast food outlets) 3. Malaysian hotels' services for Muslim tourists 4. Malaysia's stability and safety 5. Muslim-friendly healthcare facilities 6. Rich Islamic artifacts around the country.	<b>S-T</b> 1. To promote the availability of Muslim facilities and halal through tourism websites in order to compete with other rich rooted Islamic countries. (S1T1) 2. To promote Malaysia's friendly healthcare services, stability, and Islamic artefacts in order to attract the non-Arab tourist who might also be interested in culture and history in which Malaysia is rich with. (S4,S5,S5,T5)	<b>S-O</b> 1. To develop a mobile app that features the availability of Muslim facility, access to Halal food and Hotel services in Malaysia in order to cater to the rise of the mobile-app empowered traveller. 2. To widely promote and commercialize the stability and safety of Malaysia to encourage Muslim Women solo travellers to come and experience Malaysia. (S4O4)

**Fig. 25.4** TOWS analysis of Malaysia's Islamic tourism industry

of the country as an Islamic destination. Discussed below are the quick wins based on the strategies developed by the TOWS analysis that the Islamic Tourism of Malaysia should take in order to tackle their current situation (Fig. 25.4).

**25.5.1 Feature More Islamic Elements of Malaysia on Tourism Websites to Combat the Perception of a Too Relaxed Malaysian Islamic Law**

In combating the perception of a too relaxed Malaysian Law, it is suggested that travel agents feature more Islamic elements on their websites such as highlighting the rich Islamic culture around the nation. The current practice where tourism websites display too much of women in scanty clothing might also give the wrong perception of

the Islamic Tourism in Malaysia. With the appropriate featuring of Islamic elements and Islamic tourist attraction on the tourism websites, it is hoped that it would be able to combat the perception of a too relaxed Malaysian Islamic Law.

### ***25.5.2 To Promote the Availability of Muslim Facilities and Halal Food Through Websites to Compete with Other Rich-Rooted Islamic Countries***

The five daily prayers are of the utmost importance for Muslim travelers and a clean and conducive area is required to perform the obligation. Being an Islamic country itself, there is no hassle in locating prayer facilities, nationwide. The abundance of prayer spots is made available at tourist spots and public premises including shopping malls, petrol stations, and even eateries. The same goes to halal food where there is no trouble in getting them. This should be well advertised on the tourism websites as a chance to better compete with the rich-rooted Islamic countries.

### ***25.5.3 To Promote Malaysia's Friendly Healthcare Services, Stability, and Islamic Artifacts to Attract the Non-Arab Tourists Who Might also Be Interested in Culture and History in Which Malaysia is Rich in***

At present where Malaysia's Islamic Tourism focuses too much on gaining the attention of the Arab travelers. There is a threat that Malaysia might lose the other Non-Arab travelers who also have purchasing power and could contribute towards Malaysia's Tourism income. In order to combat this loss, it is suggested that the stability of Malaysia, the abundance of interesting Islamic artifacts, and points of interests are well advertised on putting forth to attract the Non-Arab tourist who might also be interested in the culture and history of Malaysia in which Malaysia is rich in.



## **25.6 Recommendation**

### ***25.6.1 To Only Allow Non-Sharia Compliance Activities During a Certain Time/Day of the Week to Improve the Tarnished Islamic Image of Malaysia***

The fact that non-sharia compliance entertainments and activities such as gambling and consumption of alcohol can be done at almost any hour during the day, this might be visible to the Muslim travelers and send out the wrong image and perception of Malaysia as an Islamic nation. To combat this, the Islamic Tourism of Malaysia may want to connect and work together with the government to enforce any non-sharia compliant activities to be allowed only during a certain time/week during the day. Perhaps only during nights or the weekend. The reason to this is to send a message to the Muslim Travelers that although Malaysia is a country that allows non-sharia compliance activities as Malaysia is a nation of various religion, it should still be done discretely so as to respect the status of Malaysia as an Islamic country. This indirectly will also improve the tarnished Islamic image of Malaysia amongst the Muslim travelers.

### ***25.6.2 To Develop a Mobile App that Features the Availability of Muslim Facilities, Access to Halal Food and Hotel Services in Malaysia to Cater the Rise of Mobile App Empowered Traveler***

The rise of the mobile app empowered traveler signals an opportunity for the Islamic Tourism industry in Malaysia as this market segment relies heavily on their mobile for information and access. Among these market segments are also the Generation Y and millennials who are very much tech-savvy. They not only rely on mobile technology but very much depend on it. To grab hold of this opportunity, it is suggested that a mobile app that would be able to feature the availability of Muslim facilities, access to Halal food and hotel services in Malaysia are developed. This mobile app can then be widely advertised at airports to assist Muslim travelers during their stay in Malaysia.

Looking at the country's potentials in Islamic tourism, there is a projection that the arrival of Muslim tourists can rise up to 30% in the long term, and 25% in the short term according to a research done by ITC. Necessary measures must be taken by the Islamic Tourism Industry of Malaysia and some of them are suggested by the TOWS analysis done by this study. This is crucial to ensure that Malaysia stays competitive and relevant in the industry as well as to safeguard a profitable income segment.

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# Chapter 26

## Plant-Based Substitutes for Gelatin



Widya Lestari, Fitri Octavianti, Irwandi Jaswir and Ridar Hendri

**Abstract** Gelatin is one of the most widely used food ingredients. Its applications in food industries are very broad including enhancing the elasticity, consistency and stability of food products. Gelatin is also used as a stabilizer, particularly in dairy products and as a fat substitute that can be used to reduce the energy content of food without negative effects on the taste. Besides the food industry, gelatin is also useful in medicine, pharmaceutical and photographic industries. Gelatin is a valuable protein derived from animal byproducts obtained through partial hydrolysis of collagen originated from cartilages, bones, tendons and skins of animals. It is a translucent brittle solid substance, colourless or slightly yellow, nearly tasteless and odourless. Most commercial gelatin is currently sourced from beef bone, hide, pigskin and, more recently, pig bone. It was reported that 41% of the gelatin produced in the world is sourced from pig skin, 28.5% from bovine hides and 29.5% from bovine bones. This paper reviews the potential of plant-based products as halal substitutes for gelatin.

**Keywords** Gelatin · Halal · Plant-based · Substitutes

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## 26.1 Introduction

Gelatin is one of the most widely used food ingredients. Its applications in food industries are very broad including enhancing the elasticity, consistency and stability of food products (Berardini et al. 2005). Gelatin is also used as a stabilizer, particularly in dairy products and as a fat substitute that can be used to reduce the energy content of food without negative effects on the taste. Besides the food industry, gelatin is also useful in medicine, pharmaceutical and photographic industries. Among the issues surrounding gelatin is the halalness status, as majority of the gelatin available in the world's market is not halal. Gelatin replacers from plant can be taken as alternatives.

## 26.2 Gelatin and Its Origins

People nowadays consume too many calories in their daily diet. Therefore, the demand for low or fat-free products is continuously increasing causing a dilemma for modern food-designers. This is because fat is an important factor that influences the taste of most foods. In this situation, the sensory quality of gelatin is of great importance (Eyre and Caswell 1991). The melting point of gelatin resembles the body temperature of human being, thus the melting of gelatin causes a rich mouth feel that is far superior to other fat-substitutes. Therefore, by using gelatin as a fat substitute, it is possible to reduce the energy content of food without negative effects on the taste.

Gelatin is a valuable protein derived from animal byproducts obtained through partial hydrolysis of collagen originated from cartilages, bones, tendons and skins of animals. It is a translucent brittle solid substance, colourless or slightly yellow, nearly tasteless and odourless. Most commercial gelatin is currently sourced from beef bone, hide, pigskin and, more recently, pig bone. It was reported that 41% of the gelatin produced in the world is sourced from pig skin, 28.5% from bovine hides and 29.5% from bovine bones. In recent times, the concern and fear of BSE or "mad cow disease" has affected the gelatin market and has shifted the market towards porcine gelatin. Out of 500,000 metric tones annual world gelatin production, 90–95% of them are derived from non-Halal sources. At present, the production of fish gelatin as an alternative Halal gelatin is very minor (Gómez-Guillén et al. 2002).

Apart from fish gelatin, increasing demand for non-mammalian gelatin and the demand from vegetarian food groups has revived the interest in "veggie gelatin," a gelatin replacer from plants. Scientifically, there is no naturally occurring plant source of gelatin as plants have no collagens. However, research studies have been done for a long period to develop alternatives that possess most or all the unique functional properties of mammalian gelatin.

**Fig. 26.1** Konnyaku

### 26.3 Plant-Based Gelatin Replacer

“Veggie gelatin” or plant-based gelatin replacers are normally developed from plant hydrocolloids. These include

- Agar: also called agar-agar, gelose, Chinese isinglass, Japanese isinglass, Bengal isinglass or Ceylon isinglass, it is powder, strips or flakes from a sea vegetable
- Carrageenan: polysaccharide extracted from red seaweed
- Pectin: polysaccharide substance present in cell walls of all plants
- Xanthan gum: gum produced by bacteria. The bacterial medium must be halal for the product to be halal
- Modified corn starch
- Cellulose gum.

Konjac is one of the newly developed veggie gelatins that receive good attention in food industries (Teramoto and Fuchigami 2000). In Japanese cuisine, konjac (or konnyaku, in Japanese) appears in various dishes, from traditional dishes like sashimi to noodle and jelly. Addition of konjac in the food sometimes is more valued for its texture than flavour (Fig. 26.1). Japanese konnyaku jelly is made by mixing konnyaku flour with water and some natural flavouring agents. Konjac has almost no calories but is very high in fibre. Thus, it is often used as a diet food (Gudmundsson and Hafsteinsson 1997; Thakur et al. 1997).

Malaysia has the potential to produce “veggie gelatin”. Yam (*Dioscorea alata*) is reported to have similar properties to konjac. The International Islamic University Malaysia (IIUM) has started to carry out an extensive research to explore the potential of Malaysian plants, like yam, as gelatin replacers. However, the most challenging task in obtaining gelatin alternatives from plant sources is to obtain the thermo-reversible property of mammalian gelatin which is “melt-in-mouth” quality.

## 26.4 Conclusion

Development of gelatin replacers from plant should be encouraged in order to resolve problems surrounding the halalness status of gelatin. Malaysia has potentials to produce plant-based gelatin replacers.

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# Chapter 27

## An Analysis of User Requirement for Halal Compliant Mobile Application (HCMA)



Noor Asmaliyana Ahmad, Nurulhuda Noordin  
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**Abstract** Halal and Toyyiban are the concepts that adopted the term of clean, hygiene, safety, and quality assurance (wholesomeness). To date, the Muslim or non-Muslim consumers are aware of the food that they have consumed. They need the ease and efficient way to share their concerns or make any complaints regarding Halal matters. In Malaysia, Halal Certification Bodies (HCB) at federal or state levels provide several ways to make Halal complaint such as face-to-face, online complaint system, e-mail, fax, or phone call. However, the use of mobile application as one of the ways to make Halal complaint is still limited. This paper presents the analysis of user requirements for developing Halal Complaint Mobile Application (HCMA) from the perspective of HCB. HCMA aims to provide easy and efficient ways of making Halal complaints to the HCB. The Agile-SCRUM methodology is adapted in order to allow the developer to prioritize the task and enable to add new features and enhancement incrementally. This research chooses the Halal Unit at Jabatan Agama Islam Selangor (JAIS) at the state level as a case study. The data collection is gathered by interviewing two officers from JAIS. From the interviews, the functional and nonfunctional requirements of HCMA are identified. In addition, an HCMA model is constructed to represent the overview of HCMA process. The future works are to complete cycle of phases involved in Agile-SCRUM Methodology which are to develop and implement Halal Directory feature, to generate report for each confirmed receive complaints, and so on.

**Keywords** Halal · Halal complaint · Mobile application · Agile · SCRUM methodology

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## 27.1 Introduction

The term halal is not only about religious obligation for Muslims. It covers almost every aspect in human life especially in term of food consumption (Abdul Wahab et al. 2016; Razalli et al. 2013). This is because halal food becoming standard choices for practicing healthy lifestyle (Rezai et al. 2012; Baharuddin et al. 2015). In term of Halal food, it is known as a set of dietary law that benefits to consumers health. Nutritionist agreed that eating halal food will help in optimizing nutrition for consumer's body (Baharuddin et al. 2015) and beneficial for spiritual development (Rahman et al. 2011). Due to that, Muslim consumers need to be aware of what they eat and from where the sources of the foods come from (Saad et al. 2016). They are responsible to make complains if they found any doubts about the halal matters. To date, complaints on the halal matters can be done through various ways such as face-to-face meeting with the Halal Certification Body (HCB) officers by filling in the complaint form provided at the HCB office. The other ways are making complaint through phone call, sending e-mail or via HCB social media platform such as Facebook. However, the use of mobile application as one of the ways to make halal complaint is still limited. Therefore, HCB may take advantage of the expanding of the mobile technology to provide the ease and efficient halal complaint system to the halal users.

In general, mobile technology is a technology that is portable such as smart phones, laptop, tablets, wireless debit or credit payment terminals, and so on. According to Invest Northern Ireland (Invest Northern Ireland 2017), mobile device will enable the users to use variety of communication technologies, for instance, wireless fidelity (Wi-Fi), Bluetooth and third generation and fourth generation. With the growth of cloud computing, it has also impacted positively on the use of mobile devices by supporting and providing more flexible working practices over the Internet. Therefore, the halal complaint mobile application (HCMA) is expected to provide the alternative ways to ease the complaints process.

This research aims to identify the requirements of the HCMA from the HCB perspectives. By identifying the requirements, the future research will continue to design and develop the HCMA for the HCB. This paper is organized into several different sections starting from introduction, literature review, methodology, followed by findings and discussion. Lastly, the conclusion will be discussed in the final section.

## 27.2 Literature Review

This section describes topics related to this research which are the concept of Halal, Halal Ecosystem, Mobile Application concept, and SCRUM methodology.



### ***27.2.1 The Concept of Halal***

Halal is derived from an Arabic word that refers to legal, approved, allowed, or permitted by Sharia law (Fischer 2016). This term is a universal concept which is not restricted for food and beverages based product only but also includes consumers goods (cosmetic and clothing), food premises, slaughterhouses, pharmaceuticals, services, finance, and businesses (Saad et al. 2016; Hanzae and Ramezani 2011). Other terms closely related to halal are haram and mashbooh. Haram is contradictly from halal which is defined as unlawful or forbidden according to Sharia law (Nik Wan et al. 2014; Alharbi 2015). For example, alcohol, pork, and animals which are not slaughtered according to Sharia law are considered haram (Razalli et al. 2013; Alharbi 2015). On the other hand, mashbooh means doubtful and may need further analysis and decision making from fatwa council. For something to be declared as halal, it must also be *toyyib*. *Toyyib* is an Arabic word which means clean, hygiene, safety, and quality assurance (wholesomeness). Muslim consumers are responsible to make sure that the products or services are halal and *toyyib* before they consumed the products or used the services.

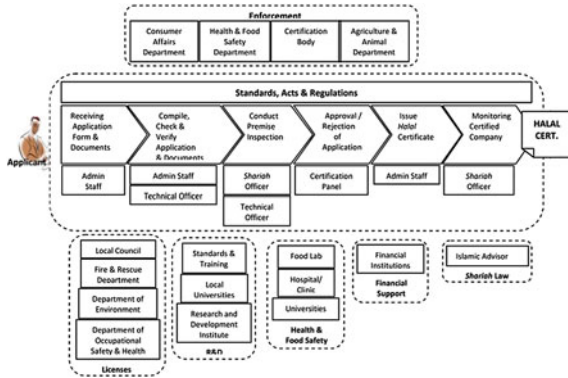
### ***27.2.2 Halal Ecosystem***

The understanding of halal ecosystem globally is important in order to set up penetration of new markets. Halal ecosystem is dynamic in which encompassing all infrastructures that considers business networks, institutions, and both governmental and nongovernmental organizations (Bank Negara Malaysia 2015). Muslim population is known as the potential market for Halal ecosystem. This is because Muslim market is described as larger population, profitable, and underserved that was suitable to promote halal products and services. In order to maintain the competitive advantages of halal industry, it is essential to determine the key components of the industry. Figure 27.1 shows the Halal ecosystem (Noordin et al. 2014).

In Malaysia, the focused halal products are on specialty processed food, ingredients, livestock, pharmaceuticals, and personal care (Halal Industry Development Corporation 2017). In a complete halal ecosystem, the key components that involved in that areas are feed and farm management, ingredients, manufacturing or processing, logistic services, Research and Development (R&D) and Innovation, Islamic finance, and advertising and promotions.

Apart from that, the important component of halal ecosystem is halal certification process (Halal Industry Development Corporation 2017). Each process is handled by an individual or a team. The processes are receiving halal application forms and documents, checking and verifying the application forms, conducting premises inspection, approving or rejecting the applications, issuing halal certificate, and monitoring the certified organizations. Halal certification process involved the communication

**Fig. 27.1** Halal ecosystem  
(Noordin et al. 2014)



from different stakeholders which are halal applicants, halal certification officers, administrative officers, and halal certification panels.

### 27.2.3 Mobile Application Concept

The evolution of mobile devices had given the positive impact on mobile application development. Mobile application is an Internet application that adapts in mobile computing (Islam et al. 2010). It is also known as software that is able to run on small handheld devices with different types of platforms or devices. The use of mobile application is becoming a trendy mobile technology for individuals, business, and social networks. Currently, mobile application has the potential to accelerate business opportunity and social lifestyle. Besides that, it will assist people and society to upgrade their living and encourage developing countries to produce a new type of information technology (IT) infrastructure (Islam et al. 2010). Apart from that, the use of mobile application had widely used in various area such as for communication, games, multimedia, travel, education, utilities, and productivity (Islam et al. 2010). The growth of mobile application development has become one of the demanding career paths. There are three types of mobile application can be developed such as web application, native application, and hybrid application. Table 27.1 simplifies the types of mobile application.

Growing demands for mobile application enable us to interact with people around the world. There will be quick communication between each other even at different geographical distance and able to give access to real-time information from anywhere at any time (Ciurea 2010). Thus, mobile applications are beneficial by saving time, increase productivity, cost saving, less computer use, and less power consumption.

**Table 27.1** Type of mobile application

Type	Descriptions
Web application	Web application is an application that can be stored and viewed through the standardized web browser or using web technologies. Web application did not require specific methods, installation, and subsequent upgrades (Xanthopoulos and Xinogalos 2013). It also can be optimized into one web site in mobile devices
Native application	Native application is an application that can be implemented in one specific device and in a particular platform. The advantage of using native mobile application has faster response upon user request due to its direct interface. Besides that, the installation process is eased user task. This is because it can be installed through the provided app store or other installation platform (Islam et al. 2010; Heitkötter et al. 2013)
Hybrid application	Hybrid application refers to an application that combines the element from web application and native application. Indirectly, it is becoming the powerful application and will enrich user experience (Islam et al. 2010). Hybrid application use application programming interface (API) to connect to each other. Its development focusing on targeted platform or targeted multiple operating system

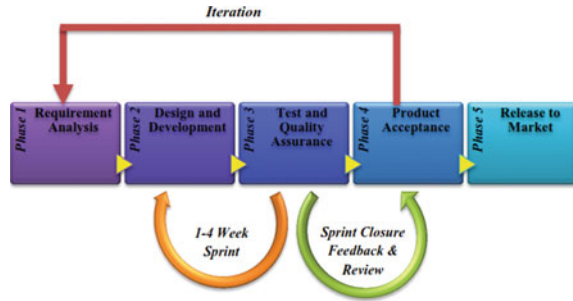
### 27.2.4 Agile Software Development

In software development process, agile methodology can help the development process easily adapted and accommodated to the changes have been made (Flora et al. 2014). This method is one of the best practices for mobile application which use an iterative approach to specify, build, deploy, and deliver the software rapidly. Agile methodology is comprised with several characteristics that make it unique and different from other methodologies which are incremental, iterative, emergent, self-organizing, face-to-face communication, single open office, customer representative, working software, tools and techniques (Patel et al. 2012). These characteristics have driven the organization to practice agile methodology that well aligns with their mobile application development requirements (Kaleel and Harishankar 2013).

### 27.2.5 SCRUM Methodology

The SCRUM methodology is one of the well-known agile software development methodologies that being accepted and practices by most of the software developers. Historically, the idea of SCRUM methodology was initiated from the game of rugby. The idea was contributed by collaboration of individual groups involving Ken Schwaber and Jeff Sutherland (Khan et al. 2011; Singh et al. 2013). SCRUM methodology is a lightweight methodology which is known through the iterative and incremental short cycle called sprints (Khan et al. 2011). Each sprint consists of fixed duration which is 1 week to 4 weeks. Indirectly, each occurred sprint will be

**Fig. 27.2** Agile-SCRUM methodology Adapted from Kaleel and Harishankar (2013)



resulting in new functionalities which are incrementally added to the product (Singh et al. 2013).

Generally, SCRUM methodology is comprised of several roles that make it unique and differ from other methodologies. There are three important roles involved in the SCRUM development process which are (1) product owner, (2) scrum master, and (3) scrum team (Matharu et al. 2015; Janus 2012). Product owner has the responsibility to determine, prioritize, and communicate the collected requirements. Scrum master needs to remove impediments, solve problems and enforcing the rules and principles for the development process. Scrum team is a team that consists of two to seven individuals, who are responsible to execute the allocated tasks within the sprint deadline provided by product owner.

Currently, there are several practices that involved in SCRUM development process which used in a sequence of sprints (Janus 2012). For this project, the practice of SCRUM methodology was done in single or one person project management and development. Figure 27.2 shows the Agile-SCRUM Methodology phases.

## 27.3 Methodology

This research adapted an Agile-SCRUM methodology in order to develop HCMA. As stated in Fig. 27.2, this research is guided by five main phases which starts with Phase 1: Requirement Analysis and ends with Phase 5: Release to Market. However, this paper only discusses the first phase in developing the HCMA.

### 27.3.1 Phase 1—Requirement Analysis

This phase is essential in order to determine respondent's expectation and requirements for developing HCMA. The respondents are the expert in the Halal domain. The data were gathered from the semi-structured interviews with two respondents at the Selangor State Religious Department (JAIS) as simplifies in Table 27.2.

**Table 27.2** Respondents detail

Respondent	Designation
Expert 1	Assistant director <i>Halal</i> Department, JAIS
Expert 2	Assistant officer of Islamic Affairs <i>Halal</i> Department, JAIS

A semi-structured interview was chosen because it allows flexibility to approach different respondents differently while still covering the same areas of data collection. The respondents were asked with a series of interview questions as shown in the following sample questions:

- What is the recent technology used to make a halal complaint?
- What are the processes of halal complaint?
- Who will receive the halal complaint report?
- How long it takes for a complaint to be acknowledged?
- What are the categories of the halal complaints?
- Which category of the halal issues is the most complaint received?
- What is the challenge and problem faced in handling halal complaints?
- How many complaints (in average) have been received within a month?
- Do you have any other features that you like to suggest in the app?
- Do you have any specific color scheme or style for the app?
- Do you have any logo to be used in the app?

The interviews aimed to identify the functional and nonfunctional requirements of HCMA from the HCB perspectives. The nonfunctional requirements involved identifying market analysis to develop mobile application and determining the process or flow of halal complaints. On the other hand, the functional requirement is determining the information regarding physical constraint analysis or the overview of physical architecture and recognized the possible features for developing HCMA.

## 27.4 Findings and Discussion

This section discusses the analysis and findings of this research. From the interviews, the data have been transcribed and analyzed where the functional and nonfunctional requirements have been identified. Thus, the HCMA model has been constructed.

### 27.4.1 Analysis of Functional Requirements

From the interviewed, the functional requirements of HCMA are determined and tabulated in Table 27.3.

**Table 27.3** Functional requirements analysis of HCMA

Requirements /Features	Descriptions	
	JAIS	Complainant
Upload and send evidence (picture) of <i>halal</i> issues	–	Complainant can upload and send the picture of the <i>halal</i> issues
Automatic location tracking and records of <i>halal</i> issues	The application will automatically detect the location of the complaint <i>halal</i> issues, record, and store the coordinate of the location	
Alert or notification (feedback of received complaints)	Alert of any incoming complaints and enable JAIS to identify the complaint status (e.g., received, not received or rejected)	Complainant will able to identify the status of complaints (e.g., received—read or unread, not received)
Alert or notification of the investigation status	Gives alert to JAIS regarding the investigation status (e.g., complaint has been solved, in progress investigation)	Complainant will receive a status that shows the complaint issues is solved and closed
Registration	–	Retrieve the related information about complainant (e.g., full name, contact number, address)
Automatic generation of complainant ID	–	Each complainant will have their own unique user ID for security issues
User login feature	Through this feature, all confidential information will be protected and cannot be seen from unauthorized personnel	
Classification of complaint	HCMA will categorize the complaint based on themes or types (e.g., foods and drinks, ingredients, restaurants, and slaughterhouses)	
Automatic generation of complaint ID	Each complaint will own an ID that makes it unique and easily identified	
Search and view of complaint history	The complainant will able to search and view the previous complaint that has been made by the responsible complainant via complaint ID	
Complainant able to update profile	–	Complainant can update and save their profile (e.g., name, contact number, address)

**Table 27.4** Prioritized requirements (sprint backlog) of HCMA

Requirements	Priority level
User login feature	High
Registration	High
Automatic generation of complainant ID	High
Classification of complaint	High
Automatic location tracking and records of <i>halal</i> issues	High
Upload and send evidence (picture) of <i>halal</i> issues	High
Automatic generation of complaint ID	High
Alert or notification (feedback of received complaints)	High
Alert or notification of the investigation status	High
Complainant able to update profile	Medium
Search and view of complaint history	Low

Then, the analyzed functional requirements are prioritized in a specific list namely Sprint Backlog which prioritized based on high to low level. The Sprint Backlog is tabulated in Table 27.4.

From Table 27.4, only the features (requirements) to be developed for the first Sprint are listed.

### 27.4.2 Analysis of Nonfunctional Requirements

Apart from the requirements, several nonfunctional requirements have been identified which are (1) availability, (2) usability, (3) security access, and (4) flexibility as describe in Table 27.5.

### 27.4.3 Halal Complaint Mobile Application (HCMA) Model

From the interviews, an HCMA Model is constructed in order to represent the overview of HCMA process as shown in Fig. 27.3. The process started when a complainant sends a complaint information, picture, and location of the complaint situated through HCMA. The HCB will receive the complaints, verify the complaints, and conduct the investigation. The complainant will receive first feedback informing them that the complaint is received and it is in the investigation process. Once the investigation completed, the HCB will write a report. The complainant will receive

**Table 27.5** Nonfunctional requirements analysis of HCMA

Requirements	Descriptions
Availability	<ul style="list-style-type: none"> <li>• Current way of making complaint is by face-to-face and fill in the manual form. Sometimes, people make complaints by phone call, e-mail or social media such as Facebook</li> <li>• No specific application has been developed</li> <li>• HCMA is aimed to help people to make complaints easily and efficiently at any time and anywhere</li> </ul>
Usability	<p>The current halal complaint system is as follows:</p> <ul style="list-style-type: none"> <li>• The received complaint will be informed to the Chief Assistant Officer (KPP) of <i>Halal</i> Department for verification</li> <li>• Once verified, the complaint will be sent to the Enforcement Unit for registration and the complaint investigation file will be opened.</li> <li>• They will give the first feedback to the complainant in order to acknowledge them that the complaint is received and it is in the investigation process</li> <li>• Once the investigation completed, the complainant will receive another feedback on the result of the investigation</li> </ul>
Security access	<ul style="list-style-type: none"> <li>• Currently, the complaints can be received by various officers at the Communication Unit or Policy Unit</li> <li>• The responsible unit that handling the complaint matter is the Enforcement Unit</li> </ul>
Flexibility	<ul style="list-style-type: none"> <li>• There is no specific classification for reporting halal complaints</li> <li>• There are a lot of halal complaint types such as the use of logo in restaurants and factory, the use of Quran verse in restaurant, and the halal validity of food served in restaurant</li> <li>• The most complaints have been reported are restaurants, the food ingredients, or product ingredients and slaughterhouse</li> </ul>

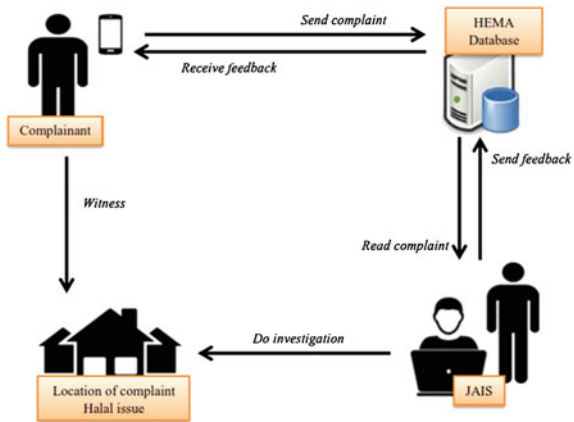
feedback (result) of the complaint. All the data are stored in a complaint history HCMA database.

## 27.5 Conclusion

The public can make complaints on Halal matters by filling in the form provided at HCB offices, phone calls, complaint via emails, or via HCB social media such as Facebook. Due to that, this research proposed a mobile application for the public to report complaint by using their smartphone. The HCB may take advantage of the current trends of halal users who are exposed to the mobile technology. The use of mobile application is expected to ease the complaint process and to provide another way of complaint submission. In addition, the efficient work practices and action taken to the complaints are also expected to be increased. This research is part of the ongoing research on halal certification system. This paper successfully presents the functional and nonfunctional requirements to develop HCMA from the HCB perspectives. The adapted of Agile-SCRUM methodology is suitable in this research



**Fig. 27.3** Halal complaint mobile application (HCMA) model



as it requires short cycle iteration. In addition, it also allows the prioritization of requirements and helps to speed up the development process in future.

However, there are three limitations involved in this research. The first limitation is this project is working as solo developer. Based on Agile-SCRUM methodology, the development process will involve three different roles. Through a team, the project progress can be presented and communicated easily. The second limitation is the data are gathered from JAIS only. The information regarding complaint Halal matters are limited within state authority only which is Selangor. Finally, the third limitation is regarding the application itself. This is because the features developed and implemented in HCMA are only for making complaints.

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# Chapter 28

## The Development of Rapid Method for Detection of Ethanol in Mouthwash Using E-Nose



**Fitri Octavianti, Irwandi Jaswir, Rini Akmeliawati, Adi Rahmadsyah, Azrul Hafiz Bin Abdul Aziz, Russly Abdul Rahman and Nurul Asyikeen Ab Mutalib**

**Abstract** The purpose of this study is to check for ethanol (EtOH) content in mouthwash products sold in Malaysia market using portable electronic-nose (E-Nose). For this study, 20 mouthwashes were tested with nine of the samples contain EtOH as part of its ingredients. The problem with those products is that it does not disclose the concentration of the EtOH as part of its labelling. This is important since long-term use of ethanol-containing mouthwash may result in adverse health effect to the consumer. The process parameters used in this study was optimized using Response Surface Methodology (RSM), with strong relations between actual and predicted sensor response yield correlation of determination,  $R^2$  of 0.9756. Optimum process parameters generated by Design Expert 7.1.5 showed that the optimum volume for EtOH sample was 5.84 mL for 1.45 min time of detection. While for screening process, it was found that from the detection of alcohol-free mouthwash using portable E-Nose, no alcohol content detected with 'alcohol free' was displayed on the LCD screen of the device. However, 9 out of 10 mouthwash samples that have no 'alcohol free' label on the products contain more than 10% (v/v) EtOH. Hence, this study had successfully optimized the process parameters and screened the mouthwashes sold in Malaysia market for the presence of EtOH.

**Keywords** Ethanol · Mouthwash · Portable E-Nose · Optimization

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## 28.1 Introduction

Mouthwashes are considered beneficial in the prevention and treatment of variety of oral or oropharyngeal diseases such as gingivitis, periodontitis and other inflammatory conditions. Apart from the various therapeutically active ingredients in the mouthwashes such as essential oils, Chlorhexidine, Fluoride, Potassium Nitrate and Benzylamine, one ingredient that is present generally in every mouthwash is ethanol (EtOH). The concentration of ethanol in mouthwash product is between 0 and 27% that is high compared to the EtOH in beer (4%) and wine (12%). High concentrations of ethanol in mouthwash may have detrimental oral effects such as epithelial detachment, keratosis, mucosal ulceration, gingivitis, petechiae and oral pain (Bolanowski et al. 1995). Moreover, there is a possible connection between the long-term uses of ethanol-containing mouthwash with oral cancer (Guha et al. 2007; McCullough and Farah 2008; Ramdzan et al. 2013). Generally, to determine the existence of ethanol in mouthwash can be done in the laboratory using various instruments, such as gas liquid chromatography (GC), high performance chromatography (HPLC), or electronic-nose (E-Nose). However, those instruments are expensive and need to be operated by skilful person. Hence, a cheap and user-friendly portable E-Nose was designed and fabricated for this purpose.

An E-Nose is basically a device that mimics human olfactory system (Nurul Asyikeen et al. 2013) and it is a useful tool for EtOH detection since its allowed identification and fingerprinting of aroma. The use of E-Nose to detect a large number of chemical compounds is appropriate since the detection is based on the principal of gas chromatography, which allows chemical compounds to elute at different times and then the compounds will be detected by the sensitive sensor.

The portable E-Nose used for this study, as shown in Fig. 28.1, was designed to be very compact and small, so it can be carried around for an 'on-line' detection of the mouthwash or beverage for EtOH detection. The way the device worked was simple which any layman can operate this portable E-Nose. The gas sensor will detect the presence of EtOH which later the output response will be received by the conditioning electronics. The received data were then analysed by microcontroller and displayed the concentration of EtOH on the LCD display.

The objectives of this study are to check for EtOH concentration in mouthwash product using the fabricated portable E-Nose and to test the accuracy and reliability of the sensor used. Various mouthwash products used as samples and been tested by the E-Nose to detect the presence of EtOH substance in it. This study is important to check whether the concentration of EtOH in mouthwash product contain the specific concentration that is allowed.

**Fig. 28.1** The prototype of the fabricated portable E-Nose used in this study



## 28.2 Materials and Methods

### 28.2.1 *Materials*

Ethanol, 95% (v/v) was purchased from HmBg Chemicals Inc. (Germany). Twenty mouthwash samples of different flavours from different brands were bought from a local market in Selangor; with 10 of them have 'alcohol free' indication on the products' labelling.

## 28.2.2 *Methods*

### 28.2.2.1 **Calibration**

EtOH dilution of 0.1% (v/v), 1.0% (v/v) and 10.0% (v/v) were prepared for calibration purpose. Later, the result was saved in the E-Nose database for further used during screening process. The EtOH sample of certain volume (2, 4 and 6 mL) was put inside a bottle and the portable E-Nose will take the reading based on the time set for the parameter, which is 0.5–1.5 min with 30 s increment.

### 28.2.2.2 **Screening Process**

For screening process, experiments were conducted after optimum time and sample's volume generated from the optimization part in RSM. Then, 20 mouthwashes were tested with nine of the samples contain EtOH as part of its ingredients. Then, reading was taken after the portable E-Nose is ready and the concentration of EtOH is displayed on the LCD screen of the device.

## 28.3 **Results and Discussion**

For calibration part, the result of the response will be in terms of an analogue value of the sensor response. While for optimization, process parameters were optimized using Design Expert 7.1.5 to get the optimum values of time and EtOH solution's volume. Lastly, screening of 20 mouthwashes of different flavours from different brands sold in Malaysia market was done, which the results were successfully displayed on the LCD display of the portable E-Nose.

The portable E-Nose used for this study can give rapid detection up to 10 s at 20% (v/v) and above, of the EtOH concentration. The analogue value starts to spiked rapidly once the EtOH sample was put near the sensor of the E-Nose (less than 1 s) but will keep on increasing until it goes constant, which reaches its maximum value. Hence, the time chosen as one of the process parameters was up to 1.5 min.

### 28.3.1 *Calibration Process*

Based on the data in Table 28.1, it was found that the higher the concentration of the EtOH detected, the higher the analogue value of the sensor response recorded by the portable E-Nose. Time of the detection as well as the sample's volume also plays an important role in increasing the response of the sensor. However, from the observation, the highest concentration had consumed more power for the E-Nose,

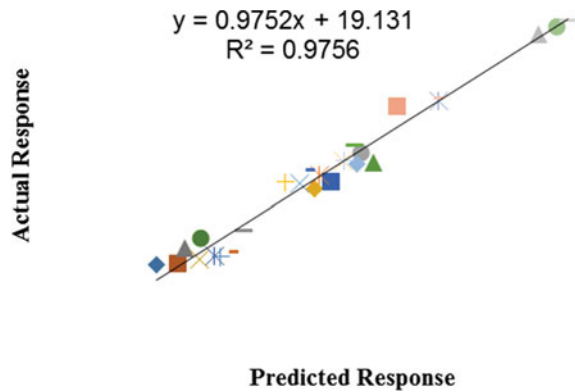
**Table 28.1** Historical data design with experimental and predicted values of the sensor response

Run	Time (min)	Sample volume (mL)	EtOH Conc., % (v/v)	Actual sensor response	Predicted sensor response
1	0.5	2	0.1	613	639
2	0.5	4	0.1	633	640
3	0.5	6	0.1	640	662
4	1	2	0.1	653	647
5	1	4	0.1	668	652
6	1	6	0.1	655	678
7	1.5	2	0.1	673	650
8	1.5	4	0.1	683	658
9	1.5	6	0.1	696	688
10	0.5	2	1	763	750
11	0.5	4	1	779	759
12	0.5	6	1	820	788
13	1	2	1	749	758
14	1	4	1	769	770
15	1	6	1	808	803
16	1.5	2	1	735	760
17	1.5	4	1	756	777
18	1.5	6	1	801	814
19	0.5	2	10	805	786
20	0.5	4	10	843	871
21	0.5	6	10	977	976
22	1	2	10	791	791
23	1	4	10	881	880
24	1	6	10	994	989
25	1.5	2	10	791	791
26	1.5	4	10	878	883
27	1.5	6	10	1005	997

which will result in a shorter amount of time to use the device. This happens because the VOC adsorbed by the sensor was too saturated, which will increase the resistance of the sensor, hence increase the voltage needed for the E-Nose to operate. This device has to be used when it is in an optimum condition which the battery is fully charged, or should be around 7–9 v left, so the results can be taken accurately.

The data shown in Table 28.1 is also showing two kinds of result which are the actual and predicted sensor response. Actual reading is actually taken from the experimental result, to observe the sensor response while the predicted sensor response

**Fig. 28.2** The graph of actual versus predicted sensor response



was generated from the RSM of the design expert software. From the data, it was found that the results of both responses are not too deviating from each other and this is shown in Fig. 28.2, as most of the responses showed a close relationship between actual and predicted values. From the plotted graph, the  $R^2$  value is 0.9756, which proves that there is a strong relation between both values.

### 28.3.2 Optimization Process

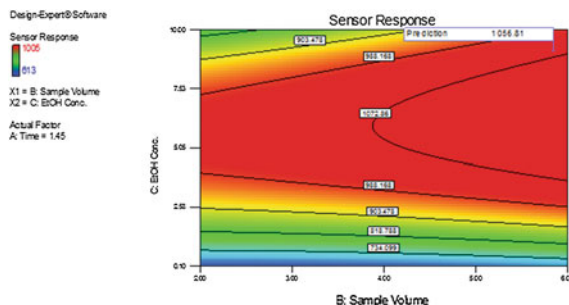
Another objective of this study is to optimize the process parameters using historical data of RSM. For optimization part, time and sample's volume were set 'in a range' while sensor response was set as 'maximum'. These parameters were set with the specific requirement because optimization process for this particular studies is concerning with the highest sensor response that can be detected by the portable E-Nose. From the results of those parameters, which have been conducted in 27 runs, the highest sensor response of EtOH generated by the software was 1056.81 which was shown in Fig. 28.3 of the contour plot of the optimization graph. While the optimum volume for EtOH sample was 5.84 mL for 1.45 min time of detection. In similar case, Fig. 28.4 shows the same result of the optimization graph, only in 3D surface graph. This is important to show the optimum parameters which represented by the 3D graph.

### 28.3.3 Screening Process

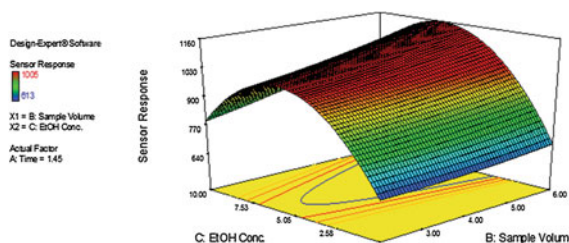
Detection of ethanol in 20 types of different mouthwash flavours and brands was tested using the portable E-Nose prototype for a screening process. Based on the optimum time and EtOH volume from the Design Expert optimization, 5.84 mL of



**Fig. 28.3** 2D Contour plots of the optimization graph



**Fig. 28.4** 3D surface graph of the optimization graph



**Table 28.2** Screening process of different mouthwashes sold in Malaysia market

Description on the product's label	Sample	Result of EtOH conc.	Description on the product's label	Sample	Result of EtOH conc.
Alcohol free	C1	Alcohol free	Contain alcohol	L1	Alcohol free
	C2	Alcohol free		L2	>10%
	C3	Alcohol free		L3	>10%
	C4	Alcohol free		L4	>10%
	S1	Alcohol free		L5	>10%
	S2	Alcohol free		L6	>10%
	O1	Alcohol free		G2	>10%
	O2	Alcohol free		G3	>10%
	G1	Alcohol free		G4	>10%
	G5	Alcohol free		B1	>10%

mouthwash sample was tested and the result was taken after 1.45 min of the detection. Samples of mouthwash products were tested, as shown in Table 28.2 which was from alcohol contained mouthwash and non-alcohol contained mouthwash.

For alcohol-free mouthwash, all 10 samples have halal logo from JAKIM on the product's label. When testing with the portable E-Nose, the device has successfully validated the authenticity of the products, since it has shown 'Alcohol Free' on the LCD screen of the device. While for the mouthwashes that has no halal logo, only sample L1 has no EtOH content presence in the sample, while others shown '>10%

EtOH' displayed on the LCD screen. It shows that even the product contains no alcohol, the manufacturer had no intention to apply for the halal certification. While for the products containing more than 10% EtOH, the concentration displayed is high that long-term usage might give side effect to the consumer's oral health.

Apparently, it was also found that only sample *L1* resulted in 'Alcohol Free' when testing it using the portable E-Nose. This result supported by its labelling since it that has no halal logo on the product and EtOH was nowhere to be found as part of its ingredients, All 20 samples except for sample *B1* disclose its ingredients as part of its labelling. Hence, the usage of the portable E-Nose is important to check the availability of EtOH in the sample. Based on these findings, it can be concluded that the portable E-Nose can be used to check for the presence of EtOH in mouthwash.

## 28.4 Conclusion

This study has successfully calibrated, optimized and screened EtOH content in mouthwash samples bought from Malaysia market using portable E-Nose prototype. It was found that all three process parameters; time (min), sample volume (mL) and EtOH concentration % (v/v) can affect the sensor response value, as the higher the parameters was set, the higher the analogue value displayed by the device. From the calibration process, the lowest concentration of EtOH detected by the portable E-Nose was 0.1% (v/v). Apart from that, the strong relations between actual and predicted sensor response yield correlation of determination,  $R^2$  of 0.9756. While for optimization process, optimum time and EtOH volume generated by RSM was 1.45 min and 5.84 mL, respectively. In screening process, it was found that from the detection of alcohol-free mouthwash using portable E-Nose, the LCD has displayed 'Alcohol Free' upon the detection, while 9 out of 10 mouthwash samples of ethanol-containing-mouthwash showed '>10% EtOH' on the LCD screen. Hence, this study had successfully optimized the process parameters and screened the mouthwashes sold in Malaysia market for the presence of EtOH.

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# Chapter 29

## Contemporary Islamic Art in Malaysia: New Trends and Approaches Since 2000



Muhammad Faiz Sabri, Mumtaz Mokhtar and Muliyadi Mahamood

**Abstract** Contemporary Islamic art has been recognized and it was developed within the Malay culture that was based on the Islamic concepts and teachings. The years between 1980 and 1990 can be considered as a revival period of the Islamic art in the country and became one of the main art forms in the development of modern art at that time. However, due to the modern global influences nowadays has given a 'new meaning' to the contemporary Islamic art in Malaysia. The Islamic Malay Cultural Heritage has slowly lose its place in the society. The emergence of new forms of ideology and thinking from Western country lead the artist to produce the artworks that are influenced by modern technology such as installation, new media, digital art projection and many more. Therefore, this paper is conducted to understand in depth the view of contemporary Islamic art in Malaysia from the 21st century by analyzing the concept and philosophy of Islam applied specifically in the artwork that produced by Malaysian artists. 100 samples of Malaysian artworks will be collected to be analyzed using two different Islamic art theories by Ismail Al-Faruqi and Zakaria Ali in order to define certain Islamic concept in selected artworks. It is hoped that this conceptual paper will make some small contribution toward guiding a contemporary Muslim artists appreciate and understand the Islamic art heritage thus seek to stimulate a potential artists to create new expressions of modern and innovative artworks while at the same time remaining true Islamic spirit.

**Keywords** Contemporary · Islamic art · Islamic contemporary art · Malaysian contemporary art

### 29.1 Introduction

Islamic art is one of the significant methods for the Muslim artists to express their gratefulness to Allah SWT who is the one and only God in this world and created every

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single part in this universe. It is one of the approaches to educate people to the beauty of Islam as stated in al-Quran. According to Ishak (2010), the word 'Islam' originates from the Arabic word, 'As-Salam' that means submission or peace. The believers of Islam believe that it is not only the religion of truth or 'waqi'e' but also in harmony with human nature, desires, feelings, characteristics, places, times, circumstances and requirements. As such, in Islam, art is considered something abstract, which can be touched, seen or heard and not merely expressed through languages and words.

According to Seyyed Hussein Nasr (1987), Islamic art is the Quranic art. He mentioned that Islamic art is not all about the physical itself, it is based on the beauty that stated in al-Quran. Apart from that, it is a process of the crystallization of spiritual treasures that is manifested from the truth (haqiqah), which is abstract in nature and can transform in a holistic representation. It is also seeks to represent the soul, spirit, essence, and their intrinsic meaning of things rather than just their physical form. In other words, any intrinsic meaning of the Islamic art should be based on the revealed knowledge as contained in the Al-Quran.

In order to understand the nature of Islamic art and its definition, the primary concept of Islamic art that Muslim artists should concern is the idea of tauhid which is to believe in the oneness of Allah by the proclamation of "La illaha illa Allah, Muhammad dur Rasulullah", "there is no God except Allah and Prophet Muhammad is His messenger". Therefore, the essential requirement in Islam is to the belief in the absolute oneness and unity of Allah and to believe that everything in the universe is manifestations of Him, returning to Him and centered on Him (Hussain and Atiya 2004). The word Islam is defined as ad-Din which represents the way of life of the Muslim people. In the context of art, any form of art must be followed the law of the Islam in order to symbolize truly an Islamic artwork. Therefore, Islam has come to perfect human nature, who love art and the art that determining guidelines which does not conflict with the akidah, syariah and akhlak. With that, the artwork that produced by the artist must be based on three primary basis of Islam which are syariah, aqidah, and akhlak.

While discussing about the concept of Islamic art, it can be compared with non-Islamic art by looking at the intention of the creation of the faith and morality which is embodied in the artwork. Islamic art is seeking the intention to get the pleasure of Allah S.W.T by producing the artwork which based on the concept of tauhid thus rejecting the concept of art which lead to the purpose of proud and damaging the faith and morals of the Islam. This is explained by the Prophet Muhammad s.a.w. in the hadith narrated by Muslim

Sesungguhnya Rasulullah s.a.w. bersabda: "Tidak masuk syurga sesiapa yang di hatinya mempunyai perasaan takbur dan tidak masuk neraka sesiapa yang dihatinya mempunyai sebesar atom daripada iman". Maka berkata seorang lelaki: "Sesungguhnya saya sukakan pakaian saya indah dan saya perindahkan apakah itu takbur" Rasulullah s.a.w. menjawab: "Sesungguhnya Allah itu Maha indah. Dia suka kepada keindahan. Takbur adalah sombong iaitu tidak mahu menerima yang hak dan memandang bina kepada manusia".

In other words, Islamic art is the art that emphasizes the values of faith, law and morality of the Islam. This is for the reason that Islamic art has put the al-Quran and al-Sunnah as the main source in producing the artwork. Every form of art which

produced is thoroughly projecting the concept of beauty and appreciation of the faith towards Allah s.w.t. Hence, it is one of the methods which absolutely important in Islam because through art, it can add faith and good deeds which not only obtaining the reward from Allah s.w.t., but also the pleasure of living in the world with peace and harmony.

In the context of Malaysia, contemporary Islamic art had long been recognized and the years between 1980 and 1990 can be considered as a revival period of the Islamic art in the country and became one of the main art forms in the development of modern art at that time. Evidences showed that the majority of Muslim artists had participated in numerous Islamic art exhibitions held in these two decades. Established artists such as Syed Ahmad Jamal, Ahmad Khalid Yusof, Sharifah Fatimah, Ismail Mustam, Ibrahim Hussein, Fatimah Chik, Ponirin Amin, Omar Rahmat, Harun Abdullah Coombes, Hashim Hassan, and others were some of the famous names involved in these exhibitions.

According to Redza Piyadasa, “Minat dalam pengaruh-pengaruh kelslaman telah muncul sejak akhir 70an. Dorongan impuls yang berpusat kepada agama di kalangan pelukis-pelukis Melayu telah ditingkatkan lagi dengan dasar-dasa pengIslaman oleh kerajaan di dalam perkhidmatan awam dan institusi pengajian yang bermula pada sekitar waktu itu”. He saw that the Islamic influence in the Malaysian art scene has started in the late 70s. Factors leading to this phenomenon included the Islamic principles introduced by the government in the public sector and institutions of higher learning during that period.

Muliyadi Mahamood stated that during the development of the contemporary art in Malaysia, there were at least three recognized groups involved namely, the pioneering artists, the second generation artists and the younger generation artists. The participation of the second generation artists which were also known as revival artists by Mohamed Ali Abdul Rahman, comprised names like Ponirin Amin, Ruzaika Omar Basaree, Zakaria Awang, Sharifah Fatimah Syed Zubir, Kalsom Muda Ahmad, Ariffin Ismail, Khatijah Sanusi and Fatimah Chik. These artists have contributed towards the flourishing of Islamic art in Malaysia. The younger generation of Muslim artists such as Awang Damit Ahmad, Amron Omar, Nasir Baharuddin, Samjis, Suzlee Ibrahim, Nur Hanim Khairuddin and Din Omar meanwhile have sustained the awareness of Islamic art within the Malaysian art history.

Apart from that, according to Wan Samiati Andriana Wan Mohamad Daud (2013), many exhibitions, which regards to the Islamic theme were also held within these two decades and they included; ‘Rupa dan Jiwa’, ‘Ke Arah Tauhid’ (1980), ‘Seni Rupa Islam Malaysia’ (1991), ‘Identiti Islam Dalam Seni Rupa Malaysia’, ‘Pencapaian dan Cabaran’ (1992), ‘Manifestasi Jiwa Islam’ (1993), ‘Kesenian Islam Suatu Perspektif Malaysia’ (1995), ‘Art and Spirituality’ (1995), and ‘Echoes of Infinity’ (1996). Besides these exhibitions, there were also group and solo exhibitions being held in the country. As a result, all these activities clearly showed the existence of a significant number of works being projected under the Islamic art theme.

There have been various studies being carried out regarding Islamic art through out of the world. In the context of Malaysia, there are several studies undertaken

since 2012 such as by Hassan (2012), Wan Samiati Andriana W Mohamad Daud (2013) and Nor Azlin Hamidon and Siti Mastura Md. Ishak (2015).

In a study by Hassan (2012), the objectives of his study are to establish the historical development of the contemporary Islamic art in the Malaysia in the 1980s and 1990s as well as to identify the factors of styles of the decades. The theory of iconology introduced by Erwin Panofsky has been chosen for this study over 83 samples of paintings. The findings of his research lead to the identification of styles and meaning of the contemporary Islamic art in Malaysia.

In another study by Wan Samiati Andriana W Mohamad Daud (2013), assessed the study on the Malaysian Islamic visual art from the view of contemporary. The study is aimed to examine how the challenges of Western ideology has influenced the development of Malaysian Islamic visual art after independence. The results showed that after the National Cultural Congress was held in 1971, there were a significant and positive impact in terms of the visual art which not only rejected the Western art theory but also as a manifestation to free the Malaysian artist from the Western influence.

From a latest study done by Nor Azlin Hamidon and Siti Mastura Md. Ishak (2015), they examined the new styles emerged from the combination of the three art traditions namely Islamic, Western and Malay art. For the sampling, the Islamic calligraphy paintings from year 1947 until 2005 were selected in this study. Among 707 paintings collected, 110 have been selected as samples to represent the multiplicity of the artist, material used and as well as painting technique. The qualitative method (grounded theory) has been chosen for this study to scrutinize all the selected paintings. For the final findings showed five main styles of calligraphy which could accommodate in precise the paintings into its own suitable categories based on the latest art mainstreams.

In reviewing from the past research regarding contemporary Islamic art, there are several studies which have been done particularly in Malaysia before the year of 2000. However, there are still lack of the studies and research on the view of contemporary Islamic art after the year of 2000. Consequently, this research is conducted to expand the studies regarding the view of contemporary Islamic art which have not been studied yet by the previous researcher in order to understand further what type of Islamic artwork being produced by the Malaysian artists from the year of 2000 onwards.

## **29.2 Problem Identification**

The Malay Peninsula was under the British rule until 1957. During the colonial period, the British assimilated their constituent, ideology, and culture through the system of education in the Malay Peninsula. The Malays were introduced with the British ideology and culture. Subtly, the Malays were forced to apply the British culture through their administrative system which means following their rules and

regulations. The education system was cleverly manipulated by the colonial masters to achieve these goals.

In the year of 1960, the impact of western ideology to the Malay world is quite significant. Malaysian contemporary art was highly influenced by Western ideas that were implemented in their artwork. This was due to Malaysian artists receiving training from overseas and applying Western ideas into their artwork. At that time, the freedom of expression was high and most of the works produced in that era were not reflective of the cultural roots hence was detached them from any effort to promote national image.

After the National Cultural Congress was held by the Malaysian government in 1971, it has brought the idea of national identity into art and served a guideline to the Malaysian artists in their creative process. In this context, Islam becomes one of the main elements in representing our cultural identity. This phenomenon has witnessed the emergence of many importance and interesting works created by major Muslim artists with various unique methods of applying Islamic elements through their artworks. Mahamood (1992a, b) also stated that Islamic Art in Malaysia has been initiated by two important factors and one of them was the National Cultural Congress that sets by the National Cultural Policy (Dasar Kebudayaan Kebangsaan) in 1971. Eventually, the result of the artworks has been successfully presented in a proper way. For Muslim artists, Islam is the basic key elements in creating the National Culture and also opening the door to the establishment of Islamic ideas and aesthetics in their artworks.

However, due to the modern global influences nowadays has given a 'new meaning' to the contemporary Islamic art in Malaysia. The Islamic Malay Cultural Heritage has slowly lose its place in the society. The emergence of new forms of ideology and thinking lead the artist to produce the artworks that are influenced by modern technology such as installation, new media, digital art projection and many more. In discussing about contemporary Islamic art and its definition, there has been ongoing debate by the Islamic Scholars, researchers, academics and artists regarding this issue in Malaysia. Some of them say that the contemporary means anything that refers to art made and produced by artists who are living today. Contemporary artists may define that art made according to the era that they are living thus rejecting the styles and movements that pass by before them.

In the 21st century, artists work in response to a global environment that is socially and culturally diverse. The influence of technology forced these artists to work in a wide range of mediums. Viewers, engaging with contemporary art, are challenged to understand either the work of art is just good physically or pleasing to the people once they know the aesthetic meaning behind it. According to Zakaria Ali (2013), he stated that the Malays themselves have been influenced by the Western culture that has been introduced through technology and education. Living in the modern world with a lot of constraint including time, financial and space has caused many Malaysian artists to slowly forget the significant of the Malay Art and Islamic aesthetic. According to Nasr (1989), he stated that there are a group of people that will cause them to lose the essence in Islamic art; one of them are from the internal side where Muslim themselves who have been affected of modernization from Western culture.



Observing to the statement above, the reason that contributed to the lack of popularity in Malay society regarding Islamic art is lack of the understanding and appreciation among Malay society themselves. This is proved where there are a few of writings and publications regarding Islamic art being done in Malaysia (Hassan 2012).

Therefore, a thorough analysis and research should be conducted to understand in depth the view of contemporary Islamic art in Malaysia from the year of 2000 onwards. This research intends to understand further the concept and philosophy of Islam applied specifically in the artwork that produced by the artists.

### 29.3 Literature Review

The primary basis of Islam is the idea of Tauhid which is to believe in the oneness of Allah by the proclamation of *La illaha illa Allah, Muhammad dur Rasulallah*, “there is no God except Allah and Prophet Muhammad is His messenger”. As a monotheistic religion, Islam creates certain beliefs in the mind of its followers. This peculiar mindset of the Muslims encapsulates all their activities, including arts and craft. Islam believes in the oneness of God (monotheism) who created this universe and has a power over all of His creation within it. Muslims also believes that He is unique and that everything He created represents His greatness. Muslims believe that Allah is the only God worthy of praise and worship and the ultimate purpose of all creation are to submit to Him. The word ‘Allah’ is simply the Arabic name for God that affirms that He is One Singular God with no partner or equals and cannot be pluralized or limited to a specific gender, which establishes that God is One and He is unique from everything that He creates (Hussain and Atiya 2004).

In Islam, the representation of human and animals in any kind of painting or sculpture is forbidden. This is because the representation of figures has no meaning or functional purposes. It also rejects the creation of any form of religious image. The figural representation such as icons and idols were not accepted for fear that it will lead to idolatry. Although neither the Al-Quran nor Islamic traditions contain specific orders against figural representation in art, both the Al-Quran and hadith take a firm stance against idolatry and the worship of images. Based on these two sources, the early Islamic religious leaders interpret that the religion is against the depiction of human or animal figures. This is why we can see that in Islamic art, there are three patterns that often implemented in the artwork, consisting of Islamic calligraphy, arabesque pattern and geometrical pattern. These patterns are considered suitable as they give meaning to infinity and reflect the infinite nature of Allah. This alteration is known as stylized and denaturalized of the natural beauty into ornamental beauty (Al-Faruqi 1982).

Geometry and repeated patterns are important in the making of an Islamic art as it is a way to show appreciation towards The Creator and the greatness of His creation. Not only that, these shapes are one of the ways that the art uses to represent nature and objects by their spiritual qualities. According to Othman (1989), these complex

patterns and decorations evident in Islamic art create the impression of infinity, thus delivering a good function to the viewers.

According to Crichtlow (1976), Islamic patterns is a means of relating Multiplicity to Unity by means of mathematical forms which are seen, not as a mental abstraction, but as the reflection of the cosmic archetypes within both the cosmos, minds and the souls of men. His statement demonstrated that the use of these geometric designs and patterns, which are reflective of the language of the universe, could help viewers reflect on the concept of life on Earth and the infinite nature of Allah. All these elements are the purpose to highlight the primary principle of Islamic faith that Allah, is alone The Creator, Sustainer, and Destroyer of Life. At the same time, the recognition of Muhammad (SAW) as Allah's last prophet is also a key element of this belief.

## 29.4 Methodology

This research will be employed an exploratory type of research which will be analysed the view of the contemporary Islamic art produced from the year 2000 onwards. For the research design perspective, a qualitative method will be used in this study where a structured interview will be conducted to a group of Islamic scholars, academics, researchers as well as the Malaysian artists. This method is more accurate in obtaining the primary data compared to quantitative analysis. Using qualitative approach will also increase the chances of respondents answering the structured questionnaire completely without bias. Apart from that, for the secondary data, this research will be referring to the books, articles, journals and as well as the internet to get an information regarding the topic.

Figure 29.1 shows the theoretical framework which will be used for this study. In order to define the term of contemporary Islamic art, it has to be analysed the concept of Islamic art and contemporary art first by looking at the style and content of both particular area. The combination of both style of contemporary art and Islamic art create an understanding to the view of contemporary Islamic art in Malaysia. For the sampling, over 100 samples of Malaysian prominent artworks from the year 2000 onwards will be chosen to be analysed in order to identify the styles, methods and the concept as a term to define the new trends and approaches in Contemporary Islamic artworks.

In terms of the method of analysis, this research will be used two different types of theories which describe about three elements of the aesthetic of the Malay artwork by Zakaria Ali (1987) that consist of *berguna*, *bersatu* dan *berlambang* and three artistic devices principles theory by Ismail and Al Faruqi (1985) that consist of Stylization, non-individualization and repetition in order to understand further the concept of Islamic art.

The principle of *berguna* introduced by Zakaria Ali is the first principle which meets functionality to not only shows a beautiful look, but also comfortable to hold. The principle of *bersatu* is the second principle which shows an infinity space that

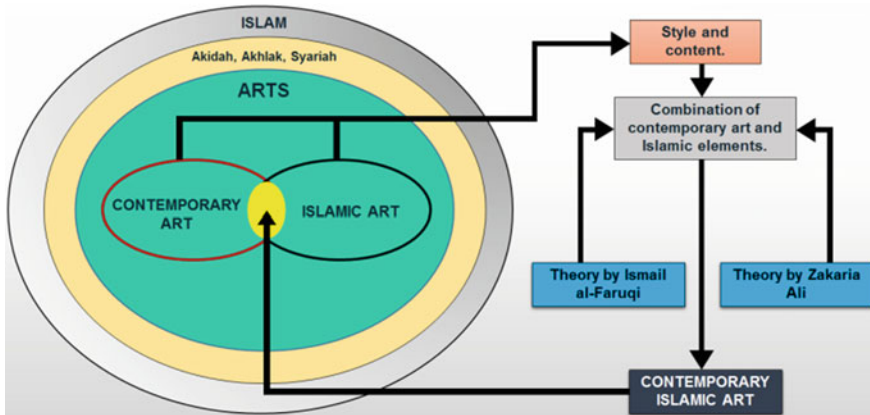


Fig. 29.1 Theoretical framework

has no beginning and no ends that is associated with the motif that produced in the artwork. The principle of bersatu is relating to the principle of unity, which referring to the concept of complementary in some particular design. Finally, the principle of berimbang is something related to art that beautifies an ornament as a symbol of beauty and correlation between the content (meaning) and the form of the artwork.

The three artistic devices introduced by Ismail al-Faruqi are the processes have to be followed by the artist in order to produce the art that is aligned with Islamic concept and teaching.

The first of these devices is stylization, which turns the being or object in nature into a denaturalized creation. It is also use to beautify the motifs. The main concern is to make the picture appeared artistically and this is where the incorporation of artistic element established. The result of this process is portrayed in artistic design of motif which no longer represented the original picture of the main source of the idea.

Secondly, the literary or visual artist has employed the device of non-individualization. No character from a literary work has an individuality of personality, nor is he described in a way which reveals to the reader his unique and specific character. The animate or inanimate object from nature portrayed in the Islamic visual arts likewise lacks the variation and individuality which would mark that figure as a unique specimen. Even when the Islamic artist makes use of human figures, these are so lacking in individual character and personality that they cease to be portrayal of living, breathing person.

The third device used should be used by Muslim artist to alter figures from nature is repetition. This artistic means plays an important role in artistic form, as we shall see later; but it has its role in expressing content as well. It is the repetition of units and items in the Islamic work of art—whether literary, aural or visual—which reinforces the above—mentioned non-individuation and thereby contributes to abstract quality.

All these steps could make the design looks new, imaginative and artistic. Any element in the designs that depicted representationally of living things will go through to this process. The result will be an abstraction and artistic look for the designs that could be used in any form and function.

## 29.5 Expected Outcome

This research will make a small contribution to develop a new body of knowledge in the field of Islamic art in Malaysia. It is also an efforts toward guiding a contemporary Muslim artist appreciate and understand the Islamic art heritage thus seek to stimulate a potential artists to create new expressions of modern and innovative artworks while at the same time remaining true Islamic spirit. Other than that, the findings of this research will contribute to develop a new theory of contemporary Islamic art model in order to establish the term of contemporary Islamic artwork. This study also can be used as references for academicians such as lecturers, researchers and as well as students from the IPTA or IPTS in Malaysia who wants to increase their knowledge and to understand deeper the beauty of the Islamic art. It is also an effort to compile all the information regarding Islamic art for the references of future generations. Last but not least, the Islamic art museums or organizations can use this research to educate people and also could be preserved the knowledge by publishing books, magazines, articles and journals that highlights the aesthetic and essence in Islamic art for the purpose of references.

Islamic art has its own philosophy and aesthetic implemented in the artwork. Therefore, it is important to understand and know the significant of the motifs and patterns means in order for us to understand the beauty in our religion and aesthetics. Since every form have their own purpose and meaning, it is interesting for us to see and analyze to create a better understanding of the beauty in Islamic art thus it can let the artists who produce Islamic art get closer to Allah SWT.

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# Chapter 30

## The Influence of Graduates' Learning Competencies on Employability: The Mediating Effects of Person-Job Fit and Person-Organization Fit



Abdul Kadir Bin Othman, Nadia Parmila Binti Yunnus and Masripan Salleh

**Abstract** The issue of employability has become a major concern of the government as some graduates are unable to secure employment although they have been in the job market for quite some time. Although graduates have been equipped with varying competencies, they are still struggling to get placement in the organization of choice. Therefore, this study is intended to investigate the influence of person-job fit and organization-job fit on the relationship between learning competencies and graduates' employability. Analysing 284 data collected via online survey from graduates of the Faculty of Business and Management, UiTM, using a series of regression analysis reveals that person-job fit significantly mediates the relationship between learning competencies (leadership, knowledge and ethics and professionalism) and employability, whereas person-organization fit significantly mediates the relationship between learning competencies (leadership, life-long learning and communication) and employability. The implications of the study are discussed.

**Keywords** Learning competencies · Employability · Person-job fit · Person-organization fit

### 30.1 Introduction

Recently, the number of graduates is increasing remarkably but the number of jobs is not growing at a similar pace resulting in the rising number of unemployed graduates. Due to this alarming phenomenon, the government has instructed the higher education institutions to ensure that graduates must possess eight competencies (knowledge, practical knowledge, entrepreneurship, problem-solving, ethics

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and professionalism, communication, leadership and teamwork, life-long learning) so that they are employable. Currently, higher education institutions have designed their curriculum to meet the requirement but the number of unemployed graduates is still high. This study is intended to investigate the role of fits (person-job fit and person-organization fit) in affecting the link between graduates' competencies and employability in an attempt to solve the existing problem.

The International Labour Organization (ILO) provides a broader view of employability: 'Employability involves self-belief and an ability to secure and retain employment. It also means being able to improve productivity and income-earning prospects. This often requires competing effectively in the job market and being able to move between occupations as necessary. It requires 'learning to learn' for new job opportunities (International Labour Organisation [ILO] 2000, p. 37).

The first competency required for employability is knowledge. Knowledge is defined as information combined with experience, context, interpretation, reflection, intuition and creativity. Information becomes knowledge once it is processed in the mind of an individual. This knowledge then becomes information again once it is articulated or communicated to others in the form of text, computer output, spoken or written words or other means. Graduates must possess the required basic knowledge (the knowledge acquired during their study period in the university) to perform on their job. Without this knowledge, graduates will not be successful during the hiring and recruitment process (Collet et al. 2015).

The second competency required for employability is practical knowledge. Although practical knowledge is acquired over an extended period of time, employers expect the graduates to learn fast and are able to use their cognitive ability to suggest feasible solutions to problems (Jackson 2015). That is why students should be exposed to the case study approach during their study so that they are able to optimize their mental capability to come out with practical ideas and opinions to solve problems. Those who lack this ability are less likely to secure a job in this competitive job market.

The third competency required for employability is entrepreneurship. Entrepreneurship does not mean that graduates are able to start a business after graduation. However, they should possess the characters of entrepreneurs such as risk-taking, challenges seeking, high self-efficacy and standing on ambiguity (Yavari et al. 2013). Graduates who possess the characteristics of entrepreneurs are able to a secure suitable job after graduation as compared to those who lack of this trait.

The fourth competency required by graduates is problem-solving ability. A lot has been said about current graduates; they are unable to solve even simple problems. This issue arises because students are not exposed to the right methodology. Universities are now adopting problem-based learning to ensure that their students are able to use their head to solve problems. Employers prefer graduates who are able to offer ideas and opinions to solve business problems.

The fifth competency is ethics and professionalism. Nowadays, the issue of ethics and professionalism has become the centre of attention of practitioners and academics. Honesty and integrity of graduates are questioned. They are willing to violate

the ethical standards under certain circumstances (Heyneman 2015). Therefore, business schools should embed ethics education in their curricula so that the managers are equipped with strong ethical standards when entering the workplace (Sigurjonsson et al. 2014).

The sixth graduates' competency that is important for employability is communication skills. Graduates who are able to communicate effectively with their peers and superiors orally or in writing can secure a better job and continue with the job. Findings of a recent study suggest a disparity between graduate and employer perceptions on the standard of oral communication skills upon graduation (Jackson 2014). Therefore, business schools must educate students to sharpen their communication skills so that they become proficient in using the language of the business world.

The seventh required graduates' competency is leadership and teamwork. Leadership is defined as a process of achieving shared goals through people while the team is a group of people with different skills and different tasks, who work together on a common project, service, or goal, with a meshing of functions and mutual support. These two terms are related as the team needs a leader to be successful. Nowadays, the work is assigned around teams in organizations. Therefore, graduates with leadership and team competency are able to grasp job opportunity and stay with the job (Messum et al. 2015).

The last competency required from business graduates is life-long learning. Life-long learning is needed so that graduates can continuously gain the latest knowledge and competency that makes them remain relevant in the job market. Organizations are looking after those who can bring and adapt to continuous change to achieve organizational sustainability (Quendler and Lamb 2016). Graduates who have this competency are having competitive edge over the others in getting the job and moving on with the job, P-O fit refers to the match between the person and the organizational goal as a whole, whereas P-J fit involves matching the person and the requirements that are directly associated with a specific job (Newton and Jimmieson 2009). Although all competencies are important to secure a job the fit between individuals and the job as well as the organizations require high consideration to make the graduates stay with the job. Studies have shown that person-job fit and person-organization fit to contribute to high performance and job satisfaction (Downes et al. 2017; Thompson et al. 2015). Therefore, person-job fit and person-organization fit are conceptualized as the mediators for the relationship between graduates' competencies and employability.

## 30.2 Methodology

This study is correlational in nature as it is intended to investigate the roles of person-job fit and person-organization fit on the relationship between graduates' learning competencies and their employability. Subjects for the study are the graduates from the Faculty of Business and Management, UiTM who graduated within two years. The list of graduates was obtained from the Student Information Management Systems (SIMS) of UiTM and 500 of them were selected using simple random sampling



technique. Out of 500 sets of questionnaire distributed, 284 responded, giving the response rate of 56.8%.

### 30.3 Demographic Profile

The respondents were asked about their personal information including gender, period of graduation, period of employment, programme enrolled and types of employment bodies. Pertaining to the distribution of respondents according to gender, 63 respondents or 22.2% are male while 221 respondents or 77.8% are female. This distribution is similar to the distribution of students at the university. Referring to the period of graduation, 114 respondents or 40.1% graduated in the last 12 months. A total of 111 respondents or 39.1% graduated in the last 24 months. A group of 22 respondents or 7.7% graduated in less than 12 months period and 37 respondents or 13% graduated between 12 and 24 months period. Regarding the period of employment, 84 graduates or 29.6% had been working for 24 months, 58 graduates or 20.4% had been employed for 12 months, 35 respondents or 12.3% had been secure steady jobs for 9 months and 15 months, respectively, 30 respondents or 17.6% had been working for less than 6 months and 22 respondents or 7.8% has been employed for more than 15 months but less than 24 months (Table 30.1).

The participating graduates mostly enrolled in Bachelor in Office Systems Management (68 respondents or 23.9%), followed by Bachelor in Event Management (57 respondents or 20.1%) and Bachelor in Customer Service Management (45 respondents or 15.8%). The remaining respondents were those graduated from Bachelor in Health Administration (29 respondents or 10.2%), Bachelor in International Business (26 respondents or 9.2%), Bachelor in Business Transport (25 respondents or 8.8%), Bachelor in Insurance (12 respondents or 4.2%) and Bachelor in Retail Management (2 respondents or 0.7%). Interestingly, most of the graduates were working in the private sector (233 respondents or 82%) while the remaining graduates were working either in the government sector (20 respondents or 7%), or non-governmental organizations (14 respondents or 4.9%), or self-employed (5 respondents or 1.8%) or others (12 respondents or 4.2%).

### 30.4 Factor Analysis

Principal Component Factor Analysis with varimax rotation were utilized to identify the underlying structure or dimensions in the independent, mediator and dependent variables in this study. Factor analysis can recognize whether a common factor or more than a single factor is present in the responses to the items. In essence, factor analysis was used to understand the underlying structure in the data matrix, to identify the most parsimonious set of variables, and to establish the goodness of measures for testing the hypotheses (Hair et al. 2006).

**Table 30.1** Demographic profile of respondents

Variables	Descriptive	Frequencies	Percentages
Gender	Male	63	22.2
	Female	221	77.8
Period of graduation	3 months	4	1.4
	6 months	10	3.5
	9 months	8	2.8
	12 months	114	40.1
	15 months	29	10.2
	18 months	6	2.1
	21 months	2	0.7
	24 months	111	39.1
Period of employment	3 months	20	7.0
	6 months	30	10.6
	9 months	35	12.3
	12 months	58	20.4
	15 months	35	12.3
	18 months	13	4.6
	21 months	9	3.2
	24 months	84	29.6
Programmes enrolled	International business	26	9.2
	Insurance	12	4.2
	Customer service management	45	15.8
	Event management	57	20.1
	Business transport	25	8.8
	Health administration	29	10.2
	Operations management	20	7.0
	Office system management	68	23.9
Retail management	2	0.7	
Types of employing bodies	Government sector	20	7.0
	Non-government organizations	14	4.9
	Private sector	233	82.0
	Self-employed	5	1.8
	Others	12	4.2

When a factor analysis is conducted, several statistical values are observed to establish whether the items are suitable to be factor analysed. This was done by examining the values of Measure of Sampling Adequacy (MSA), Kaiser–Meyer–Olkin (KMO) and the Bartlett’s test of Sphericity. The MSA value for the individual items was set to be above 0.50 and the KMO (overall items) value to be above 0.60. The Bartlett’s test of Sphericity is observed to detect the presence of significant correlations among variables. It is appropriate to proceed with the factor analysis if the value of the test is large and significant ( $p < 0.05$ ) (Hair et al. 2006).

Overall, the three (3) factor analyses were performed independently for each scale concerning graduates’ competencies, person-job/person-organization fit measures and employability. The number of factors extracted was determined using the absolute magnitude of the eigenvalues of factors (eigenvalue greater than one criterion) (Hair et al. 2006). The eigenvalue of a factor represents the amount of total variance accounted by the factor. The total amount of variance explained by the factor(s) was set at 60.0% and above (Hair et al. 2006). In interpreting the factors, only items with a loading of 0.40 or greater on one factor were considered. In the case of cross loadings (an item that loads at 0.32 or higher on two or more factors (Tabachnick and Fidell 2001) or the difference between and among factors is less than 0.10 (Youndt et al. 1996), the items were considered for deletion. The clean factors were then interpreted or named by examining the largest values linking the factors to the items in the rotated factor matrix. Reliability tests were subsequently carried out after factor analyses.

As shown in Table 30.2, the results of the analysis revealed the existence of six-factor structures. Some items were excluded due to their low communality values, high cross loadings and loading on factors different from the original conceptualization. The KMO measure of sampling adequacy for the graduates’ competencies scale is 0.919 indicating that the items were interrelated. Bartlett’s Test of Sphericity shows a significant value (approx. Chi-square = 8936.240,  $p < 0.001$ ) indicating the significance of the correlation matrix and appropriateness for factor analysis. Moreover, the individual MSA values range from 0.830 to 0.969, indicating that the data matrix was suitable to be factor analysed.

Results of factor analysis with varimax rotation indicate the existence of six factors with initial eigenvalues greater than one that explained 71.69% of total variance. The first factor comprises of 15 items with loadings ranging from 0.554 to 0.770. This factor mainly embraces graduates’ leadership, team and problem-solving competencies; therefore, the leadership was established. The second-factor loadings range from 0.573 to 0.849. This seven-item factor reflects the graduates’ basic and practical knowledge; thus, the name knowledge was upheld. The third factor was represented by items with loadings in the range of 0.743 and 0.782. This factor consists of four items which reflect graduates’ tendency to practice ethics and professionalism; therefore, the name of ethics and professionalism was chosen. The fourth factor was represented by four items with loadings ranged from 0.619 to 0.785. This factor reflects graduates’ life-long learning competency; thus, the name was upheld. The fifth factor comprises three items with loadings ranged from 0.664 to 0.729. This factor mainly embraces graduates’ disposition to engage in social responsibility; therefore, the

**Table 30.2** Results of factor analysis of graduates' learning competencies

Items	Component					
	1	2	3	4	5	6
<i>Leadership, team and problem-solving</i>						
I am able to provide ideas and suggestions for my team to work effectively	0.770					
I am able to set clear directions for others to follow	0.760					
I am able to suggest ways to implement the solution to the existing problem	0.746					
I am able to contribute to the establishment and achievement of team goals	0.732					
I am able to coach and develop employees' competencies	0.730					
I am able to encourage and motivate employees and colleagues in performing the job	0.723					
I am able to provide personal expertise for the team	0.714					
I am able to work well with those who have different background and expertise	0.711					
I am able to come up with innovative ideas to improve current situation	0.703					
I am able to provide suggestions to solve existing problems	0.696					
I am able to evaluate the effectiveness of the strategies used to solve the existing problem	0.692					
I am able to inculcate team spirit among members of my team	0.687					
I have the ability to manage and control myself so that I become a role model to others	0.637					
I am able to provide clear instructions to my subordinates	0.635					
I am able to identify problems faced by the organization	0.554					
<i>Basic and practical knowledge</i>						
The knowledge that I have learnt is relevant to my job that I am doing		0.849				

(continued)

**Table 30.2** (continued)

Items	Component					
	1	2	3	4	5	6
I am able to apply the knowledge that I have acquired during my study when performing my job		0.846				
The job that I am performing requires me to apply my acquired knowledge		0.802				
The knowledge that I have learnt helps me succeed on my job		0.782				
The job that I am performing seems easy with my existing knowledge		0.773				
I can easily apply the tools and techniques that I have learnt on my job		0.764				
I have acquired the necessary knowledge to perform well on my job		0.573				
<i>Ethics and professionalism</i>						
I consider myself as someone who can be trusted			0.782			
I am highly committed to my work			0.775			
I will perform my work in an effective and efficient manner			0.772			
I practice integrity in my work			0.743			
<i>Life-long learning</i>						
I always participate in knowledge enhancement activities				0.785		
I read a lot academic materials in order to learn new things				0.778		
I plan the learning activities that I should engage				0.729		
I set my own learning objectives				0.619		
<i>Socially responsibility</i>						
I am willing to contribute me energy, time and wealth to help others					0.729	
I like to help those who are in need					0.726	
I feel contented when I am able to help others					0.664	
<i>Communication</i>						
I have good command in oral communication						0.679
I am highly confident in conveying information to others						0.621

(continued)

**Table 30.2** (continued)

Items	Component					
	1	2	3	4	5	6
I am able to convince others when communicating with them						0.598
% variance explained (71.69)	25.207	14.183	9.592	8.951	7.747	6.008
Kaiser–Meyer–Olkin measure of sampling adequacy				0.919		
Bartlett's test of sphericity	Approx. Chi-square			8936.240		
	Df			630		
	Sig.			0.000		
MSA				0.830–0.969		

*Notes* Extraction method: principal component analysis; rotation method: varimax with Kaiser normalization

**Table 30.3** Results of factor analysis of employability

Items	Component		
	1		
Working with this company is the right choice	0.869		
My current job is the one that I prefer	0.837		
Working with the company makes my dream comes true	0.779		
My current job provides opportunities to apply my existing knowledge and competencies	0.732		
My current job requires me to apply the skills and competencies that I have learnt	0.699		
I found it easy to perform on my job with the existing knowledge and competencies that I have	0.687		
I am required to learn a lot of new things when performing my work	0.568		
% variance explained		55.461	
Kaiser–Meyer–Olkin measure of sampling adequacy		0.839	
Bartlett's test of sphericity	Approx. Chi-square		937.905
	Df		21
	Sig.		0.000
MSA		0.774–0.937	

*Notes* Extraction method: principal component analysis

name of social responsibility was given. The sixth factor contains three items with loadings ranged from 0.598 to 0.679. The factor involves graduates' communication competency; therefore, the name communication was selected (Table 30.3).

Establishing the unidimensionality of the graduates' employability, a Principle Component Factor Analysis was also performed. The results of factor analysis are

**Table 30.4** Results of factor analysis of person-job fit and person-organization fit

Items	Component	
	1	2
<i>Person-job fit</i>		
There is a good fit between what my job offers me and what I am looking for in a job	0.866	
The attributes that I look for in a job are fulfilled very well by my present job	0.849	
The job that I currently hold gives me just about everything that I want from a job	0.781	
The match is very good between the demands of my job and my personal skills	0.758	
My abilities and training are a good fit with the requirements of my job	0.687	
<i>Person-organization fit</i>		
My personal values match my organization's values and culture		0.855
The things that I value in life are very similar to the things my organization values		0.849
My organization's values and culture provide a good fit with the things that I value in life		0.841
I do not have to compromise personal convictions to comply with my organization's norms and policies		0.702
% variance explained (75.623)	39.164	36.459
Kaiser–Meyer–Olkin measure of sampling adequacy	0.879	
Bartlett's test of sphericity	Approx. Chi-square	2023.169
	Df	36
	Sig.	0.000
MSA	0.861–0.951	

*Notes* Extraction method: principal component analysis; rotation method: varimax with Kaiser normalization

displayed in Table 30.4. The KMO measure of sampling adequacy for employability is 0.839 indicating that the items were interrelated. Bartlett's Test of Sphericity shows a significant value (approx. Chi-square = 937.905,  $p < 0.01$ ) indicating the significance of the correlation matrix and appropriateness for factor analysis. Moreover, the individual MSA values ranged from 0.774 to 0.937, indicating that the data matrix was suitable to be factor analysed. The result of factor analysis with varimax rotation indicates the existence of one factor with initial eigenvalues greater than one that explained 55.461% of total variance. The loadings for the items range from 0.568 to 0.869 (Table 30.4).

To verify the dimensionality of person-job fit and person-organization fit variables, a Principle Component Factor Analysis was also performed. The results of factor analysis are displayed in Table 30.4. The KMO measure of sampling adequacy for job satisfaction is 0.879 indicating that the items were interrelated. Bartlett's Test of Sphericity shows a significant value (approx. Chi-square = 2023.169,  $p < 0.01$ ) indicating the significance of the correlation matrix and appropriateness for factor analysis. Moreover, the individual MSA values ranged from 0.861 to 0.951, indicating that the data matrix was suitable to be factor analysed. The result of factor analysis with varimax rotation indicates the existence of two factors with initial eigenvalues greater than one that explained 75.62% of total variance. The first factor comprises five items with loadings ranged from 0.687 to 0.866. This factor mainly embraces person-job fit dimension; therefore, similar was established. The second-factor loadings range from 0.702 to 0.855. This four-item factor reflects person-organization fit; thus, the name was upheld (Table 30.5).

The results of correlation analysis reveal that the independent variables, which consist of leadership, knowledge, ethics and professionalism, life-long learning, social responsibility and communication, are moderately correlated (and a few of them are highly and lowly correlated) with each other with  $r$  values ranging from 0.306 ( $p < 0.01$ ) to 0.721 ( $p < 0.01$ ), indicating that the independent variables are interrelated with each other (signifying a convergent validity). The mediating variables or person-job fit and person-organization fit are also moderately correlated (and a few of them are highly and lowly correlated) with all the independent variables with  $r$  values ranging from 0.340 ( $p < 0.01$ ) to 0.604 ( $p < 0.01$ ), signifying concurrent validity of the constructs. Besides, graduates' competency factors are moderately correlated with the dependent variable or employability with  $r$  values ranging from 0.348 ( $p < 0.01$ ) to 0.532 ( $p < 0.01$ ), indicating concurrent validity of the variables. Furthermore, the independent variables and the mediating variable are significantly correlated with the mediating variables are significantly correlated with the dependent variable with values of 0.658 ( $p < 0.01$ ) and 0.865 ( $p < 0.01$ ), also signifying concurrent validity of the constructs. These correlation values indicate potential mediating effects of person-job fit and person-organization fit on the relationship between the independent variables and the dependent variable (Tables 30.6 and 30.7).

A multiple regression analysis was conducted with person-job fit serving as the dependent variable. The  $R$  squared of 0.403 indicates that 40.3% of the variance in the model is explained by the independent variables. The regression model is significant ( $F(6, 273) = 30.712, p = 0.000$ ). Durbin-Watson value of 1.735 signifies that there is no problem of autocorrelation in the model. Looking at the contribution of each independent variable to explaining the variance in person-job fit, three factors are found to be significant predictors; leadership ( $\beta = 0.339, p < 0.01$ ), knowledge ( $\beta = 0.145, p < 0.01$ ) and ethics and professionalism ( $\beta = 0.168, p < 0.01$ ). The remaining three factors are not significant predictors of person-job fit; life-long learning ( $\beta = 0.114, p > 0.05$ ), social responsibility ( $\beta = -0.095, p > 0.05$ ) and communication ( $\beta = -0.097, p > 0.05$ ) (Tables 30.8 and 30.9).



**Table 30.5** Results of correlation analysis

No	Variables	Mean	SD	1	2	3	4	5	6	7	8	9
1	Leadership	3.85	0.57	(0.957)								
2	Knowledge	3.72	0.73	0.484 <sup>a</sup>	(0.916)							
3	Ethics and professionalism	4.28	0.57	0.553 <sup>a</sup>	0.306 <sup>a</sup>	(0.885)						
4	Life-long learning	3.90	0.68	0.634 <sup>a</sup>	0.431 <sup>a</sup>	0.495 <sup>a</sup>	(0.881)					
5	Social responsibility	4.24	0.58	0.601 <sup>a</sup>	0.354 <sup>a</sup>	0.572 <sup>a</sup>	0.541 <sup>a</sup>	(0.864)				
6	Communication	3.89	0.61	0.721 <sup>a</sup>	0.384 <sup>a</sup>	0.576 <sup>a</sup>	0.563 <sup>a</sup>	0.629 <sup>a</sup>	(0.857)			
7	Person-job fit	3.77	0.71	0.587 <sup>a</sup>	0.414 <sup>a</sup>	0.458 <sup>a</sup>	0.478 <sup>a</sup>	0.379 <sup>a</sup>	0.498 <sup>a</sup>	(0.910)		
8	Person-organization fit	3.62	0.71	0.604 <sup>a</sup>	0.340 <sup>a</sup>	0.435 <sup>a</sup>	0.555 <sup>a</sup>	0.394 <sup>a</sup>	0.554 <sup>a</sup>	0.696 <sup>a</sup>	(0.895)	
9	Employability	3.76	0.66	0.532 <sup>a</sup>	0.393 <sup>a</sup>	0.440 <sup>a</sup>	0.528 <sup>a</sup>	0.348 <sup>a</sup>	0.480 <sup>a</sup>	0.698 <sup>a</sup>	0.658 <sup>a</sup>	(0.865)

<sup>a</sup>Correlation is significant at the 0.01 level (1-tailed). *N* = 280. Cronbach's alpha values in the parentheses along the diagonal

**Table 30.6** Results of regression analysis with person-job fit as dependent variable

Variables	Standardized beta values
Leadership	0.339**
Knowledge	0.145**
Ethics and professionalism	0.168**
Life-long learning	0.114
Social responsibility	-0.095
Communication	0.097
<i>R</i>	0.635
<i>R</i> <sup>2</sup>	0.403
Adjusted <i>R</i> <sup>2</sup>	0.390
<i>F</i> values	30.712
Sig. <i>F</i> values	0.000
Durbin-Watson	1.735

\*\*Correlation coefficients significant at the 0.01 level

**Table 30.7** Results of regression analysis with person-organization fit as dependent variable

Variables	Standardized Beta Values
Leadership	0.309**
Knowledge	0.016
Ethics and professionalism	0.076
Life-long learning	0.260**
Social responsibility	-0.109
Communication	0.204**
<i>R</i>	0.663
<i>R</i> <sup>2</sup>	0.439
Adjusted <i>R</i> <sup>2</sup>	0.427
<i>F</i> values	35.605
Sig. <i>F</i> values	0.000
Durbin-Watson	1.965

\*\*Correlation coefficients significant at the 0.01 level

Another multiple regression analysis was also conducted but this time with person-organization fit serving as the dependent variable. The *R* squared of 0.439 indicates that 43.9% of the variance in the model is explained by the independent variables. The regression model is significant ( $F(6, 273) = 35.605, p = 0.000$ ). The Durbin-Watson value of 1.965 signifies that there is no problem of autocorrelation in the model. Examining the contribution of each independent variable to explaining the variance in person-organization fit, three factors are found to be significant predictors; leadership ( $\beta = 0.309, p < 0.01$ ), life-long learning ( $\beta = 0.260, p < 0.01$ ) and communication ( $\beta = 0.204, p < 0.01$ ). The remaining three factors are not significant predictors of person-organization fit; knowledge ( $\beta = 0.016, p > 0.05$ ), ethics and professionalism ( $\beta = -0.076, p > 0.05$ ) and social responsibility ( $\beta = -0.109, p > 0.05$ ).

**Table 30.8** Results of regression analysis with person-job fit as mediator

Variables	Standardized beta values without mediator	Standardized beta values with mediator	Remarks
Leadership	0.199*	0.022	Complete mediation effect
Knowledge	0.131*	0.055	Complete mediation effect
Ethics and professionalism	0.162*	0.074	Complete mediation effect
Life-long learning	0.267**	0.207**	No mediation effect
Social responsibility	-0.135*	-0.085	No mediation effect
Communication	0.127	0.076	No mediation effect
Person-job fit		0.524**	Mediator is significant
<i>R</i>	0.619	0.740	
<i>R</i> <sup>2</sup>	0.384	0.547	
Adjusted <i>R</i> <sup>2</sup>	0.370	0.536	
<i>F</i> value	28.310	46.998	
Sig. <i>F</i> value	0.000	0.000	
Durbin-Watson	2.283	2.283	

\*Correlation coefficients significant at the 0.05 level

\*\*Correlation coefficients significant at the 0.01 level

A hierarchical regression analysis was conducted to assess the mediating role of person-job fit on the relationship between graduates' competencies and employability. The first step of the regression model was to run the analysis without person-job fit and the next step was conducted with the inclusion of person-job fit into the model. The results of the first model show the *R* square of 0.384 denoting 38.4% of the variance explained. The model is significant ( $F(6, 273) = 28.310, p = 0.000$ ) with the Durbin-Watson value of 2.283 indicating the absence of autocorrelation problem. The second model of regression analysis with the inclusion of person-job fit presents the increase in *R* square to be 0.547 indicating 54.7% of variance explained. The model is also significant ( $F(7, 272) = 46.998, p = 0.000$ ). Pertaining to the relationship between the mediator and the dependent variable, person-job fit is significant to predict employability ( $\beta = 0.524, p < 0.01$ ).

From the first model, three independent variables are significant to influence employability; leadership ( $\beta = 0.199, p < 0.05$ ), knowledge ( $\beta = 0.131, p < 0.05$ ), ethics and professionalism ( $\beta = 0.162, p < 0.05$ ), life-long learning ( $\beta = 0.267, p < 0.01$ ), and social responsibility ( $\beta = -0.135, p < 0.05$ ). Only one factor is not significant; communication ( $\beta = -0.127, p > 0.05$ ). With the inclusion of person-job fit in the regression model, there is a significant reduction in  $\beta$  values denoting a complete mediation effect. Person-job fit is a complete mediator for the relationships between leadership and employability, between knowledge and employability, and

**Table 30.9** Results of regression analysis with person-organization fit as mediator

Variables	Standardized beta values without mediator	Standardized beta values with mediator	Remarks
Leadership	0.199*	0.058	Complete mediation effect
Knowledge	0.131*	0.124*	No moderation effect
Ethics and professionalism	0.162*	0.127*	No moderation effect
Life-long learning	0.267**	0.148*	Complete mediation effect
Social responsibility	-0.135*	-0.085	No mediation effect
Communication	0.127	0.033	Quasi mediation effect
Person-organization fit		0.459**	Mediator is significant
<i>R</i>	0.619	0.708	
<i>R</i> <sup>2</sup>	0.384	0.502	
Adjusted <i>R</i> <sup>2</sup>	0.370	0.489	
<i>F</i> value	28.310	39.131	
Sig. <i>F</i> value	0.000	0.000	
Durbin-Watson	2.124	2.124	

\*Correlation coefficients significant at the 0.05 level

\*\*Correlation coefficients significant at the 0.01 level

between ethics and professionalism and employability. Person-job fit does not mediate the relationship between life-long learning and employability, between social responsibility and employability and between communication and employability.

To test the mediating role of person-organization fit on the relationship between graduates' competencies and employability, another hierarchical regression analysis was conducted. The first step of the regression model was to run the analysis without person-organization fit with similar results. The Durbin-Watson value of 2.124 indicates the absence of autocorrelation problem. The second model of regression analysis with the inclusion of person-organization fit presents the increase in *R* square to be 0.502 indicating 50.2% of variance explained. The model is also significant ( $F(7, 272) = 39.131, p = 0.000$ ). Pertaining to the relationship between the mediator and the dependent variable, the person-organization fit is significant to predict employability ( $\beta = 0.459, p < 0.01$ ).

With the inclusion of person-organization fit in the regression model, there is a significant reduction in  $\beta$  values denoting a complete mediation effect. Person-job fit is a complete mediator for the relationships between leadership and employability, between life-long learning and employability, and between communication and employability (a quasi-moderation effect). Person-job fit does not mediate the rela-

tionship between knowledge and employability, between ethics and professionalism and employability and between social responsibility and employability.

### 30.5 Findings and Discussion

Pertaining to the mediating effect of person-job fit on the relationship between learning competencies and employability, person-job fit completely mediate the relationship between leadership and employability, the relationship between knowledge and employability and ethics and professionalism and employability. The first significant component is leadership that also includes team and problem-solving competencies. Graduates who possess these competencies are able to secure a desired job provided that they find the job fits them well. They are also able to apply these competencies and perform on the job as expected by the organizations (Jackson 2015; Sigurjonsson et al. 2014). Although the organizations are looking for graduates who have leadership skills, are able to work in a team and possess high problem-solving abilities, they should not disregard the importance of fit between the graduates and the job they are doing (Downes et al. 2017; Thompson et al. 2015).

The second significant aspect of competencies is knowledge comprising both basic and practical knowledge. Of course, graduates are able to implement what they have learnt during their studies if they find a good fit with their jobs (Collet et al. 2015; Jackson 2015). Another important aspect of graduates' competencies is ethics and professionalism. Most organizations have realized that although the graduates possess all the required skills to perform effectively on the job, without ethics and professionalism, the graduates will not be successful in their career. However, the right match between graduates and the jobs should also be highly considered. Those with high ethical demeanour will not work with the organization if there is a mismatch between their expectations and those of the job.

Life-long learning, social responsibility and communication are not significant predictors of employability although with the mediation of person-job fit. The most plausible explanation for this finding is that these are general competencies of graduates and they are not directly linked to the job being performed.

Looking at the mediation effect of person-organization fit, the relationships between graduates' competencies (i.e. leadership, life-long learning and communication) and employability are mediated by this factor. The organizational values, norms and practices must match with those of the graduates so that they are willing to work for the organization. In this case, leadership skills (which also include team and problem-solving competencies) are important. Clear role and responsibilities, adequate allocation of power and authorities and significant contribution of the position to the whole organization are among other things that should be established in the organization if the organization wants to employ the right graduates (Downes et al. 2017; Thompson et al. 2015).

Life-long learning is another competency that is significantly linked to a person-organization fit. Those with this competency are able to learn new things. They have an open and inquisitive mind. When they find fit with the organization, most probably

they will work for the organization. The organization seeking these individuals must ensure that there is an opportunity for them in the organization to learn new things. For example, the organization provides training and development programmes for the employees, there is a chance to pursue higher academic qualifications, and there exists conducive learning environment where employees learn from each other.

Communication competency is also a significant predictor of employability given that there is a good fit between graduates and the organization. Graduates with good communication skills will be able to find compatibility with the organization and subsequently will work for the organization. Therefore, organizations seeking these individuals must provide avenues for them to express their ideas, to prove their capabilities and to get their job done through the establishment of effective communication systems.

Knowledge, social responsibility and ethics and professionalism competencies are not significantly linked to a person-organization fit because knowledge is job-related factor, while social responsibility is a personal attitude towards others, and ethics and professionalism re related to individual ethical demeanour and it concerns more on the job performed than the organization as a whole.

## **30.6 Conclusion**

Employability has attracted attention from various parties; the government, the industry and higher education institutions due to its significant role in affecting the economy, social and political scenario in the country. Two factors have been identified as major predictors of employability; a person-job fit and a person-organization fit. These two factors are expected to be influenced by graduate competencies. The present study found that a person-job fit is influenced by leadership, knowledge and ethics and professionalism while a person-organization fit is influenced by leadership, life-long learning and communication. These are the important factors that need to be considered if the issue of employability is to be resolved.

## **30.7 Managerial Implications**

This study brings significant implications to the organization. First, the issue of compatibility between graduates and the job and between graduates and the organization needs to be given due attention if the organization wants to employ the right graduates. The opportunities to practice leadership skills, team competencies and problem-solving abilities must be established in the organization. Clear job role and responsibilities and authorities must also be ascertained. Besides, the organization must also provide rooms for the graduates to practice their knowledge and ethical principles during the work accomplishment so that they will feel compatible with the job. On the other hand, a person-organization fit can be achieved when the organization emphasizes on the aspects of life-long learning and communication.

## 30.8 Suggestions for Future Research

The present study focuses on the graduates with the business management background. Thus, its findings are limited in terms of its generalization. Future studies are recommended to focus on graduates with different academic backgrounds so that the findings can be applied to the general population. Furthermore, this study focuses on graduates' learning competencies alone. It is expected that personal characteristics such as personality traits and self-efficacy, job characteristics such as task variety, task identity, task significance, autonomy and feedback, and organizational characteristics such as culture and structure should be considered in developing a cohesive model of person-job fit and person-organization fit.

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# Chapter 31

## *Halal* Supply Chain Commitment for Enhancing *Halal* Food Integrity in Malaysia



Kamisah Supian and Mokhtar Abdullah

**Abstract** Over the past three decades, Malaysia has become a world leader in the global growth of *halal* markets. However, the growing number of *halal* food scandals during recent years has led to increased uncertainty about *halal* food consumption choices. Furthermore, new production process technologies, risen attention towards product ingredients, and obesity concerns have affected general levels of trust in food. Consequently, trust is linked to commitment and it is an ever more decisive factor for success in food industry buyer–seller relationships and, hence, in the *halal* food market. Although considerable research is dedicated to enhancing *halal* food business performance, a lack of empirical support exists with regard to their commitment to *halal* food supply chain. This exploratory and causal relationship study aims to fill this gap by investigating *halal* supply chain commitment in the food industry. In this study, survey research was adopted using structured questionnaires. Data collection process was conducted via a series of face-to-face interviews with *halal* supply chain service providers. The data collected were analysed using both descriptive statistics as well as Structural Equation Modelling (SEM) with Partial Least Squares (PLS) method being used for estimating the causal relationships between variables in this study. The focus is on *halal* business performance responses to three different variables that influence *halal* supply chain commitments. The results strongly indicate that *halal* business performance is significantly affected by the three types of commitments, namely, the normative commitment, continuance commitment and affective commitment.

**Keywords** *Halal* · Supply chain commitment · Integrity · *Halal* food

### 31.1 Introduction

In Malaysia, Islam has both produced and is in itself permeated by a fascination with the morally proper Islamic way of life (Fischer 2015). This propensity encompasses

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the consumption of *halal* goods, which have a beneficial influence on family, community and nation. Darul Arqam is an example of an Islamic association that locally produced and certified their products as *halal* goods. Darul Arqam that emerged in the wider resurgence of Islam in Malaysia activating in the 1970s with its own economic base producing variety of agricultural and petty commodity products (Fischer 2015; Saravanamuttu 2010). Darul Arqam’s cultivation and marketing of an Islamic vision of Malay independence and prosperity through the production of a wide range of *halal* products were of the greatest interest to the Muslims especially Malays (Fischer 2015). Since then, *halal* products had gained high interest among the Muslim consumers in Malaysia.

Furthermore, *halal* and *thoyyiban* are the key principle for Muslim diet which the food has to be. Since 1974, the introduction of *halal* certificates has identified Malaysia’s role in leading the global *halal* industry and being the first country to have a standard regulation for *halal* goods. Despite that, the *halal* sector is considered as one of the most critical industries in serving the Muslim population’s religious needs. It is simultaneously capable of reaching to the rest of the global population. According to the *State of the Global Islamic Economy Report (DinarStandard 2016/17)*, a total of US\$1.2 trillion was spent on food and beverages by the global Muslim population in 2015, representing 17% of the total expenditure in that sector. Figure 31.1 shows a growing number of Malaysia *halal* export from RM23.9 billion in 2011 to RM42.2 billion in 2016.

In addition, a greater purchasing power among the Muslim customers that adhere to Islamic requirement as required by Islam to consume only those are *halal* (permissible) is the main contribution to the growth of the *halal* market. Besides, a boosting trend of people in opting a healthier lifestyle of which cleanliness, hygiene, sanitation, and safety of the food become the main alarmed, and it is parallel with *halal* in Islam that embraces all those elements known as *halalan-thoyyiban* as stated in the Quran:

And eat of what Allah has given you (for food) that which is lawful and wholesome, and fear Allah in whom ye believe. (Al-Maida, 5:88)

O ye people! Eat of what is on earth, Lawful and good; and do not follow the footsteps of the evil one, for he is to you and avowed enemy. (Al-Baqarah, 168)



Fig. 31.1 Malaysia *halal* export 2016 (MITI 2017)

In fact, this healthier lifestyle turns out to be an interest not just to the Muslim users (Ambali and Bakar 2013) but also non-Muslim consumers (Mathew et al. 2014). An increase in *halal* food demand and the healthier lifestyle from both Muslim and non-Muslim consumers portray a significant and positive impact on the *halal* industry. Consequently, there is a number of opportunities to be grasped by the food manufacturers as the *halal* market is expanding.

According to Tieman (2013a), upholding the integrity of *halal* products happen to be a focal apprehension by the government and the consumers in Malaysia. Therefore, the Malaysian government has made various efforts in ensuring the sustainability of *halal* integrity. Department of Islamic Development Malaysia (JAKIM) is the competent authority body being responsible for *halal* certification in Malaysia. Nevertheless, there are still many of the *halal* food manufacturers do not comply with the Islamic dietary law, i.e. MS1500:2009 in Malaysia (Hanim et al. 2010). In addition, detection of pig-DNA, an invalid *halal* logo, and non-compliance to *halal* requirement had shaken the confidence of the Muslim consumers in most of the *halal* food studies (Kamisah 2016). Therefore, it needs to be managed properly as to provide the *halalan-thoyyiban* food products to the consumers in the competitive market. Furthermore, the Muslim consumers do not just only concern on its *halal* status but also curious about the whole activities along the supply chain. Hence, to cope with these issues, a comprehensive of *halalan-thoyyiban* food supply chain approach needs to be explored with the involvement of all supply chain partners through their commitment in providing a genuine *halal* food.

## 31.2 Theoretical Background and Conceptual Framework

According to Chavez et al. (2012), supply chain management (SCM) has emerged as a strategic tool that creates value for companies over the past decade in various industries including *halal* food industry such as *halal* food supply chain integrity (Kamisah 2016; Hafiz et al. 2014), *halal* food supply chain (Hanim et al. 2010), and *halal* in SCM (Tieman 2011). SCM incorporates a set of approaches and practices that effectively integrate suppliers, manufacturers, distributors and customers to enhance the long-term performance of firms. Hence, firms that successfully implement SCM practices attain remarkable supply chain performance. However, Jayaram and Tan (2010) emphasised that the outstanding supply chain performance requires internal cross-functional integration within a firm and external integration with suppliers or customers. SCM involves the coordination of business procedures and alignment strategy throughout the supply chain for the purpose of satisfying the ultimate customers (Green et al. 2008).

The resource-based view (RBV) theories have been used to explain the competitive advantage or supply chain performance of firms (Pulles et al. 2016). According to Hsu et al. (2009), RBV of the firm is a particularly appropriate theoretical framework for studying the performance implications of managing the supply chains. As Barney (1991) asserted that firms build competitive advantage by utilising unique

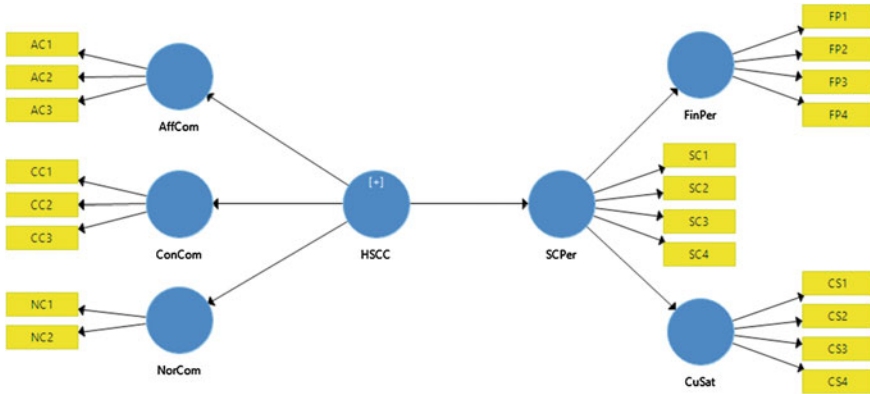


Fig. 31.2 Conceptual framework

sets of resources. Resources are heterogeneous which include all assets, processes, capabilities and knowledge controlled by a firm. Barney (1991) also emphasised that resources enable firms to improve their effectiveness by implementing appropriate strategies. Therefore, this study proposes that *halal* supply chain commitment play distinct roles in contributing to supply chain performance and indirectly may affect the financial performance of firms as well as the level of their customer satisfaction. The conceptual framework underlying the study is presented in Fig. 31.2.

### 31.3 Literature Review and Hypotheses Development

#### 31.3.1 Halal Concept

*Halal* and *haram* are universal terminologies that influence the *ibadat* of the Muslim everyday doings (Tieman 2011). Literally, *halal* is a Quranic word means allowed, permissible or lawful. Yusaini et al. (2016) emphasised that *halal* is not simply about the resources of food and beverages, the slaughter of animals, the usage of alcohol, but it is about processes and standards together with cleanliness, reliability, safety and quality assurance. The Muslims are allowed to eat and use all foods that are pure and clean. Furthermore, the concept of *halal* in Islam has very specific motives (*maqasid al-shariah*) which include preserving the purity of religion; to preserve life; to protect intellect; to protect lineage/progeny/offspring and to protect property/material wealth. Tieman (2013b) highlighted that *halal* is part of a product specification in the industry. Likewise, *halal* is not only a brand component (Wilson and Liu 2010), it encompasses a belief practice and moral conduct that integral in a Muslim daily living. Hence, it should be regarded as a basic want and prerequisite detrimental to the well-being of the Muslim consumers especially in the issues of *halal* as religion

might influence the devotees' life (Mukhtar and Butt 2012). Moreover, individual character will differ in their attitudes, behaviour and intentions that associated to religion (Rezai et al. 2012). Therefore, it is the role of all parties in the food supply chain in sustaining the integrity of *halal* food.

### **31.3.2 Halal Food Integrity**

The food industry, nowadays, is steered by quality paradigms such as standards and regulations in mitigating the food quality, safety, and risk as well as supply chain vulnerability (Helmi et al. 2013). However, food integrity is not just related to food safety, health, nutritious and quality but also include the process control, packaging, storage and delivery of the products (Yusaini et al. 2016). In addition, Helmi et al. (2013) asserted that food integrity is the new horizon of interests and debates as the food sector has been connected with a number of food-related crises such as Enterohaemorrhagic *Escherichia Coli* (EHEC) in vegetables, Bovine Spongiform Encephalopathy (BSE) in beef, dioxins in chicken, salmonella in eggs, melamine in baby formula, the outbreak of foot-and-mouth disease and the horsemeat scandal in the UK. These food integrity scandals have shaken public confidence in the food they consume and have intensified consumers' concern whether the food product is accurately described and presented as stated on the label especially *halal* food (Helmi et al. 2014). In Islam, the Muslim consumers can only consume products that meet the *halal* standards and a proper description of its *halal* status. Thus, the contaminated products should be removed from the marketplace as quickly as possible due to safety, health, and belief concerns of the consumers.

### **31.3.3 Halal Supply Chain Commitment and Supply Chain Performance**

Commitment refers to the partner in an exchange believes that the current relationship with other partner has so much importance that it deserves the optimum level of efforts to sustain it; that is, the party who has made the commitment believes in the enduring relationship between committed party believes the relationship endures for the foreseeable future (Morgan and Hunt 1994). Thus, strong commitments are required for a long-term perspective in the development of the businesses between both the customer firm and the supply firm. According to Chen et al. (2011), successful supply chain performance (SCP<sub>er</sub>) is based on a high level of trust and a strong commitment among supply chain partners. In addition, Kwon and Suh (2005, p. 27) proposed that 'any enduring business transactions among supply chain partners require a commitment by two parties to achieve their common supply chain goals'. In the *halal* food supply chain context, all parties in the *halal* food supply chain can

perform shared roles together in protecting and ensuring the *halal* integrity at the highest level by displaying a high level of commitment to achieve a better supply chain performance. Based on the above argument, the study proposes the following hypothesis:

*H1. Halal supply chain commitment has a significant relationship with supply chain performance.*

### ***31.3.4 Supply Chain Performance and Financial Performance***

According to Ou et al. (2010), enhancing operational performance also known as supply chain performance, through measures such as improving cycle performance and decreasing costs, has been recognised as one of the essential aims of SCM implementation. Furthermore, the empirical literature has been entirely consistent in recognising price/cost, quality, delivery, and flexibility as significant competitive capabilities which enhanced the financial performance (Green et al. 2012). Kafetzopoulos and Gotzamani (2014) hypothesised positive relationship between supply chain performance (SCPer) and financial performance (FinPer) and found support for the hypothesis in a sample of 347 Greek food companies. Based on the theoretical justification and supporting empirical evidence, hypothesis 2 is proposed as follows:

*H2. Supply chain performance has a significant relationship with financial performance.*

### ***31.3.5 Supply Chain Performance and Customer Satisfaction***

According to Yu et al. (2013), customer satisfaction (CuSat) is increasingly becoming an essential corporate goal of an organisation. In addition, Green et al. (2008) emphasised that the supply chain performance has a significant influence on the customer satisfaction by providing a place, time, quantity, and space value adequately. The conditions show that product quality improvement and enhancement makes companies increase their market share (Green et al. 2008; Kafetzopoulos and Gotzamani 2014). The comprehending of the customers' situation with the right product offering (e.g. *halal* food) participates to improving the demand chain that leads to superior supply chain efficiency and high customer satisfaction. Consequently, it will increase the integrity of the *halal* food in the market. Based on this theoretical justification and empirical evidence, hypothesis 3 is proposed as follows:

*H3. Supply chain performance has a significant relationship with customer satisfaction.*

## **31.4 Research Methodology**

The unit of analysis of this study is at the organisational level, which focused on the management level. Respondents of this study are *halal* manufacturers who attended the Malaysian International *Halal* Showcase (MIHAS) 2016, Penang International *Halal* Expo and Conference (PIHEC), and Fantastic Malaya Food Festivals (FMFF) 2016, from January to March 2016. The aim of this study is to seek information on the commitment among the supply chain partners in the *halal* food industry. Even though there are other sectors in the *halal* industry, this sector was selected due to increasing issues of non-compliance to the *Shariah* requirements domestically as well as internationally. As there was a list of exhibitors, a purposive sampling method was used in this study.

### **31.4.1 Data Collection and Analysis**

The questionnaires were distributed among 300 selected *halal* manufacturers. As this study only focuses on food companies which are operating in Malaysia, all international participants were excluded from the survey. The process of distributing and collecting of questionnaires was carried out in two to three days. Out of the 300 questionnaires distributed, 253 of them were collected, but due to poor quality of data, only 212 of them could be used for data analysis purposes. As the respondents were limited to the management level only, another 47 exhibitors were reluctant to respond due to their busy schedules.

The partial least squares structural equation modelling (PLS-SEM) approach was used to test the model developed in this study. PLS-SEM has gained widespread interest as a method of analysis in the past few years that offer novel perspectives on the method (Hair et al. 2017). PLS-SEM is a second-generation multivariate technique which many researchers have employed this technique for the past 20 years with the aim of minimising the measurement error (Hair et al. 2017). The bootstrapping procedure with 500 resamples follows the procedure mentioned by Urbach and Ahlemann (2010) to determine the significant level of loadings, weight and path coefficients.

### **31.4.2 Assessment of the Measurement Model**

The first step in PLS analysis was to analyse the measurement model as to determine how well the indicators load on the theoretically defined constructs. It was ensured that the survey instrument is reliable and valid to measure the construct that was designed to measure. Hence, internal consistency, indicator reliability, convergent validity and discriminant validity were performed to assess the measurement model.

**Table 31.1** Path coefficient and hypothesis testing

Hypothesis	Relationship	Beta	Standard error	<i>t</i> -value	Decision
<i>H1</i>	HSCC → SCPer	0.442	0.073	6.063*	Supported
<i>H2</i>	SCPer → FinPer	0.584	0.053	11.050*	Supported
<i>H3</i>	SCPer → CuSat	0.715	0.036	20.064*	Supported

\* $p < 0.05$

In this study, the internal consistency or composite reliability of each construct ranges from 0.846 to 0.937 and this is above the recommended threshold value of 0.70. Thus, the findings indicate that the items used to represent construct have satisfactory internal consistency reliability.

In order to test the convergent validity, the average variance extracted (AVE) is used. Hair et al. (2017) defined the convergent validity as the extent to which a measure correlates positively with alternative measures of the same construct. The finding of the analysis indicates that all constructs have AVE ranging from 0.648 to 0.848, which demonstrates an adequate convergent validity. Discriminant validity is a compliment of convergent validity. It measures distinct concepts that is the extent to which items differentiate among constructs. Cross loading and Fornell Larcker's (1981) criterion are two ways to measure the discriminant validity. As a result, the measurement model's discriminant validity is satisfied and the result confirmed that Fornell and Larcker's (1981) criterion is met.

### 31.4.3 Assessment of the Structural Model

Initially, the squared multiple correlations ( $R^2$ ) for each endogenous latent variable were assessed and the significance of the structural paths was analysed in assessing the PLS model. If the corresponding path coefficients had the proposed sign and were significant, it is considered to be supported the proposed relationships.  $R^2$  results denote the amount of variance in the construct that is explained by the model (Chin 2010).  $R^2$  measures the explained variance of the dependent variable relative to its total variance. Values of approximately 0.350 are considered substantial, values around 0.333 moderate, and values of approximately 0.190 weak (Chin 2010). Besides that, the path estimates and *t*-statistics were calculated by using a bootstrapping technique with a re-sampling of 500 for the hypothesised relationships in this study. Table 31.1 shows the structural model analysis and clearly indicates that all hypotheses were supported and significant at  $p < 0.05$ . From the analysis, it was found that HSCC ( $\beta = 0.442$ ,  $p < 0.05$ ) was positively related to SCPer. SCPer ( $\beta = 0.584$ ,  $p < 0.05$ ) was positively related to financial performance. This study was also obtained that SCPer ( $\beta = 0.715$ ,  $p < 0.05$ ) was positively related to CuSat.

## 31.5 Findings and Discussions

The aim of this study is to examine the impact of *halal* supply chain commitment on the business performance of the Malaysian food business. The literature shows that the *halal* supply chain commitment has a positive influence on the firms' business performance and supported by the findings of this study. The results of this study found that HSCC has a significant relationship with SCPer; thus, *H1* was supported. This study also examined the effect of SCPer on FinPer and CuSat; thus, *H2* and *H3* were supported. The significant relationship between HSCC and business performance (i.e. supply chain performance, financial performance and customer satisfaction) shows that *halal* food manufacturers in Malaysia are able to increase their business performance by having a good relationship with all supply chain partners through commitment. The hypotheses are accepted and consistent with Berkowitz and Wren (2013) as well as Lees and Nuthall (2015) research in the franchise system and agri-food supply chain in New Zealand, respectively. They found the strategic commitment among the supply chain partners will enhance the firms' performance. Furthermore, commitment between supply chain partners is an essential factor in *halal* food productions that must be given serious attention by *halal* food manufacturers in ensuring the wants and well-being of the *halal* food consumers are fulfilled and well protected (Hafiz et al. 2014).

## 31.6 Conclusion

The *halal* supply chain is a process and it has to be really *halal* at the point of origin of the supply chain until it is consumed. This study is an early attempt to explore and develop the *halal* supply chain commitment model that was theoretically grounded in the *halal* supply chain framework. This study has shown that all the four contexts in the framework, which are *halal* supply chain commitment has a significant relationship to the supply chain performance. Consequently, it leads to a better financial performance and increase customer satisfaction. The results of this study revealed that *halal* supply chain commitment was positively related to the supply chain performance and indirectly related to financial performance as well as customer satisfaction.

Despite investigating only four variables, these findings have important implications for and great value to the *halal* food manufacturers, government agencies and also for academicians. The results of this study are beneficial to the *halal* food manufacturers, especially in sustaining the *halal* integrity, as it has the largest impact on this study. The key contribution of this research is the empirical evidence of the importance of *halal* supply chain commitment that leads to better *halal* business performance in Malaysia. This is due to the fact that, in the future, the world *halal* demand is growing in line of the number of world Muslim population. The implication of this study to policymakers and manufacturers is, apart from offering *halal*



goods and services; the country should consider other factors to enhance the *halal* goods and services and to sustain the integrity of the products. For example, in this study, affective commitment is the greatest influence of the *halal* business performance. Thus, it is important to find a strategy on how to convince the *halal* food manufacturers on the advantages of producing more *halal* products in the market.

Finally, as there is limited literature regarding the *halal* supply chain commitment, academicians could embark on these findings to expand further in this area of study. Future research could be conducted more by analysing the *halal* supply chain in other areas of the *halal* supply chain, such as pharmaceutical and cosmetics. As this study focuses on the food manufacturers, it would be an excellent idea if a new study could be based different types of industries. Future research could also investigate the factors driving of *halal* supply chain commitment for *halal* supply chain industries.

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# Chapter 32

## Conceptualizing the Implementation of Halal Food Certification: an Institutional Theory Perspective



Mohamad Syazwan Ab Talib, Abdul Hamid Abu Bakar and Ai Chin Too

**Abstract** Current literature on Halal food certification is largely focused on consumerism, but less attention on the manufacturer and supply side of the Halal food chain. Although Halal food certification literature is growing, the field lack theoretical foundation and the uneven focus of Halal certification research indicate that theoretical application is severely deficient. Acknowledging the shortcomings, this paper set out to explore the drivers that motivate firms in implementing Halal food certification, and examines the institutional theory on why business enterprises engage in Halal food certification. Literature in Halal, Halal certification, and institutional model are synthesized to conceptualize the motivational factors in implementing Halal food certificate. This paper argued that the coercive, normative, and mimetic isomorphism is the motivational factors behind the implementation of Halal food certification. The paper serves as a foundation for future research undertakings and entices more academic arguments to further fine-tune the suggested propositions.

**Keywords** Halal · Halal certification · Halal food · Institutional theory

### 32.1 Introduction

Halal is deeply engrained in the teaching of Islam that commands Muslims to observe permissible actions in every aspect of life. For instance, food must come from permissible sources and ingredients, or business conducts must observe fair and ethical manner. Presently, Halal has become a main concern for consumers and a subject of various business undertakings. For consumers, Halal is considered as an element that influences purchase and consumption behavior (Alam and Sayuti 2011), while in a business perspective, Halal is recognized among multinational firms as a means to remain competitive (Fischer 2012). As highlighted by Lada, Tanakinjal, and Amin (2009), Halal is an international symbol of quality, largely embedded in modern society, and considerably exercised in business and trade.

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Thomson Reuters, as reported in the State of the Global Islamic Economy Report, highlighted that the global Halal market is valued at an astounding US \$1.62 trillion in 2012 and is forecast to reach US \$2.47 trillion by the year 2018. From this staggering estimation, the Halal food market is the largest contributor with a total value of US\$ 1.1 trillion. The overwhelming impact of Halal food market can be explained by the growing Muslim population worldwide. The Pew Research Center study on the future of global Muslim population estimated that the Muslim population will reach 2.2 billion people, a 35% increase from 1.6 billion people in 2010. This further reinforces the dominance of the Halal food market because regardless whether Muslims live within majority or minority communities, they still have to consume Halal-only food (Razzaque and Chaudhry 2013). Additionally, it is reported that Muslims spent 16.6% of the total global food expenditure, thus signifying that the Halal food market is one of the largest consumer markets in the world.

At the center of the Halal food market are the Halal food certification practices and procedures. Halal certification is an indicator (either in the form of certificate, logo, trademark, or seal) that is displayed at food premises or stamped onto food product packaging. This is to indicate that the bearer and its products/services have undergone rigorous and extensive inspections from an Islamic certification authority, and that the sources, ingredients, and operations are in accordance with the Shariah principles. From a consumer perspective, Halal certification is vital for consumer purchase decisions and can alter consumer confidence (Mohamed et al. 2013), whereas from a business standpoint, Halal certification is used as a tool to capture larger market share and enhance sales (Aziz and Chok 2013).

Much of the current literature on Halal food certification pays particular attention to consumerism (Mohamed et al. 2013; Aziz and Chok 2013; Verbeke et al. 2013; Nawi and Nasir 2014) but lesser attention on the manufacturer and supply side of the Halal food chain. In particular, research that studied the motivational factors of implementing Halal food certification remains largely unexplored and findings are inconclusive. Moreover, as numerous researches are emphasized on the demand side of the Halal food chain, management theories, especially the institutional theory, have hardly been applied. Therefore, this paper explores the drivers that motivate firms in implementing Halal food certification, and examines the institutional theory on why business enterprises engage in Halal food certification. As suggested by Zakaria and Abdul-Talib (2010) and Abdul-Talib and Abd-Razak (2013), aside from understanding the requirements of the consumers, firms should also recognize the market factors (external environments) and understand the “why” and “how” market forces influence organizational conducts.

## 32.2 Theoretical Gap in Halal Research

In recent years, the number of firms adopting Halal principles has risen considerably (Abdul-Talib and Abd-Razak 2013; Othman et al. 2009) and, despite the paucity of industrial insights, the implementation of Halal certification continues to grow and

significantly gaining popularity in academia. However, despite the growing number of Halal certification-related academic research, in truth, there is a lack of theoretical understanding of what motivates firms to implement Halal certification. As mentioned earlier, Halal food certification research is heavily emphasized on consumer study, and therefore, only two notable theories are commonly applied: the theory of planned behavior and the theory of reasoned action.

The authors of Halal food and certification regarding the theoretical application in Halal related research is still at an infant stage (Aziz and Chok 2013). In addition, past studies are considered incomplete as it fails to include prevalent factors (Mukhtar and Butt 2012). Even though a theory is applied in Halal research, such as the theory of planned behavior, the outcome still leaves much uncertainty (Mohayidin and Kamarulzaman 2014). Moreover, certain areas within the Halal academic research still lack theoretical application, thus suggesting more studies are required (Tieman and Ghazali 2013). Albeit the growing body of literature, the theoretical gap in Halal studies and the uneven focus of Halal certification research indicate that theoretical development is severely deficient. Hence, a more appropriate and relevant theory that is applicable within the industrial context and one that addresses the impetus of Halal food certification is rightfully needed.

### 32.3 Overview of Institutional Theory

Acknowledging the theoretical limitations, and in line with the objective of this papers, institutional theory (Meyer and Rowan 1977; DiMaggio and Powell 1983) is applied as the underpinning theoretical framework that explores the motivational factors in implementing Halal food certification. Institutional theory is chosen because Halal firms operate within an institutionalized environment, where various rules, regulations, and policies are established, and are certain to implicate organizational practices (Lawrence and Suddaby 2006). The institutional theory suggests that the strategies or actions undertaken by an organization are the reaction to the pressure from external environments (DiMaggio and Powell 1983). In other words, firms' pursuit for Halal certification is in response to the external factors that originate from government decrees, industrial norms, or demands from consumers. Moreover, the theory posits that the commitment to obtain business legitimacy and recognition from stakeholders influence a firm's business conducts (Meyer and Rowan 1977; Suchman 1995).

To better understand the pressure from the external environments, DiMaggio and Powell (1983) further categorized the theory into three isomorphic mechanisms, namely coercive, normative, and mimetic pressures. The institutional isomorphism "depicts firms as passive participants that respond to external pressures and expectations" (Mariotti et al. 2014). Coercive isomorphism refers to the political and regulatory pressure imposed by the ruling government (Fikru 2014). Normative isomorphism indicates the pressure to adapt to an industrial norms and society's expectations (Fikru 2014; Tarí et al. 2013). Meanwhile, mimetic isomorphism suggests that, due

to the intense interfirm competition, organizations have the propensity to mimic the competitors' best practices (Mariotti et al. 2014; Tarí et al. 2013). Therefore, this paper asserts that the coercive, normative, and mimetic pressure is the motivational factors that influence firms in implementing Halal food certification.

## 32.4 Integrating Institutional Theory and Halal Certification

Admittedly, this paper is not the first to incorporate institutional theory in Halal research. A small-scale study by Othman, Ahmad, and Zailani (2009) is the initial study that addresses the effects of institutional pressure within the Malaysian Halal food industry. The study concludes that the institutional pressure is prevalent in the Malaysian Halal food industry, especially the mimetic and normative pressures, but the coercive pressure is less significant. However, it seems that Othman, Ahmad, and Zailani's (2009) findings of the institutional pressure is questionable most notably is the study's small number of respondents and the lack of control variables.

We argue that due to the study's small number of respondents, the outcome cannot be generalized and be a representative of the actual scenario. The findings could have been more significant if the authors considered the firm size and ownership (local or international) factors. The size of a firm is central in implementing certification because large firm has the capacity to emulate other organizations (Vladimirov 2011; Fikru 2014), while small-sized firm, known for limited financial resources, might find it difficult to mimic the competitors or even implement certification (Fikru 2014; Violaris et al. 2008). Nevertheless, the work of Othman, Ahmad, and Zailani's (2009) sets the foundation of the suitability and applicability of institutional theory in Halal research, particularly the Halal certification studies.

Moving forward, this paper asserts that institutional theory provides some explanation of the factors that motivate firms to implement Halal food certification. With this in mind, this paper tries to highlight the possible factors that motivate Halal food certificate implementation. To do so, the three isomorphic pressures are predefined as follows:

- Coercive isomorphism: The pressure that originates from the imposed regulatory influences and the act of attaining business legitimacy.
- Normative isomorphism: Pressures arise from the need to conform with industrial norms, in particular, the consumer pressure.
- Mimetic isomorphism: An act of survival and uncertainty that pressure firms into mimicking a competitor's best practice.

Although the original normative pressure suggested by DiMaggio and Powell (1983) indicates that firms are pressured to gain professional recognition as a means of legitimizing their business, our study offers a different perspective. We argue that in the context of Halal food certification, firms need to gain recognition from the sensitive Muslim consumers, and not from professional association or industrial

network. It is customary and acknowledged that Muslim consume Halal food as an obligation to the teaching of Islam and to safeguard their faith (Regenstein et al. 2003; Marzuki et al. 2012). On this basis, Halal food consumption is a norm and firms are compelled to satisfy the demand for Halal food because failure to do so causes them to miss out on a highly lucrative consumer market.

Having discussed the relevancy of applying institutional theory for Halal food certification study, and having defined the isomorphic pressures from Halal standpoint, the following subsections discuss and highlight the motivational factors that drive Halal certificate implementation.

### **32.4.1 A. Motivation 1: Coercive Isomorphism**

Organizations operating within an institutionalized environment are heavily dependent on other organization, and in the case of coercive isomorphism, organizations are directly or indirectly pressured by governmental bodies (DiMaggio and Powell 1983). A notable example of this dependent relationship is well expressed by Arpanutud et al. (2009), who highlighted that “the importance of dependence on institutional constituents induces organizations to conform to their expectations”. The authors further highlighted that government agencies are significantly related to certification and standards implementation. This shows that due to regulatory commitment, and the importance of operating a legitimate business, firms are inclined to implement Halal food certification.

Apart from conforming to government regulations, firms pursue Halal food certification as a way to avoid regulatory enforcement. Halal food certification is a type of food safety certification (Nawi and Nasir 2014) and not complying with food safety regulation could lead to fines and charges. For example, studies have shown that the fear of paying hefty penalties for nonconformity consistently motivates firms in developing countries to implement certification (Fikru 2014, 2014). Furthermore, “if the product is found not Halal or its “Halalness” status is being doubted...[the manufacturer] will most likely be given a warning or a fine and charged in court” (Rezai et al. 2012).

In a borderless international business, the credence of “Halal is by Muslims and for Muslims” is no longer applicable. Halal food products are imported and exported globally even in non-Muslims majority communities. For that reason, before the import and export of Halal food products take place, food manufacturers and retailers must ensure that products are certified by a local Halal authority. We argue that in order to internationally market Halal food products, and at the same time abide to local regulatory requirements, firms are motivated to obtain Halal food certification. Furthermore, regulatory enforcement is considered a trade barrier, but a form of certification facilitates international trade (Karipidis et al. 2009). This view is supported Mohamed, Shamsudin, and Rezai (2013) that “...certified Halal food products are not only marketable within the local market but they can also reach out to the global markets...”.

Based on the discussions above, it clearly indicates that government factor, in the form of regulatory enforcement, drives the implementation of Halal food certification. Altogether, we present the following proposition:

Proposition 1: Coercive isomorphism motivates firms in implementing Halal food certification

### **32.4.2 B. Motivation 2: Normative Isomorphism**

Normative isomorphism is described as an act of performing a practice that is standard in the industry (Fikru 2014). Abiding to industry's norms is imperative because it could implicate a firm's image and reputation (Mariotti et al. 2014). In the Halal food market, Halal certification carries a firm's image and reputation. Consumer view Halal certification as a sign that indicates food products are safe, clean, and wholesome (Aziz and Chok 2013), while firms that possess Halal certification portrays positive images (Marzuki et al. 2012). Ultimately, this positive image and perception benefit firms in terms of attracting more customers and retaining existing ones.

In recent years, the widespread of questionable ingredients and sources of food products, especially imported goods, trigger consumers to be more aware of their purchase and consumption. Hence, Muslims are heavily relying on Halal certification before purchasing and consuming food. This is understandable because consuming Halal food is a norm among Muslims and, with the fear of unintentionally consuming contaminated Halal food, Halal certification is highly demanded than before. In response to the consumers' demand, food companies are committed to ensure that the products in the market are uncompromisingly Halal certified. In this perspective, we assert that as Halal food consumption is a market norm, together with huge demand from the large Muslim consumer market, firms sense the pressures and eventually become motivated to implement Halal food certification.

To strengthen our claim, we turn the attention to one of the top Halal importing countries, Malaysia. Malaysian consumers, regardless Muslims or non-Muslims, are advocates for Halal-certified foods (Mohamed et al. 2013; Aziz and Chok 2013; Nawi and Nasir 2014; Mohayidin and Kamarulzaman 2014) and because of the nationwide preference in Halal, multinational food companies, such as Nestle and McDonald's, integrate Halal principles into their menus and operations (Fischer 2012). Besides, in response to the overwhelming demand for Halal food, even the non-Muslim-run food establishments implement Halal food certification. Thus, these instances uphold the notion that due to market norms and demands, firms are motivated to implement Halal food certification. With that, we propose the following proposition:

Proposition 2: Normative isomorphism motivates firms in implementing Halal food certification



### 32.4.3 C. Motivation 3: Mimetic Isomorphism

Mimetic isomorphism theorizes that firms have the tendency to mimic the actions of other organizations or competitors (Mariotti et al. 2014; Fikru 2014, 2014). The propensity to replicate arises when a firm is in uncertainty due to ambiguous organizational goals or poor comprehension of external environments (DiMaggio and Powell 1983). Besides, mimicking the successful strategies and best practices of other organizations serves as a convenient approach in formulating a firm's business objectives or strategizing corporate endeavors.

Mimetic isomorphic approach has been demonstrated in several certification adoption researches. For instance, in Thailand, the more number of firms commit to food certification, the more likely a firm to emulate similar certification adoption (Arpanutud et al. 2009).

Likewise, a multinational research of international certification adoption reporter similar findings that, in order to adapt to export markets, international firms mimic the local firms' actions, while the local firms imitate the actions of other domestic firms in order to maintain competitiveness (Fikru 2014, 2014). Focusing on Halal certification research, findings suggest that food companies in Malaysia that successfully secured Halal certification recorded significant achievements and this attract more firms to become Halal certified (Othman et al. 2009).

Aside from attracting more customers or maintaining competitiveness, mimetic isomorphism is regarded as a strategy to sustain business survival. As Halal symbolizes cleanliness and wholesomeness (Aziz and Chok 2013), consumers are more inclined to purchase Halal-certified food products (Verbeke et al. 2013) and this attracts large number of potential customers. On this basis, we argue that due to the fear of losing customers to other Halal-certified competitors, and in order to survive the competitive market, firms are motivated to implement Halal food certification. However, because of the lack of Halal experts and deficient collaborative efforts among industrial players (Talib and Hamid 2014), firms are in the state of uncertainty, and therefore are pressured into replicating other established Halal-certified firms. Based on the points raised above, we suggest the following propositions:

Proposition 3: Mimetic isomorphism motivates firms in implementing Halal food certification

## 32.5 Conclusion and Recommendations

Institutional theory is seldom applied in Halal research and previous Halal certification studies are largely focused on the consumer side of the Halal food chain. The theoretical gap and the uneven scope of research sets out the objective of this paper: to explore the drivers that motivate firms in implementing Halal food certification, and examines the institutional theory on why business enterprises engage in Halal food certification. Literature in Halal, Halal certification, and institutional model are

synthesized to conceptualize the isomorphic mechanisms in the Halal food certificate implementation. This paper argued that the coercive, normative, and mimetic isomorphism is the motivational factors behind the implementation of Halal food certification.

The points raised within this paper extends the knowledge of Halal certification, contributes to the existing Halal body of literature, and accentuates the institutional isomorphism as a prominent management

theory that is applicable in Halal research. Furthermore, this paper serves as a foundation for future research undertakings and entices more academic arguments to further fine-tune the suggested propositions. Given the theoretical nature of this paper, future research is encouraged to carry out comprehensive literature reviews and, if possible, validate the notion through case studies or empirical research.

Finally, this paper provides a generalized view, whereas in the actual environment, there are numerous forms of Halal food certification from various certification bodies and authorities. Therefore, we urge future study to practice a singular approach and focus on renowned Halal food certification, such as the Malaysian Standards on Halal Food (MS 1500:2009).

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# Chapter 33

## Opportunities of Islamic Trade Finance in OIC Countries



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**Abstract** The objective of this paper is to assess the opportunities and the importance of trade finance in Organisation Islamic Cooperation (OIC) countries. The issues highlighted are the evolution of trading in Islamic trade finance, the support from Islamic Trade Finance Corporation (ITFC), comparison Malaysia trading trend between OIC countries and world, and opportunities for Malaysia and to trade with OIC countries. In this study, it elaborated on the trend of trade and ITF between UAE and Malaysia, as well as Egypt and Malaysia. The methodology is theoretical dissertation published and literature review to generate the foundation and to elicit relevant information for the issues covered by this study. Findings show that there are great differences among the OIC member in terms of economic development and the structure of trade. IDB needs to investigate the market and helps to increase the trade financing approval amount by the ITFC to OIC countries. By doing trading business between OIC countries, each country will not only help each other economy but will also grow the ITF in each other country. Malaysia has many opportunities to increase their trading business in the OIC markets considering the huge population of the OIC countries. Supported by the international hub, United Arab Emirates through enhancing industrial coherence and integration with other economic sectors has created an attractive investment environment through a set of initiatives and incentives. Whilst, Egypt and Malaysia enjoyed significant bilateral trade relations since the independence of Malaysia in 1957 especially in the fields of culture and education. Malaysia's Islamic finance industry needs to boost trade finance to increase largely untapped business opportunities using technological capture. Matrade plays an important role to encourage international trade. In conclusion, trade represents one of the important drivers for growth of the OIC economy. The evolution and emergence of ITF signify that it brings a bright future for the local and international trade financing. To expand the business or active in bilateral trade, OIC countries should alert with the development of each country members. As a recommendation, an aggressive involvement and adapting well with ITF platform will improve and strengthen the OIC economy.

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**Keywords** Opportunities · Islamic trade finance · Trend · OIC · Malaysia · UAE · Egypt

### 33.1 Introduction

Trade plays an important role for economic growth of a country as it opens the country's access to goods, services, technology and knowledge. Entry to trade finance is crucial for every country as it enable the country to exchange goods and services in the international market. World Trade Organisation (WTO) stated that trade finance supports almost 90% of global trade, and thus helps a lot in ensuring the country economy to do well (Malaysia 2013).

International trade business among Muslims started 14 centuries ago (year 1301–1400). During this time, however, the trading business practice does not comply with Islamic ethics. At later time, a new economic order which practice modern Islamic finance was born following awareness among Muslims as they get back to Prophet Muhammad's (PBUH) trading practices (Koehler, 2011 as cited in Oseni 2013). Only in the late of twentieth (20th) century comes a significant drift among Muslims towards the importance of using products that are a Shariah compliant. Simultaneously, Islamic financial system also has re-emerged during this time (Oseni 2013).

### 33.2 Trends of Trade and ITF: OIC Countries and Malaysia

#### 33.2.1 *Evolution of Trading of OIC Countries*

From the year 2005 till the year 2016, OIC countries have done much more trading business with the world (OIC-world) rather than between OIC countries themselves (intra-OIC). The total trading of intra-OIC only represents about 15–20% out of the total trading of the OIC-world for each year. The great recession that has happened between December 2007 till June 2009 had also caused an impact on the trading trend where the total trading between OIC countries with the world has decreased by 17% from USD 3181 billion in year 2008, to only USD 2659 billion in year 2009. Intra-OIC trading had also experienced the same scenario but with much bigger percentage of declining in volume. The trading volume in year 2009 has declined by 23% as compared to the year 2008. The trading trend however has increase again from the year 2010 till the year 2014 for both OIC-world and intra-OIC trading (ICDT 2016, 2017a; TFG 2017). Figure 33.1 shows the full picture of evolution of trading of the OIC countries.

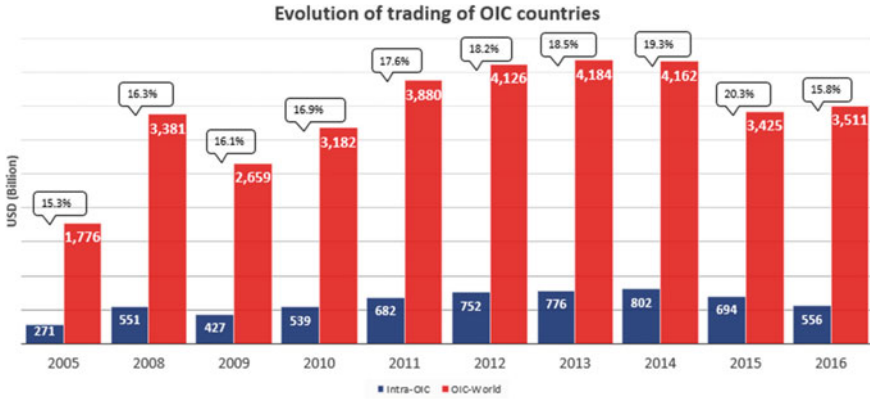


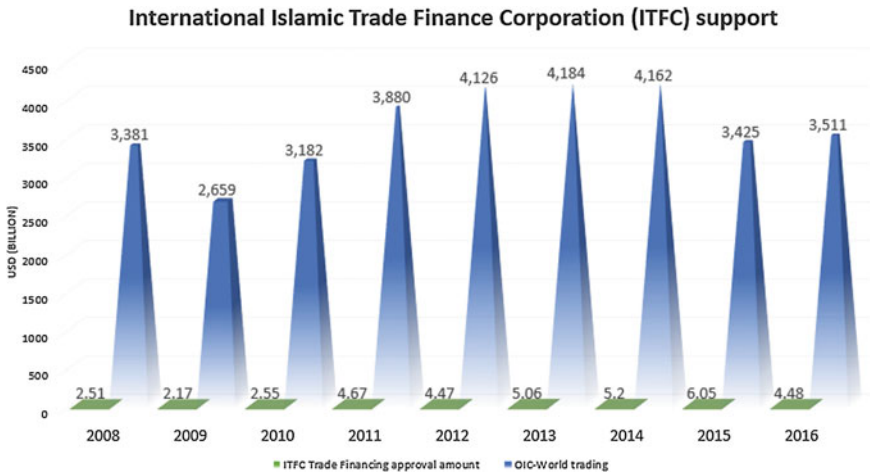
Fig. 33.1 Evolution of trading of the OIC countries

The change in the growth rate of the OIC leading economies countries such as the United Arab Emirates, Saudi Arabia, Malaysia; Turkey, Indonesia, Iran, Qatar, Nigeria, Iraq and Kuwait directly impacts the OIC-world and intra-OIC trade. Indeed, the volume of trade among the OIC countries (exports + imports) has recorded a considerable increase since the implementation of the OIC Ten-Year Program of Action (TYPOA) from year 2005 to 2015, which rise from USD 271.45 billion in year 2005 to USD 694.23 billion in year 2015 representing an increase of 156% (TFG 2017). The TYPOA 2005–2015 implemented under the direction of the General Secretariat has reached the target set by the leaders to reach 20% of trade share by the year 2015.

In April 2016, at the 13th Islamic Summit held in Istanbul, Turkey, a New Ten-Year Program of Action was adopted aiming to achieve 25% of intra-OIC trade share by 2025 (OIC-2025) covering the period 2016–2025 (ICDT 2017b).

By doing the trading business with the world instead of between the OIC countries, though OIC countries might be using Islamic Trade Finance (Phi et al. 2014) product for trading, OIC countries are actually not helping in growing the economy of Islamic countries. By doing trading business between OIC countries, each country will not only help each other economy but will also grow the ITF in each other country. Indeed, OIC countries as one have so much more to do in order to increase the percentage of volume trading to at least being about 50% of the total volume trading of OIC-world (TFG 2017).

Though the trend of OIC-world trade volume is much more than the intra-OIC, the trend has been decreasing from the year 2014 to 2016 (as per Fig. 33.1). OIC countries have realized on this thing and together have come up with a plan to adopt five (5) projects for foreign trading to ensure that the trade trend will rise again, and so to ensure that the ITF will keep growing. The five (5) projects which have been adopted between year 2017 and 2019 are; (1) the industrial development of Halal, (2) the Single Window Initiative and Trade Facilitation, (3) the development of strategic



**Fig. 33.2** ITFC support towards OIC countries trading activities

products; (4) Investment Promotion and Support for Investment Promotion Agencies of Member States, Private Sector Development and SMEs, and (5) Concept Notes and integrated activities Matrix of Institutions (ICDT 2017b).

### 33.2.2 Support from International Islamic Trade Finance Corporation (ITFC)

Islamic finance promotes financing activities which have a direct impact on the development of real sector in the economy, mainly through participation and risk sharing. Based on that principal, Islamic finance is truly supportive to trade finance. Unfortunately, International Islamic Trade Finance Corporation (ITFC), a body created by Islamic Development Bank (IDB), only paid considerably insignificant attention to the sector. ITFC was established in 2008 by IDB with purpose in developing and expanding the trade of OIC countries, either between them or even with the world (TFG 2017).

The proportion of the ITFCs approval amount on trade to total OIC trade volume is still far below 1%. The figure however is now increasing rapidly, giving a sign that ITF has a huge potential to grow, catching up the abundant trade opportunity between the OIC members. Figure 33.2 shows the amount of ITFC support towards OIC countries trading activities from the year 2008 till the year 2016 (ICDT 2016, 2017a; TFG 2017).

As the total trade amount every year is so much more as compared to the financing approval amount by the ITFC, there is a lot of opportunity for IDB to investigate the market and help in increasing the trade financing approval amount by the ITFC.

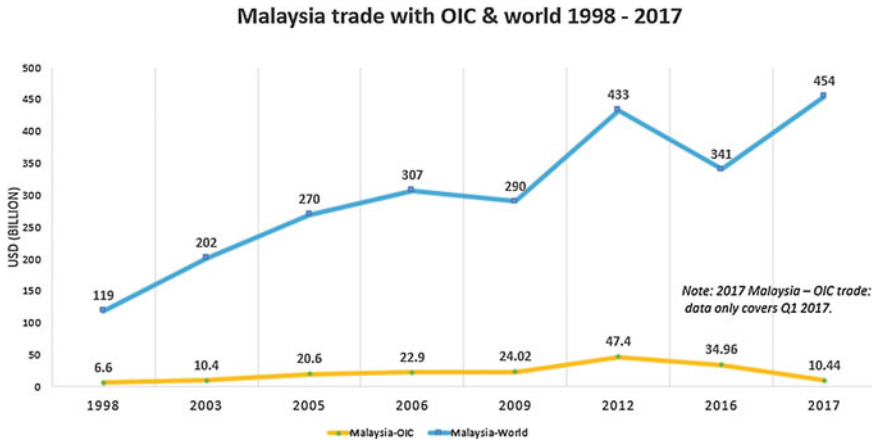


Fig. 33.3 Trend of trading of Malaysia

With more trade financing amount approved, it will help the OIC countries to do more trading business and will directly translate to much more rising in the trading pattern (TFG 2017).

As such, other than the five adopted projects, OIC countries can also try to work together and get more financing support from the IDB in order to do more trading business (ICDT 2016, 2017a).

### 33.2.3 Malaysia Trading Trends with OIC Countries and World

Figure 33.3 shows the trend of trading of Malaysia with the world and with the OIC countries from the year 1998 to the year 2017. Malaysia trading activities are much more with the world rather than with the OIC countries (Abidin et al. 2015; OEC 2017). Overall, Malaysia’s trade with the OIC member countries for the years 1998, 2003, 2005 and 2006 are USD 6.6 billion, USD 10.4 billion, USD 20.6 billion and USD 22.9 billion, respectively. On the other hand, Malaysia’s trade with non-OIC countries amounted at USD 125.2 billion, USD 209.6 billion, USD 266.4 billion and USD 268.2 billion, respectively, for the years 1998, 2003, 2005 and 2006. Considering that the OIC countries have more than 60% of vital resources and with 1.4 billion of the world’s population, this trade performance can be seen as weak. Though there are many factors responsible for the weaknesses of this trade relation, the leaders and the people of the OIC countries believe that there are many fields and opportunities for growth of mutual trade relations (Abidin et al. 2015) (Figs. 33.4 and 33.5).

Malaysia’s favourite trading partners are Asian countries, China, Europe and United States of America (USA). As Malaysia can do the trading business with



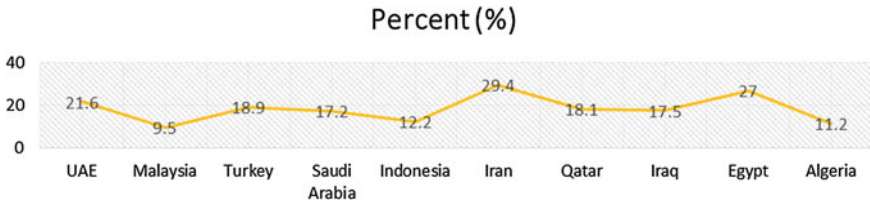


Fig. 33.4 Intra-OIC trade shares of top OIC traders 2016



Fig. 33.5 Major players of Intra-OIC trade In 2016

Europe and USA, it is much more encouraged for Malaysia to do trading business with the OIC countries as there are much closer, and directly can help in the growth of economy of Islamic countries and the ITF (MATRADE 2017a).

### 33.2.4 Opportunities for Malaysia to Trade with the OIC Countries

Malaysia has a lot of opportunities to increase their trading business in the OIC markets considering the huge population of the OIC countries of over 1.4 billion people. By entering the OIC countries for trading business, it is actually also an opportunity for Small–Medium Enterprises (SMEs) in Malaysia to grow their business globally (Reserve 2017).

It is also an opportunity for banks in Malaysia to meet Bank Negara Malaysia’s aspiration to make the ITF as financing sources for trading business of at least 10% by the year 2019. In the year 2016, only 3.4% of trading sources came from ITF, 7.8% from conventional and the balance of 88.8% came from other sources (Malaysia 2016).

Banks can reach the possibility to reach 10% by supporting SMEs specially to market the Halal products in the OIC countries. Halal products demand are on the rise and surely are very much welcome in the OIC countries. By trading with OIC countries, Malaysia can also help in boosting the economy of Islamic countries, help ITF to grow in both countries and also creating the spirit of togetherness between Islamic countries (Reserve 2017).

### 33.3 Trends of Trade & ITF: UAE—Malaysia

It is viewed that trade finance opportunities in many OIC Member States are underdeveloped. The reason why most of SMEs facing difficulty in accessing trade finance opportunities in competitive terms. Nonetheless, the importance of trade has risen in many OIC member states and trade has become one of the most important sources of growth (COMCEC 2017). By 2025, the Organisation of Islamic Cooperation (OIC) aim of consolidating intra-OIC cooperation in trade, investment and tourism to achieve 25% trade among the member states (Alim 2017).

The countries which have realized the highest increase in the trade to GDP ratio among others are United Arab Emirates. United Arab Emirates had the highest share of trade in GDP with 138% in 2016. In fact, there are great differences among the member states in terms of economic development and the structure of trade (COMCEC 2017). The United Arab Emirates took the lead in intra-OIC exports in 2016 by realizing 23.5% of the total intra-OIC exports and was followed by Turkey and Saudi Arabia.

Intra-OIC trade shares of United Arab Emirates, Iran and Egypt have already exceeded 20%. Turkey, Qatar, Iraq and Saudi Arabia have intra-trade shares between 17 and 18% while share of intra-OIC trade remained relatively low in Malaysia, Indonesia and Algeria (COMCEC 2017). The United Arab Emirates is the largest trade partner in the OIC as shown in the main intra-OIC trading partners countries in 2016. The UAE accounted for 99.7 billion USD or 18% of intra-OIC trade followed by Turkey (64.0 billion USD, 11.6%), Saudi Arabia (54 billion, 9.8%) and Malaysia (35 billion, 6.3%) (T. I. C. F. D. O. T. ICDT 2017c).

It is reported by Nahyan (2017) in the New Straits Times that the trade between the UAE and Malaysia in 2016 was worth US\$4.2 billion (RM17.5 billion) (non-oil trade), with the UAE proud to be part of re-exporting US\$3.5 billion worth of Malaysian products to the world. These significant numbers further enhance the UAE's confidence that there is room for growth that will further facilitate trade and economic ties between Malaysia and the UAE now and into the future, bringing more prosperity to the citizens in OIC regions (Nahyan 2017).

Accordingly, UAE is committed to being the connecting hub between the OIC. Its re-exporting facilities are part of this effort, with a second crucial element of this strategy being the Dubai Expo 2020. This world-class event will create a platform to foster creativity, innovation and collaboration globally, focusing this global effort on the sub-themes of mobility, opportunity and sustainability. Malaysia's positive response to participate in Dubai Expo 2020 is believed will create an opportunity for Malaysia to display significant investment potential (Nahyan 2017).

Based on report of SESRIC (2017), the share of OIC countries in global merchandise imports reached 10% in 2016, compared to 7.3% in 2006. Intra-OIC Merchandise Trade OIC countries registered a total of US\$ 540 billion intra-OIC merchandise trade in 2016. Accordingly, as of 2016, intra-OIC trade accounted for 19.4% of OIC countries' total merchandise trade. Intra-OIC exports were recorded at US\$ 263 billion in 2016, as compared to US\$ 287 billion in 2015 (SESRIC 2017).

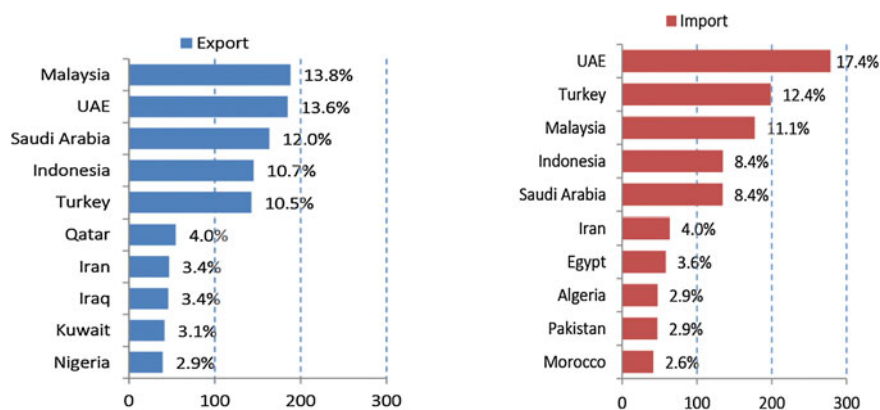


Fig. 33.6 Top OIC merchandise exporters and importers (2016, US\$ Billion)

In terms of the shares of the individual member countries in total merchandise exports from the OIC region, it has been observed that the bulk of total exports from the OIC countries continued to be concentrated in a few countries whereas the top five largest OIC exporters accounted for 57.4% of total merchandise exports of all member countries. Malaysia is positioned at US\$ 188 billion of merchandise exports and 13.8% share in total OIC exports, became the largest exporter in 2016. It was followed by United Arab Emirates (US\$ 184 billion, 13.6%) and Saudi Arabia (US\$ 163 billion, 12.0%). In general, fall in commodity prices reduced the shares of commodity-exporting countries and increased the shares of manufacturing goods exporters (SESRI 2017).

As in the case of exports, merchandise imports of OIC countries were also heavily concentrated in a few countries. As per the above Fig. 33.6, US\$ 278 billion and US\$ 199 billion of imports, United Arab Emirates and Turkey, respectively, took the lead in 2016 in terms of volume of merchandise imports and together accounted for 29.9% of total OIC merchandise imports. They were followed by Malaysia (US\$ 177 billion, 11.1%) (SESRI 2017). To sustain long-term economic growth, OIC countries need to reduce the high reliance on exports of mineral fuels and non-fuel primary commodities, which involve the least technological intensity, and devise and implement specific policies for adopting more advanced manufacturing methods to increase the share of more technology intensive commodities in exports. This is also necessary for increasing competitiveness of tradable products in international export markets (Figs. 33.7 and 33.8).

It is an important step in achieving economic diversification and industrial development to be well-designed industrial policy. It is also important to support the industrial development process and utilize other economic policy instruments in order to complement. Over the last several decades, there have been distinct policy directions of OIC member countries to promote industrial development. Industrial

### EGYPT GDP SINCE 1960 TO 2016

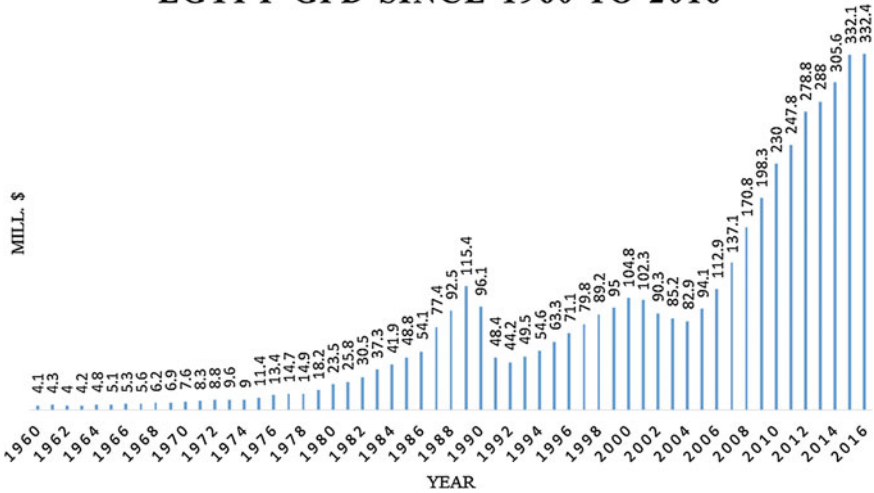


Fig. 33.7 Gross domestic product (GDP)—Egypt (1960–2016)

### MALAYSIA GDP SINCE 1960 TO 2016

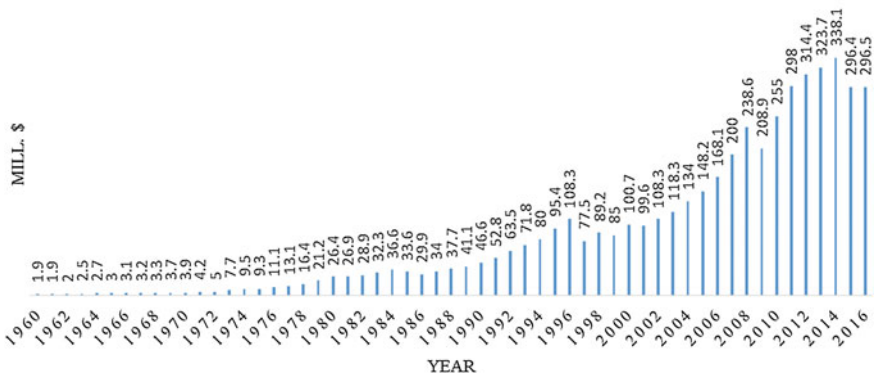


Fig. 33.8 Gross domestic product (GDP)—Malaysia (1960–2016)

development strategies have been constantly evolving over time with new emerging issues, challenges and opportunities.

In Malaysia, initially, from 1957 to 1969, the import substitution of consumer goods was attempted under the strong performance of primary commodity exports. In the 1970s, the New Economic Policy (NEP) imposed comprehensive rules in favour of indigenous Bumiputera. Since 1972, Free Trade Zones were opened to attract export-oriented FDI and subsequently after 1981, aggressive industrial policy was introduced. Since 1986, policy emphasis shifted back partly to wealth creation with more pro-market and outward-oriented measures. The Malaysian Government initi-

ated Industrial Master Plans (Moss et al. 1998) to support the development and transformation of the manufacturing sector. The First Industrial Master Plan (1986–1995) laid the foundation to become the leading growth sector of the economy.

The Second Industrial Master Plan (1996–2005) contributed to the further development of the sector. The IMP3 (2006–2020) outlines the industrial strategies and policies which form the country's continuing efforts towards realizing Vision 2020. The main objective of the IMP3 is to achieve global competitiveness through innovation and transformation of the manufacturing and services sectors (SESRIC 2017). Overall, with the effective formulation and implementation of industrial policies since the mid-1980s, the Malaysian economy has transformed from a commodity-based to a manufacturing-based economy.

Meanwhile, for United Arab Emirates, the big country was supported with large windfall gains, via Dubai Plan 2021 to make Dubai 'an international hub for knowledge-based, innovation and sustainable Industrial activities', through enhancing industrial coherence and integration with other economic sectors particularly strategic ones, and to create an attractive investment environment through a set of initiatives and incentives (Dubai 2018). Six industrial subsectors will be targeted: Aerospace, Maritime, Pharmaceuticals & Medical Equipment, Aluminium & Fabricated Metals, Fast Moving Consumable Goods and Machinery and Equipment. It identifies 75 strategic initiatives to transform Dubai into an international hub for knowledge-based, innovation and sustainable Industrial activities.

### ***33.3.1 Do More to Boost Islamic Trade Finance***

Trade and SMEs (small- and medium-sized enterprises) are regarded as the backbone of any self-respecting economy. Trade is a significant determinant and function of sustainable development. Its total trade last year amounted to a staggering US\$3062.4 billion, comprising US\$1414.3 billion in exports and US\$1648.1 billion in imports.

The Islamic Development Bank (IDB) has set a target to increase this figure to 25% by 2025. Malaysia has a well-established export/import trading culture whereby Bank Negara Malaysia (BNM) stressed that there is significant growth potential for trade finance facilitation to support the multibillion dollar halal export industry which can be seen through the increasing participation of SMEs in the halal economy, initiated by the government, to meet the strong demand for halal products and services globally (BNM 2017).

Currently, it represents only 3.4% of total trade and less than a third of overall trade finance from the banking system. Malaysia's Islamic finance industry needs to boost trade finance to increase largely untapped business opportunities using technological capture. BNM is keen for Syariah-compliant trade financing to support 10% of total trade in the next 3 years and is currently consulting the industry on a broad range of trade finance and connectivity initiatives, including the integration and digitalization of trade finance, e-commerce and enhancing the availability of trade credit takaful as a risk mitigation (Parker 2017).

Matrade plays an important role to encourage more international trade. Some of the international event conducted such as MIHAS that hosted by the MITI, and is organized by the Matrade (MATRADE 2018). More than 22,000 trade visitors flocking into the event and had resulted in total immediate and negotiated trade value of over RM1.01 billion. MIHAS is the premier event that is not limited to the ASEAN region alone but is also supported internationally enthusiastic participation across the globe.

Besides MIHAS, Matrade also coordinates participation of Malaysian companies in Arab Health 2018 at Dubai International Convention Centre. Arab Health is the largest gathering of healthcare and trade professionals in the Mena region and has established its reputation with both local and international medical professionals as most definitive medical and health care exhibition.

Further, there is GULFOOD event held at Dubai which is the region's largest and most important food & beverage (F&B) and hospitality industry event of the year. The exhibition is a showcase for manufacturers, distributors and suppliers from around the world, representing all of the key sectors within the F&B and hospitality trade. Hence, it provides a strategic platform for buyers and sellers to conduct direct business face to face.

Other than that, there is an international event like FOODEX Japan, a non-OIC country which is considered as the largest annual food and beverages trade show in Asia and has been a highly successful trade event since its debut in 1976 serving not only Japan \$700 billion food market but many other lucrative Asian markets. In its 42nd session last year, over 80,000 professional visitors attended the event and had witnessed participation of 3282 exhibitors from 77 countries. With this kind of international event, Malaysia can boost into their halal food trade like what Japan did.

Another event is KLIABC which was inceptioned in 2015 with the aim of linking Malaysian companies in the aerospace industry with potential partners from around the globe. Considered as one of the key aerospace events in South East Asia, the KLI-ABC is an avenue to enhance Malaysian companies' inclusion in the global supply chain. The event involved 170 organizations from 20 countries who comprise decision makers and renowned aerospace players. KLIABC is a cost-effective platform for local companies especially the Small and Medium Enterprises (SMEs) to connect and network with potential trade partners to strengthen their footprint overseas and secure their position in the global supply chain.

All the above events are part of Matrade's continuous effort to facilitate Malaysian companies to enhance their presence globally. With the current rapid growth of the air transportation industry locally as well as globally, there are plenty of opportunities for them to leverage on (MATRADE 2018).

In fact, Matrade is optimistic Budget 2018 measures that will help increase the participation of Malaysian companies in international trade and strengthen Malaysia's external trade performance (SunBiz 2017). The budget of RM150 million allocated for Matrade, Malaysian Investment Development Authority (MIDA) and SME Corp will be channelled to enhance companies' market expansion through export promotion activities including for the Market Development Grant (MDG). These export

promotion activities will be focused on key markets where Malaysia has free trade agreements, and high demand for Malaysian exports especially in sectors such as furniture, electrical and electronics, information, communication and technology, oil and gas, food and beverage, construction and others.

### 33.4 Trends of Trade & ITF: Egypt—Malaysia

Egypt and Malaysia are both belong to the Organization of Islamic Conference (OIC), have an almost the same historical background that both have been under the British colony and have enjoyed independence at almost within the same period (Muda et al. 2016). Egypt and Malaysia are to enhance the inter-trade relationship between them to find a suitable way to the economic cooperation. Both countries, Egypt and Malaysia enjoyed significant bilateral trade relations since the independence of Malaysia in 1957 especially in the fields of culture and education. Egypt and Malaysia have many common characteristics and traits where these include common frames of reference in vision, culture and religion. Egypt also is the largest Muslim country in the Middle East and it achieved a good position because of high levels trade with Islamic countries.

According to the simple principle of economic integration theory among two counties, the relation between Egypt and Malaysia is one of the most important bilateral relationship in North Africa and Southeast Asia. Based on Karaman (2017), Malaysia is in front of Egypt in export industry which is ranking number 3 however Egypt number 16 out of 57 OIC countries. On the other hand, Egypt is falling behind Malaysia in an import industry which is raking number 8 and Malaysia ranking number 2 out of 57 countries.

The gross domestic product, or GDP, is one of the most common measures on the state of the economy for any nation (Ashanti 2016). Simply stated, GDP is the total market value of all goods and services produced in a country for a given time period. The time period most often used is one year, which is then compared to past years as a way to measure the improvement or decline of a country's economic situation. For this study, we, the researcher used comparison GDP for Egypt and Malaysia.

Egypt obtained independence on 23rd June 1952 (Allouche 2017). However, Egypt's GDP from 1960 to 1978 is not in good condition due to Egypt was constantly engaged in wars might have disrupted its economic development. It should be noted that the instability of the political situation leads to a more economic crisis in Egypt.

Egyptian GDP increases slowly until 2002. After that, GDP increases dramatically from 2002 stated \$90.3 Million to \$278.8 Million on 2012 (William 2017). Egyptian GDP reflects big problem faced Egyptian economy. It is worth mention that there was a big gap in the Egyptian economic policies in spite of the current situation of deficit trade balance, increase unemployment problems, the rate of inflation and also deflation.

On 31 August 1957, Malaysia obtains independence after colonized by the British. In the early 80 s, there a new era in Malaysia towards the implementation of economic reform policies and improve the level of per capita income, which greatly affected the rise in exports and imports from Malaysia. Based on statistic (Suhaimi 2015), it can be seen its highest level in 2012 stated \$314.4 Million compared with previous year stated \$298 Million. It also explains the commitment of the Malaysia government towards the implementation of the plan in 2020, which will move Malaysia to be among the developed countries.

Malaysia's GDP increase drastically year by year due an office to Malaysia have an office at Cairo, Egypt to support Malaysian businessman to explore the Egyptian markets and the opportunities of exporting to Egypt. In fact, both Malaysia and Egypt need to devote efforts to start a free movement of goods, services and labour to achieve the cooperation and integration markets between them. It also provides free movement of production factors allows optimum allocation of labour and capital. Moreover, cooperation and integration between Egypt and Malaysia led to overcome the problem of entrepreneurs to shift their capital from places of low return to other high return places.

However, economic integration offers additional opportunities to share risks and have smooth consumption inter-temporally. Besides that, bilateral trade between Egypt and Malaysia using Islamic concepts take into account the global economic condition, diversify and create new opportunities in trade relations, enhance participation in decision-making at international level and improve standard living. In the last few years, Malaysia and Egypt have adopted many common views on the international level and in the multilateral forums, which they are members of the OIC organization and the non-aligned movement organization and the United Nations (UN), which support cooperation between two countries (Ahmad 2015).

To strengthen bilateral trade between Egypt and Malaysia, Malaysia External Trade Development Corporation (MATRADE) in collaboration with the Embassy of the Arab Republic of Egypt in Malaysia organized a Trade Talk on 'Doing Business with Egypt' today at Menara MATRADE to highlight to Malaysian companies the business opportunities for them in Egypt (MATRADE 2017b). The objective of the event was the activities undertaken by the trade promotion agency to engage and boost trade and economic relations with Egypt. The Egyptian economy has been affected by the political revolution that began in 2011.

In terms of bilateral trade between Malaysia and Egypt, it has been on the down-trend. For 2016, Malaysia's total trade with Egypt decreased by 18.9% to register RM2.58 billion from RM3.18 billion recorded in 2015. Export activities dropped by 6.8% to RM2.08 billion while export activities were down by 47.1% to RM505.4 million. For development, MATRADE through its Cairo trade office is closely monitoring the new business or local companies on programmes undertaken by the Egyptian government in supporting its trade and international investment.

Thus, imitative awareness session conducted by MATRADE should continue yearly to improve development business between both country, Egypt and Malaysia. There are several points highlighted here, firstly, with the awareness session will increase the growth of bilateral market for future. For instance, as per informed by



Stebbins (2017), World Bank approved USD 1.15 Billion for various construction and infrastructure developments such as ports, roads, power generation, facilities and water treatment plants in Egypt. The bundle of loans aims to support Egypt's economic reform programme in order to improve its attractiveness for private investment, to enhance job creation, ensure energy security, strengthen its public finances as well as boost the country's business competitiveness. Malaysia, as trade office at Cairo, should notice with this situation to penetrate business with Egypt. Malaysia can start to study the business with Egypt, for example, export opportunities for Malaysian companies in the areas of construction and related sectors as well as building materials.

With emergence of new technology especially electronic commerce, Egypt implements new rules for export activities. Habib (2016) have mentioned that, on year 2016, Egypt introduces new rules for exports by foreign factories. Malaysian factories wanting to export their products to Egypt must now register with the Egyptian General Organisation for Export and Import Control (GOEIC). Malaysian factories must make a one-off online registration with GOEIC via its website. The relevant documents include a certificate of the legal status of the factory and production licence, a statement of products produced by the factory, and trademarks, and the trademark used under licence from the owner. The application must also include a certificate to prove that the factory implements a quality control system. GOEIC provides the good records activities among countries and the data storage is centralized and easy to retrieve day by day 4 by 7. Process can be completed easily and fast to get the literal transaction (Riasi 2015).

### ***33.4.1 Conclusion and Recommendation***

In conclusion, globalization and integration of the world economy is not only a national concern but also for its states. However, to achieve the desired national development, a country should avail itself of the existing regional and international resources and opportunities. The benefits derived from international and regional resources are one of the most significant questions facing developing economic including Islamic countries (Zainal Abidin et al. 2015). Encouragement of joint ventures, the gains of economies of scale can be used to create new competitive advantages, which, in turn, can fulfil domestic needs and extend intra-regional trade as well as improve competitiveness in the world market. Besides that, trade structural reforms should be considered by the countries directing their investments to more diversification with special interest in value added products. As per Jonge (2016), investor should alert with current surroundings on development of the economy among Malaysia and Organization of Islamic Conference (OIC) countries to penetrate the market. To expand the business or active with bilateral trade, the countries should aware and notice with any news or development to each countries. From that, the investor can start to strategies the business and look into the potential market to penetrate. Technical and scientific cooperation extension among the countries will be

helpful to grow scientific and technical infrastructure which improves value-added products, e.g. Transfer of Technology Knowledge (TOTK).

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# Chapter 34

## The Challenges in Islamic Trade Finance for SMEs in Malaysia



Wan Nur Afiqah Wan Nawang, Nurul Syafiqah Misran  
and Rusnah Mohyiddin

**Abstract** Islamic finance industry has become one of the most active and fast growing segments in the international financial system. It has emerged as an alternative to the commonly known and available conventional finance. In this paper, the authors will analyse the challenges occurring the globalization of Islamic Trade Finance by examining the causality between legal and regulatory issues towards the efficiency of shari'ah-compliant finance model. Comparative analysis will be performed by comparing the adaptation of Islamic Trade Finance in various countries. Not all countries see the importance of practicing Islamic Trade Finance due to the lack of exposure and clear understanding its processes and/or products. The difficulties lie in developing efficient yet shari'ah-compliant products. Discriminant analysis shows that religion and community service are the most important positive attitude that determines the potential use of Islamic methods of finance by retail consumers. It is believed that knowledge and exposure of Islamic Trade Finance should be provided worldwide, especially its advantages in providing worldwide trading business opportunities when dealing with Islamic countries.

**Keywords** Islamic trade finance · Globalization · Regulation

### 34.1 Introduction

Small Medium Enterprise (SME) sector has become a key economic driver of the national economies. The performance of SME's growth in Malaysia is impressive but still a long way to achieve a high-income nation. As Halal industry has become a booming industry in the world and Malaysia recently, thus it has also contributed to the growth of SME's industry in Malaysia. According to the Third Industrial Master Plan, the government has stressed on the potential for Halal Products globally. Table 34.1 represents the potential of Halal product globally.

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**Table 34.1** The potential of halal product globally

USD 580 billion	Annual global market value for halal food trade
USD 2.1 trillion	Annual global market value for entire halal trade
USD 900 million	Annual retail sales of halal meat in the United Kingdom
1.6 billion	Present global muslim population
1 billion	Muslim population in Asia

*Source* Third industrial master plan (2006–2020)

Referring to the above table, about USD 580 billion worth of market value for Halal food trade annually, and we have about 1.6 billion of Muslim population around the world which might represent the market segment for Halal products. From this perspective, the opportunities that this market segment can bring is massive and worth the attention. On the other hand, as per mentioned by Hameed and Abdullah (2015), in their article entitled ‘War 26 The Challenges of Islamic Trade Finance in Promoting SMEs for Halal Industry in Malaysia’, as per statistic available, Malaysia’s exports of Halal products totalled RM 35.4 billion (2014), representing nearly 5.1% of the country’s total exports. Thus, it is important to bring the attention from this perspective and to look in the challenges for SMEs in Islamic Trade Finance.

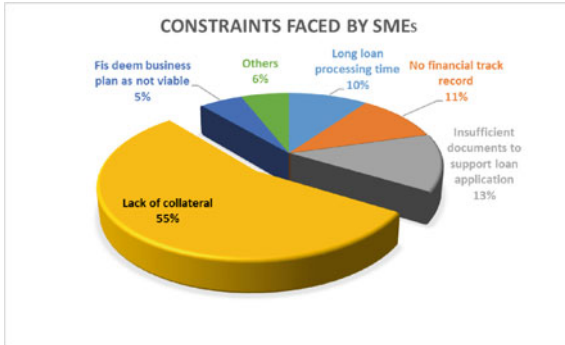
According to Census of Establishment and Enterprise (2005), due to some circumstances, only 16% SMEs received financial aids from banks compared to 50% of large corporations. This study was done back in 2005, but even in more recent studies, the percentage of SMEs relying on financial institutions has not reached 20%. However, SMEs are still able to contribute to GDP of Malaysia which increased from 32.2% in 2010 to 35.9% in 2014.

Whereas looking at the global landscape, majority of application for financial aids came from SME, but the approval rate for them is pretty low compared to large corporation. Referring to an article from AFDB 2017, ‘Trade Finance in Africa, Overcoming Challenges’, there were 47% application for financial aids from SMEs and 14% from large corporations. However, out of 47% application from SMEs, a bit more than half of the applications have been rejected which is about 52% of them. Besides that, out of 14% application for financial aids form large corporations, about 87% of the applications has been approved.

## 34.2 Challenges

It has been agreed in many studies that SMEs play a vital role in building a competitive environment in private sector, promoting economic growth and creating employment. They are more aggressive as compared to large corporation as they are more eager to achieve bigger goals and willing to explore opportunities outside of the country.

However, to be success is not an easy tasks for SMEs. A number of challenges need to be overcome in order for SMEs to survive in the market as shown in the graph below. Among the main challenges identified are the difficulty faced by SMEs in getting fund from Islamic banks and the lack of trade facilitation available.



Source: Bank Negara Malaysia 2018

### 34.3 Difficulties in Getting Funds

Starting up a business, SMEs often using their own funding as not to have a huge credit in their accounting. However, to sustain the business, SMEs need additional financing to expand their operations, develop new products and invest in new staff or production facilities. A well-developed financial infrastructure that is able to meet the diverse financing needs of SMEs is essential to support the competitiveness and continuous growth of SMEs. However, granting a funding to SMEs is also not an easy task for banks and financial institution. Earlier studies suggest that banks and other financial institutions find it difficult to acquire information from SMEs to assist them in assessing their businesses before granting loans to them (Mason and Stark 2004). Hameed and Abdullah in their study further supported this claim as only 13% of SMEs in Malaysia have successfully received funding from banks or financial institution. The percentage of funding utilized was rather small as compared to the funding provided by Bank Negara Malaysia worth RM3.3 billion as per Table 34.2.

From banks or financial institution perspective, they are often reluctant to disburse funds to the SMEs due to a number of reasons in which mainly related to lack of collateral, low creditworthiness and credit history record of the company. Start-up and young firms are those which are mostly affected. Indeed, collateral requirements by banks may be as high as 100% of the value of the traded goods. The bank set high requirement for own equity and collaterals in new investments as it serves as a security for risky transactions, including those in the trade finance segment. Even more difficult when certain bank sets strict requirement for certain sectors which are acknowledged as risky sectors. Due to the high-risk rating of most SMEs, the bank usually demands big collateral as a form of the guarantee before giving out loans to

**Table 34.2** Budget 2017 allocation for SMEs development

Budget (RM)	Target group/programme
70 million	Implementation of high impact programmes
350 million	Export promotion of SMEs
200 million	Support for start-up company
290 million	Promote mobilepreneur programme
1.4 billion	Bumiputera entrepreneur
200 million	Indian entrepreneurs
90 million	Chinese entrepreneurs
2 billion	Woman entrepreneurs
162 million	Implementation of e-commerce

*Source* Budget 2017 comment SME Corp Malaysia

the customer. With the size of the SMEs, they are most of the time unable to provide the required collateral to access the loan they requested. One big challenge with guarantee is the third party which is very difficult for majority of the SMEs to find. The SME must be highly connected or the owner of the business have a reputation before it can find a third party who will be more will to guarantee.

The bank sometimes finds it difficult in accessing management and financial information from SMEs to evaluate their riskiness and creditworthiness through their credit history, management priorities and style and financial reports over some years. When the bank is unable to access these information from SMEs seeking loans, the bank eventually denies the SME the loan because it could not access and assess the business information. Although the establishment of Credit Bureau helps reduce this gaps, the ratings provided by them to SMEs is rather questionable. SMEs would often score poor credit rating as the algorithm of getting this rating score mainly is influenced by the maturity of the company, industry risk and credit history. Since SMEs are newly open, the rating is unfavourable to them. The absence of credit history of borrowers implies that banks have more difficulties in appraising the credit risk of SMEs. The asymmetry of information related to the lack of credit history creates some market uncertainty which makes banks consider SMEs not creditworthy and the transaction as risky.

### 34.4 Lack of Trade Facilitation

According to Abdel Rahman Elzahi Saaid Ali (2013), trade facilitation can be described as a simplification and harmonization of international trade procedures. The roles of trade facilitation are to reduce complexity of trade activities, to minimize the transaction costs, to ensure the efficiency, transparency and predictability manner in trade activities while maintaining an effective level of government control.

A study which was done in 2016 by Sarbani and Jaafar found out that the current trade facilitation framework is purely based on the conventional philosophy. The reality is that the majority of Muslim countries are adopting either conventional laws or mixed laws. The challenges in trade facilitation are due to the procedural barriers that caused by some arbitrary customs valuation and decisions of clearance goods through customs, subjective interpretations, technical barriers and laws and regulations related to trade activities. According to the trade facilitation indicators done by Organisation for Economic Co-operation and Development (OECD), Malaysia's trade facilitation performance from 2015 to 2017 has indicated two perturbing areas which may need some intervention in order to improve the trade activities for the countries, as shown in Fig. 34.1.

Based on the figure produced by OECD above, though Malaysia appears to be performing well in terms of rulings, fees and charges, documents and streamlining of procedures, but internal and external border agency co-operation seems to be at the low side of the performance indicators. Considering the areas where Malaysia has not yet reached its best performance, Malaysia would benefit from continued improvements in information availability, involvement of trade community, automation and procedures.

#### The Issues in Customs Valuation

Customs valuation can be arbitrary when the customs are used as a means to influence government to give priority to certain agenda. For example, domestic spinners would pressure the government to sustain minimum price for customs value of fibre imported by arguing otherwise they will not be able to survive the market (Gundogdu et al. 2012). Customs valuation has been in the agenda of international trade negotiations for quite some time in helping local producers stay competitive in the global market and retain their share in export markets.

Another issue revolving the customs valuation in regards to the ITF is when some small countries are hesitant to transform their customs for afraid of losing customs revenue. This is especially true for the Least Developed Countries as they are relying on this revenue as their income (Gundogdu et al. 2012).

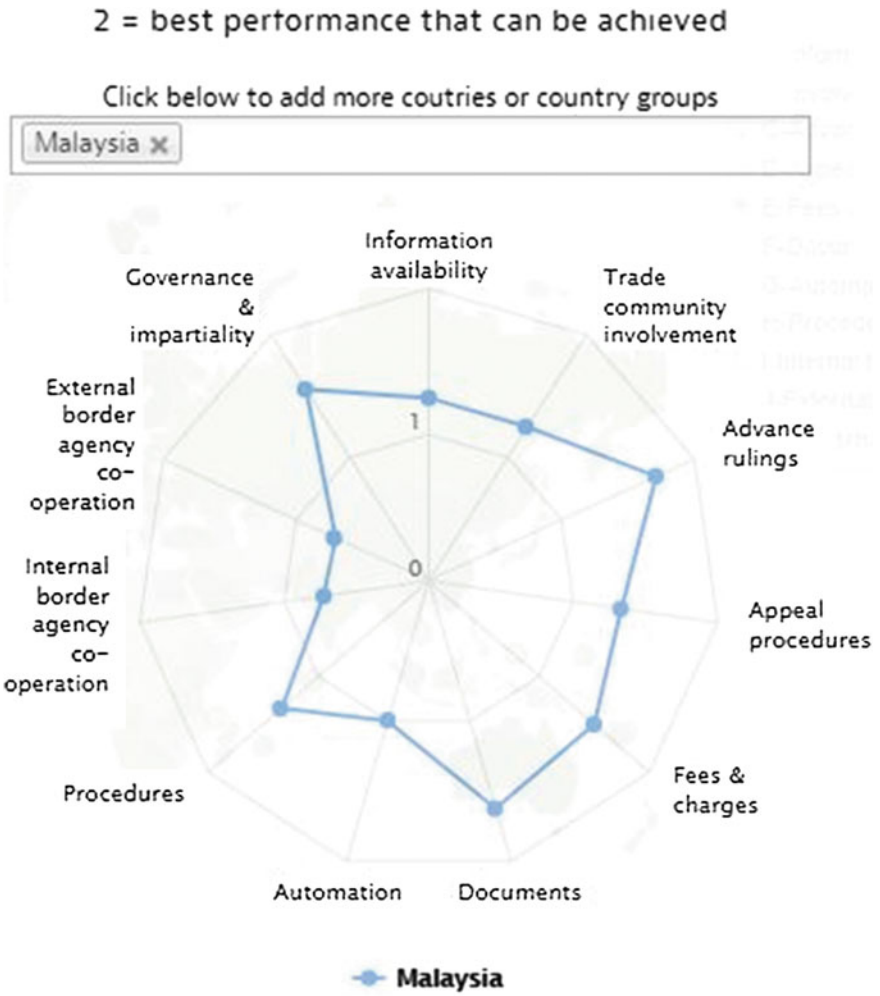
#### The Issues of Subjective Interpretations

These issues arise mainly due to the fact that there is no standard written guideline for every Islamic Trade Finance facility. This can easily create room for situational interpretation, or based on gut feeling which may lead to biasness. In addition, to be considered Shari'ah-compliant, an Islamic finance structure typically receives opinions (fatwa) from religious scholars (mufti) or recognized Shari'ah advisers, whom may have different thoughts on the matters based on diversified views and experiences.

#### The Issues of Technical Barriers

Common scenario for technical issue among the international traders is when they are facing with myriad formalities and documentation from the agencies of the foreign countries, which are only known to their local trading communities, and may not even relevant to certain cases in trade activities. In some situation, the demands by the local authorities towards the traders are not even an actual requirement for international trades.





### Country trend 2015 - 2017

Fig. 34.1 Trade facilitation indicators of Malaysia

### Rules and regulations

Regulatory procedures are compulsory technical practices that need to be adhered for incoming or outgoing trade to complete the necessary operation with applicable laws and regulations. According to Sarbani and Jaafar (2016), trade activities involves authorized agencies for product control and security measures. This layer of agencies has caused a duplication of works and procedures that create hurdles for submission of information and documents to the related agencies.

## 34.5 Conclusion

SMEs are undoubtedly the engine of sustained economic growth and development in many countries. SMEs employ significant number of the world's working population and the growth and expansion of SMEs are largely dependent on the ability of the SMEs to access debt financing more easily and less expensive. Bank loans are considered one of the mostly accessed source of capital for many businesses with different debt financing options yet SMEs most of the time find it difficult to access loans from banks. Often the application process is rather tedious, took a long time to be processed and have high requirement to be fulfilled. This is what SMEs needs to go through as a result of low creditworthiness and insufficient collateral and good credit history in which banks and financial institution is having difficulty accessing the risk should the loan be granted.

The efficiency and effectiveness of the implementation of trade facilitation and establishment of trade infrastructure are of the essence in ensuring the progression of Islamic Trade Finance. The complexity and multilayers of rules and regulations in Islamic Trade Finance have become a major constraint in most Islamic countries (Ali 2013). In order to improve the current affairs in Islamic Trade Finance, the Islamic countries should look into various ways to eliminate barriers, bureaucratic and regulatory hindrances in current trade system.

## 34.6 Recommendations

To ensure a continuous growth of SMEs specifically in Malaysia, there is a need to find a good balance between protecting banks and financial institution risk when granting loans to SMEs and the needs to give opportunity to SMEs to rise. Nowadays, Islamic finance has embarked into smart contract module in which could shorten the application time of loans. This should also be practicing in Islamic trade finance involving both SMEs and banks (home and partner banks). Alternatively, a risk participation programme with partner bank could also be established. This would boost confidence to either banks as the risk is being shared. World widely, some commercial banks have offered this package but not much being seen by Islamic finance. International Islamic Financial market (IIMF), in 2018, has finalized their

first draft of Islamic risk participation agreement after 2 years of brainstorming the best solution which adopt the Sharia rule practicing in Islamic Trade Finance. Locally, there is a need for strong commitment and support from local government and NGOs in pushing SMEs to involve in Islamic Trade finance. Smart partnership establishment of clean loan for first trading agreement could be proposed as a get go boost for SMEs. Moreover, governments, NGOs, banks and other stakeholders should frequently organize managerial training workshops and seminars for SMEs on effective management styles and judicious use of financial resources to minimize waste and maximize productivity. Governments in both economies should make favourable economic and monetary policies and regulations to make banks more will to give out profitable loans to SMEs.

Some constraints in trade facilitation have caused a lot of hurdles for Islamic finance to progress, locally and globally. It is very timely for the SMEs particularly in halal industry to unite and form its own version of Islamic International Chamber of Commerce (IICC) with common rules that can improve the trade facilitation for Islamic Trade activities. The setting up of IICC will definitely take some time and will not be easy to achieve especially in standardizing multiple Shariah rules. But in view of how strong and successful the International Chamber of Commerce (ICC) is right now since its establishment back in 1919 in Paris, the same model can be replicated where the association will engage in rule setting, dispute resolution and policy advocacy. Although the rules set by the association are voluntary, because the members themselves engaged in international trade business, these rules are observed in countless thousands of transactions every day and have become part of international trade.

Apart from Trade facilitation, the country should also look into the trade infrastructure development to support the trade activities of halal industry. Currently, there is a lack of Shariah-compliant warehousing facilities especially among the Middle East countries. This can be viewed as business opportunity for Malaysia. By establishing our own halal warehousing facilities that can support the Islamic financing modes such as Salam, Muzar'ah, Murabahah, Mudarabah, etc., it will be able to attract and facilitate the Islamic Trade regional and global players to do business in our country.

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# Chapter 35

## Risk Management in Contract of Islamic Trade Financing



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**Abstract** Trade was accepted to be a significant tool in the economy activities. It was forming many jobs and demands for trade financing including for import and export resolution. Agreeing to the World Trade Organization, trade financing is vital to the economy by supporting most of the global trade. International trade financing services were introduced in the Islamic banking system in Malaysia in the early 1990s when there was a need for Islamic instruments in the form of trade especially internationally. In this paper, we study about the instrument of trade finance which chooses Letter of Credit-i (LC-i) and Standby Letter of Credit-i (SBLC-i) facility in Islamic banks. Besides that, risk has always occurred in business and it is even predominant when business transactions are done across borders. In the competitive business environment today, for business firms to compete, they essential not only be able to diminish their risks in doing business, but also be able to take advantage of the growth opportunities presented by doing business in other countries. Hence, understanding and identifying what risk is and what the perception of business firm toward risk is very important to any bank especially Islamic bank. This paper analyzes the operation and risk may arise in the LC-i and SBLC-i practice by Islamic banks in Malaysia together with the issues of Shariah arising.

**Keywords** Islamic trade finance · LC-i · SBLC-i

### 35.1 Introduction

Islamic trade finance is simply trade finance performed in a way that complies with the laws from the Islamic holy book, the Qu'ran. The idea of a set of rules for Islamic finance was introduced around 1950–70 as a solution and a response to the increasing influence of western economies. There are a few significant differences when engaging in Islamic finance, there is Shariah. Shariah is a set of laws that have been

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derived from the Qu'ran and which forbid the payment of “*riba*”; which translates to interest. Shariah requirement can be associated with avoidance of prohibitions and ensuring that the contracts have all their essential elements with their necessary conditions.

Islamic Trade Finance (ITF) operation is a specialized area of Islamic banking utilizing various concepts that need to be understood by the parties involved particularly bankers and traders. Among the ITF facilities offered by Islamic banks in Malaysia is Letter of Credit-i, which is one of the payment approaches practiced in international trade. The Islamic banking system in Malaysia practices three types of Islamic letters of credit, namely *murabahah-i* (*cost plus*) credit letters, *wakalah-i* (*agency*) credit letters, and *musyarakah-i* credit letters. Standby Letter of Credit-i is often used as a financial guarantee. It ensures payment if and when the applicant fails to repay an advancement made to him/her; or for the beneficiary to demand payment when the applicant fails on his/her part of the agreement. It is also intended to cover any failure of the applicant to fulfill a contractual assurance with a third party. In countries where banks are prohibited from issuing guarantees, SBLC-i is the most appropriate method used. It guarantees applicant's performance, indebtedness or repayment. SBLC-i is activated in the event of “default” or “non-performance” by the applicant. It is a substitute for a guarantee and governed by Uniform Custom Practice 600.

Nevertheless, while the international trade existed for centuries, the trade finance also developed to support the obligation and needs of exporter and importer in their relation. Trade financing can be defined as financing for trade which concerns for both domestic and international transactions which involved various activities of lending, factoring, insurance, issuing letters of credit, and export credit. Besides, an ITF activity was increased rapidly among the members of business around the world. It was benefitted in the form of Shariah-compliant practices in the business which would support the development in Islamic economy and finance. It is because ITF provided a forte financing support and offers many special products which provide more benefits to the users. As to support the ITF, the International Islamic Trade Finance Corporation (ITFC) was established and began its operation in 2008. It is an independent entity within the Islamic Development Bank Group who together encouraged intra-trade among the Organization of the Islamic Conference (OIC). This corporation helps the member countries such as Saudi Arabia, Bahrain, and Malaysia to gain better access in ITF by providing them the necessary tools to compete in the global market.

There are various intermediaries such as banks and financiers, importers and exporters, besides service providers will play a big role to run this trade financing by following the Shariah guidelines in their activities. Islamic banks and Islamic financial institutions will help to support the transactions by giving trade financing parallel to the Shariah. Usually, the importer may wish to reduce risk when purchasing exporter goods, especially for the unknown exporter, so it is necessary to ask exporter to document the good that has been shipped, while the importer required to prepay for goods shipped. It is essential for the global economy because most countries will

rely on each other to support their necessity such as be an importer to get the raw material which the cost would be cheaper than local price.

Understanding what is risk and the perception of business organization toward risk is very significant to Islamic bank. This is because Islamic bank earnings funds from several sources, depositors, and shareholders which forms the assets of the banks. Islamic banks then channel these assets to productive activity that would yield a return enough to cover the cost of using the funds and its operation costs. However, the Islamic banks are structured upon the Islamic principle of risk sharing; hence, they are tied in their management of their liquidity. Though, the risk is a core element of business (particularly international business) which is closely related to return. Financing international trade predictably is complex and involves risks, irrespective of the markets in which business firms chose to conduct their business transactions. Hence, it is appropriate that an analysis on issues of risk management in the Islamic Financial system is undertaken as well. A Sharia' compliant risk management is analyzed and some alternatives to risk management are proposed for Islamic banks in justifying their risks in financing international trade.

## **35.2 Methodology**

This study fully uses a qualitative method. Qualitative research method emphasizes the construction of meaning, understanding of concepts or symbols, and terms or detailed explanations of events, objects, or processes. This study uses two data collection techniques, namely library research methods and field research based on interview methods and documentation methods. The data regarding with the operation of the products and the contracts used by Islamic banks in Malaysia and Shariah issues is gained through interviewing the bankers and the Shariah executives of the banks whose directly involved with the process flow of preparing and operating letters of credit-I and SBLC-i at participating Islamic banks, Shariah executives, and Islamic financial and banking experts.

## **35.3 Limitation**

In this study, we are facing limited access of the statistical or data limitations which is not able to collect as much or as good data as intended, and this is because of the need to register as a member and have to pay the fees for the data provided.

## **35.4 Literature Review**

Trade finance facility is one of the banking instruments offered by both Islamic and conventional banks in Malaysia. Most of the trade instruments initially were in conventional basis and need modification when offered in Islamic finance by adding

the elements of Shariah complaints such as *aqad* and Islamic contract before it can be offered to the public. ITF is a specialized area of Islamic banking using various concepts that need to be understood by the parties involved particularly bankers and traders. There are many types of common instruments offered by Islamic bank in ITF which can support the obligation and needs of exporter and importer in their relation. The instruments of ITF offered by most of the Islamic banks in Malaysia are LC-i using the contract of *murabahah*, *wakalah*, and *musharakah*, Bank Guarantee and Shipping Guarantee using the contract of *kafalah*, Trust Receipt and Working Capital Financing using the contract of *murabahah* and *tawarruq* (monetization or cash procurement), Accepted Bills using the contract of *murabahah* and *bay' al-dayn* (sale of debt), Export Credit Refinancing using the contracts of *murabahah* and *bay' al-dayn*, Standby Letter of Credit (SBLC) using the contract of *kafalah* or *wakalah*, and a few other facilities.

### 35.5 Letter of Credit-i (LC-i)

LC-i is deliberated as the most popular ITF instruments where it is offered by all Islamic banks operating in Malaysia. LC-i is the method of payment in international trades that look after both the buyer and seller's interests. Letter of Credit is a legal undertaking in writing by a bank which is the issuing bank, given to a seller/exporter or a beneficiary at the instruction of the buyer/importer or applicant to pay at sight (cash) or at a fixed future date (*usance*) for a stipulated amount of money (fixed), provided that the documents presented are in full compliance of the terms and conditions of the credit. Letter of Credit Islamic (LC-i) is similar to the conventional LC in term of operation and requirement. However, the difference between LC-i and LC is the underlying contract used in LC-i must comply with Shariah. There are two most commonly practiced Shariah contracts in LC-i operation, *wakalah*, and *murabahah*.

To better illustrate on how LC-i works, one should understand that the elements involved in an international trading transaction actually involve several parties: the seller, the buyer, and both country of export and import. The settlement for trade payment for the goods can vary depending on the nature of the relationship between both sellers and buyers, as well as their country's economic policies. Normally, the most frequently adopt payment methods are either Payment in Advance, Open Account, Documentary Collection, or Letter of Credit. For the purpose of this article, we shall only be focusing more on Letter of Credit.

As per the first paragraph clearly mention, LC-i serves as the method of payment that looks after both the buyer and seller's interests. This is achieved by first the seller and buyer need to mutually agree on the terms and conditions of the sale which involve the description of the product, the actual quantity involved, the agreed price, and the method of transportation that will be used for the shipment of products, the period of credit offered (should there is any), agreed latest shipment date, etc.

### **35.6 Islamic Letter of Credit According to the Concept of al-Wakalah**

Once both parties mutually agreed on the details of the Letter of Credit, the buyer will contact and apply for issuance of Letter of Credit from his bank. Here, the bank will act as wakalah (agent), where the bank will act on behalf of the buyer in issuing the Letter of Credit and all its subsequent operations (i.e., checking for compliance of documents when payment claim is made) (Fauziah Ahmad et al. 2017; Ismail et al. 2016). The bank usually operates in the buyer's home country and sometimes, it is highly likely that a bank that is appointed by buyer is the bank that the buyer normally uses in his business. The buyer will then provide all the relevant information needed that has been agreed between buyer and seller to the bank for their assessment. Since LC-i will be regarded as a legally binding document, it is important for the buyer to ensure all the information and details given to be correct. Any nonconformity of the details or the documents needs to be redone before both parties can move on to further steps. The bank receives payment/commission or Ujra for the services provided. The amount of Ujra paid is subject to the agreement between the bank and the buyer. It can vary from the full amount or a nominal deposit depending on the business relationship between the bank and their client.

Once issuing bank fully satisfies with the information and document provided by the buyer, the bank will issue an LC-i. This means that the bank has made a promise that they shall deliver the amount of money mentioned in the LC-i to the seller's appointed bank. This promise is what makes LC-i among the most preferred Islamic trade financing product since it is considered safe and reliable for both the seller and the buyer. Usually, the buyer's bank will issue an LC-i to the seller's bank which serves as wakalah (agent) for the seller and perform a similar task as being performed by buyer's appointed bank—usually, it is a local bank in seller's country, which the seller has a current business relationship with. Sometimes, there are several banks that also involve in this process as an intermediary for both banks in this process.

Once seller's bank received the buyer's bank LC-i, they will conduct a review process on the LC-i to ensure the information and documents provided matches with what the seller agreed to perform as per in contract. Usually, the seller's bank will review the proforma invoice, and the terms and conditions mentioned in the contract to ensure that it can be met by the seller. It is a similar process that is performed by the buyer's bank when deciding for the issuance of LC-i for the buyer. Should everything is cleared out and deem acceptable by the bank, the seller can now move on to the next step, which is to produce or to ship the said goods.

Once the goods have been produced or shipped, the seller will then need to prepare all the necessary documents required in the LC-i such as invoice, transport document, etc. Prior to submitting all those documents, seller bear the responsibility to ensure that there is no disconformity happened. Should there be any discrepancies happened at this stage, it must be immediately rectified to ensure it is in compliant with what has been agreed between the buyer and seller. Should the document submitted by the seller is not in order, the seller's bank will not reimburse the seller.



### **35.7 Islamic Letter of Credit According to the Concept of al Kafalah**

For Letter of Credit under the concept of Kafalah (guarantee), the concept is a little different with wakalah. Under kafalah, the bank will provide a guarantee for payment to the applicant (Hasnat and Alom 2017). The seller will then ship the goods once it receives the guarantee of payment by the bank. Here, kafalah serve as assurance on the fulfillment of bank obligation on the party's liability. The components involved in kafalah Letter of Credit are contracting parties—guarantor (kafil), the beneficiary (makful lahu), and the guaranteed party (makful' nahu), and offer (ijab) by guarantor.

Under kafalah Letter of Credit, it is initiated when the applicant (buyer) request for kafalah Letter of Credit to the buyer's bank to pay for a certain sum of money as stipulated in LCi provided that the seller (beneficiary) complies with the terms and conditions of LC-i.

Once all the terms and conditions of LC-i have been met, the bank will then establish a letter of guarantee in which the bank allows the applicant to conduct business with the seller. Since the letter of guarantee possesses the similar characteristic of LC-i, the bank will pay the seller, thus discharging its responsibility.

Normally, the bank may impose a deposit requirement from the applicant for this service and it is subjected to the agreement between the two parties (applicant and bank), or ujra (fees) for the service rendered. The charges imposed for the service is permissible in Islam and the LC-i issued on the strength of a bank's guarantee is also permissible in Islam.

### **35.8 Standby Letter of Credit-i (SBLC-i)**

Standby Letter of Credit-i is often used as a financial guarantee. It ensures payment if and when the applicant fails to repay an advancement made to him/her; or for the beneficiary to demand payment when the applicant fails on his/her part of the agreement. It is also intended to cover any nonperformance or failure of the applicant to fulfill a contractual commitment with a third party. Concepts implemented in SBLC-i involve wakalah or kafalah, and this is because it depends on what is the purpose of the SBLC-i based on the requestor. SBLC-i is often used in International trade transaction such as the purchase of goods from locally or internationally. But in countries where banks are prohibited from issuing guarantees, SBLC-i is the most appropriate method used. It guarantees applicant's performance, indebtedness, or repayment. SBLC-i is activated in the event of "default" or "non-performance" by the applicant. SBLC-i can be used as collateral for credit enhancement which is a deal for companies planning to expand their business and do not want to give up equity of their company. Whith this, it can improve the company's cash flow as it allows the company to use their fund for alternate purpose before the payment becomes due. It is a substitute for guarantee and it is governed by Uniform Custom Practice 600.

## 35.9 Finding

The usage of LC-i has gained quite an attraction in ITF, especially in Malaysia. This is because it safeguards the interest of both parties that involve in international trade finance. For the businessman, they would normally require a guarantee from the bank to ensure their payment transaction went smooth and did not pose any risk or fraud. This financial facility becomes more important, especially when they are doing business with the unknown party, which they have no business relationship in the past. The possibility of them being exposed to fraud and other issues will arise should there is no sufficient evidence to support such claims.

Based on our interview with local bankers, there are many types of scams that involve LC such as document forgery (e.g., bill of lading, delivery order, and invoices) and such scams were also mentioned in the previous study (Bassindale 1996; CheHashim and Mahdzan 2014; Kumar 2000). Bill of lading is normally used for the international transaction, whereas, the delivery order is used in domestic trade transactions. The invoices, however, can be used for both transactions either for local or international. From our interview with the bankers, we decided to study more on the possibility of the document by using delivery order.

The delivery order is issued by the seller to the buyer during delivery of the goods. The buyer will receive the delivery order from the goods transporter, and it can either be from seller's own transporter or third-party transporter. The possibility of fraud delivery order could happen either from the seller itself or the receiver staff. Regardless of whether the party is a buyer or seller, the party should always be alert on possibility that could happen during delivery of goods should there is no sufficient precaution measures taken to prevent from fraud document.

Normally when it comes to purchasing of goods in large amount, the buyer will normally finance their payment through a bank loan. Sometimes, the buyer will also apply for LC-i from the bank as part of their financing arrangement. The LC-i issued by the bank provides a payment a sense of security for both the buyer and seller since they know that the other party is committed in that business dealing. However, there is potential issue that might arise from delivery order that could lead to fraud. For example, after the buyer applied the LC-i service, the LC-i will be submitted to the advisory bank and the advisory bank will pass it to the seller as their copy, and they will redeem that LC-i if the buyer is unable to pay the order within the term of credit has been decided. After the seller received the LC-i, they will process the order and deliver it to the buyer. The delivery of goods will be either by seller's own transportation or third-party transportation.

The issue of fraud could happen in these scenarios; whether the lorry driver has delivered the goods as per stated in delivery order or not; or whether the goods were received by the correct person or not. Normally, the delivery order will be signed and stamped with the official company seal by the buyer once the goods was received. The buyer will then, keep the one copy of DO and the other two copies passed to the driver as a proof that the goods have been received. The driver will then pass the two copies of DO to the seller for their record. Should there are an unexpected

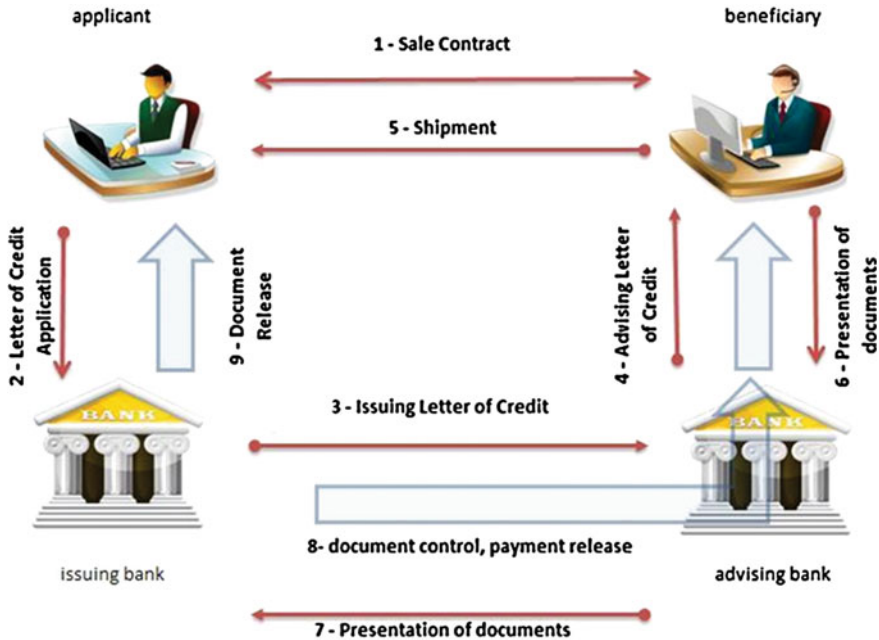


Fig. 35.1 Delivery Order (DO) in Letter of Credit (LC-i) process

problem such as the buyer have not to pay or unable to pay for the goods delivered, the DO will be used to claim the payments of the goods. After the term of credit for the payment is due and the seller still has not received their payment, the seller will go to the issuing bank to redeem their payment by using received LC-i.

Normally, the redemption of LC-i is not really encouraged since it will tarnish the buyer’s reputation and financial credibility. Usually, the bank will call and inform the buyer regarding seller’s payment claims prior endorsing the LC-i request. There is a possibility that the buyer can deny that goods have already arrived. This will cause the banker unable to proceed with the payment to the seller since there is no supporting evidence to support sellers’ claims. This was mentioned under Article 5, UCP 600, which indicates that the bank only deals with documents. This means that the bankers will only release the payment once all the documentation requirement has been fulfilled. Another possible scenario under same document fraud issues is the buyer are required to pay the price of the goods as per mentioned in the fraud DO even though he/she has not physically received those goods. Should this happen, the buyer is still required to bear the cost of the goods, even though it has not physically arrived. There is not much that the bank could do in this situation since in their perspective, all the documents submitted by the seller is considered as valid and the bank needs to fulfill its guarantee to the seller (Fig. 35.1).

The second issue is that the possibility of uncertainty on which the concept of Letter of Credit that the party wanted to adopt in his/her business transaction. This

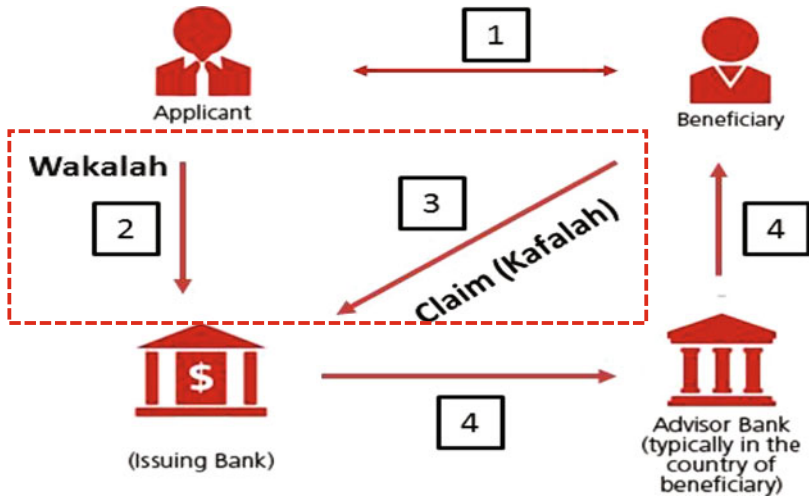


Fig. 35.2 Standby Letter of Credit process

usually happens during the ordering process, whereby the seller suddenly decided to change the concept of Letter of Credit from wakalah to kafalah due to seller’s own personal reason and justification. In Shariah Law, any transaction that involves uncertainty (gharar) should be avoided, therefore when there is uncertainty issues in the contract agreement, it will automatically become void.

For example, prior to ordering process by the seller, the buyer applied for Standby LC-i (SBLC-i) under wakalah concept since it was agreed between the seller and buyer as the seller only needs the bank as an advisory for the trade transaction. Then suddenly, when the wakalah SBLC-i is already prepared, the seller decided to switch to kafalah SBLC-i since the seller believes that wakalah SBLC-i will expose him/her to nonpayment from the buyer and the seller prefer for the bank to act as guarantor for the transaction. The bank is unable to simply change the contract of SBLC-i since both contracts serves a different function. Furthermore, under Syariah Law, uncertainty contract or agreement is prohibited. When this uncertainty happens, the original agreement will become void and the buyer is required to reapply for another SBLC-i (kafalah concept) as per required by the seller (Fig. 35.2)

### 35.10 Conclusion

From the issues presented the above, we recommend how it can mitigate the risk of fraud of delivery order, and the seller must support with additional supporting documents together with the delivery order that represents the transportation details such as name, National Registration Identity Card (NRIC), date, time, and vehicle

registration number. It is to ensure the driver deliver the order goods at the right place. Besides that, the buyer should register the receiver name of the goods with the bank. It is to ensure the goods delivery are received by the right and authorize person. With the additional supporting documents, the risk of fraud delivery order will be mitigated. At the same time, the benefits of both parties will be reserved.

Regarding the SBLC-I issues, to prevent the delay of trade transaction and extra cost to the customer, we suggest that the buyer and the seller should discuss clearly either they need bank act as advisory or guarantor for their trade transaction. Any uncertainty will not happen if both parties know what they want and what they should do; to ensure their trade transaction went smoothly without delay and incurred extra cost. The uncertainty of contract or agreement will lead the void of the contract.

From the results presented above, it can be concluded that the Malaysian bankers interviewed in this study fully adhered to the autonomous nature of LC or SBLC as provided by the UCP. This study attempts to tackle the major issues of how to manage risk and provide a safe and profitable financing environment for both financiers and beneficiaries. There are similarities between the conventional and Islamic trade finance, apart from the fact that the underlying contract is based on the principle of Islam which aqad. The Shariah issues that arise need to refinement and purification by the bankers of Islamic bank in order to ensure the implementation of the Islamic financial system which is strictly in accordance with the Shariah compliance. In view of Islamic trade finance contract, there must certainty in the contract, if not it will involve gharar which is prohibited in Shariah. Any finance professional recognizes that there are no risk-free deals. Risk always exists in any transactions. Risks are never entirely eliminated; the basic issue is how to tackle the risks and risks can be assessed and after due identification. It is a normal practice among Islamic banks to have different practices in their banking operation. However, there is bodies which play an important role to ensure all Islamic banks practices complies to Shariah. In Malaysia, we have Bank Negara Malaysia (BNM) play an important role to come out with the best practices in a form of specific guideline which involve legal enforcement on Contract in Islamic Trade Financing.

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# Chapter 36

## Smart Contract in Islamic Trade Finance



**Farhana Binti Md Hilal and Nor Faridah Binti Jamaludin**

**Abstract** Smart contract is a computer program that can execute contract terms using Blockchain technology. The contract has started getting applied in financial services or used to assist companies in managing the financial aspects of the trading, and was presumed to undertake the trading, banking, and insurance industries in the applications, processes, and business models. The objective of this paper focuses to discuss on the possibility to apply the smart contract in Islamic trade finance practice and to understand how the smart contract works. This study will explore the smart contract technology, whether it is Sharia compliance and well as the advantages of the smart contract. Besides that to understand the context of smart contract which is one of the technologies from Blockchain that holds great potential across the Islamic trade finance. This study will refer to secondary data such as online journal, books, and news. Resulting to understand the context of smart contract, this study will show how the usage of smart contract can have a huge impact in the future of Islamic trade finance. The recommendations will emphasis on the roles of traders to grab the opportunity and adapting the smart contract technology in their business practices with the fact that smart contract will expect stronger growth in the future.

**Keywords** Smart contract · Blockchain technology · Islamic trade finance · Digital banking · Islamic finance

### 36.1 Introduction

Smart contract is a computer program that can execute contract terms using Blockchain technology. Computer code running on top of a blockchain contains a set of rules under which the parties to that smart contract agree to interact with each other (Rahim et al. 2018). The contract existing in the form of software code is

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implemented on the Blockchain platform. It is also called as self-executing contracts, digital contract and the most famous one is Blockchain contracts (Savelyev 2017).

The contract is fully automated, can either complement or fully substitute typical legal contracts and is commonly connected directly to the purchaser's digital wallet (Athanassiou 2017; Rahim et al. 2018). The main objective is to enable people to trade and do business with strangers, usually over the internet without the need for a large centralized authority site to act as a middleman (Parker et al. 2016; Moerel and Bayamlioğlu 2017; Rahim et al. 2018). It will enable two anonymous parties to trade and do business with each other and solving the trust issue for internet transaction by reducing the business cost, reduce the consumer prices, and increase our freedom to conduct our own business, which indirectly helps boost the economy.

## 36.2 Literature Review

In a trade finance business, there were three elements involved which are participants, transactions, and contracts (Peters and Panayi 2016). A participant is a member of a business network such as customer, supplier, government, or regulator. They usually reside in an organization and have specific identities and roles accordingly. A transaction is an asset transfer between two or more participants, for example, John gives a car to Anthony (simple), John gives a car to Anthony, and Anthony gives money to John (more complex). A contract is set of conditions under which transactions occur, for example, if Anthony pays John money, then the car passes from John to Anthony (simple), if car won't start, funds do not pass to John (as decided by the independent third-party arbitrator).

All these processes involve a lot of documentation which is lengthy, repetitive, and time consuming. By considering using the technology of smart contract, these processes can be at ease and fast (García-Bañuelos et al. 2017; Savelyev 2017; Willcocks et al. 2017). The technology of smart contract is using the Blockchain technology which is an emerging technology pattern that can radically improve banking, supply chain and other transaction networks, giving them new opportunities for innovation and growth while reducing cost and risk (Hackius and Petersen 2017; Veuger 2018).

Blockchain technology are an emerging technology pattern that can radically improve banking, supply chain, and other transaction networks, giving them new opportunities for innovation and growth while reducing cost and risk (Pilkington 2016). Economic transactions on a distributed ledger can be programmed to record virtually anything of value: your identity, a will, a deed, a title, a license, intellectual property, and also almost any type of financial instrument (Nitin Gaur, IBMs Director). Entries can be updated by one, some, or all of the participants, according to rules agreed by the network (Fig. 36.1).

The Bitcoin protocol can be used to create smart contracts which are a part of Blockchain technology. Issue arises when there were differences in Shariah scholar's opinion as the Bitcoin is a digital currency or also known as cryptocurrency. Islamic countries such as Egypt, Pakistan, and Bangladesh have clearly pronounced it as non-



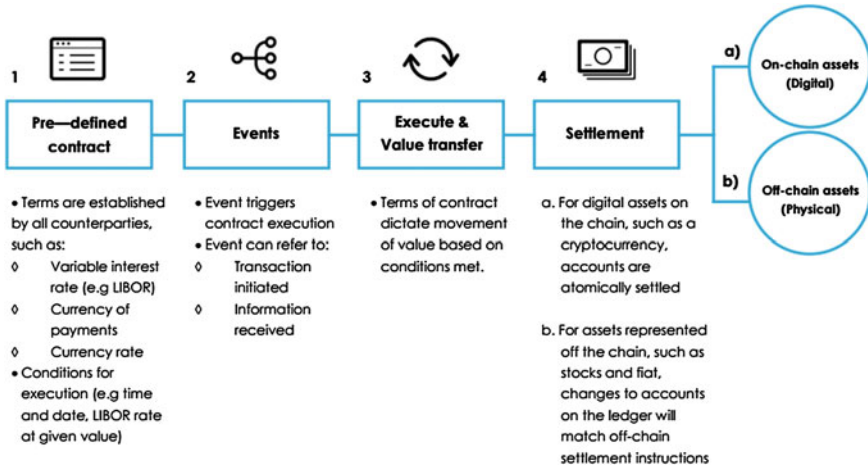


Fig. 36.1 Blockchain model for smart contract (blockchainhub.net)

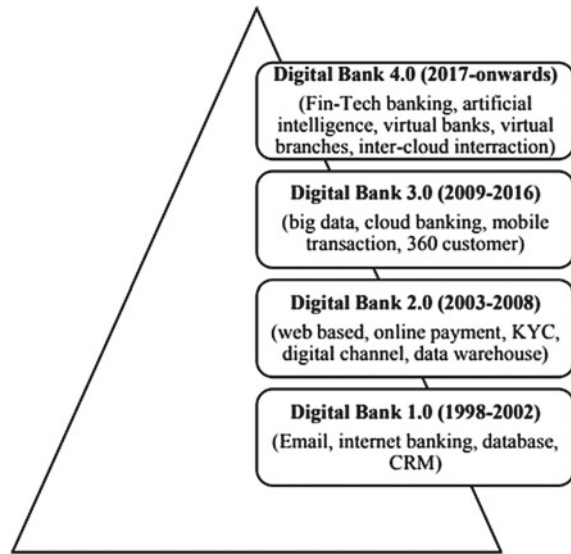
halal. However, the scholars have different opinion in countries like Saudi Arabia, Kuwait, Indonesia, Qatar, Oman, Bahrain, Indonesia, and Malaysia. Though the Bitcoin is not yet recognized as legal tender in Malaysia, the Bank Negara Malaysia’s Shariah Advisory Council has yet to be pronounced it as non-halal. In fact, there were FinTech start-up companies being recognized by the Bank Negara that practices digital currency’s transaction.

If we looking back at the banking evolution, FinTech banking, artificial intelligence, virtual banks, virtual branches, and inter-cloud interaction falls in Digital Bank 4.0 that is occurring across all the banking sector (Rahim et al. 2018) (Fig. 36.2).

Earlier in Digital Bank 1.0, which happened around 1998 until 2002, the industry was into Internet banking, database concept, and also customer relationship management. Moving to the year 2003–2008, the concept of online payment, web-based transactions, and data warehouse was focused on Digital Bank 2.0. Up until 2016, big data concept was the center of attention apart from cloud banking, mobile transaction, and it gets the complete view of customers by aggregating data from various touch points in which consumers interact with companies.

Nowadays, number of financial and banking companies has started adapting to the application of smart contract. Bank of Montreal in Canada believes that by practicing the technology, improve their deliverable and the efficiency found on the technology accentuate their effort in becoming a leader in trade and supply chain finance innovation (Jeffrey Shell, Managing Director and Head of Global Trade & Banking at BMO). CaixaBank in Spain believes that harnessing Blockchain technology offers enormous potential for driving digitization. It paves the way for international projects in collaboration with multiple partners, with these being created and designed to serve their customers.

**Fig. 36.2** Digital banking evolution (Rahim et al. 2018)



In Germany, Commerzbank processes around 30% of German foreign trade and a significant share of European foreign trade activities. As a strong partner for international trade finance, they committed to assist their clients with premium solutions as well as in mitigating risks.

These cases were aligned with the initiative launched by UBS and IBM (NYSE: IBM) in 2016 to build a new global trade platform based on Blockchain technology “Batavia.”

### 36.3 Smart Contract in Islamic Trade Finance

There are broad applications of blockchain technology, sometimes even beyond the FinTech industry (Bartoletti and Pompianu 2017). According to a WTO report in 2015, another related and significant application is international trade and it is associated with financing activities, which annually accounts for more than USD 10 Trillion.

According to Cong and He (2018), the Blockchain technology can assist to alleviate (and to a large extent, resolve) the abovementioned frictions in trade. Blockchain technology can offer two classes of solutions in trade. The first solution is the flow of goods, as a decentralized ledger so it can better track goods through the process in which goods are shipped, stored, and delivered. The second solution is more to the flow of money associated with trade (e.g., letter of credit and trade finance). In the future, the industry envisions a fully integrated system though at this stage both solutions are being developed in isolated ways.

Such Blockchain applications for trade and trade finance have passed the stage of proof of conception (Cong and He 2018). In the year 2016, Barclays and Fin-Tech start-up, namely Wave claim themselves as the first organization to complete a global trade transaction using distributed ledger or Blockchain technology. The letter of credit (LC) transaction between Ornua (formerly the Irish Dairy Board) and Seychelles Trading Company is the first to have trade documentation handled on the new Wave platform (Cong and He 2018).

### **36.4 Advantages of Smart Contract in Trade Financing**

By practicing, the smart contract in the Islamic trade finance could help to reduce uncertainty in the processing transaction. The contractual terms will execute only if the conditions are met. This requirement will make the whole process easy to verify, secure, and eliminate uncertainty in form of operational risk; from the settlement, administrative cost, also the legal complexities will be mitigated. Not only that, the Blockchain technology uses the cryptographic technique which requires the sender and receiver share a key, which is an item of secret information used to encrypt and decrypt data. Blockchain technology reduces the complexity by offering a way for market participants to access dematerialized assets directly without always going through other participants needlessly.

The smart contract application is using an escrow account to monitor the exchange between two parties. For example, in real estate transaction, the seller can use smart contract by setting up an escrow account to facilitate conditional transaction. Only when the buyer transfers the agreed amount of funds to contract account and after ownership has fully transferred, the contract would release the funds to the seller.

Islamic finance often underlines higher administrative and legal cost. Therefore, it is seen as imposing an incremental cost on the economy perspective. However, with the self-executing smart contracts, the problem can be resolved and it is being seen as an opportunity, and become more appealing among Muslims as there is no discrepancy.

In favor of Islamic Insurance industry or also known as Takaful, the automated computer program can be seen to improve or even reduce the operating costs. It could increase the speed of execution with greater efficiency in claims processing. The using of the peer-to-peer insurance concept with policyholders supporting each other financially comprising of “permissioned” ledgers which use legal entities to validate transactions and compatible with the existing regulations.

### **36.5 Conclusion**

Although there were obvious opportunities for Islamic trade finance and industry to adopt the smart contract technology, there were valid concerns on the threat to the industry. As the technology always changes, and not stagnant, the vulnerabilities

make the industry to think twice to adopt the concept without proper research, case study, and success stories to look upon. What can be considered as safe today, may not in the next year or even next month.

For Malaysia, as Addressed by the Deputy Governor's of Bank Negara Malaysia in Asian Banker Digital Finance Convention 2018, nine banks have come together to develop Blockchain applications for trade financing. With this current update, it is crucial for Islamic trade finance industry to ensure that they will be embracing the emerging of technologies and moving forward to keep up with the trends.

According to Cong and He (2018), smart contract effectively replaces the traditional process of trade finance in forms of paper contracts. Smart contract may help to improve to a more credible transaction without jeopardizing authenticity and its credibility. Certainly, smart contracts have the potential to revolutionize the trade financing and banking industry as a whole.

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# Chapter 37

## Business Strategies of Islamic Trade Finance Products for SME



**Arief Heikal Bin Mohd Zin, Mahzan Bin Noordin,  
Muhammad Hariz Bin Abdul Rahman and Ahmad Al-Amin Bin Faisal**

**Abstract** The purpose of this study is to explore and pinpoint some business strategies applied by other financial organizations for promoting their Islamic trade financing products, which can be helpful for new investors and old stakeholders in the sector of Islamic banking in Malaysia to penetrate the trade finance market. This study also highlights on what are the suitable and effective marketing strategies for promoting and increasing the awareness on Islamic trade financing products in Malaysia. Islamic financial organizations have developed different type of products which are Shariah-compliant as alternatives to conventional options. However, Islamic financing does not receive satisfactory support and participation from the public due to poor awareness of its products and services as well as misconception about Islamic values in the financial system. Some studies on product awareness show that people in Malaysia are aware of Islamic financing but were not aware of the products. For example, in the banking industry, 80% of the banking customers in Malaysia are aware of Islamic banking but were not aware of Islamic banking products such as Wakalah, Murabahah, and Musyarakah. Even though the Islamic trade sector is growing, the lack of awareness factor becomes a huge challenge for Islamic products to contest with the conventional methods which are adopted predominantly by most traders. This conceptual paper provides a comprehensive comparative review of the literature on marketing strategies of Islamic trade financing products led by other Islamic financial organizations or merging Islamic financial systems. The findings indicate that the potential for future growth of Islamic financing in trade market is highly dependent on promotional strategies and initiatives led by government bodies and their willingness to play their part in supporting the product development based on Shariah law. The result shows that financial organizations should focus into SMEs in which the rising of entrepreneurship and participation in the halal economy has prospective growth in Islamic trade finance. Most of the SMEs are still not aware of the Islamic products offered by the banks, due to lack of coordination between SMEs and banks. This paper also provides recommendations in the term of measures to be

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adopted in order to improve the marketing effectiveness of the Islamic trade finance products.

**Keywords** Marketing strategies · Trade finance products · Islamic

## 37.1 Introduction

The previous Governor of Bank Negara Malaysia (BNM) Tan Sri Muhammed Ibrahim in its recent Financial Stability Report stressed that there is a significant growth potential for trade finance facilitation, in particular, Islamic Trade Finance to support the multi-billion-dollar halal export industry, which can be seen through the increasing participation of SMEs in the halal economy, to meet the strong demand for halal products and services globally. Currently, Islamic trade finance represents only 3.4% of total trade, and less than a third of overall trade finance from the banking system.

BNM is also keen for Syariah-compliant trade financing to support 10% of total trade in the next three years and is currently consulting the industry on a broad range of trade finance and connectivity initiatives. Malaysia's Islamic finance industry has assets under management totaling RM742 billion last year, and is regarded as the most advanced in the world in term of architecture and diversity of products and services. Hence, BNM wants the industry to leverage this pole position and to account for 40% of total financing in Malaysia by 2020.

The government of Malaysia has also played a very significant role in promoting Islamic banking products in our country and has emphasized the need for SMEs to understand Islamic banking in particular Islamic Trade Finance. This is because securing facilities under Shariah-approved products and services provide them with several tangible benefits. However, despite the benefits available through Islamic finance over the last few decades, the awareness about its features, products or services, and benefits are not fully understood.

## 37.2 Research Objectives

The main objectives of this study are:

- First, to understand the level of awareness on Islamic trade financing products among SMEs in Malaysia
- Second, to explore and compare business marketing strategies that have been successfully implemented both at the local and international markets
- And lastly, to propose a recommendation strategy to promote and increase the awareness toward Islamic trade finance products in Malaysia.

### 37.3 Data Sources

To reach this, end data is collected from an interview session with one of the top local bank's marketing managers and other relevant secondary sources and analyzed to achieve the research objectives.

### 37.4 Literature Review

Half of the respondents are aware of Islamic banking in Malaysia. Level of understanding on the concept of Islamic banking is at the average level. 35.3% of the respondents perceive that Islamic banking products in Malaysia are not similar to the products of conventional banks. In this study, the marketing challenges can be classified into two categories: controllable and noncontrollable. The Islamic banking has to operate interest-driven financial market. Therefore, the nature of the market or competition platform cannot be controlled. It is neither feasible nor advisable to create another financial niche industry (Keong et al. 2012). SMEs have difficulties to get fund from the Islamic banks due of the requirement of the bank such as collateral. Most of the SMEs are still not aware of the product offered by the Islamic banks. There is a lack of coordination between SMEs and Islamic banks. The requirement of banks to approve SMEs loan on Islamic trade financing is one of the biggest challenge (Hameed and Abdullah 2017).

In the other hand, financial institutions must be able to deliver personalized and customized financial solutions. Important for institutions to understand the dynamics of customer segmentation, build customer relationships, and address requirements and preferences of specific segments of the market (Rammal and Zurbruegg 2007). However, the integrated product development group is developed towards maximization of profit (Ghalba and Wandebori 2013).

According to Wilson, an Islamic banking operation needs a distinctive brand from its parent for marketing purposes. Muslim clients will want assurance that their investments are segregated from riba-based deposits, and that they are deployed in accordance with the Shari'ah law (Wilson 1999). The lack of specially designed Shariah-compliance financial products resulted in financial exclusion for many Muslims, with adverse socioeconomic consequences. Alternative opportunities for all countries regardless of its religious nature, as in its modern version it represents "commercial banking" with a specific legal method, namely Shariah compliance (Asutay 2010).



### 37.5 Findings

#### Comparison Study Between Different Continents

Continent	Marketing strategies	Similarities	Differences	Issues
Asia	Training need analysis, competitive product strategies, and customer-centric marketing strategies. Exploit the advantages and differences of Islamic banking and conventional banking products	Customer-centric marketing strategies	Exploit the advantages and differences of Islamic banking and conventional banking products	Islamic banks and institutions face double regulatory hurdles affecting their marketing capability, have to comply with the regulatory supervision from central banks, but also to the regulatory supervision of Shariah supervisory councils
	Trade Shariah-compliant finance within a secular legal structure with no reference to Arabic terms. Fast and efficient service, confidentiality of bank, reputation of a bank	Efficient service	Trade Shariah-compliant finance within a secular legal structure with no reference to Arabic terms	Islamic finance and banking are governed under the same regulation, the banking act
	Efficient service. Partnership with developers and dealers so that marketing consumer products more easily absorbed (socializing products and rules)	Efficient service	Partnership with developers and dealers	Poor performance at branches toward customers because of lack of outreach programs

Continent	Marketing strategies	Similarities	Differences	Issues
America	Effort by Islamic organizations. In the USA, convenience was the most important factor followed by competency, recommendation by peers and free banking. Ethical investments	Ethical investments and efficient service	Effort by Islamic organizations	Target growth is focus on Muslim community only, due to political indifferences
Australasia	Affective communication plan that goes beyond just marketing and advertisement to ensure the populace is aware of how Islamic banking products operate	Lack of product awareness	Affective communication plan that goes beyond just marketing and advertisement	Not properly informed about how Islamic products function, lack of awareness on Islamic products. Another issue is that of sharing profit and not losses
Africa	Competency is the most important factor. Second factor is recommendation by peers. Invest on ICT infrastructure. Help via governance and control on Islamic products	Technology	Governance and control on Islamic products	Inadequate sensitivity to customer satisfaction
	Focus on fast and efficient service, lower bank chargers, lower administrative charges, and extensive branch network	Efficient service, lower charges	Extensive branch network	Consumer decision making of a bank is influenced by personal psychological external or social factors

Continent	Marketing strategies	Similarities	Differences	Issues
European	Increase the reputation of bank, low interest rate on finance, superior service	Low interest rate on finance	Increase bank reputation	Different schools of interpretation of Islam, also financial instruments differ. No Shariah advisory council
	Islamic banking is part of socially responsible investment sector. Promote ethical investments targeting non-Muslims	Ethical investments	Socially responsible investment sector	Customers lack of education about Islamic banking and their products
	Focus on promotions and via recommendations by peers to increase the reputation or image of the financial institution. Product branding. Support from government	Government support	Product branding	Lack of awareness by the Muslim community. Lack of initiatives by the community and government bodies. Issues on recruiting professional staffs. Regulation issues

### 37.6 Background Research: ITF Initiatives in Malaysia

Malaysia is considered as one of the leaders in Islamic economy and finance. Our government and the industry have put in many efforts to improve the Islamic trade finance sector. Such an example are the initiatives we have for assisting the SMEs to achieve the short and long-term targets.

Malaysia developed the VBI or Value-Based Intermediation system which aims to deliver the intended outcomes of Shariah through practices, conduct, and offerings that generate positive impact; to the economy, community, and environment, without compromising the financial returns to the shareholders. In simple words, it is the

Shariah-based approach which demands alignment of products and services to the reach the goal of Shariah, or maqasid al-Shariah. Banking institutions joined and formed the VBI Community of Practitioners in collaboration with BNM, would serve as a key driver for the adoption and implementation of VBI.

And one of the latest initiatives is the imSME, an online loan/financing referral platform by CGC which aims to help SMEs in Malaysia matching their business needs, with the right SME business loan/financing. There is an option to choose only Shariah-compliant products. We also have the Waqf fund to support economic empowerment, education, and health. And then, there is an ongoing effort to strengthen the understanding and compliance of Shariah. Investment Account Platform with the total of 95.3 Million Ringgit in 2017 to support entrepreneurship. There are efforts made by the Shariah Advisor Council, and then there is also Shariah professional certification.

Finally, Malaysia launched the Chartered Professional in Islamic Finance accreditation, with the purpose of producing high caliber professionals with the necessary technical skills and knowledge in Islamic finance. There are other initiatives which are not listed and most of them are with the intention to support businesses in Malaysia especially SMEs while promoting Islamic Trade financing industry.

### **37.7 SWOT/TOWS Matrix**

The SWOT matrix is used to generate strategic options by building directly on the information about the strategic position that is summarized in a SWOT analysis. In this sense, the TOWS matrix not only helps generate strategic options it also addresses their suitability. Each box of the TOWS matrix is used to identify options that address a different combination of the internal factors (strengths and weaknesses) and the external factors (opportunities and threats).

The following figure presents the SWOT/TOWS matrix which is developed based from the studies on Malaysian Islamic Trade Finance scenario. From the matrix, some significant points are chosen which are related between Islamic Trade Finance and SMEs. The strengths represents the internal advantages that Malaysia have to help the Islamic Trade Finance industry such as strong support from the government and OIC, while the weaknesses represent the internal disadvantages such as lack of ITF product awareness. Opportunities characterize the external advantages such as Halal economic growth, especially in SME market, and threats represents the external disadvantages such as operational risks and trade protectionism.

<p><b>SWOT/TOWS</b></p> <p><b>External Factors</b></p>	<p><b>Internal Factors</b></p>	<p><b>Strengths</b></p> <ol style="list-style-type: none"> <li>1. Government Initiatives</li> <li>2. Shariah values</li> <li>3. OIC membership</li> <li>4. Wide range of product offerings and services</li> <li>5. Large Muslim population</li> </ol>	<p><b>Weaknesses</b></p> <ol style="list-style-type: none"> <li>1. Lack of product awareness</li> <li>2. Misconception of product specification</li> <li>3. Process inefficiencies</li> <li>4. Traders lack of finance</li> <li>5. Overcrowded banking industry</li> </ol>
	<p><b>Opportunity</b></p> <ol style="list-style-type: none"> <li>1. Halal economic growth</li> <li>2. SME market/ entrepreneurship</li> <li>3. Non-Muslim market</li> <li>4. International alliances/partnership</li> <li>5. Technology</li> </ol>	<p><b>\$1S4O2: Shariah-compliance campaign/ awareness/ int. trade fair to domestic SME</b></p> <p><b>\$1S4O5: Digitizing fin. services via online platform</b></p> <p><b>\$2O3: Educate non-Muslim on Shariah value</b></p> <p><b>\$3O3O2: Innovate and customize Islamic finance product based on demand by non-Muslim</b></p> <p><b>\$3O4: Establish MOU/MOA between SME Malaysia and large corporation of OIC countries</b></p> <p><b>\$4O2O5: Credit Bureau SME (database, track record, profitability, credit history)</b></p> <p><b>\$4O5: Online application and guidance for working capital, trade facilitation</b></p>	<p><b>W5W3O1O2: Sharing of services under one stop trade finance centre</b></p> <p><b>W1O2: Alternative financial and religious benefit compared to conventional banking</b></p> <p><b>W2O3: Innovate products using non-Arabic terms/ Educate Non Muslim about concept of IIF</b></p> <p><b>W4O4O2: Financial assistance for SMEs</b></p> <p><b>W3O5: Using technology to improve efficiency</b></p> <p><b>W4O4: Innovate product based on region/ Organize event for creating awareness/ Partnership between merchants</b></p>
<p><b>Threats</b></p> <ol style="list-style-type: none"> <li>1. Operational risks</li> <li>2. Rising trade protectionism</li> <li>3. Negative perception of Islam</li> <li>4. Market risk</li> </ol>	<p><b>\$1T14: Complement IIF with Insurance related services</b></p> <p><b>\$1T2: G2G negotiation</b></p> <p><b>\$1T3: Educate the positive values of Islam</b></p> <p><b>\$1T4: Extensive market study</b></p> <p><b>\$3I2: OIC involvement in thinning barriers</b></p> <p><b>\$3I3: Promotes Islam in exhibitions, fair</b></p>	<p><b>W1T3: Create awareness and educate about IIF concept</b></p> <p><b>W3I14: Risk mitigation plan</b></p> <p><b>W3I2: Standardize working instructions</b></p> <p><b>W4I4T3: Promote IIF based on ethical banking</b></p> <p><b>W5I4: More control on banking industry</b></p>	

### 37.8 SWOT/TOWS Matrix on Malaysian Islamic Trade Finance

#### 37.8.1 *S1S4O2: Shariah-Compliance Campaign/Awareness/Int. Trade Fair to Domestic SME*

Since the issue is pinpointing to the awareness of IIF products among SMEs, more campaigns and trade fairs to should be held to assist SMEs in trading and promote Islamic Trade Finance. Regulators should also require institutions offering Islamic products to actively pursue awareness campaigns and to ascribe to high disclosure and transparency standards of the products offered.

#### 37.8.2 *W5W3O1O2: Sharing of Services Under One Stop Trade Finance Center*

Having a center which becomes the mediator/intermediary to correlate between SMEs and bank can help to adjust between business and financial support. Instead of SMEs finding financial support from each bank, or banks finding SMEs to promote their products, both parties just need to register their details at the Islamic trade financing center. The center will provide support in term of Islamic financial and business consultancies and arrange with banks which providing the appropriate products per cases.

### **37.8.3 *S4O2O5: Credit Bureau SME (Database, Track Record, Profitability, Credit History)***

This idea is to create a credit bureau for collecting the database on track records, profitability, and credit history of SMEs, which may assist when they need financial assistance. The database will be used for financial institutions to perform a background check and recommend which Islamic financial product suites the business needs.

### **37.8.4 *SIS4O5: Digitizing Financial Services Via Online Platform***

We are heading toward digital transformation and that is including Islamic financial services in Malaysia. Most of the services are made available online now and service providers such as banks should put extra effort to make sure that the SMEs are aware of the services.

## **37.9 Conclusion**

This paper has reevaluated business strategies of Islamic Trade Finance (ITF) products for SME, particularly the potential growth and the challenges. It is found that ITF shows high potential growth but it is behind the conventional ways due to lack of product awareness among SMEs in Malaysia. ITF products are needed upon the principle that the use of *Riba* (interest) is prohibited.

Globally, moving to Islamic financing proves to be a challenge when competing with conventional ways, but it shows high potential growth. Leading banks and financial institutions that must take the lead are controlled by non-Muslims and they are not interested to implement Islamic law in the international trade. Furthermore, the current standards in many Islamic banks and finance companies are not up to the international standards. The network of Islamic banks is not sufficiently widespread and unless it extends its reach to include all if not most countries it clearly will not be possible to the promotion of Shariah-based letter of credit on a global scale is quite difficult since not many countries are offering Islamic banking products and services.

Meanwhile, financial institutions in Malaysia have developed a range of interest-free ITF instruments that conform to Shariah ruling. The problem here is that SMEs, especially Muslims are not aware of the availability of ITF products either in Islamic financial institutions or conventional banking with Islamic window. The demand for Islamic products, especially ITF is not met with adequate outreach programs and awareness by these financial institutions. The problem should be addressed as 80%

of Malaysian businesses are from SME and efforts should be directed to promote ITF products in which the rising of entrepreneurship and participation in the halal economy has prospective growth. It must be noted here that as the halal market is growing, the needs of ITF products should also rise especially among SME Muslims. This lack of awareness is due to the lack of coordination between SMEs and banks. Thus, a platform for the development of SMEs halal products all the way to access in international markets should be Shariah compliance. As the halal business sector has made its whole pitch based on halal ingredients but there seems to be an odd disconnect between the halal business sector and ITF particularly.

### **37.10 Recommendation**

It appears that the efforts in enhancing awareness level on Islamic Trade Finance (ITF) products are low despite potential halal economic growth, huge SME market among Muslim and Bumiputera entrepreneurs, non-Muslim market, international alliances and partnership, and technology advancement. Essentially, financial institutions, particularly in Malaysia, should increase awareness level through the campaign which includes media and trade fair on the basis of competitiveness.

They should also arrange some seminars, events, and talks for managers of SME particularly as to make them realize the actual essence of ITF. Efforts on the promotion of ITF should also be expanded to various SME development agencies to facilitate international trade. Awareness of ITF should also touch on how it is different from conventional banks and how it is in line with the Shariah.

An integrated SME database should be established for banks to advertise their ITF products and probably digitizing these financial services via online platform. A prudential requirement should also be in place for banks by establishing specialized credit bureau through this database which contains records of track record, profitability and credit history of SME. This database should facilitate SMEs together with Shariah-compliance ITF offered to export their products particularly the recently introduced digital free trade zone. By integration of aggressive marketing of SMEs product in international arena coupled up with ITF products, support for 10% through ITF will be achieved in the year 2020.

By complementing contribution from researches through surveys to explore and exploit the SME market segment and other areas with potential. The SMEs need to further explore ITF products in order to increase better revenues through exports or within the boundaries of Islamic trade finance.

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# Chapter 38

## Islamic Trade Finance: Revitalizing Trade and Unlocking New Potential



Amir Shaharuddin

**Abstract** Malaysia's total international trade was recorded worth RM1.774 trillion in 2017. This includes RM935.9 billion of exports and RM838.14 billion of imports (MATRADE in Malaysia's trade performance 2018, 2018). However, Islamic trade financing represents only 3.4% or worth of RM50.3 billion of the total source of financing for the trade. It is targeted that by 2020, Islamic banks should increase their market share in this segment by 10% (BNM in Financial stability and payment system report 2016, 2016). Hence, the present paper investigates challenges faced by Islamic banks in embarking into international trade activities more significantly. It reviews various industry reports in the subject to comprehend the untapped potential of global trade opportunities. Then, the focus group meeting was conducted with mixed of experts from industry practitioners, regulators and Shariah scholars to discuss further the issues. Findings of the study are vital in expanding the boundaries of Islamic finance and halal products and services industries.

**Keywords** Islamic trade finance · Halal industry · Islamic banks

### 38.1 Introduction

International trades have a key role in economic development because it promotes investment, creates jobs and raises the standard of living. It is generally acknowledged that no country has sufficient quantity of natural resources and adequate skill and technology to meet the demands of its peoples. Therefore, country exchanges commodities and manufactured products across borders to enable their peoples to enjoy a greater variety of goods and services. This is the essence of international trade. It has occurred since the earliest human civilization and increasingly become an important part of the modern economy.

According to the World Trade Organization (WTO), global trade has historically grown faster than the national gross domestic product (GDP) between 1950 and

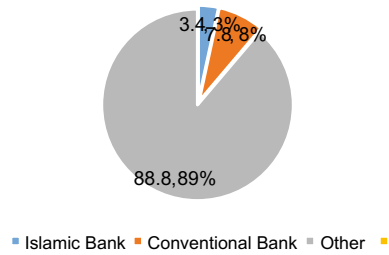
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**Diagram 38.1** Source of financing for trade. *Source* Bank Negara Malaysia (2016)

Source of Financing for Trade



2012 (cited in Vicary Abdullah 2016). The growth of global trades in the modern economy is driven by two main reasons. First, almost all countries in the world have become more open after the collapse of the Soviet Union in 1991. Countries open up their borders for international trade when they see that open economies grow faster than their counterparts (Zahonogo 2016). Local companies benefit from the trade openness as it provides opportunities to venture into the new market and thus allows them to produce greater scale to meet foreign demands. Second, the role played by international trade institutions contributes to aid for trade support for developing countries, particularly the least developed countries. For instance, 146 countries received USD300 billion from the WTO since 2006 to build their trading infrastructure and capacity. The impact of these aid programmes is obvious as the global trade in developing countries increases from 28 to 42% (WTO 2017).

As relatively a small country, Malaysia is no exception to its reliance on international trade as the stimulus for economic growth. For the past three decades, Malaysia trade experienced remarkable performance. In particular, in 2017, the country’s trade rose by 19.4% to RM1.774 trillion compared to RM1.486 trillion recorded in the previous year. Higher trade with ASEAN countries which expanded by 21% and China by 20%, respectively, had contributed to this bizarre achievement. Malaysia’s trading partners also widened since a significant increase in trade was recorded with countries such as South Korea, Turkey, the United Arab Emirates (UAE), Iran, Bangladesh and Brazil. Perhaps the most important point in relation to Malaysia’s international trade performance is its trade surplus recorded in 2017 which stood at 10.3% to RM97.25 billion (MATRADE 2018). This indicates that the country’s international receipt is greater than its international payment.

However, it is noticed that the role played by local Islamic banking institutions is insignificant in this respect. As illustrated in Diagram 38.1, Islamic banks only contributed 3.4% of the total source of financing for trade in Malaysia in 2015.

Hence, international trade finance has remained largely untapped by Malaysia’s Islamic banking industry. This should not be the case for Islamic banks because involvement in trade and real economic activities is the core of Islamic finance principles. Furthermore, active facilitation role in the trade finance by Islamic banks will present great opportunities to spur the halal industry especially among the small

and medium enterprises (SMEs). Therefore, BNM has set a target for the Islamic banking industry to increase their market share to 10% by 2020.

Against this background, the paper aims to realize the aspiration by investigating challenges faced by the Islamic banking industry in embarking more aggressively in international trade facilitation. The objective of the paper is achieved by adopting qualitative study whereby a focus group meeting was conducted with 30 experts representing industry practitioner, regulator, academician and Shariah scholar. They are posed with semi-structured questions and issues derived from the review of existing literatures which are mainly from industry reports produced by multilateral bank institutions such as Asian Development Bank (ADB), African Development Bank, International Islamic Trade Finance Corporation (IITFC), etc.

The paper is organized into five sections. After this introductory section, the subsequent section reviews previous studies related to Islamic trade finance area. Then, Sect. 38.3 explains briefly the methodology used in the study. After that, Sect. 38.4 discusses the findings and Sect. 38.5 concludes the preceding discussions.

## 38.2 Islamic Trade Finance: What Have Been Studied?

In comparison to other sectors in the Islamic finance industry (i.e. Islamic capital market and *Takaful*), Islamic trade finance did not receive much attention from scholars. This is a striking finding given the fact that trade and real economic activities are emphasized by scholars as the distinctive feature of the Islamic finance system. To the best of our knowledge, we found only one substantive study in this subject conducted by Sharifah Faigah Syed Alwi (2012). However, her focus is more towards examining the Shariah and the regulatory issue of Islamic trade finance which is not the main issue examined in this paper. The other two works found do not adequately reflect discussion in trade finance as suggested by their titles.

Therefore, the following discussion will review briefly previous works from conventional trade finance in order to establish the context of the discussion. The role of international trade in economic development has been a subject of debate in the study of economic development literature. There are abundant of past studies which examined the relationship between trade and openness and economic growth across the globe. Most studies support the significant contribution of international trade to economic growth (Afonso 2001). However, there are some studies indicate that trade barriers also positively associated growth especially in developing countries (Yalikkaya 2003).

Business opportunities for trade finance exist almost in all parts of the world even in the countries where trade barriers are imposed. There are three basic theories that explain why international trade is necessary in the context of the modern economy. According to H–O model developed by Eli Heckscher and Bertil Ohlin (as cited in Jones 1956–57), countries will develop their own specialization in production of goods based on abundant local factors that they possessed. They will try to expand

their scale of production and exports products overseas. Meanwhile, countries where resource are scarce will import those goods.

The theory of comparative advantage state that countries should specialize in those goods they have a relatively lower opportunity cost. India with lower labour costs may have a comparative advantage in labour-intensive production (e.g. call centres, clothing manufacturer). Therefore, it would be efficient for India to export these services and goods, while an economy like the UK may have a comparative advantage in education and video game production.

New trade theory placed less emphasis on comparative advantage and relative input costs. New trade theory states that in the real world, a driving factor behind the trade is giving consumer greater choice of differentiated products. We import BMW cars from Germany, not because they are the cheapest but because of the quality and brand image. Another aspect of new trade theory is that it does not really matter what countries specialize in, the important things are to pursue specialization and this enables companies to benefit from economies of scale which outweigh most other factors.

### ***38.2.1 The Four Pillar of Trade Finance***

Generally, trade finance covers four main aspects: payment facilitation, financing, risk mitigation and provision of information about the status of payment of shipments. When a seller/exporter receives a purchase order that stipulates payment after delivery, the seller has to produce and ship a product before the buyer pays. Normally, this requires banks intermediation to settle the payment and financing over short horizons because the seller may need to borrow working capital to complete the order. In addition to that, both contracting parties may purchase credit insurance to protect against counterparty defaults.

A survey conducted by Committee on the Global Financial System (CGFS 2014) found that letter of credit (LC) was the most commonly used trade instrument which covered one-sixth of total trade globally. LC represented USD2.8 trillion from a total of USD6.5–8 trillion bank-intermediated trade finance in 2011. It was also estimated that a third of global trade is supported by more than one trade finance instruments. Global banks such as HSBC (UK), Industrial and Commerce Bank of China, and Deutsche Bank appear to dominate about one-quarter to a third of global trade finance and almost half of their exposure is to facilitate international trade transactions in emerging Asia. Another study conducted by Ahn (2014) revealed that post-shipment term accounts for 80–90% of total import transactions in Colombia and Chile. In terms of financial stability risks, it is found that losses on trade finance portfolio historically have been low. Given their short-term nature, banks have been able to quickly reduce their exposure in times of stress.

There is a recent study by Deloitte (2017) which states that blockchain based infrastructure can improve efficiencies in processing banking document, reduce cost base and open up new revenue opportunities. The manual due diligence checks

through piles of paperwork could be eliminated by having a Fintech system which provides trusted and transparent in web-based platforms (Bianchi 2017).

Perhaps, strategic questions that need to be raised here are as follows: What is the current state of Islamic trade finance instruments as compared to the offerings of global banks? Do Islamic trade products have the appeal for exporters and importers? How Islamic banks could increase their market share in international trade transactions? What is the capacity of Islamic banks to compete in the era disruptive technology?

### ***38.2.2 Initiatives Taken by Islamic Development Banks (IDB)***

With a combined GDP of US\$6.7 trillion and a population of 1.7 billion, the Islamic Development Bank (IDB) member countries have the potential to become an engine of global trade. Many of 57 IDB member countries are among the world's largest exporters of strategic commodities, such as oil, natural gas, wheat, rice and cotton. They are also among the world's largest importers of food and agricultural products, various consumer goods as well as machinery and equipment. As the Islamic economy grows in prominence, it is argued that there is a strong need for Shariah-compliant trade finance products and services.

In order to foster intra-trade activities among its member countries, IDB established an autonomous entity known as the International Islamic Trade Finance Corporation (IITFC) in 2008. IITFC assists member countries to gain better access to trade finance and help them to build necessary trade infrastructure and capacity. Since its inception, the IITFC has extended nearly US\$30.5 billion in trade financing of which it allocated nearly 47% to the least developed member countries. It has organized and supported more than 200 operations in the areas of development and trade facilitation. The IITFC also contributed to the aid for trade initiative of the global initiatives aimed at strengthening the capacity of developing countries to participate inland benefit from international trade.

In addition to that, Islamic Corporation for the Insurance of Investment and Export Credit (IICIEC) was established to widen the scope of trade transactions among its member countries. IICIEC trade credit and investment risks insurance products enable the connectivity of business communities within its member countries and worldwide. However, the question remains; how all these institutions could boost the market share of Islamic banks in the global trade finance activity?

There is significant growth potential for trade facilitation to support halal export which can be seen through the increasing participation of SMEs in the halal economy. Currently, the export contribution of Malaysian SMEs (as example) is still low, representing only 17.8%. The government has the aim to increase the exports up to 23% by 2020. Hence, this provides local Islamic banks opportunities to work with fast-growth companies and develop tailored trade finance products that suit them. Islamic banks need to look beyond their traditional methods of mobilizing resources

and explore alternative financial instruments and mechanisms to support trade finance among the halal SMEs.

### **38.3 Research Approach**

The review of past studies raised a number of issues to be further discussed. In order to investigate the issues, a focus group meeting was held with 30 experts on 4th October 2017 in conjunction with Kuala Lumpur Islamic Finance Forum (KLIFF 2017). The experts consist of 13 industry practitioners, 7 Shariah scholars, 9 academicians and 1 regulator. Qualitative method is thought the most appropriate to realize the objective of this study because the issues are exploratory in nature and are not well defined. Hence, experts' views during the meeting could be captured to understand the challenges faced by the Islamic banking industry. Focus group meeting is found to be an effective way in obtaining insight from different experts who are difficult to meet. In order to give an overview of the issues discussed, the focus group meeting started with the presentation by Dato' Adi Salikin, managing director of RHB Islamic bank and followed by open discussion. The focus group meeting was chaired by Datuk Dr. Mohd. Daud Bakar, a prominent Shariah scholar and practitioner in the Islamic finance industry. The meeting was held for two hours and properly tape-recorded and written noted.

### **38.4 Findings and Discussion**

Basically, all the experts agree that it is time for Islamic banks to participate more aggressively in trade finance businesses. It was largely untapped market because the concentration before was into retail consumer products. However, when all the players in the industry are pushing towards the same things, the market gradually become congested. However, there are five major challenges faced by local Islamic banks in pursuing the agenda. The challenges are:

- I. The depth and breadth of Shariah-compliant products and services offering  
Currently, Islamic trade products that available in the market can be considered competitive compared to their conventional counterparts. As demonstrated in the diagram two above, most of the facilities needed by importers and exporters are now offered in compliance to Shariah principles. This initiative by local Islamic banks in Malaysia deserves acknowledgment. However, it is noticed that not all Islamic banking players offer a similar wide range of trade finance facilitation. Some banks offer a comprehensive supply chain of products and service whereas some only offer the basics. In order to create a healthy competitive environment, it is advisable for all banks to enhance their trade finance facilitation. The new product development is the most sought after to differentiate Islamic banking products from the conventional one.

Islamic banks	Islamic trade products and services													
	LC	AB	SG	TR	BG	InvF	ECR	BP	BC	TF	CBN	FCTF	CM	LCT
AFFIN	✓	✓	✓	✓										
Al-Rajhi	✓		✓		✓					✓				
Alliance										✓				
AmBank		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		
BIMB	✓	✓	✓				✓			✓				✓
Muamalat		✓	✓		✓			✓	✓	✓				
CIMB	✓	✓	✓	✓					✓					
HSBC	✓		✓	✓		✓		✓	✓					
HLIB	✓	✓	✓	✓	✓	✓								
Maybank	✓	✓	✓	✓	✓		✓	✓	✓			✓	✓	
OCBC	✓	✓		✓	✓	✓		✓						
RHB		✓		✓				✓		✓		✓		
Standard	✓	✓	✓		✓					✓				

As far as the Shariah aspect is concerned, there are many Islamic classical contracts and principles to support trade activities. Between the ninth and fourteenth centuries, the Muslim world developed many advanced concepts, techniques and use in production, investment finance economic development, taxation, property use such as *hawala* an early informal value transfer system. Arab merchants also created new financial instrument called *sakk* which very similar to cheque in our time. During the mediaeval Islamic civilization, a bank could accept a deposit in Baghdad and pay out a *sakk* (cheque) against the same deposit at a bank in Cardova or in China. Arab traders also formed the first simple versions of joint-stock companies. Islamic merchants would trade with capital borrowed from investors dividing the profits among the investors. The new Islamic trade practices were quickly copied by their European rivals, first by the Venetians (Skeen 2008).

## II. Lack of expertise and talents

Trade finance requires specialists and specific skills. It needs an individual who can engage with a wide range of audience, perform a variety of technical and analytical functions of trade transactions and must pay attention to details in banking documents. It is generally acknowledged that these skills are acquired after years of experience. It is viewed by the experts that the local Islamic banks still lack specialists and talents in this aspect. Recruitment of right and young talents is seen as a possible solution.

## III. In existence of world recognized leader player

Global banks enjoy high reputation and have strong networking worldwide. These two elements are the strongest points to appeal to major importers and exporters to use Shariah-compliant trade finance products. In view of this, the experts wish for a strategic move to positioning a local Islamic bank as a leader in

Islamic trade finance. Greater collaboration with other institutions such as IITFC and Malaysia Export Credit Insurance Berhad is thought would help to realize the ambition. Some big Islamic banks such as Maybank Islamic, CIMB Islamic and RHB Islamic could leverage on their business in ASEAN countries to increase their Islamic trade finance operations. Meanwhile, Standard Chartered Saadiq could benefit from its parent's experience and networking being as a global bank.

#### IV. Optimization of Fintech

It is generally agreed that advancement in connectivity technology will shape the future of trade finance business. However, the experts were of the view that local Islamic banks should ride in pride with the Fintech and adopt quickly new system to improve trade finance operations. It is understood that some local Islamic banks already have the Fintech capability, but perhaps because of lack of priority given to the trade business the Fintech is left under optimization.

#### V. Lack of awareness and promotion

Lack of awareness and promotion on Islamic trade finance products among local importers and exporters is seen as the reason behind the small market share of Islamic trade finance sector. Perhaps, the workable suggestion is for Islamic banks to collaborate with MATRADE in obtaining the list of firms which deals with international trade transactions. Islamic bank should act strategically to capture the larger market in the trade finance business. The move towards increasing market share and priority attention must be obtained from the top management of the bank to ensure its success.

## 38.5 Conclusion

Islamic trade finance has great potentials to become a significant component of the Islamic banking business. This is based on the fact that global trade activities have recovered steadily after the global financial crisis of 2007–2008. Many developing countries including Malaysia record high growth in export and import transaction. However, the current data shows that only a small portion of these trade finance transactions was conducted through Islamic bank intermediation. Thus, the paper investigates the challenges faced by the local Islamic bank in capturing larger market share in the trade finance business. The five challenges identified are the need of more comprehensive products offerings by all Islamic banks, lack of expertise and talents, inexistence of world recognized leader player, optimization of Fintech and lack of awareness and promotion. It is hoped that the findings in this paper could help many SMEs in the halal industry to venture into global trade.



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# Chapter 39

## The Development of Islamic Trade Finance in Malaysia: From the Bankers' Perspectives



Sharifah Faigah Syed Alwi, Mohamad Nizam Jaafar, Ismah Osman and Amirul Afif

**Abstract** The sustainability of productive economy should also be supported by the Islamic banking industry, through the realization of Shariah principles, especially in promoting trade and the halal economy. Trade financing is one of the main banking facilities offered by Islamic banks in Malaysia. However, as of 2016, Islamic trade finance represents only 3.4% of total trade, and less than one third of the overall trade finance of the banking system. Apparently, the Central Bank of Malaysia aspires to increase a 10% growth in Islamic trade finance of the total trade, locally and internationally, in the next three years. Therefore, this study intends to highlight the bankers' opinion in relation to the roles of the Central Bank of Malaysia, particularly in facilitating the growth of Islamic trade finance in Malaysia. Furthermore, this study also identifies the reason for the slow growth of Islamic trade finance in Malaysia. This study adopted the qualitative method where interviews were conducted with bankers from three main banks that offer Islamic trade finance facility. Consequently, it is suggested that the Central Bank of Malaysia needs to promote the growth of Islamic trade finance by providing more incentives to the banks and customers, predominantly in terms of the pricing, stamp duty remission and rebate, and some other forms of reinforcement. Additionally, the Central Bank of Malaysia has to encourage all the conventional banks which have Islamic banking windows to apply "Islamic first" policy to support the growth of Islamic trade finance.

**Keywords** Shariah · Islamic trade finance · Incentives

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## 39.1 Introduction

The dire needs of the market to trade financing has encouraged the banks in Malaysia to offer facilities for both, the domestic and international trades, concomitantly. According to Pang (1988), the domestic trade or local trade is crucial as it incorporates the buying and selling of merchandises through the general population in the nation, involving retail and the wholesale trade which include the growers, importers and manufacturers. On the contrary, the international trade or foreign trade is the external trade of the country which includes the exchange of commodities between the country and other countries involving the import and the export trading. Hence, international trade is imperative due to unlimited consumption for variety of products, economies of scale in production, as well as efficient allocation and enhanced utilization of resources.

The Central Bank of Malaysia (2018) stated that currently, there are 16 Islamic banks in Malaysia as at May 2015 which operates side by side with the conventional banks in a dual banking system. There are many Islamic trade finance facilities such as Letter of Credit-i, Trust Receipt-i, Accepted Bills-i, Inward Bills for Collection-i, Outward Bills for Collection-i, Bank Guarantee-i, Shipping Guarantee-i and Export Credit Refinancing-i. These Islamic trade finance facilities are originated from the conventional facilities. However, Islamic banks in Malaysia have to offer these facilities to cater to the trade financing needs of the Muslim society, and consequently, they need to be compatible with services of the conventional banks. Moreover, the Islamic banks provide specific facilities and financing mostly on short term basis for the purpose of facilitating trade or working capital for their customers. Essentially, those facilities may be arranged in relation to the purchase or import and sale or export of goods and machineries, the acquisition and holding of stock and inventories, spares and replacements, raw materials, semi-finished goods and others (International Shari'ah Research Academy (ISRA) 2016; Thani et al. 2003). More importantly, the Islamic trade finance facilities offered by Islamic banks have distinctive features, compared to other conventional trade finance facilities, offered by the conventional banks.

It is important to note that Islamic banks need to ensure that the facilities and services offered in the bank are Shariah compliant. In order to be Shariah compliant, Islamic bank has to comply to the Shariah principles elements including free from riba (usury), the application of trade and commerce (*al-bay'*) through certain contracts, avoidance of ambiguity (*gharar*) in contractual agreement, avoidance of gambling (*maisir*) and disengagement from production of prohibited commodities in Islam namely pork, liquor, tobacco and others (Securities Commission Malaysia 2009).

The whole operation of Islamic banks is embedded by Shariah values which promotes economic and social justice. Islam promotes all types of Islamic banks activities which lead to prosperity and happiness for the whole community. Simultaneously, Islam forbids banking activities which involves the giving and charging interest as it sustains values of individualism, self-interest and greed (Laldin 2008). In the Holy Quran, Almighty Allah has permitted trade and forbidden interest or usury

(*riba*). Therefore, all Islamic banks are currently operating almost similar to conventional banks and perform all sorts of conventional banking operations as approved by Shariah without resorting to interest. Islamic banks offer general banking operations such as accepting deposits and carrying out investments from those customers' deposits, giving out financing through equity and debt financing, agency services for customers, involvement of foreign exchange business, facilitating trade finance and others. Consequently, the relationship of Islamic banks and their customers is more than just being lender-borrower relationships (Pramanik 2007).

Through the realization of Shariah principles especially in promoting trade and the halal economy, the sustainable growth of productive economic industries should be embraced by the Islamic banking industry. Islamic financial institutions are presented with an opportunity to target companies, particularly in the halal sector and further providing financial solutions which can promote to expand the asset-based and outreach of the global Islamic finance industry. The halal industry is a cross border business sector, and consequently, halal firms are heavily involved in international trade which involves Islamic trade finance facilities, which are the main banking facilities offered by Islamic banks in Malaysia.

As of 2016, Islamic trade finance represents only 3.4% of total trade, and less than one third of the overall trade finance of the dual banking system in Malaysia. Hence, the Central Bank of Malaysia queries about the slow pace of growth of Islamic trade finance and aspires that in the next three years it is able to support 10% of the total trade growth, locally and internationally (Bank Negara Malaysia 2016). Based on the interviews conducted with the bankers from three main banks that offer Islamic trade finance facility, they proposed some important elements to the regulators in order to promote the growth of Islamic trade finance in Malaysia. A large percentage of the trade finance customers is mainly comprised of the small and medium enterprises (SMEs), which are relatively owned by non-Muslim and apparently, to market Islamic trade finance to these groups requires a breath taking effort. However, if there is a clear evident of its advantages over the conventional facilities, the switch over is a hard sell. The trifling advantages of no commitment fees, penalty charges on early settlement, low *ta'widh* (compensation) rate in the Islamic finance space, seemingly to be intangible benefits which are insufficient to entice the crowd. With no pricing advantage, the Islamic trade finance therefore offers no distinctive gain over the conventional counterparts. Thus, there are two main objectives of this paper. Firstly, it attempts to highlight the bankers' perspectives in relation to the roles of the Government of Malaysia of Malaysia, particularly in facilitating the growth of Islamic trade finance in Malaysia. Secondly, it endeavours to identify the reasons for the slow growth of Islamic trade finance in Malaysia.

## 39.2 Methodology

This research adopts the qualitative method as the main research methodology. Semi-structured interviews were conducted with the bankers from three main banks that

offer Islamic trade finance facilities namely Ambank Islamic Berhad, Export-Import Bank of Malaysia Berhad and Bank Islam Malaysia Berhad. The three bankers involved directly with the trade finance department in their banks. The points gained from the interviews session are highlighted and some recommendation are proposed by the bankers to promote Islamic trade finance. All the respondents wanted to remain unidentified or anonymous. Thus, they will be marked as R1 to R3.

### **39.3 Finding and Analysis**

#### ***39.3.1 First Objective: The Roles of the Government of Malaysia of Malaysia in Facilitating the Growth of Islamic Trade Finance***

##### **39.3.1.1 Remission of Stamp Duty**

All the three bankers highlighted the main role of Government of Malaysia, particularly the Central Bank to promote the Islamic trade finance through the remission of stamp duty. The discount on stamp duty on all Islamic financing documents was lifted in 2015. As such there is no savings on stamp duty. The incentive should be maintained as cost savings to customers and also the selling point for banks to market Islamic trade finance. R1 from Ambank Islamic Berhad highlighted that the Government of Malaysia should focus on giving the incentives particularly to the SMEs since they are the backbones of Malaysia in terms of employment opportunities and economic growth. R1 stressed that even though the Government of Malaysia may lose its income by applying this incentive, but from the other perspective it will surely promote the Government of Malaysia's aspiration to become the Islamic financial hub by supporting more Islamic trade finance facilities.

##### **39.3.1.2 Target Setting by the Government of Malaysia**

R2 from Export-Import Bank of Malaysia Berhad emphasized that the Central Bank of Malaysia has to set target to be achieved for all banks to achieve bigger Islamic trade finance growth. In particular, for those banks that provide both Islamic and conventional trade finance facilities at their banks, they should prioritize selling Islamic trade finance facilities, unless the customer requests otherwise. The banks that provide both Islamic and conventional trade finance facilities at their banks should also educate their customers especially the non-Muslims in which the customers will gain more benefits especially in promoting their companies to turn out to be Shariah compliant companies (to be listed under Shariah-approved securities). More importantly, the banks that achieve the target should also be given tax relief from the

Government of Malaysia as a stimulus to encourage more involvement with Islamic trade finance facilities.

### **39.3.1.3 Allocation of Funds from the Government of Malaysia**

R1 from Ambank Islamic Berhad mentioned that the Government of Malaysia has allocated certain fund under The Green Technology Financing Scheme (GTFS) which starts in 2018 until 2022 with the Government of Malaysia approving a RM5 billion allocation (a 2% subsidies from the Government of Malaysia or the 60% guarantees from the Credit Guarantee Corporation). However, the allocation is only meant for SMEs which adopts term financing facilities, and evidently it is not for the Islamic trade finance facilities. On the other hand, R3 from Bank Islam Malaysia Berhad shared that SME Corporation Malaysia (SME Corp. Malaysia) also provides Shariah-compliant SME Financing Scheme with subsidy rate of 2% (additional RM1 bil in Budget 2018) of the profit rate charged on the financing provided by participating financial institutions. However, the allocation is just for SMEs who acquire term financing facilities and not for the Islamic trade finance facilities, particularly because of the revolving nature of trade finance. Some new efforts or mechanisms needs to be implemented to enable this scheme to be offered to Islamic trade finance facilities as well as the term financing facility.

## ***39.3.2 Second Objective: The Reasons for the Slow Growth of Islamic Trade Finance in Malaysia***

Based on the interviews with the three bankers, this study found that there are few reasons contributed to the slow growth of Islamic trade finance in Malaysia.

### **39.3.2.1 No Pricing Advantage**

All of the three bankers unanimously agreed that there is a very slight differences between Islamic and conventional trade financing, especially when it involves pricing, and coincidentally, the banks have difficulties to promote Islamic trade finance. Previously, they can promote Islamic trade finance facilities because of the main advantage given by the Government of Malaysia namely the stamp duty remission. At present, however, no more stamp duty remission can be applied for Islamic trade finance facilities.

### 39.3.2.2 Additional Transaction Document

R3 from Bank Islam Malaysia Berhad highlighted that it is inevitable that the Islamic transaction requires additional document for contract execution, especially for *wakalah* (agency) and *wa'd* (promise) contract. Eventually, this will create confusion among the customers. More importantly, additional legal document means more legal fees. R3, therefore, proposed to the Central Bank of Malaysia to issue a standard and simple documentation for Islamic trade finance facilities to be used by all the banks in Malaysia without discounting the Shariah requirements.

### 39.3.2.3 Staff Awareness

All the three bankers are on consensus that bank staff needs to be adequately trained on all aspect of Islamic trade finance offerings to convince the customers to embrace them. Target setting on the achievements of Islamic trade finance should be instituted by the banks. Significantly, educating customers is imperative towards engaging them on subscribing to Islamic trade finance.

### 39.3.2.4 Choice of the Banks to Offer Islamic Trade Finance

Without doubt, Islamic trade finance can only be offered to halal business companies. Indeed, there are many corporations that are entitled for Islamic trade finance especially with halal business, although we witness the low penetration of Islamic trade finance in Malaysia. There is a huge question mark on why the growth of Islamic trade finance is very low, as compared to the conventional trade finance. Possibly, either there are many non-halal business as compared to halal business in which certainly could not be financed under Islamic trade finance facilities, or perhaps the banks themselves do not offer or promote Islamic trade finance facilities to the customers.

In simple example, let say a bank (having a conventional and Islamic window) issuing a trade finance facilities amounting to 1 billion. From the total amount only 10% is done through Islamic trade finance and the rest 90% is conventional trade finance. What would be the reason for this situation? It is very pertinent for the Government of Malaysia to play a role to promote more of Islamic trade finance facilities and simultaneously, advocate more incentives for SMEs and other business corporations towards Islamic trade financing. More importantly, perhaps the Government of Malaysia has to encourage the banks that offer both Islamic and conventional trade finance facilities to practice "Islamic first" policy to support the growth of Islamic trade finance.

## 39.4 Conclusion

The Government of Malaysia, especially the Central Bank of Malaysia needs to play an important role in promoting the growth of Islamic trade finance by providing more initiatives to the banks and customers, predominantly in terms of incentives and some other forms of stimulus, including stamp duty remission, as well as target setting of the bank and the allocation of funds. Apparently, banks in Malaysia should support the growth of Islamic trade finance by promoting the facilities to their customers. Concurrently, banks should educate their staff and customers about the benefits of Islamic trade finance.

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# Chapter 40

## Halal Trade Finance and Global Well-Being: Here Come the Millennials



Rosylin Mohd Yusof, Akhmad Affandi Mahfudz and Sabariah Yaakub

**Abstract** The growth of the young Muslim population is escalating. According to the State of Global Islamic Economy Report (2016/17), by 2030, 29% of the global young population is projected to be Muslims. This young population is, also referred to as Millennials (born between 1984 and 2000) are expected to play a vital role in the global economy. Characterised as a unique and affluent segment of the population and at the same time having attributes such as brand loyal, affluent, brand loyal, tech-savvy and demands instant access to information, the millennials are expected to form a new demographic customer base. This study seeks to examine the issue of well-being and how the landscape of global well-being via Halal trade finance is expected to change with the emergence of the Millennials as a new market segment. In addition, through library research and reviewing existing literature on Millennials, the study seeks to shed some light on whether Halal trade finance is ready to offer services that meet the needs and demands of this technology-driven generation.

**Keywords** Halal trade finance · Millennials · Trade finance · Islamic trade finance

### 40.1 Introduction

Islamic trade finance has been historically proven as the best practice of halal trade finance where the Prophet Muhammad (p.b.u.h) began the trade even before his prophetic mission (Risalah Nubuwwah) disseminated to the ummah. Today, trade has been recognised as a significant tool to boost national economy. Islamic trade finance cannot grow by itself without the overall growth of Islamic finance locally and globally.

Trade can enhance and leverage a country's need to goods and services, technology and others. In fact, trade can foster and trigger entrepreneurial activities that create

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jobs and demand for production and consumption. An access to trade, therefore, is vital and essential for every country as it helps to boost export and import in the international market. Based on OIC global trade statistics, the current potential market for Islamic trade finance could be more than \$1.56 trillion.

However, many empirical studies revealed that the volume of global trade hitherto plummeted in the face global competition particularly among Muslim countries. One of the major issues is the lack of young generation who indulge directly in trade which actually forms a part of national economic growth. The debate is still ongoing whether the economy is prepared to fully recognise and to embrace the needs and demands of this market demographic the millennials, in the Islamic finance industry. On the demand side, it is also imperative to raise the question of whether the millennials are able to play entrepreneurial activity particularly in the field of Islamic finance? Are influencers in the Islamic finance industry willing, ready and able to engage them as stakeholders? How can Islam's inclusive social and economic teachings be used to empower the fast-growing young Muslim demographic?

The State of Global Islamic Economy Report (SGIER 2016/17) predicts that by 2030, Muslims will make up to 29% of the global young population. In this regard, millennial is expected to shape the future and nature of trade finance as they are more exposed to the exponentially technological changes than the previous generation. They are also seen to be more unique, affluent, brand loyal, tech-savvy and demands instant access to information. This powerful economic demographic, the Millennials, are often referred to as the generation who were born between 1984 and 2000. They are divided into two subgroups: 18–24 year olds and 25–34 year olds. Currently, there are about 2 billion Millennials in the world, with 86% living in emerging markets, and accounts for 50% of the entire workforce by 2020.

As the millennial generation enters the workforce, it is becoming increasingly essential that members of the workforce understand their needs, demands as well as their economic role. To date, the intention of this young generation, in the emerging economies like in Malaysia, to embark on entrepreneurship continues to be unclear. Understanding how the millennial generation learns can assist trainers and instructional designers in creating effective training programs. It is very essential to raise the question that what are the learning characteristics of the millennial generation and what implications do these characteristics have on Islamic trade and finance? Second, what are the risks of failing (or choosing not) to embrace the characteristics of millennials into consideration, in terms of Islamic trade and finance?

It is also interesting to note that the millennials have critical relevance to Islamic economy particularly in trade finance where goods are transported from the surplus economy to the deficit one. In addition, the millennials are more creative to engage in entrepreneurial activities like e-commerce that leads to robust growth of trade finance. At the same time, they have their own behaviour and perception towards halal industry or halal trade finance including, halal culinary, halal travel, modest fashion as well as Islamic finance.

Meanwhile, well-being is viewed as a social process with material, social and subjective dimension. Promoting well-being is indeed one of the main goals towards sustainable development of any country as highlighted by the United Nation. In this regard, there is a critical issue on how the concept of well-being can be incorpo-

rated in trade finance particularly looking into the needs and demands of this new market demographic. The perception and behaviour of the millennials would have a significant impact on the future ecosystem of Islamic trade and in turn will have a paramount bearing on the global well-being. Against this backdrop, this present study seeks to:

1. Examine the issue of global well-being and how the landscape of Halal trade finance is expected to change with the emergence of Millennial as a new market segment.
2. Shed some light on whether Halal trade finance is ready to offer services that meet the needs and demands of this technology-driven generation.

## 40.2 Literature Review

The global halal market has emerged as a new growth sector in the global economy and is creating a strong presence in both developed and developing countries. With a growing consumer base and increasing growth in many parts of the world, the industry is set to become a competitive force in world international trade. The halal industry has now expanded well beyond the food sector further widening the economic potentials for halal. Consistent with this view, (Elasrag 2016) highlighted the importance of understanding the concept of Halal to familiarise non-Muslims about Halal principles and products.

Markets with high sensitivity on halal issues might demand high level of halal integrity to be integrated in the product. This scenario might force the exporting firms to adapt its marketing strategy so as to meet their expectation of halal qualities and also to secure its halalness from any potential risk of cross-contaminations. Mohamad and Hassan (2011) in their study concluded that there is a significant influence of halal integrity on product adaptation strategy. However, there is no significant difference in the mean scores for halal integrity and product adaptation strategy among product categories and market segments.

Meanwhile, well-being is becoming a concept which is more and more involved in any sustainable development agenda. A large amount of work is being carried out to study measurements of well-being, including a more holistic approach to the development and welfare of a country. D'Acci (2011) proposed an idea of well-being and progress to be in equilibrium with each other. It includes several aspects of well-being and progress, like human rights, economic well-being, equality, education, research, quality of urban environment, ecological behaviours, subjective well-being, longevity and violent crime.

Millennial generation who are currently aged 23–35, are the youngest generation in the workplace. According to Sharon (2015), Millennials are described as digital natives, creative, solution-focused, socially conscious and team-oriented. This present paper offers suggestions for successfully engaging millennials in the Islamic trade finance.

Farrell and Hurt (2014) identified six characteristics of millennial learners. A discussion of these characteristics and suggestions for training development is provided by them. Their paper concludes with a discussion of implications for organisational climate, future research, and provides practitioners with key elements to consider when developing products for millennials. The paper concludes that knowledge, experience and ties are the independent variables; meanwhile, attitude, social norm, perceived behavioural control and personality traits act as the mediating variables.

### 40.3 Halal Trade Finance and Millennials

The current estimate of global halal market stands at around USD 3 Trillion and the industry is expected to grow to nearly USD 8 Trillion by 2030 (The Edge, Feb 2018). For Malaysia, in 2016, Shariah-compliant trade finance accounted for 24.1% of total trade finance provided by the Malaysian banking sector. However, our Islamic finance industry only financed about 5% of total exports in Malaysia, thus signifying a potential growth area. Increasing bank financing for SMEs would also encourage more market-based solutions to meet the funding needs of the halal sector participants, which are now largely reliant on government initiatives.

Promoting halal industry is also consistent with UN's sustainable development goals where products should not just be ethically sourced which is in line with environmental sustainability together with the humane treatment of animals. Driven by growing consumer demand particularly the new market segment of millennials, Islamic trade finance as a component of Islamic finance is also expected to grow remarkably.

SGIER (2018) reports that millennial represents a significant market, particularly in Asia. Based on top countries, millennials engaged with Islamic economy topics, Indonesia ranks first with 126k out of 452,600 Facebook interactions surveyed, followed by Malaysia with 84.7k and Pakistan, 55.9k of interactions. Meanwhile, the most active Islamic economy sectors for Millennials are Islamic Finance (157k), Modest Fashion (101k) and Media/creation recorded 99k of Facebook interactions within the same sample of interactions.

The exponential technological changes in recent years have shaped the needs and demands of future customers of Islamic finance particularly the millennials. Paralleled with the 'Internet of Things' (IoT), mobile apps, digitalization of signage, and other contents, channels and devices as well as useful and instant experiences have set the stage for Islamic financial institutions to come up with product innovations to keep pace with this new development.

For Halal trade finance, in particular, being prepared with the digital ecosystem to embrace these millennials seems to chart future growth. Assessing the current landscape of Islamic trade finance industry, identifying challenges and recommending solutions seem imperative. This present paper attempts to tackle these issues within the peripherals of the two main objectives highlighted earlier.

### 40.4 Methodology

This present paper is based on a systematic review of articles identified in relevant journals across the fields of trade finance, Islamic trade finance, halal trade finance and millennials. A structured literature review implies a detailed description of the steps taken to select, scan and analyse literature with the aim to reduce biases and increasing transparency and is, therefore, a valuable methodology to develop propositions.

This literature review provides a brief snapshot of elements present in Islamic trade finance and Millennials literature. However, it is not a pretension to cover the entirety of the literature but rather offer an informative and focused evaluation of purposefully selected literature which will serve to achieve two research objectives: The changes in the Islamic trade finance landscape due to the millennials needs and demands and the Islamic trade finance readiness to serve these millennials.

With the objective of defining the scope of review, the authors have agreed upon the themes as well as keywords to be covered. The time period was left open as the field is relatively new and preliminary search indicates that when the time period is specified, the yield is not favourable. In terms of thematic scope, themes were drawn from both the Islamic trade finance and millennials paradigms. Hence, we used a combination of terms related to both areas (e.g. Islamic trade finance AND millennials—refer to Table 40.1) which helped identify articles that may not be appearing when simply searching for the main term ‘Islamic trade finance and Millennials’.

Burgess et al. (2006) suggest review to be limited to peer-reviewed publications in order to ensure a certain level of quality. We were also interested to find out which journals in the field of Islamic trade finance and millennials and therefore seek to analyse in which journals do articles pertaining to Islamic trade finance and millennials appear. Although we strive to follow suggestion by Burgess et al., we expanded the journals to be listed to peer-reviewed journal as well as doctoral dissertation and institution reports. Searches were conducted on databases Emerald Insight and Google Scholar. The analysis strategy uses the principles of content analysis which allow gathering quantitative and qualitative aspects using predetermined criteria focusing on two aspects: identifying products and features of Islamic trade finance and changes millennials will bring to the industry.

**Table 40.1** Keywords used in literature search

‘Islamic Trade Finance’		
Islamic Trade Finance Halal Trade Finance Islamic Finance	AND	Millennials

### 40.4.1 Findings and Discussion

This section starts by presenting the general descriptive statistics from the literature and then two sections address the research questions (presented in each section) (Fig. 40.1).

#### 40.4.1.1 General Trends in the Literature

Keywords	Top five related keywords	Top five subjects	Top 5 Publication/Journals
Islamic trade finance	<ul style="list-style-type: none"> <li>• Islam</li> <li>• Malaysia</li> <li>• Banking</li> <li>• Banks</li> <li>• Religion</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting and finance</li> <li>• Economics</li> <li>• Financial management/structure</li> <li>• Financial investment/markets</li> <li>• Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• International Journal of Middle East finance and management</li> <li>• International journal of ethics systems</li> <li>• Int Journal of social economics</li> <li>• Journal Islamic Accounting and Business research</li> <li>• Journal of Islamic marketing</li> </ul>

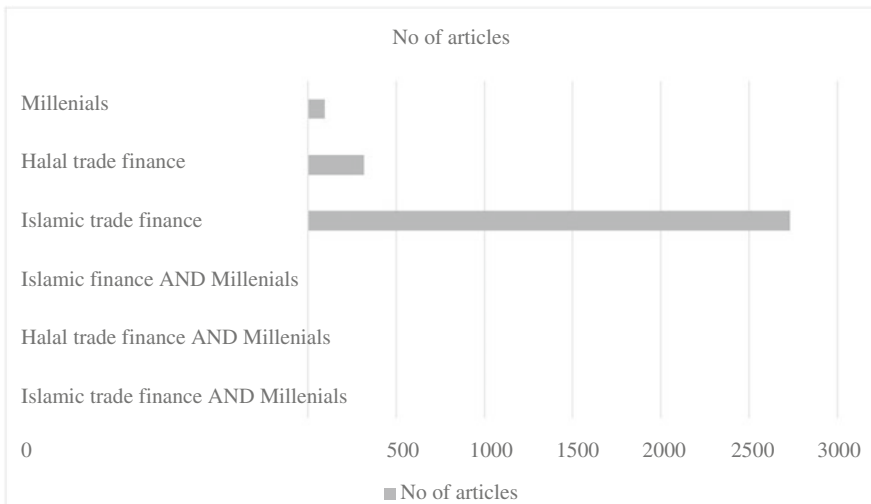


Fig. 40.1 Keywords and number of articles

### 40.4.2 RQ1: With the Emergence of Millennials as a New Market Segment, How Would the Halal Trade Finance Landscape Change?

#### 40.4.2.1 Understanding the Current Landscape of Halal Trade Finance

To address the above RQ1, we start our analysis by examining the current landscape of Halal Trade finance as offered by Islamic financial institutions globally. Understanding the halal trade finance products, their features and the key providers will enable us to understand how the halal trade finance landscape will change with the emergence of the new market demographic of Millennials.

What is Halal trade finance? The main body of knowledge for Halal trade finance stems back to trade finance, which is a specialised area of finance providing short-term financing of import and export transactions with four fundamental aspects:

- Payment facilitation: enabling and facilitating payment across the globe.
- Financing: variety of opportunities for financing across the lifespan of a transaction
- Risk mitigation: trade finance instruments and services are used to manage risks
- The provision of information about the status of payments of shipments.

Applying the concepts of Halal trade finance to trade finance would mean applying shariah principles to trade finance. Among shariah principles commonly used in the Islamic trade finance instruments are Musyarakah, Murabahah and Wakalah. These products are explained in Fig. 40.2.

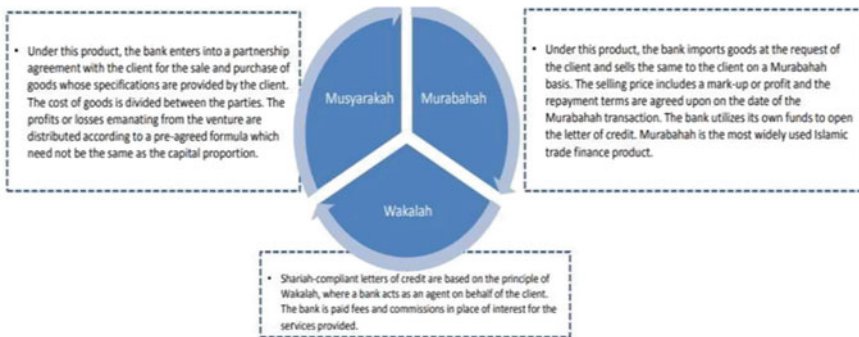


Fig. 40.2 Shariah principles which are commonly used in the Islamic Trade Finance instruments. Source Abdullah (INCIEF 2016)

According to Thomson Reuters and DinarStandard, (State of the Global Islamic Economy Report 2016/17), trade finance, a USD12.3 trillion industry, accounted for 75% of global trade in 2016 and of this substantial size, halal trade finance accounts for only a very small portion at USD186 billion but has the potential to be much bigger (Please refer to Appendix 1). Needless to say, Halal trade finance is a distinct and currently under-addressed the market opportunity.

For companies, numerous halal trade financing needs exist. Depending on their purpose, these needs can be categorised into two types: import and export finance. For import and export financing, the following needs of Halal products and risks/challenges typically exist as shown in Table 40.2.

Based on Table 40.2, the Islamic trade finance industry seems to have products that cater to the import and export of finance needs of both the buyers and sellers in the global trade. However, these products generally do not specifically incorporate the needs and demands of the Millennials where digitalisation, Internet of things (IOT), fintech, instant information access and others seem to define their attributes and characteristics. Thus, this signals future challenges for the providers of Islamic trade finance to innovate products that embrace this new market segment.

#### **40.4.2.2 Changes Required in the Current Islamic Trade Finance Ecosystem**

Natural targets for Halal trade finance products would comprise importing and exporting companies operating within the OIC, as well as halal and Islamic-themed products manufacturers that operate in non-OIC countries seeking to access OIC consumer markets. To a lesser extent, non-OIC multinationals exporting to OIC markets may also seek halal trade financing solutions (Thomson Reuters and DinarStandard 2016). Therefore, changes to the halal trade finance sector are to be expected. Among the key steps trade financiers can take are to incorporate changes in the current ecosystem of Islamic trade finance and to understand how this ecosystem is expected to change with the latest developments such the Value-Based intermediation, Fin tech, Green Financing, Crowdfunding and to relate these to Maqasid shariah, sustainable development goals as well to enhance global well-being.

#### **40.4.2.3 Halal Trade Finance and Value-Based Intermediation (VBI)**

According to Bank Negara Strategy paper on VBI (March, 2018), Value-Based Intermediation is defined as an intermediation function that aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders' sustainable returns and long-term interests.

Comparisons between current perceived landscape of the Halal trade finance and the envisioned future halal trade finance landscape and the link with global well-being can be depicted in Fig. 40.3:



**Table 40.2** Needs, product/description, Shariah-compliant considerations/alternatives and risks/challenges

Need	Conventional Product and Description	Shariah-compliant considerations and alternatives	Risks/ Challenges	Type of finance
1. Ensure that the buyer will pay the specified amount.	<b>Letters of credit</b> provide a conditional payment guarantee to sellers that their buyers will pay the specified amount. This ensures payment is made (for sellers) and goods are provided (for buyers).	Typically, <b>wakalah</b> arrangements are used for Shariah-compliant letters of credit. Under these arrangements, the bank works as an agent for a client, such as a purchaser or supplier of goods. Unlike a conventional agency contract, where interest is paid, in a wakalah arrangement the client pays the banks fees and commissions.	For the bank, the main risks are legal and documentation risks. For the buyers and sellers, it is a challenge if the other party is unable to perform their part of the contract (e.g. if the seller is unable to make payment, or the buyer is unable to deliver the goods as specified).	Both import and export finance
2. Ensure that the buyer will pay the specified amount	<b>Documentary credits</b> provide a conditional payment guarantee to sellers that their buyers will pay the specified amount. A documentary credit is a document that a bank issues on behalf of a buyer, who applies for the documentary credit. This document states that payment will be made by the bank to the seller for the goods and services they offer, as long as the seller meets all the terms and conditions set out in the documentary credit.	The bank provides the service for Shariah-compliant transactions. In return, the bank charges the buyer a fee ( <b>ujarah</b> ).	There is a risk that the issuing bank does not honour the documentary credit, either because the seller does not meet the terms and conditions set out in the documentary credit, or because the issuing bank reneges. On the second risk, confirmation with one's own bank is usually sufficient to allay this risk; however, it is sometimes costly to do so.	Import finance
3. Parties in a transaction do not know each other well, and it is important for them both to rely on the creditworthiness of a bank.	<b>A banker's acceptance</b> is a promissory note that a bank guarantees and accepts, and is usually used for short-term financing of 6 months or less. It states the amount, date and person who should receive payment, and is typically made based on a deposit at the same bank.	<b>An Islamic banker's acceptance</b> works on the basis of <i>bai' dayn</i> (debt trading) and <i>murabahah</i> (cost-plus-profit) principles.	Banker's acceptances are attractive instruments as they are relatively low in credit risk. However, it is still important to ensure the Islamic banker's acceptance is sought from a reputable bank that can honour the arrangement, especially in OIC countries with lesser-developed financial infrastructure.	Both import and export finance
4. Sellers need favorable financing terms when entering new markets, where business uncertainty may be high.	<b>Export credit financing</b> is provided by export credit agencies to sellers/exporters, typically on behalf of governments, to encourage business in overseas markets.	The Islamic Development Bank's Islamic Corporation for the Insurance of Investment and Export Credit (IIIEC) provides and arranges Islamic export credit financing on behalf of 44 OIC member countries. Most of this financing is done through <b>murabahah, ijarah</b> and <b>istisna</b> contracts.	Credit risks exist where the customer is unable or unwilling to pay for the goods. Country/ political risk may also be present in jurisdictions with volatile political conditions, and legal risk may exist in countries where investor protection is relatively low. Some of these conditions are present in some OIC countries.	Export finance

(continued)

**Table 40.2** (continued)

Need	Conventional Product and Description	Shariah-compliant considerations and alternatives	Risks/ Challenges	Type of finance
<p>6. Manufacturing and trading companies need export credit re-financing to finance their pre- and post-shipment trading activities.</p>	<p><b>Export credit re-financing</b> is a type of short-term financing provided by banks to manufacturing and trading companies to help finance their pre- and post-shipment trading activities. Pre-shipment, it is used to enable the production of goods, and post-shipment, it is used to finance the export of those goods.</p>	<p>The type of Shariah-compliant arrangement used typically depends on whether the purpose is for pre- or post-shipment: for pre-shipment, <b>murabahah</b> (cost-plus profit) is used, while <b>bai'dayn</b> (debt trading) principles are used for post-shipment finance.</p>	<p>Pre-shipment, there can be delays in producing goods or even an inability due to manufacturing problems to produce the goods at all. Post-shipment, foreign buyers may default on payment for goods that were received on a credit basis. Export credit insurance, such as commercial Takaful and Re-Takaful, can help mitigate against this.</p>	<p>Export finance</p>
<p>6. Buyers and sellers need a reliable way of financing their imports and exports through negotiable financial instruments.</p>	<p><b>Accepted bills</b> are negotiable bills of exchange that are used to finance imports and exports.</p>	<p><b>Islamic accepted bills</b> (also known as "Accepted bills-I") are used for Shariah-compliant transactions. For imports/purchases, <b>commodity murabahah</b> contracts are typically used, while for exports/sales, <b>bai'dayn</b> (debt trading) principles are usually used.</p>	<p>If the company experience solvency problems, e.g. through non-payment by buyers, this creates a credit risk for the bank.</p>	<p>Both import and export finance</p>
<p>7. Sellers need a convenient and efficient way to convert their accounts receivable into cash to finance their expenses. Sellers may also not have the full financial capability to purchase goods on their own, and may need capital to do so.</p>	<ul style="list-style-type: none"> <li>• Banks provide <b>invoice financing/factoring</b> solutions which advance cash on an interest basis to sellers against the account receivables/ invoices they have from buyers.</li> <li>• The bank and seller may enter into a <b>partnership finance</b> arrangement to purchase goods together.</li> </ul>	<ul style="list-style-type: none"> <li>• Several banks provide <b>Islamic factoring</b>, a Shariah-compliant form of invoice factoring. Islamic factoring usually employs <b>murabahah</b> or <b>commodity murabahah</b> contracts or <b>wakalah</b> arrangements.</li> <li>• The bank and the seller have a <b>musharakah</b>/ partnership arrangement for the sale and purchase of items which are specified by the buyer, and the cost of goods is split between both parties. Profits (or losses) arising from this arrangement are shared following a pre-agreed ratio: this ratio may differ from the ratio of capital provided by the parties.</li> </ul>	<ul style="list-style-type: none"> <li>• Because Islamic factoring depends on accounts receivable, if the buyer experiences non-payment by account debtors, e.g. the account debtor is financially unable to pay, this will create a credit risk for both the company and the bank providing the Islamic factoring facility.</li> <li>• As with any risk-sharing partnership arrangement, a musharakah between the bank and an Islamic economy company may incur losses, e.g. if the company is unable to sell its goods.</li> </ul>	<p>Both import and export finance</p>

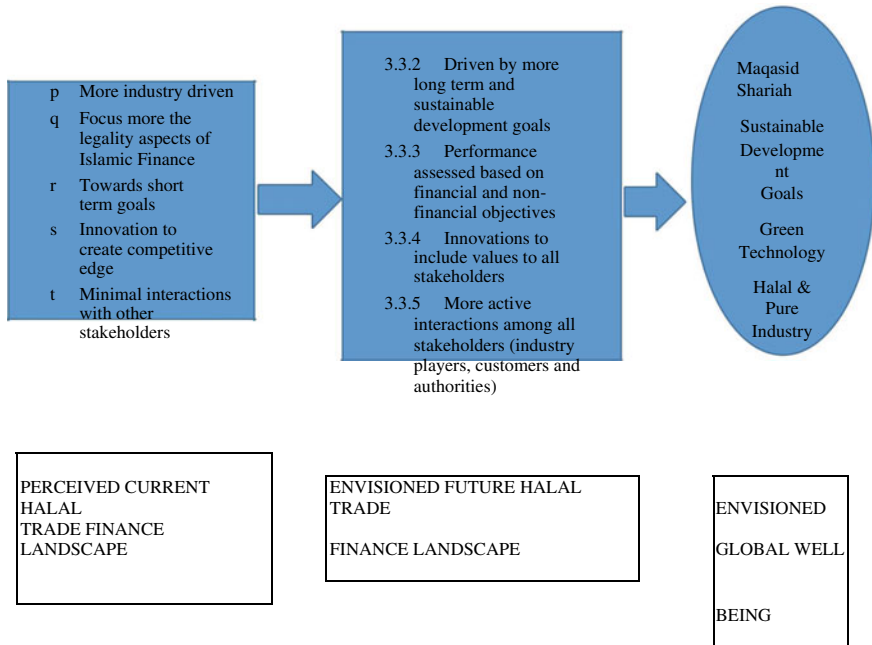
(continued)

As evidenced in the above illustration (Fig. 40.3), the perceived current landscape of halal trade finance is more industry driven, legality focussed with minimal active roles among various stakeholders. Meanwhile, amongst others, with value-based intermediation (VBI) being the current policy recommendation by Bank Negara Malaysia, the envisioned future landscape has wider objectives (financial and non-financial objectives), focussing more innovations that include values (Halal and Pure) as well promoting active interactions among various stakeholders (industry players,

Table 40.2 (continued)

Need	Conventional Product and Description	Shariah-compliant considerations and alternatives	Risks/ Challenges	Type of finance
8. Sellers need working capital to finance inventory, human capital and other operational expenses.	Banks provide <b>working capital</b> credit facilities and charge interest rates on the amount advanced.	This is the most common product in Shariah-compliant trade finance. With <b>murabahah</b> products, buyers ask banks to import certain goods. The banks do this and then sell the goods to the buyers for a profit. In murabahah contracts, the bank typically uses its own capital to finance the letter of credit for such financing arrangements. In <b>murabahah working capital</b> products, firms are provided with working capital on a similar cost-plus-profit basis.	It is a risk to finance working capital in instances where significant cash would be tied up in inventory until a product is finally delivered and payment is made.	Both import and export finance
9. Sellers need to be able to collect their goods without waiting on shipping documents, so that they do not incur storage costs and experience delays for their goods.	The buyer provides a <b>shipping guarantee</b> . This indemnifies a shipping company, enabling the shipping company to release the indemnified goods to the buyer without a bill of lading. This allows the goods to be collected without the shipping documents, enabling the buyer to reduce delays and save on storage costs.	With Shariah-compliant finance, a <b>kafalah</b> (guarantee) arrangement typically used.	A potential risk with shipping guarantees is that when the actual shipping documents arrive, the invoice price for the goods is higher than the estimated price for the goods. In this case, the buyer will have to bear the additional cost.	Import finance
10. Sellers need a way to conveniently improve their cash flows by receiving payment upon arrival of goods to the buyer.	<p><b>Inward bills for collection</b> involve the buyer's bank receiving inward documents, either domestic or foreign in origin, from the seller's bank. The buyer's bank then pays the seller based on this receipt of inward bills, either on a spot or future basis.</p> <p>The reverse of an inward bill arrangement, an <b>outward bill for collection</b> involve the buyer's bank receiving outward documents, either domestic or foreign in origin, from the seller's bank. The buyer's bank then pays the seller based on this receipt of outward bills, either on a spot or future basis.</p>	Typically, <b>wakalah</b> (agency) contracts are used for Shariah-compliant inward and outward bills financing (also known as <b>Inward bills-IQ</b> and <b>Outward bills-IQ</b> ).	If the specified terms and conditions are not met, e.g. the seller does not submit the proper documents, the buyer's bank may refuse to process the payment.	Both import and export finance

Source: MFCO, based on IMF WEO April 2018 and KfHR research<sup>88</sup>



**Fig. 40.3** Comparisons between the perceived current Halal finance landscape and the envisioned future Halal trade finance landscape. Adapted from BNM, Strategy paper on VBI (2018)

customers, central authorities, etc.). These elements are seen as the catalysts to future sustainability of the Global well-being while meeting the objectives of shariah such as Protection of al-Din (Islam), Protection of Life, Protection of Intellect or Faculty of Reason, Protection of Progeny or Offspring and Protection of Material Wealth.

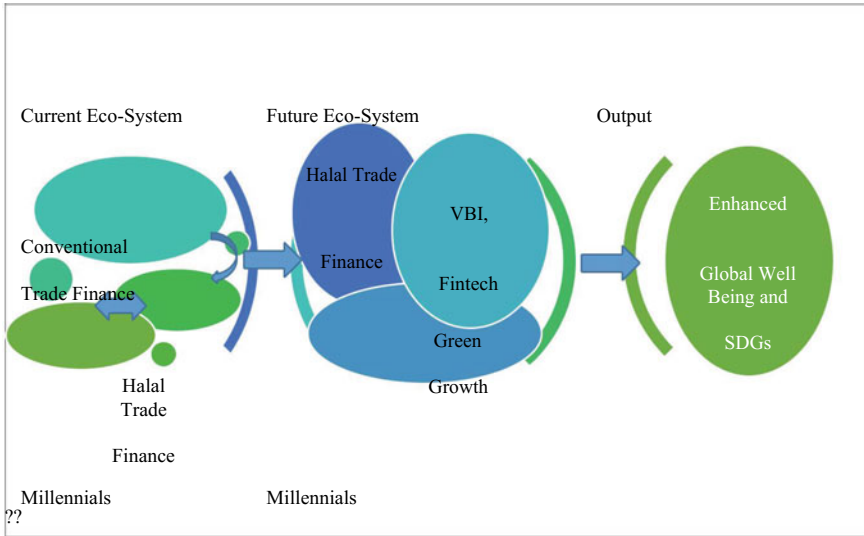
**40.4.3 RQ2: Is the Halal Trade Finance Industry Ready to Meet the Needs and Demands of the Millennials?**

We further extend our analysis to answer our second research objective, where we hope to shed some light on the proposed theoretical changes that the Halal trade finance industry can adopt in addressing future challenges.

Based on the discussion in the Global Islamic Economy Report above, how would the landscape of Islamic trade finance change with the emergence of the millennials? Taking a cue from the conventional trade finance and its alternative shariah-compliant needs, we propose theoretical changes to the Islamic trade finance products with the advent of the millennials as presented in Table 40.3.

**Table 40.3** Proposed changes to the Islamic Trade Finance products

Conventional trade finance products	Islamic trade finance products	Proposed changes based on millennials need
Letters of credit	<b>Wakalah</b> arrangements	
Documentary credits	Shariah-compliant transactions service with fee ( <b>ujarah</b> )	<ul style="list-style-type: none"> <li>• Fintech</li> <li>• Robo advisor</li> <li>• Legalised crowd funding</li> <li>• Value-based intermediation</li> <li>• Green financing</li> </ul>
Banker's acceptance	<b>Islamic banker's acceptance</b> (bai'dayn (debt trading) and murabahah (cost-plus profit) principles)	
Export credit financing	Islamic export credit Financing (most of this financing is done through <b>murabahah</b> , <b>ijarah</b> and <b>istisna</b> contracts)	
Export credit refinancing	For pre-shipment, <b>murabahah</b> (cost-plus profit) is used, while <b>bai'dayn</b> (debt trading) principles are used for post-shipment finance	
Accepted bills	<b>Islamic accepted bills</b> (also known as 'Accepted bills-I'). For imports/purchases, <b>commodity murabahah</b> contracts are typically used, while for exports/sales, <b>bai'dayn</b> (debt trading) principles are usually used	
Invoice financing/factoring solutions or partnership finance	<b>Islamic factoring</b> , employing <b>Murabahah</b> or <b>commodity murabahah</b> contracts or <b>wakalah</b> arrangements ( <b>musharakah</b> /partnership)	
Working capital	<b>Murabahah</b> products, i.e. <b>murabahah working capital</b> products	
Shipping guarantee.	<b>Kafalah</b> (guarantee) arrangement	
Inward bills for collection and outward bill for collection	<b>'Inward bills-I'</b> and <b>'Outward bills-I'</b>	



**Fig. 40.4** Changes in the Ecosystem of Halal Trade Finance

At this point, the link between Halal trade finance and the Millennials are still subject to further research due to dearth in knowledge stemming from very little literature (almost none actually that specifically discusses on Halal trade finance or Islamic trade finance).

Millennials as presented in the earlier section of this paper) but we would foresee the changes to be on the part of providing services regarding these products, hence, the proposed use of Fintech, Robo Advisor and also to look at a form of legalised crowdfunding for financing-related products such as Murabahah products. Basically, what we foresee is that the changes will come in the form of a new ecosystem for Halal trade finance and the changes are depicted in Fig. 40.4.

In order for us to answer the above research objectives, we start our discussion by highlighting the following issues.

**40.4.3.1 Halal Trade Finance, Millennials and Fintech**

Forbes Magazine (2017) highlighted that Islamic Fintech landscape covers 120 players globally from Islamic ETFs to cryptocurrencies. For instance, it is worth noting that there are key trends emerging in the Islamic Fintech space where some international players have started launching various products that are in fact consistent with the needs and demands of the millennials. *Wahed*, launched the Islamic Robo Advice with access to Shariah-Compliant Exchange Traded Funds (ETF). *Yielders*, launched an Islamic alternative Asset market place such as the property. *Ovamba*, an Islamic trade finance player introduced Shariah-compliant Initial Coin offering

(ICO) which allows for fees and risk sharing backed halal instruments using a token. *CBX*, provides a shariah-compliant universal payment system backed by grains. *Ethis Crowd*, uses *e-Wakalah* (agency contract) and *Istisnaa* (contract to construct an asset) contracts that allow for crowdfunding of new real estate developments in Indonesia.

#### 40.4.3.2 Halal Trade Finance, Millennials and Green Growth

Sustainable development goals as highlighted by United Nations (UN 2017), requires that in addition to economic development, progress for the entire community is also identified as a key area to ensure that prosperity is sustainable to be shared equitably in the long run. Recently, with support from the World Bank, Malaysia launched a new initiative that addresses both these principles: financing sustainable, climate-resilient growth (World Bank Group 2017). Infrastructure of Halal Trade finance, therefore, is recommended to incorporate the sustainable development goals via Green Financing and promoting trades of Green, Halal and Pure products in the international market.

Global Islamic Economy Gateway (2017) reported that at the UNEP Finance Initiative's global roundtable hosted in Dubai by the UAE Ministry of Climate Change and Environment (MoCCA) in 2016, one of the key questions addressed was how Islamic finance can contribute to the growth of the sustainability sector.

According to the first national survey, timed during the UNEP roundtable, the contributions of financial institutions to the green economy found that 46.8% consider that the rise of Islamic finance will provide more opportunities to develop green finance products and services or to invest in green projects. 'An increasing number of institutions provide a range of Islamic finance products and services, while the views over the prospect for applying them to green finance are mixed', the survey report said.

In Malaysia, there is an immense support from the government to incorporate Green Islamic Financing within the Islamic Finance ecosystem. Various initiatives have been illuminated such tax deduction until year of assessment 2020 on issuance costs of SRI sukuk; tax incentives for green technology activities in energy, transportation, building, waste management and supporting services activities; and financing incentives under the Green Technology Financing Scheme (GTFS) with total funds allocation of 5 billion ringgit until 2022. These initiatives, therefore, set a platform for Halal Green Trade Finance to be one of the key concepts in the future landscape of Islamic Finance locally and Globally.

#### **40.4.4 Conclusion**

Our present study seeks to take a closer look at Halal trade finance industry in terms of its readiness to incorporate a significant and unique market demography, the millennials within the ecosystem. Our discussion is focussed on two main research objectives: (1) with the emergence of Millennials as a new market segment, how would the Halal trade finance landscape change? and (2) Is the Halal trade finance industry ready to meet the needs and demands of the Millennials?

We, therefore, attempt to answer the above questions by looking at, first, the academic perspective in terms of the research conducted in the areas connecting Islamic trade finance and millennials. Our findings indicate that while the awareness of the emergence of Millennials as a market segment is present, not many academic papers have been written on the link between Islamic finance generally and Halal trade finance specifically and their links to the Millennials. We also attempt to examine the perceived current landscape and ecosystem of Halal trade finance and the envisioned future Halal Trade Finance landscape and ecosystem. Although limited to theoretical framework, our findings further suggest that there are many potential growth areas that the Halal trade finance industry can venture into to meet the needs and demands of various stakeholders including the millennials without compromising on the Global well-being and *Maqasid Shariah*.

#### **Appendix 1: Trade Finance Products, Description and Market Size**

*Source* Thomson Reuters and DinarStandard, State of the Global Islamic Economy Report 2016/17

#### **Appendix 2: Select Key Providers of Shariah-Compliant Trade Finance**

*Source* Thomson Reuters and DinarStandard, (State of the Global Islamic Economy Report 2016/17)



Segment	Description	Global Market Share of export activity in 2016 (55% of total)	2016 Market Size (Export activity)	Global Market Share of Import activity in 2016 (45% of total)	2016 Market Size (Import activity)
Letters of credit	Issued by a bank to a seller on behalf of a buyer; bank pays a seller against the letter once seller delivers the product in agreed upon conditions and collects the fees from the buyer <b>Typical term of financing: 3–6 months</b>	55%	\$3.7 trillion	47%	\$2.6 trillion
Open account/supply chain finance (SCF)	Used when buyers have a reliable and verifiable credit history and involves the seller obtaining financing from the bank either against the purchase order (from the buyer), or the invoice <b>Typical length: 3–6 months</b>	17%	\$1.2 trillion	17%	\$0.9 trillion
Collections	Sellers use <b>collections</b> to collect payment for their goods by delegating this function to banks, who collect funds from the buyer's bank before the delivery of goods <b>Typical length: 13 months–3 years</b> Buyers and sellers use bank <b>guarantees</b> when working with overseas counterparties who they do not know well	17%	\$1.2 trillion	14%	\$0.8 trillion

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Segment	Description	Global Market Share of export activity in 2016 (55% of total)	2016 Market Size (Export activity)	Global Market Share of Import activity in 2016 (45% of total)	2016 Market Size (Import activity)
Guarantees	<p><b>Shipping guarantees</b> involve the buyer indemnifying a shipping company, enabling the shipping company to release the indemnified goods to the buyer without a bill of lading. This allows the goods to be collected without the shipping documents, enabling the buyer to reduce delays and save on storage costs  <b>Typical length: 3–6 months</b>                      Other trade financing instruments, such as banker's acceptances</p>	8%	\$0.5 trillion	18%	\$1.0 trillion
Other	<p>A <b>bankers acceptance</b> is a promissory note that a bank guarantees and accepts, and is usually used for short-term financing of 6 months or less. It states the amount, date and person who should receive payment, and is typically made based on a deposit at the same bank  <b>Typical length: 3–6 months</b></p>	3%	\$0.2 trillion	4%	\$0.2 trillion
Total global trade finance market size		\$ 12.3 trillion	\$6.8 trillion		\$5.5 trillion
Total market size					

Bank	Headquarters	Year of Founding	Focus and Key products	Net Assets (2016)	Total Operating Income (2016)
1.	Standard Chartered Bank London, UK	1969	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Known for its strength in commodity trade finance</li> <li>● <b>Key products:</b> Islamic letters of credit, bank and shipping guarantees, and islamic local bits discounting</li> </ul>	\$48.6 billion	\$14.1 billion
2.	Maybank Kuala Lumpur, Malaysia	1960	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Known for its strong capabilities in Sharian-complaint trade finance. Especially strong in the Asia-Pacific region</li> <li>● <b>Key products:</b> Letters of credit and shipping and bank guarantees, as well as trust receipts and export credit refinancing</li> </ul>	\$15.4 billion	\$5.9 billion
3.	Emirates NBD Bank PJSC Dubai, UAE	2007	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Strong in the UAE trade finance market</li> <li>● <b>Key products:</b> Letters of credit, guarantees, bill discounting and factoring</li> </ul>	\$14.6 billion	\$4.0 billion
4.	Samba Financial Group Riyadh, Saudi Arabia	1980	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Known for its strength in commodity trade finance</li> <li>● <b>Key products:</b> Banker's acceptances, letters of credit, documentary collections, and guarantees</li> </ul>	\$11.4 billion	\$2.0 billion

(continued)

(continued)	Bank	Headquarters	Year of Founding	Focus and Key products	Net Assets (2016)	Total Operating Income (2016)
5.	National Bank of Kuwait SAKP	Kuwait City, Kuwait	1952	<ul style="list-style-type: none"> <li>● <b>Focus:</b> known for its strength in commodity trade finance</li> <li>● <b>Key products:</b> Letters of credit, guarantees, and documentary collections</li> </ul>	\$11.1 billion	\$1.5 billion
6.	Riyad Bank	Riyadh, Saudi Arabia	1957	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Strong in the Saudi Arabian trade finance market</li> <li>● <b>Key products:</b> Islamic letters of credit, bill discounting, and letters of guarantee</li> </ul>	\$10.0 billion	\$2.0 billion
7.	CIMB	Kuala Lumpur, Malaysia	1924	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Well-known and highly commended for its Islamic trade finance in the Asia-Pacific region</li> <li>● <b>Key products:</b> Letters of credit and guarantees, documentary credits, and export financing</li> </ul>	\$9.5 billion (2015)	\$3.4 billion (2015)
8.	Abu Dhabi Commercial Bank	Abu Dhabi, UAE	1985	<ul style="list-style-type: none"> <li>● <b>Focus:</b> A strong player in the trade finance market</li> <li>● <b>Key products:</b> Letters of credit, import financing, working capital, and guarantees</li> </ul>	\$8.2 billion	\$2.3 billion
9.	First Gulf Bank	Abu Dhabi, UAE	1979	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Known for its strength in commodity trade finance</li> <li>● <b>Key products:</b> Letters of credit, bills for collection, and guarantees</li> </ul>	\$8.1 billion (2015)	\$2.5 billion (2015)
10.	Dubai Islamic Bank	Dubai, UAE	1975	<ul style="list-style-type: none"> <li>● <b>Focus:</b> A strong player in the trade finance market</li> <li>● <b>Key products:</b> Letters of credit and guarantees</li> </ul>	\$7.4 billion	\$1.2 billion

(continued)

(continued)

Bank	Headquarters	Year of Founding	Focus and Key products	Net Assets (2016)	Total Operating Income (2016)
11.	Qatar Islamic Bank	1982	<ul style="list-style-type: none"> <li>• <b>Focus:</b> Strong in the Qatari banking market</li> <li>• <b>Key products:</b> Letters of credit and guarantees, documentary collections and shipping guarantees</li> </ul>	\$5.4 billion	\$1.5 billion
12.	Mashreqbank	1967	<ul style="list-style-type: none"> <li>• <b>Focus:</b> known for its strength in commodity trade finance</li> <li>• <b>Key products:</b> Import and export finance, working capital, and merchant overdraft facilities</li> </ul>	\$5.3 billion	\$1.6 billion
13.	Doha Bank	1979	<ul style="list-style-type: none"> <li>• <b>Focus:</b> Strong in the Qatari trade finance market</li> <li>• <b>Key products:</b> Letters of credit</li> </ul>	\$3.6 billion	\$0.7 billion
14.	Ahli United Bank	2000	<ul style="list-style-type: none"> <li>• <b>Focus:</b> Strong in the Egyptian trade finance market</li> <li>• <b>Key products:</b> Letters of credit, inward bills, and structuring of bespoke solutions</li> </ul>	\$3.5 billion (2015)	\$1.0 billion (2015)
15.	Al Baraka Islamic Bank	1978	<ul style="list-style-type: none"> <li>• <b>Focus:</b> Strong in the Bahrain trade finance market</li> <li>• <b>Key products:</b> Open account financing, letters of credit, documentary collections, and payment guarantees</li> </ul>	\$2.0 billion	\$1.0 billion

(continued)

(continued)

Bank	Headquarters	Year of Founding	Focus and Key products	Net Assets (2016)	Total Operating Income (2016)
16.	Emirates Islamic Bank Dubai, UAE	2004	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Known for its strength in the Middle Eastern market</li> <li>● <b>Key products:</b> Multiple products for import and export finance, as well as EI Trade, the world's first Shariah-complaint structured end-to-end import finance solution</li> </ul>	\$1.8 billion	\$0.8 billion
17	BankDhofar Ruwi, Oman	1990	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Known for its strength in the Omani banking market; its Shariah-complaint window, Maisarah Islamic Banking Services, is well known for offering numerous Shariah-complaint trade finance services</li> <li>● <b>Key products:</b> Letters of credit, guarantees, availsation, and import/export financing</li> </ul>	\$1.3 billion	\$0.3 billion
18.	Bank Islam Brunei Darussalam (BIBD) Bandar Seri Bagawan, Brunei	2005	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Strong in the Brunei banking market. Known for adopting emerging technology platforms to enhance its provision of trade finance services</li> <li>● <b>Key products:</b> Letters of credit, collection bits and shipping guarantees</li> </ul>	\$0.9 billion (2015)	\$0.2 billion (2015)
19.	International Islamic Finance Corporation (ITFC) Jeddah, Saudi Arabia	2008	<ul style="list-style-type: none"> <li>● <b>Focus:</b> The only multilateral organization dedicated entirely to promoting Shariah-complaint trade finance in the OIC region</li> <li>● <b>Key products:</b> Commodity murabahah, installment sale, and istisna (manufacturing finance) products</li> </ul>	\$0.7 billion (2013)	N/A; ITFC provided \$6.05 billion of trade approvals in 2014

(continued)

(continued)

Bank	Headquarters	Year of Founding	Focus and Key products	Net Assets (2016)	Total Operating Income (2016)
20.	Export-Import Bank of Malaysia Kuala Lumpur, Malaysia	1995	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Strong in murabahah trade finance</li> <li>● <b>Key products:</b> Islamic export credit refinancing, Islamic supplier financing and Islamic import financing</li> </ul>	\$0.6 billion (2015)	\$0.1 billion (2015)
21.	Bank Syariah Mandiri Jakarta, Indonesia	1999	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Known for its strong capabilities in Shariah-compliant trade finance</li> <li>● <b>Key products:</b> Musharakah and mudarabah based trade finance products</li> </ul>	\$0.4 billion (2015)	\$27 million (2015)
22.	HSBC Amanah Malaysia Kuala Lumpur, Malaysia	2007	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Strong in murabahah trade finance</li> <li>● <b>Key products:</b> Islamic Documentary credits and collections, Islamic Shipping Guarantees, and Islamic Accepted Bills</li> </ul>	\$0.3 billion	\$0.1 billion
23.	Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) Jeddah, Saudi Arabia	1992	<ul style="list-style-type: none"> <li>● <b>Focus:</b> Known for facilitating Shariah-compliant export credit finance for 44 member OIC countries</li> <li>● <b>Key products:</b> Shariah-compliant trade credit insurance products, including bank master policies, specific transaction policies, documentary credit insurance policies, and comprehensive short-term policies</li> </ul>	\$0.2 billion (2015)	N/A; ICIEC provided \$5.3 billion in investment and export credit insurance to OIC member countries in 2015

### Appendix 3

See Fig. 40.5.

The explanation of the key steps, according to the Thomson Reuters and DinarStandard 2016/17 report is presented in the boxes below.

Box 1: Key Step 1

#### 1. Work with Islamic Economy Companies to Develop Dedicated Trade Financing Products

A substantial portion of OIC imports needs is fulfilled by conglomerates that cater to Muslim customers without necessarily seeking Shariah-compliant funding.

However, as the Islamic Economy grows, many small-to-medium sized businesses will need to tap into an ecosystem of trade finance services that are Shariah-compliant, which presents a substantial opportunity.

Syed Ali, CEO of Riz Global Foods, a halal food distributor supporting Canadian brands, and exporting to the GCC and China, discussed how he was able to secure Shariah-compliant trade financing, and opportunities for the industry to thrive.

Syed commented, “We have worked with a Canadian bank to structure a Shariah-compliant Purchase Order Financing product that met our faith-based needs... There is a substantial opportunity especially in North America to open halal financial hubs which can be used by all providers jointly sharing the platform and offering services.”

Elaborating upon the scale of the opportunity, Syed Ali further commented. “The halal food Industry in North America is at its infancy. A lot of companies have huge potential to develop in the coming years with proper Shariah-

#### Key steps



Source: Thomson Reuters and DinarStandard, (State of the Global Islamic Economy Report 2016/17)

Fig. 40.5 Key steps for Islamic trade finance providers



compliant trade financing tools to provide an end to end ethical halal business operation, whether it's in production, distribution or logistics.”

### Box 2: Key Step 2

## 2. Develop Dedicated Marketing Outreach Programs

There is a substantial opportunity to use B2B marketing channels to reach customers across different countries.

Discussing the current disconnect between Islamic finance and SMEs focused on the halal products sector opportunity, Abdulkader Thomas, CEO of SHAPE Financial Corporation commented, “The halal business sector has made its whole pitch based on halal ingredients. But, there seems to be an odd disconnect between the halal business sector and Islamic finance. In some conversations, I feel that the halal business sector distrusts the authenticity of Islamic finance. Moreover, Islamic finance planners have too often focused on the extremes. One is retail. The other is brand name corporates over SMEs. Somewhere lost in the target marketing process is the halal business sector. Both sides need to find each other.”

When discussing the importance of marketing trade finance products to SMEs, Professor Abdul Rashid A. Kadir, Lecturer at INCEIF, commented, “There needs to be greater collaboration and building relationships with OIC and non OIC countries—this can be achieved through both Government to Government (“G2G”) and Business to Business (“B2B”) arrangements.”

Two particular channels can serve as fruitful avenues to reach a key target audience: high-growth, values-based companies that are looking for trade financing to facilitate their expansion into OIC markets.

Firstly, physical channels need to be explored, such as attending trade shows and events dedicated to the Islamic economy, which can support very robust business development. Notable events include the Global Islamic Economy Summit, which attracted over 3000 delegates in 2016, and the World Islamic Economic Forum in Indonesia, which attracted over 2500 delegates in 2016. Global trade events such as Gulfood 2017 attracted over 95,000 trade attendees, including up-and-coming halal players from non-OIC countries, such as Haloodies, Riz Global Foods, and Ieat Foods among many other high potential attendees.

Secondly, dedicated online marketing can help reach SMEs that are looking to grow rapidly. Halal Ad is a notable platform that targets Muslim end users and is expanding into B2B, having posted over 217 million advertisements since inception in 2015. However, only e-commerce platforms such as Ali Baba, as well as Islamic economy focused platforms such as DagangHalal.com can support finance providers seeking to proactively offer trade support services.

## Box 3: Key Step 3

**3. Co-locate with Trading Companies in OIC Countries**

Free zones have played a critical role in spurring economic growth, leveraged as a strategic tool by governments, with 4300 free zones globally in 2015. With the rise of “halal hubs” supporting the Islamic economy, most notably in the UAE and Malaysia, there is a substantial opportunity for trade financing providers to co-locate with Islamic economy companies across the core sectors.

Syed Ali commented, “Halal hubs exist mostly in the Southeast Asian countries and many services have been launched. Halal hubs are yet to be launched in North America. We are working on one such halal hub in Canada to provide the basic infrastructure for warehousing, export-related services, including trade finance, distribution and supply chain management, for national and international markets.”

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# Chapter 41

## Sharia Rulings of Bill Discounting and Its Alternatives



Uzair Ashraf Usmani

**Abstract** With the growing economic industry, the importance of bill discounting is not obscured anymore. It is undoubtedly one of the most important tools of trade financing. Now it has become very easy for importers and exporters to sell any product to a complete stranger anywhere in the world and get the bill against it discounted before its maturity date. That is why this tool is in the practice of all conventional banks. But regarding to sharia rulings its prevailed practice in conventional banks is not sharia compliant as this transaction consists of debt sale and interest. But due to its vitally need, Islamic sharia jurists have stepped forward with its different alternatives based on Murabaha, Wakalah, Musharkah and Bai Salam in currency. In this article I have covered the causes behind the sharia rulings of prevailed bill discounting in conventional banks and addressed the Bai salam as an alternative in currencies and its executive model in Islamic banks. Furthermore, I have discussed the different opinions of modern scholars regarding these issues.

**Keywords** Bill discounting · Letter of credit · Alternative of bill discounting · Bai salam in currency

### 41.1 Significance of Bill Discounting

With the rapidly growing economy, the importance of bill discounting is not obscured anymore. This bill has just not only become almost mandatory in trade financing but it is also a very important business tool among traders in the current round of world trade. Undoubtedly, the traders who deal in imports and exports have to use this product constantly. Through this product, the traders get the benefit of not only staying at home and selling their commodities to a completely unknown part of the world but also have an opportunity to get their bills discounted against the payable amount before their maturity, and then with that amount they generate more earnings and profit by investing and placing it in different financial institutions. That is the

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reason why this tool is in the practice of all conventional banks. According to the practice in vogue the exporter sells his goods at an agreed price to someone living in other country in exchange of a bill for payables.

As soon as the trader loads his goods on the ship, the importer signs a bill to transfer it to the exporter from his bank, the bill actually is a promissory note on behalf of the importer that he will pay the amount on mutually agreed date to the exporter. This bill is known as a letter of credit or bill of exchange that is known as "كيمياله" in Arabic and the date at which amount will be paid is the maturity date known as ii نضج الكمياله in Arabic. After that, most of the time, the exporter is in a hurry to get the amount as soon as possible so that he can make further investments, therefore, the bill is taken to a bank for discounting. This process is called endorsement and known as مظهر in Arabic and the person who signs is known as endorser and is known as مظهر in Arabic. Bank accepts this receipt against the receivable amount and reimburses some amount which is much lesser to the amount receivable (depending upon the outstanding number of days left from the maturity date) to exporter at that time. This procedure is identified as Bill discounting and in Arabic it is called iii حسم الكمياله or. خصم الكمياله. Banks most often take its profit according to the corresponding number of days left from the maturity date.

Bill discounting's mechanism which is prevailing and is in practice under all conventional banks in summarized form is that suppose a manufacturer name Zaid manufactures shoes and imports and sells them to importer Umar who lives in America on mutually agreed price, let us say one lac dollars. They finalize this deal on first of January and they already have decided that with mutual understanding Umar, the exporter, is going to pay him on 1st of March, now Zaid gets the shoes shipped, let us say on 15th January and informs Umar about it. Umar upon being informed sends a bill on behalf of his bank to the Zaid in which he undertakes the promise to pay the amount on 1st March as mutually agreed in the contract of sale, this bill is called bill of exchange or letter of credit which mostly are of two types usance LC and sight L.C.

It is termed as كمياله in Arabic, now after receiving the bill Zaid wants financial assistance to make more investments he takes the bill to the bank and signs on the back of receipt of the bill and asks bank to pay him some money let us say 90,000 dollars and in exchange bank keeps receivable amount which is 100,000 dollars from the exporter. Bank mostly pays him the lesser amount as compared to the amount to be received, and the discounted amount which is 10,000 dollars, in our case, is bank's profit. Mostly it depends upon the number of days which are left from the maturity date. bank discounts Supplementary money if the number of days are more to the date of maturity, this discounting is called bill discounting and it is termed as حسم الكمياله or خصم الكمياله in Arabic and person who signs who is exporter in our case is called endorser and it is called مظهر in Arabic and this process is termed as endorsement or. بندي پر بٹہ لگانا. In Urdu this process is called بندي پر بٹہ لگانا.

We can divide the bill discounting into the following two types:

### ***41.1.1 First Type***

In first type, the bill holder (مظبر) receives the amount from the bank and gets himself free from any kind of liability. In other words, if the importer did not pay amount to the bank, he would not be questioned to pay. This is called without recourse.

### ***41.1.2 Second Type***

In the second type of bill discounting after receiving the amount from the bank the bill holder or the exporter does not get himself from the liability of payable of importer. So he will be questioned if importer defaults. This is called with recourse.

### ***41.1.3 Sharia Rulings of First Type***

The first step will be the proper understanding of debt. Debt is discussed in the book *ALMOSUATUL FIQHIYYA ALKUWETIYAA*<sup>1</sup> according to which in a summarized form debt means an indemnity which becomes mandatory in the liability of the person due to the execution of the transaction or due to dispose of the property or due to taking loan from someone.

Suppose if a person has bought something like wheat in exchange of Rs. 100 from the shopkeeper, now on because of this transaction providing 10 kg wheat is debt on the shopkeeper and paying Rs. 100 is debt on the buyer.

If we observe bill discounting closely we conclude the result that it is mandatory for the importer to pay debt to the exporter, but exporter, therefore, sells the debt to the third party which is the bank lower than the face value, and we already mentioned that the bill of exchange is actually the promise of importer which shows that he will pay the due debt on him in the future. So, following the sharia rulings of the first type, we can say that it is a debt sale to third-party transaction. We consider the first type as sale because the liability of exporter gets over after he receives the amount from the bank. According to Islamic law of sale, sale possess the same feature because after the sale the responsibility of the vendor from the subject matter gets finished until or unless subject matter appears to be defected or anyone else's share appears in the subject matter. So it will be called debt sale.

So, in other words, its a debt sale to third party and regarding the debt sale to third party, the jurists have given their word by which laws of bills of exchange can be verdedicated.

### 41.1.4 Hanafi School of Thought

By observing the religious text of Hanafi school of thought, it is evident that near the Hanafi jurists selling the debt to a third party is not admissible because uncertainty is being found in it. And according to hadith such sale and purchase, in which uncertainty is being found, is prohibited.

Therefore, the Holy Prophet (pbuh) said:

الخ الغرر بيع وعن الحصاة، بيع عن وسلم عليه الله صلى الله رسول نهي: «قال هريرة، أبي عن»

Translation: Hazrat Abu Hurairah (RA) said: Holy Prophet (pbuh) has prohibited the sale and purchase of gravel and uncertainty.

The description of uncertainty is that the seller is legally obliged to do in terms of buying and selling that the subject matter which is being sold or purchased should be given in the risk of the buyer. Therefore, if the seller sells subject matter without giving in risk to the buyer then because of this unaffordable delivery, the sale becomes<sup>x</sup> void. In aforementioned situation, the person who has to receive the debt sells the debt to the third party then the third party has no idea that whether the debtor (the one who pays the debt) will pay the debt or not. Therefore, ambiguity is being found in it and that debt is an unaffordable delivery. Hence, uncertainty is found in it so selling or purchasing of this debt is not permissible.

We also come to know that the actual reason behind the illegitimacy of debt sale to third party is the uncertainty, therefore, if the debt is sold on the face value or more than or lesser than the face value, debt sale to third party will remain illegitimate.

The Hanafi text, in a summarized form, is mentioned below:

1. xi In *MOUTA* Imam Muhammad, *Imam Muhammad* (May Allah bless his soul) said that a person who has a debt on another person, it is inappropriate for him to sell the debt because the other person does not know that whether the debtor will pay debt or not. This is also the opinion of Imam Abu Hanfia. (May Allah bless his soul)
2. Allama Kasaani xii (May Allah bless his soul) narrates in his famous book that the sell or purchase of the debt is forbidden to any third person, because either the meaning of debt is the amount receivable or delivering the debt to under the ownership of someone else, both the cases are not allowed regarding to sharia because in both the cases the vendor cannot give it to the customer since he does not have the debt

### 41.1.5 Hanbali School of Thought

By looking at the text and narration of the Hanablah, it can be said debt sale to third party is not allowed because uncertainty is being found in it, whose details are given in the explanation of Hanafi religion before:

1. However, it is said in the book *Masail Ishaq ubnu rahveh* that the selling or purchasing of debt is permissible to the debtor for example dowry is to be paid by husband to wife which means that except the debtor, no one else is permissible to pay it. Hence, it is permissible to the debtor to sell the debt.<sup>xiii</sup>
2. It is said in the book *ALMUHARRAR* that except to the debtor no one else is permitted to be sold the debt to<sup>xiv</sup>
3. It is said in the book *SHARUL KABIR* xv that except to the debtor no one else can be sold the debt to because according to this chapter narration of Hazrat Ibn Umar (رضى الله عنه) hadis is that Hazrat ibn Umar (رضى الله عنه) (used to sell camels in the graveyard of Baqi and sometimes he used to decide daraham for it and used to take denar and vice versa so interrogated once this to Holy Prophet (P.B.U.H) about it and the Holy Prophet (P.B.U.H) said that there is nothing wrong in it. Through it, we came to know that sell or purchase was done in dananir and that was mandatory to be paid but in exchange for that dananir or darham were being received from the debtor. Therefore, except to the debtor no one else is allowed to sell the debt to.
4. It is said in the book *ALINSAF* that according to right opinion debt sale to third party is forbidden.

#### ***41.1.6 Zawahri School of Thought***

Allama Ibnul Hazam writes about debt sale its summary is that debt sale is not allowed to third party whether this sale is done in the cash or against any commodity because ambiguity is there and this sale which produces uncertainty, regarding its brief explanation we already have mentioned before.

#### ***41.1.7 Malki School of Thought***

In Malki school of thought, the following context is followed:

It is discussed in the book *Manhul Jaleel*<sup>xviii</sup>, its summary is basically not allowed to sell any debt to anyone (third party) except for the debtor himself. However, they allow to sell debt with certain restrictions

1. Debtor should be available and should not be busy in traveling. If the debtor is not available in council contract where selling and purchasing is going on than this selling is not permissible.
2. Debtor admits the due able debt on him.
3. Debt should be something which is permissible to be sold before taking its possession of it. If debt is wheat then it is not permissible to sell it to the third party before taking its possession as it is not permissible to sell or purchase anything before taking possession. In Maliki school of thought short sale is allowed in

everything except in the wheat. Hence, except wheat debt sale upon anything is permissible if other corresponding conditions are followed too.

4. Debt sale should not be in form of homogenous goods consequently as a result of it if debt is in the form of dirham and transaction is also executing in dirham then this transaction will be illegitimate, at this point Allama Dasouqi further added if both subject matter and consideration are homogeneous then uniformity on both the counter values will be prerequisite in order to make this transaction legitimate.
5. Sale purchase of silver and gold against each other or against their selves is should not be allowed despite from the fact that they are not homogeneous when it comes to sale against one another, but because aforementioned transaction is SARF and in sale of SARF taking possession on both subject matter and consideration in the council contract is one of the two stipulations, and in this case this condition is not getting full filled so this transaction is void.
6. There should not be prevailed any hostility among the vendor and the debtor so the customer could not able to get the debt.

Allama Dsouqi further added two more conditions which has been explained by mufti Taqi usmani in his latest book name fiqhul biyoo.

1. Consideration against debt should be in cash and in spot otherwise if we consider consideration as loan or debt then transaction becomes *bai alkali bil kaali* which is not permissible in the eyes of shariah.
2. Debtor should be from those who can be enforced by law and regulative authorities so if he defaults from paying his debt then debt can be recovered through the mean of court.

### ***41.1.8 Shaafi School of Thought***

On this issue, we may find contradiction among shawafy's narrations in some books we find legitimate to sale the debt to a third party, some narrations suggest that it is allowed if customer and the vendor take the possession on both consideration and the subject matter, respectively, in the council contract and then customer sells to the third party. This is how their opinion has been described in the book Raouzatu Talibeen.

The summary of this is that according to shawafa, the selling of debt except to the debtor which is the third party is not permissible. If customer takes the possession on the debt in the council contract, the fact is that this condition is indicating the illegitimacy of debt sale as when the debt has been taken under possession it will not remain debt according to sharia that is the reason why Allama Nawavi has written the opinion of Inadmissibility of this transaction in his book MINHAJ UL TALIBEEN

But number of shaafi scholars and jurists did not mention this condition in their books even Allama Sheraazi did not mention this condition on the context of MUHAZZAB one of his written books.



### ***41.1.9 Summary of Shaafi School of Thought***

Justice rtd mufti taqi usmani after mentioning all the opinions and the brief research study, which have been made on shaafi school of thought, says:

Shafi school of thought has the following three opinions:

1. Permissibility of debt sale
2. Impressibility of debt sale
3. Permissibility of debt sale with condition of taking possession in the council contract on the compensation and the debt.

Apparently, all Shafi jurists who mentioned the permissibility of debt sale, are basically adopting this view. However, it needs to be observed that the taking of the possession on the debt is vital, and any compensation needs to be considered towards the end of the contract.

### ***41.1.10 Summary***

Summary of the research study is jurists has three opinions regarding this issue:

1. According to Hanafi, Hanbali and one of the opinions of shawafy debt sale is not a sharia-compliant activity as this sale is based on uncertainty as it is unknown in the transaction whether debt will be received or not after it is being purchased.
2. Permissibility of debt sale according to some shawafy.
3. according to some shaafi and malki jurists debt sale is sharia-compliant with some specific conditions, Malki jurists allow this sale if debtor accepts the due able debt on him and he is present in the court, so it means that receiving of debt is absolute so there will not remain any more uncertainty in the transaction.
4. Sheikhu Islam mufti Taqi Usmani, after addressing above-mentioned issues and opinions, says that argument of majority jurists is very strong because debtor admits due able debt when there is an actual debt on him but conviction of paying off debt will not be achieved just by admitting as there are number of debtors who admit the payables but do not pay their payables but they rather mostly default and work with deferment and several debtors not only default but refer back their admission and declaration, so then this issue leads toward the court with all the fights and disputes, so when the conviction of paying debt is not achieved it will become uncertainty.

### 41.1.11 *Sharia Rulings of First Type*

According to the above-mentioned views and opinions of jurists first type of bill of exchange is not allowed according to Hanafi, Hanbali Zawahri and of the opinions of shafi school of thought even if it is sold on the face value as that sale will be based on uncertainty, jurists have mentioned another document in their books which resembles with the bill of exchange it was called *JAMKIYAA*, this document used to be issued on behalf of baitul maal or on the half of supervisor of the waqf in the favor of the person who had any financial right on them. Jurists of ahnaf and HANABILAH do not allow the sale of that document as this sale is actually the sale of debt to the third party, just like that they also do not allow the sale of first type of bill of exchange. But ALLAM ibn UL HATTAB one of the jurists of Malkiya has allowed sale of that document.

But regarding the conditions that malkiya impose on the debt sale, we observe that they allow the sale of the debt with condition of inhomogeneity of both the consideration and subject matter, however, if they are homogenous then they should have to be equal in the quantity, in the aforementioned case there is not any equality in the transaction of bill discounting so bill discounting should be impermissible according to malkiya too.

Regarding to shawafy and their opinions some of them allow the debt sale or sale of jamkiyaa with the condition of having the possession on both the consideration and subject matter in the council contract, however, if we take that specific opinion then bill discounting will be not allowed too according to them as they also impose the condition that consideration should be equal to the face value of the debt and in the aforementioned case consideration is less than face value of bill of exchange so its sale is forbidden too. So our discussion proves that the first type of bill discounting is impressible near all authentic jurists.

### 41.1.12 *Sharia Rulings of Second Type*

If we observe closely, the second type of bill discounting we come to the result that the liability in the favor of exporter does not get over when the he discounts the bill and receives the amount from the bank, in fact still bank shall has the right to receive his amount if the importer defaults from paying the amount, regarding its sharia adaptation it is actually the combination of *loan* and *Hawala* as bank first lends loan to the exporter with the condition that he will do the *hawala* (transfer of loan) toward the importer means the importer must repay the loan that had lent to the exporter and then bank will take that loan given to the exporter plus the extra amount as its fee. Therefore, it can be assumed as *hawala* acting upon the hanafi school of thought.

*Hawala* is the transfer of debt from the transferor (*muheel*) to the payer (*muhal alaieh*)<sup>xxv</sup> suppose if 100 rupees are payable in the liability of Zaid as debt and he has to pay this debt to the Umar then Khalid comes and says I will reimburse the

debt on the Zaid to the Umar then this transaction is called *hawala* according to the Islamic jurists. In the aforementioned case Zaid is muheel, aseel or the debtor, Umar is the person who has to be paid the debt is *muhtal laho* and Khalid who has taken the responsibility of paying the debt is *muhtal alaieh*.

Basic principal of Ahnaf is if the debt gets lost then muhtal can receive the payable debt from the muheel. In the aforementioned case, muheel is the exporter bank is the muhtal who has lent the loan to the exporter and exporter has transferred the loan toward the importer who is the muhtal aliehi. Reason of saying this adaption hawala is that there is a law in number of countries that if the importer did not pay the debt then bank would have been granted a right to receive the debt from exporter, so according the following type of hawala liability of the exporter does not get over so if the bank did not get its debt received from the importer he would have been received it from the exporter. This is exactly the same situation that Ahnaf has mentioned in their books. According to that if the debt gets lost then the creditor can receive the debt from debtor.

Although ahnaf allows *hawala* itself but the aforementioned type of bill discounting is illegitimate as it is necessary if the debt is in the form of loan then the receivable amount from the importer should have to be equal to the amount paid to the exporter (means as much loan has paid the bank as much he should receive from the importer) but the ongoing practice of all conventional banks is to receive extra amount of money from the exporter which is *riba*. So this type is also impermissible xxvi and that is the reason why second type of bill discounting is also declared as illegitimate in the AAOFI<sup>xxvii</sup> standards.

### ***41.1.13 Alternatives of Bill Discounting***

Apart from its impermissibility, its importance is undoubtedly not obscured anymore. For the development of society the bill of exchange financially plays an extraordinary role. Therefore, it was an exigency of the time for the contemporary scholars and jurists to present its alternative, and they have come up with the following alternatives:

Murabaha model Wakalah model Salam model

Insha-ALLAH, we will discuss the main framework and structure of salam model in our ongoing discussion and conclude this research with the legitimacy of this model.

### ***41.1.14 Salam-Based Currency Model***

To fully understand salam-based currency model, it would be better for us to understand bai Salam and bai Sarf first. We also have to understand the meaning of fuloos and sharia rulings of executing salam in the currency and fuloos as well.

### 41.1.15 Definition of Salam

"بر بيع النجل بالعاجل"

In Salam, the seller undertakes to supply specific goods to the buyer at a future date in exchange for some advance price fully paid on the spot. The price is in cash but the supply of purchased goods is deferred.

Suppose if a vendor sells wheat and says that he will undertake to supply the specific quantity of wheat, let us say 100 tons after six specific months and customer agrees and pays the amount as consideration in advance on the spot then this type of transaction is called bai salam. As at the time of transaction the subject matter is not available, consequently, according to the qayas, this sale should be void ab initio because it is necessary for the contract of sale for the subject matter to be available at the time of sale but this sale has been proven by the hadith.

So, shariah has allowed using this as a mode of financing with some certain unambiguous conditions. Under such a sale contract the subject matter is called muslam fih and the consideration is termed as ras ul maal.

### 41.1.16 What Is Sale of Sarf

The author of one of the famous books of Ahnaf Allama Kasaani (may Allah swt bless him) says in his book BADAIE ALSANAAIE:

Sarf means the exchange of some *Athman e mutlaqa* with some other, *Athman mutlaqa* is the term that means exchange or sale and purchase of gold against gold or silver against silver or sale purchase of one of the genesis against one another, according to Islamic jurisprudence if both commodities are homogenous then there should be prevailed uniformity among the both commodities and taking possession on both the commodities should be necessary and if they are not homogenous like exchange of silver against gold then it is allowed to execute it without uniformity but taking possession is still necessary.

To know the sharia rulings of currency we have to understand the meaning of fuloos and we also have to understand whether rulings of sarf are implemented on the fuloos too or not because if the rulings are implemented on fuloos then it means execution of salam in the fuloos will be forbidden as in sarf it is necessary to take the possession on both the counter values and whereas in salam it is only necessary to take possession on the rasul maal only.

### 41.1.17 What Are Fuloos

It is written in the book ALMOSUATUL FIQHIYAA ALKUWETIYA:

xxxالذهب والفضة عدا المعادن سائر من ثمننا يتخذها الناس ما كل؛ وفي الصطالح

Fuloos means anything from the metals except silver or gold that have been made Thaman (consideration) by people. So fals is not itself is a thaman but it has been made and treated as thaman due to custom of the people or the orders of the government, so if that custom has changed or the government has stopped treating as legal tender then the actual status of fuloos will be revoked too and it will remain not more than a metal which has its own made up value. On the other hand gold and silver both are thaman itself as they are genetically thaman whether people or government call it thaman or not. That is why silver and gold are called genetically thaman,

#### ***41.1.18 Sharia Ruling of Fuloos Based Salam***

From the four schools of thoughts, it is not allowed to execute the Salam in the fuloos<sup>xxxix</sup> near Imam Malik may Allah swt bless him because according to him verdicts of Sarf are implemented on fuloos and it is compulsory in Sarf to take possession on both the counter values whether they are homogenous or not whereas in salam it is not compulsory for the subject matter to be taken in possession, so the execution of salam based fuloos is not allowed near to him.<sup>xxxix</sup>

It is written in the book Alkaafi fi fiqhi almadeena.

#### ***41.1.19 Hanbali School of Thought***

There are two narrations of Imam Ahmad bin Hanbal (may Allah swt bless his soul) regarding the issue of the implementation of the verdicts of sarf on the fuloos, according to the first narration its verdicts are not implemented on fuloos and according to second narration its verdicts are implemented on the fuloos. Following the second narration some of the Hanabila jurists say that it is allowed to execute the fuloos based salam if the rasul maal is in the form of goods, in other words, it should not have to be in the form of cash no matter the transaction is executing as in weights or in numbers, execution is allowed, and this is the right narration and the opinion regarding to this issue.

#### ***41.1.20 Shaafi School of Thought***

According to Imam Shaafi may Allah swt bless him fuloos genetically is not thaman so the rulings of sarf are not implemented on the fuloos and when the rulings are not implemented then the execution of fuloos based salam and its transaction is legitimate too, therefore, Imam Shaafi may Allah swt bless him says in his book "Al um":

زكاة ال بانه والفضة الذهب في بخالفه الفلوس في يسلم أن أجزت وإنما : (الشافعي قال) xxxvi

المسلفة لألشياء أثمانا الدراهم والدنانير تكون كما لألشياء بثمان ليس فيه وأنه

### 41.1.21 *Hanfi School of Thought*

According to Ahnaf to prove riba in any commodity availability of *homogeneity* with *volume* is indispensable, volume means weight of gold and silver, and it means makili except in these two commodities<sup>xxxvii</sup>, so weight is one of the prerequisites of having riba in gold and silver. Therefore, it means verdicts of Sarf are not implemented on fuloos according to the Hanafi school of thought as fuloos are countable numerical object, therefore this opinion demands the legitimacy of sale purchase of excessiveness of fuloos with one another and the non-prerequisites of taking possession on both the counter values.

But HANFI somehow imposes the condition of taking possession with another angle, i.e., fuloos are basically from the ATHMAN (consideration) and the ruling of thaman is that they are not get specified with specification<sup>xxxviii</sup> but they get specified with taking the possession.

So if they are sold without specification then it will expose to usury or riba. Which can be explained as: for instance Zaid sold Umar 2 fals against one fals. And this sale was just executed verbally not physically then zaid said: now I have to pay you two fals and you have to pay me one fals, therefore, I execute the settlement agreement with you as two payable fals on mine are settled against one fals payable on you, therefore, there remain one fals only which is in my liability and now I have to pay you only one fals, so in the end without any physical actual sale purchase paying of fals has become liability of Zaid and this one fals is not against any compensation which is usury and riba and clear violation of<sup>xxxix</sup> sharia rulings.

Therefore, to avoid the transaction without any compensation Hanafi impose the condition of taking possession in the council contract so the fuloos get specified. And if specified fuloos are sold against one another with excessiveness then issue will be disputed and debatable among Hanafi jurists, according to Imam abu Yusuf and Imam abu Hanifa (may Allah swt bless them) sale purchase of fuloos with excessiveness is legitimate because specified fuloos are like goods, therefore, as selling of goods with excessiveness is legitimate so the selling of fuloos is legitimate too, fuloos are like goods because they are actually made up of metals like paper, steel, etc., they are not genetically thaman so they are called thaman due to the custom of the people consequently if both the counterparties are agreed for the revocation of custom then a fals will not remain more than a thing made up of metals and its value will be the equivalent to the value of goods. And both counterparties can revoke the custom as no one else has the authority on them. So it means that fuloos can be sold after getting specified with excessiveness.

On the other hand Imam Muhammad says that fuloos cannot be sold after getting specified with excessiveness because fuloos are declared thaman due to the convention and custom of the people so it cannot be revoked with the revocation of both counterparties, therefore, they will remain thaman and when they will remain thaman then will not be specified with the specification so their sale purchase will be like the sale purchase of non-specified fuloos with excessiveness which is forbidden near Ahnaf so the aforementioned situation will be forbidden too.

However, apart from the aforementioned disputed issue Hanafi jurists agree that rulings of sarf are not implemented on the fuloos because the transaction is not sarf, therefore, if they both the counter values are exchanged and they are homogenous then their excessiveness will be illegitimate and taking possession of both the counterparties on the counter values in the council contract will be the condition.

Because every single value is thaman and thaman cannot be specified with the specification but it can be specified with taking the possession, therefore, taking possession is the stipulation otherwise sale of debt against debt will be exposed which is a non-sharia-compliant. And if both counter values of fuloos are not homogenous then taking possession on one of the counter values will be prerequisite.xl

From the above mentioned research study we conclude the result that according to hanafi rulings sraf are not implemented on fuloos, regarding the salam based fuloos transaction it is written in the books of Ahanf that its sale purchase is permissible if it is sold numerically, there is no doubt it is legitimate near Imam Abu Hanifa and Imam Abu Yousuf (May Allah swt bless them) but near Imam Muhammad (May Allah swt bless him) it is written in different books of jurisprudence of Ahnaf that its sale numerically is not allowed near him because fuloos do not get specified so they will remain in the ruling thaman and will not become a good, therefore, its sale as salam is illegitimate.

But Allam ibn ul Hummam ۛ xli and the author of the book of Inayah have written their opinion as legitimate and said that for the legitimacy of salam it is necessary that muslam fihi (subject matter) should have to be a thing which should not be a thaman but a thing that can be purchased by the thaman means it should be a subject matter. And common rule regarding the contract of sale is that it should have to be kept legitimate as far as possible. Therefore, to make the aforementioned transaction legitimate it will be assumed that both the counterparties have revoked custom and convention of fuloos as thaman and made them in the ruling of goods, therefore, as the execution of salam is legitimate in the goods so as its execution legitimate too near imam MUHAMMAD.

We also came to know from the abovementioned result that if fuloos are not specified like the currency is admitted as legal tender by the government on government level, therefore, regarding the execution of salam based fuloos sale purchase of specified and unspecified of fuloos following types are achieved:

1. Fulooos are unspecified and homogeneous, regarding this type transaction is illegitimate because fulooos when they are homogenous then taking possession on both the counter values from subject matter and consideration is prerequisite and in the execution of salam based fulooos counter values are not taken in the possession. So the following type is illegitimate.
2. Fulooos are unspecified and inhomogeneous, the clear verdict regarding this type is not found in the books of fiqhah but following the rules and regulations set by the jurists regarding to this chapter demand that their transaction with excessiveness should be legitimate and taking possession on one of the counter values should be stipulation, because this is not transaction of Sarf where lending debt is forbidden

subsequently it proves excessiveness and taking possession just on one value is legitimate too in this type.<sup>xiii</sup>

3. Transaction of gold and silver against fuloos whether they are specified or unspecified. Execution of salam is legitimate in this type as gold and silver are measured with weightage whereas fuloos are numerical countable object so both counter values are inhomogeneous as a result of that lending loan for the future and the excessiveness in the counter values are allowed and legitimate in this transaction so the execution of salam based fuloos is allowed too.
4. Transaction of fuloos against gold and silver, like the clause no three this type and execution of salam is allowed too.

## 41.2 Conclusion

1. Execution of salam is not legitimate in fuloos near Imam Malik (may Allah swt bless him) because according to him verdict of Sarf is implemented on fuloos and it is prerequisite in salam to take possession on both the counter values.
2. Following that right narration of Imam Ahmad bin Hanbal (may Allah swt bless him). Execution of salam in fuloos will be legitimate if the ras ul maal is in the form of goods because verdicts of Sarf are not implemented on fuloos according to him.
3. Execution of salam based fuloos is legitimate because fuloos are not genetically thaman as mention earlier, therefore, verdicts of Sarf are not implemented on fuloos.
4. According to Ahnaf verdicts of Sarf are not implemented on fuloos, hence, execution of salam in numbers will be legitimate. And if they are sold against one another then transaction will be illegitimate if both counter values are homogeneous because in this situation taking possession on both counter values is prerequisite and in transaction of salam possession is not be taken in the council contract. And if they are sold against their opposite genus then taking possession on one single counter value will be prerequisite, however, excessiveness will be allowed.



# Chapter 42

## Islamic Religiosity and Perceived Sociocultural Impacts Toward the Support of Tourism Development in Malaysia



Nurhaslinda Basri, Nor Asmalina Mohd Anuar, Norliza Aminudin and Nor'ain Othman

**Abstract** Tourism is traditionally closely linked to religion, which has acted as a powerful motive for travel from the time of early pilgrimages to contemporary journeys to sacred places for worship purposes (Henderson in *Tourism Manag* 24:447–456, 2003; Bhuiyan et al. in *Aust J Basic Appl Sci* 5:1333–1340, 2011). However, there are also some scopes for misunderstanding between believers and nonbelievers in every religion with the possibility of tensions when the lives of residents and tourists of different faiths intersect at destinations visited (Zamani-Farahani and Musa in *Tourism Manag* 33:802–814, 2012). This is especially apparent in the case of non-Muslim tourists and resident Muslims, with great confusion and a degree of mutual mistrust between the two worlds in general compounded in the result of terror attacks. These include examples such as the September 11 attacks in the USA and Islamic State In Iraq and Syria (ISIS) terror attack which targeted on tourists and tourist destinations and have made people wonder whether Islam is against the tourism industry (Crooke in *New Perspect Q*, 32:56–70, 2015). In fact, in some articles, there are attacks that are purposely targeted on tourists (Aziz in *Tourism Manag* 16:91–95, 1995; Grosspietsch in *Working paper series. Sustainable Development through Tourism*, 2005). In general, the greatest risk to tourism in Muslim countries is the rising perception that Islam is often associated with negative actions. Thus, there is a need for researches on aspects that have received limited attention in the academic area particularly on observing and examining the relationship between Islamic religiosity, sociocultural impacts, and support for tourism development in Malaysia. Some understanding on this issue is lacking in the tourism literature as well as its structural relationships. It brings the gap to the study in measuring the relationship between Islamic religiosity, sociocultural impacts of tourism, and support for tourism development. The main objective of this study is to investigate the structural relationships between Islamic Religiosity (IR) (Islamic Belief (IB) and Islamic Practice (IP), Sociocultural Impacts (SCI) of Tourism and Support for future tourism development (STD) in Malaysia. The aim is to identify the perception of residents

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concerning the IR (IB and IP), SCI, and STD that they have perceived based on their knowledge and observation. This study also assesses the mediating effect that SCI have between IR and STD. Convenience sampling was used in this research. The data have been collected through sets of questionnaire answered by 420 respondents who are the Muslim residents of Klang Valley, Malaysia. The result of this study reveals that IR (IB and IP), SCI, and STD are perceived as valid constructs. Findings also show that there are positive relationships between IB and SCI, between IP and SCI, between SCI and STD, IR and STD, and the relationship between IR (IB and IP), SCI and STD is confirmed through Statistical Package for Social Sciences. This area of study helps the tourism players and stakeholders in the planning process, decision, or policies making. Limitations and future research directions are also discussed.

**Keywords** Islamic religiosity (IR) · Islamic belief (IB) · Islamic practice (IP) · Sociocultural impacts (SCI) · Support tourism development (STD)

## 42.1 Introduction

Islam is a religion that offers complete guides to Muslims in every aspect of life, not just in specific acts of worship (Bhuiyan et al. 2011). Some other guidance which have been provided for by Islam are how and what to trade, on how to interact with others, and what can be consumed (Johansen 2006; Zamani-Farahani and Eid 2015). Hence, it is expected that religiosity will have an influence on the behavior and decisions made by Muslims in their daily life.

In addition, the global phenomenon and issues of Islamic revival throughout the Muslim world have witnessed an increase in religious commitment among the Muslims who want to obey to the Islamic beliefs and practices in their daily activities without any doubt or afraid to someone (Zamani-Farahani and Eid 2015; Mohsin et al. 2015). The issues have resulted in greater emphasis on Islamic law or Shariah as the main source of guidance in every aspect of a Muslim's daily life and Islam as a complete way of life. Thus, the impact of the Islamic religion on different aspects of the believers' behavior is considered quite important to be aware in building a good society (Zamani-Farahani and Eid 2015; Muhamad and Ghani 2006).

In Malaysia, tourism is one of the largest earning sectors, which effects positively on the Malaysian economy for increasing foreign exchange earnings, employment opportunities, and other benefits to the local community (Bhuiyan et al. 2013). It is estimated that in 2010 there were 1.6 billion people who self-identify as Muslims, representing 23.2% of an estimated 2010 population of 6.9 billion (or one out of every five person in the world) and more than 61% of Muslims live in the Asia-Pacific region and about 20% in the Middle East and North Africa (Pew Research Center 2012).

Malaysia also has opportunities to introduce and develop more Islamic tourism products, activities, or attraction for economic sustainability as well as fulfill religious responsibility (Bhuiyan et al. 2011). This study helps on understanding the structure of the relationship between Islamic religiosity, perceived of sociocultural impacts

toward support for tourism development before taking a step to develop any effort on introducing the value of Islamic religiosity in Malaysia.

However, there is scope for misunderstanding between believers and nonbelievers in every religion with the possibility of tensions, when the lives of residents and tourists of different faiths intersect at destinations visited (Zamani-Farahani and Musa 2012). This is especially apparent in the case of non-Muslim tourists and resident Muslims, with great confusion and a degree of mutual mistrust between the two worlds in general compounded in the result of the September 11 attacks in the USA and other terrorist attacks such as Islamic State in Iraq and Syria (ISIS) terror attack targeted on tourists and tourist destinations have made many wonder whether Islam is against the tourism industry as the worst part that the ISIS claimed themselves as Muslims from ISIS (Crooke 2015). Some attacks also were purposely targeted on tourists (Aziz 1995; Grosspietsch 2005). In general, the greatest risks to tourism in Muslim countries is the rising perception that Islam is associated with negative actions because of many unfavorable speculation and statements without clear and strong evidence.

Thus, there is a need to study and explain on aspects that have received limited attention in the academic area which focuses on examining the relationship between Islamic religiosity, sociocultural impacts, and support for tourism development in Malaysia. The lack of understanding in tourism literature as well as full understanding of the structural relationships. It brings the gap to the study in measuring the relationship between Islamic religiosity, sociocultural impacts of tourism and support for tourism development in Klang Valley, Malaysia.

In summary, this study will be conducted for three reasons. First, it provides knowledge on the state of Islamic religiosity, the perception of sociocultural impacts among residents in the study areas and support for further expansion of tourism development. Second, the study is pioneer (as far as is known to the authors) in exploring the relationship between the level of Islamic religiosity, the perception of sociocultural impacts and support for tourism development in Klang Valley, Malaysia. Finally, it provides some original insights into the interactions between Islamic religion and tourism development, which are of value to authorities, the industry, academics, and local communities.

## 42.2 Methodology

The research instrument is a seven-page structured questionnaire and most of the questions are closed response. The questionnaire was designed according to the objectives of the study. Instrumentation of the study will be adapted from a previous study and some from the researcher for measuring the relationship between variable. The questionnaire was divided into four main sections which are as follows:

- First Section: Demographic profile of respondents.
- Second Section: Religiosity (Islamic belief and Islamic practice).

- Third Section: Perception of sociocultural impacts of tourism.
- Fourth Section: Support for tourism development.

Islamic religiosity was measured by 16 items, which represent Islamic belief and Islamic practice. They relate to the belief in the existence of Allah and the Prophet Muhammad (saw). The items chosen in this section were based on the Holy Quran, Hadith, Hassan (2005), Stark and Glock (1968), and Wilde and Joseph (1997).

The scales used for measuring constructs of sociocultural impacts, religiosity, and support for tourism development, is by using 5-point Likert scale (Strongly disagree (1) to strongly agree (5)). The questionnaire was within dual language (Malay and English). 9 items of sociocultural impacts were adapted from previous study (Andereck and Vogt 2000; Andereck et al. 2005; Brunt and Courtney 1999; Faulkner and Tideswell 1997; Haley et al. 2005; Jones et al. 2000; Jurowski and Gursoy 2004; Lankford 1994; Mason and Cheyne 2000; Ryan et al. 1998). However, the number of statements and the measurement scales available to measure positive and negative impacts are refined and modified to suit the context of this study that focused on investigation—based on the level of knowledge or perception about Islam and tourism.

Support for tourism development will be measured by four statements. First and second, capture residents' general support and understanding of Islamic religiosity and tourism development. Third and fourth, the statement to capture residents' support and understanding for increasing the number of tourists to the city as well statement to capture residents' support and understanding of Islamic religiosity and government efforts in tourism development. All the questions will be adapted from a previous study (Stylidis et al. 2014).

The researcher decided the population of the study will be Muslim residents in Klang Valley, Malaysia. There were 450 questionnaires totally distributed and only 420 usable questionnaires were returned from respective study areas. For this study, the response rate was calculated to be 93%. The high response rate recorded in this study could be the result of researchers' effort to distribute the questionnaire. The questionnaires were self-administered as this method has been shown to have a better response rate since the respondents are likely more willing to answer when there is a face-to-face communication during the distribution of questionnaires (Andereck and Nickerson 1997).

Conducting pilot testing, the researcher was able to determine the validity of the questions, the reliability of the measures, understandability of the term, the flow of the questions, and whether the time taken for answering the questionnaire is reasonable. Pilot studies should be conducted on the respondents who reflect the characteristics of the sample (Jennings 2001; Cooper and Schindler 2003).

Therefore, before data collection procedure or before distributing questionnaires, a pilot test with a total of 30 questionnaires to Muslim residents in Klang Valley was conducted by the researcher to identify or detecting any weaknesses in design and instrumentation and to provide a representation of data for the selection of probability samples. The questionnaires were distributed starting in February 2016 in Klang Valley.

The Statistical Package for Social Sciences “SPSS” (Version 20) was employed for the purpose of data management and statistical analysis. Based on Pallant (2005), the statistical analysis is useful in developing sufficient knowledge to describe the body of data or data analysis. This can help to understand the level of measurement, distribution, characteristics of location, spread, and shape of data (Pallant 2005). Before conducting further analysis, the collected data were subjected to editing and coding for effectiveness. Miscoded values, missing data, and other problems in the data set were discovered and addressed to be solved in given tips and procedure.

Research approach for this study was using factor analysis, descriptive statistics, Pearson correlation, regression, and *t*-test as a statistical technique. The type of investigation will be a descriptive study with a quantitative approach. Time horizon of the study was using cross-sectional. For sample size and population, non-probability sampling method (convenience sampling) was used for this study with self-administered questionnaires in dual language (English and Malay) distributed in an area of Klang Valley, Malaysia with the study setting is non-contrived setting and unit of analysis are individuals.

### 42.3 Results and Discussion

Objective 1 of the research is to investigate the relationship between religiosity (Islamic belief and Islamic practice) and the local community’s perception of socio-cultural impacts of tourism. In order to achieve the objective of the study, the research question and research hypotheses were developed accordingly. The research question and research hypothesis were introduced in chapter one. According to the findings in Chap. 4, there is a positive relationship between Islamic religiosity (belief and practice) with the sociocultural impacts of tourism.

It is hypothesized that there is a positive relationship between Islamic religiosity and the perception of the sociocultural impacts of tourism. Therefore, Hypotheses 1, 1(a), and 1(b) are proposed. To test Hypothesis 1, standard multiple regression is performed between the two dimensions Islamic beliefs (IB) and Islamic practice (IP) on the perception of the sociocultural impact factors.

H1: There is a positive relationship between religiosity and perceived sociocultural impacts of tourism as perceived by the local community.

H1a: There is a positive relationship between Islamic belief and sociocultural impacts.

H1b: There is a positive relationship between Islamic practice and sociocultural impacts.

The *p*-values for Islamic religiosity are less than 0.05. Hence, sociocultural impacts of tourism depends on Islamic religiosity. *R* Square = 0.153. This means 15.3% of the variation in sociocultural impacts is explained by Islamic religiosity. The hypothesis testing shows there is a positive relationship between Islamic religiosity-

ity and perceived sociocultural impacts ( $r = 0.391, p = 0.000$ ), the results support the acceptance of Hypotheses 1.

The  $p$ -values for Islamic belief and Islamic practice are all less than 0.05. Hence, sociocultural impacts of tourism depends on Islamic belief and Islamic practice.  $R$  Square = 0.162. This means 16.1% of the variation in sociocultural.

Impacts are explained by Islamic belief and Islamic practice

First, the hypothesis testing shows there is a positive relationship between Islamic belief perceived sociocultural impacts ( $r = 0.368, p = 0.000$ ), the results support the acceptance of Hypotheses (H1a).

Second, the hypothesis testing shows there is a positive relationship between Islamic practice and perceived sociocultural impacts ( $r = 0.327, p = 0.000$ ), the results support the acceptance of hypotheses (H1b).

Thus, these results support the statement of the previous study, that religion defines the ideas for life, which are reflected in the values and attitudes of societies and individuals (Fam et al. 2004) and religiosity is known as one of the important cultural forces and a key influence on behavior whether good or immoral (Delener 1994; Essoo and Dibb 2004; Sood and Nasu 1995).

In Summary, from the above results or findings, we can conclude that the different level whether high and low the Islamic belief and practice or religiosity will influence on how the respondents perceived the sociocultural impacts of tourism based on their perception which will show about their level of knowledge about Islamic religiosity.

As expected from the results, not everyone who called themselves as Muslim were aware about the Islamic religiosity encourages travel to learn as well strengthen their Islamic belief and practice.

Finally, the tourism players or other related agencies should take a step on conducting the efforts which will increase the residents' knowledge and awareness about tourism and Islam as based on the researcher observation during distributing questionnaire, some Muslims lack of knowledge on how Islamic religiosity encouraged to travel as worship. Showing the wrong image and perception due to the lack of knowledge and practice will lead to negative perception about Islam.

Objective 2 of the research is to investigate the relationship between the local community's perception of sociocultural impacts of tourism in the study areas and their support for future tourism development. In order to achieve the objective of the study, the research question and research hypotheses were developed accordingly. The research question and research hypothesis were introduced in chapter one. According to the findings in chap. 4, there is a positive relationship between the sociocultural impacts of tourism and support for future tourism development.

It is hypothesized that there is a relationship between the perception of sociocultural impacts and the support of tourism development. Therefore, Hypotheses 2 is proposed. To test Hypothesis 2, standard multiple regression are performed between the perceptions of sociocultural impacts on the support for tourism development.

H2: There is a positive relationship between perceptions of sociocultural impacts and support for tourism development

The  $p$ -values for sociocultural impacts is less than 0.05. Hence, support of tourism development depends on sociocultural impacts.  $R$  Square = 40.4% of the variation in support of tourism development is explained by sociocultural impacts. The hypothesis testing shows that there is a positive relationship between perceptions of sociocultural impacts and support for tourism development ( $r = 0.636, p = 0.000$ ). The results support the acceptance of Hypotheses 2.

In Summary, from the above results or findings it shows that residents have a positive impression based on their knowledge about Islamic religiosity create awareness about how sociocultural impact will lead to support for future tourism development with Islamic religiosity influences.

Islam encourages traveling as travel give benefits in many and different perspectives as long the start to the end of traveling experience must comply with Islamic values and practices. Lack of awareness due to the lack of knowledge may be one of the reason. As some of the existing tourism activities in Malaysia do not to comply with Islamic values, that is why some of the residents consider that Islam is against the tourism industry. A deep understanding of the importance of the contribution of tourism industry and the need to clean the negative activities and influence and not the tourism industry itself. Welcoming tourists even from other religion will directly show that we are supporting the future development of the tourism industry.

The tourism players should work on thinking a tourism package that will cater to the needs and wants of the customers which related to religiosity motivation to travel. Nowadays, there are non-Muslims who are interested to learn about Islam with visiting the religious sites of Muslim such as Mosque, Islamic Museum, and other attraction.

Objective 3 of the research is to examine the relationship between religiosity and support for future tourism development. In order to achieve the objective of the study, the research question and research hypotheses were developed accordingly. The research question and research hypothesis were introduced in chapter one. According to the findings in Chap. 4, there is a positive relationship between Islamic religiosity and support for future tourism development.

It is hypothesized that there is a relationship between religiosity and the support of tourism development. Therefore, Hypotheses 3 is proposed. To test Hypothesis 3, standard multiple regression is performed between the religiosity and support of tourism development.

**H3:** There is a positive relationship between religiosity and support of tourism development

The  $p$ -values for religiosity are less than 0.05. Hence, support for tourism development depends on religiosity.  $R$  Square = 11.3% of the variation in support of tourism development is explained by religiosity. The hypothesis testing shows there is a positive relationship between religiosity and support of tourism development ( $r = 0.336, p = 0.000$ ), the results support the acceptance of Hypotheses 3. Thus, this results support the statement of the previous study, that religion also is one of the major elements of the development of human history and civilization (Vukonic 1996).

Based on the above results, that there is a relationship between religiosity and support for tourism development. Looking at the *R* square value, there is only 11.3% even the percentage is small as not more than 50%, there must be a reason. The level of knowledge about Islamic religiosity and support of tourism development may be one of the factors. The negative perception of tourism activities among residents also might contribute to the lower percentage.

The results also show that there are other factors that lead to increase in support of future tourism development. Thereby the researcher decided on identifying the mediator relationship other than only focusing on independent and dependent variables investigation only. The need for future study, to identify more factors is suggested by the researcher, to understand better the pattern of the study and adding value to the body of knowledge.

Rebuilding the image of tourism is important to recover back the trust of local community or residents about tourism. Even though the percentage is low between two constructs, the existence of mediator really increase the percentage of variance explained that will be discussed in objective four.

Objective 4 of the research is to examine the mediating effect of the local community's perception of sociocultural impacts of tourism towards the local community's level of religiosity and support for future development. In order to achieve the objective of the study, the research question and research hypotheses were developed accordingly. The research question and research hypothesis were introduced in Chap. 1. According to the findings in Chap. 4, the sociocultural impacts of tourism mediate the relationship between Islamic religiosity and support for future tourism development.

It is hypothesized that the perception of sociocultural impacts of tourism mediates the relationship between religiosity and support for tourism development. Therefore, Hypotheses 4 is proposed. To test Hypothesis 4, standard multiple regression is performed between the religiosity, sociocultural impacts of tourism, and support for tourism development.

**H4:** The perception of sociocultural impacts of tourism mediate the relationship between religiosity and support for tourism development

The standard multiple regression analysis shows that the sociocultural impacts of tourism mediate the relationship between religiosity and support for tourism development. The *R* Square value = 0.113 before adding mediation is 11.3% of the variation on support of tourism development is explained by religiosity. After adding the mediation of sociocultural impacts, the *R* Square increased drastically from 0.113 to 0.413, it shows 41.3% of the variation in support of tourism development is explained by both religiosity and sociocultural impacts. The results support the acceptance of hypotheses 4 since there is exist of mediate variable.

This is one of the research gaps from this study, which investigates the mediate relationship between Islamic religiosity and support for future tourism development (as far known to the author). Since the study adapted from the previous study from Iran, the researcher decided on to replicate the study in Malaysia.



The result of the study shows that there is a mediation relationship within the variables so that, the future study can focus on the mediator as the main topic. Ability to identify how strong the mediation relationship in the future is important as this study only covers the result that there is a mediation relationship. Some of the studies did not conduct sociocultural impacts as mediation but only as an independent or dependent variable (as far known to the author).

Overall summary of results from objective one until four, the results of the research support the social exchange theory (Perdue et al. 1990; Ap 1992) are among the models that remain popular in determining the impacts of tourism and community responses as well Social Distance Theory (Thyne et al. 2006) which proposed that subjects are more tolerant or accept people more socially and culturally similar to themselves.

## 42.4 Conclusion

The study shows that there is a positive relationship between variables and the socio-cultural impacts as a mediator between Islamic religiosity and support for future development of the tourism industry. The hypotheses were supported after analyzing using SPSS. This study helps the researcher involved in the research area of Islamic religiosity and perception of the sociocultural impact of tourism in Malaysia as well as to the key stakeholders and investors of the tourism industry in Malaysia. It is necessary as currently there are few studies that are conducted relates to the Islamic religiosity.

The findings of the study are important in helping the tourism players or organizations with awareness and to understand the relationship between Islamic religiosity and perception of sociocultural impact of tourism in Klang Valley, Malaysia. Second, this study help tourism players to take appropriate action in order to improve the tourism industry in Malaysia as well will add more value to the new body of knowledge in Malaysia Tourism Research.

This study is also a pioneer (as far as is known to the researcher) in exploring the relationship between the level of Islamic religiosity, the perception of socio-cultural impacts of tourism, and further support for the tourism industry in Klang Valley, Malaysia. Second, the study provides some original insights into the interactions between Islamic religiosity, sociocultural impacts, and support for tourism development which are of value to authorities, the industry, academics, and local communities.

There are some of the limitations that the researcher faced during the research process. First, the respondents of the study are Muslims from Klang Valley only and the results are only able to represent the Muslim's opinion. Second, the sample for this study was limited to the Klang Valley area only and the distribution of the sample on the selected demographic characteristics does not necessarily represent the characteristics of the general population of Malaysia. Finally, few related studies or

resources that investigate the relationship between Islamic religiosity, sociocultural impacts, and support for future tourism development.

The researcher suggested to conduct a study in the future with both Muslims and non-Muslims perspectives as the opinion of non-muslim may be different according to their level of knowledge about Islamic religiosity and the comparison between the perception of both Muslim and non-Muslim can be the difference and something to be investigated in future. Next, it is possible that the behavioral patterns of consumers in rural areas and other environments could well differ from those covered in this study. Finally, the researcher suggests that the public and private higher education to encourage their students to fill the gaps of the limited number of available research by increasing their motivation on studying in this field with the help from the expert from the subject of study. Nowadays, even though the number of studies still limited but surprisingly there is an increase in interest about the Islamic religiosity and tourism industry.

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