

# MOTIVATIONS ASPECT FOR THE ADOPTION OF ISLAMIC FINANCING AMONG HALAL ENTREPRENEURS IN MALAYSIA

Siti Zamanira Mat Zaib<sup>1</sup>, Azwan Abdullah<sup>1</sup>, Nurul Hafizah Mohd Yasin<sup>1</sup>, Siti Salwani  
Abdullah<sup>1</sup> and Nur Farahiah Binti Azmi<sup>1</sup>

<sup>1</sup>Universiti Malaysia Kelantan,  
Malaysia

## Abstract

*Halal and Islamic finance are in accordance with Islamic law and have been established in the context of halal economic development. Considering the growth of Halal industries since 1974, the adoption of Islamic financing among Halal entrepreneurs is weak. There is no integration between the Halal and Islamic finance industries that has led to the low acceptance of Islamic financing among the Halal industry players. Accordingly, the objective of this study was to investigate factors related to the adoption of Islamic financings by Halal Entrepreneur. More study on the adoption of Islamic financings is therefore needed to penetrate the adoption of Islamic financing among Halal entrepreneurs, as well as to boost the Halal economy.*

**Key words:** *Halal entrepreneur, halal industry, Islamic financing, adoption*

## Introduction

Under the Halal industry, Islamic Finance is a product that shares similar practice as a religious business. Despite the similarities, the two industries disconnected due to the low adoption of Islamic financing products among the players in the halal industries (Jaffar & Musa, 2016). Recently, the global *halal* industry is estimated to be worth around USD2.3 trillion excluding Islamic finance (Hughes & Malik, 2012). If the Islamic finance and *halal* business were to combine, the potential size of the *halal* industry is estimated USD3.5 trillion (Jaffar & Musa, 2014). In addition, study found by (Mukhtar & Mohsin Butt, 2012) highlighted that the religious obligations direct peoples' attitude and feeling towards a range of products, such as food, financial, cosmetics and pharmaceutical products. Therefore, it is crucial for the researcher to identify how far religion obligation can encourage halal entrepreneur to adopt Islamic financing. In present study, research on the Islamic financing among Muslim *halal* entrepreneur need to be done comprehensively due to the low adoption of Islamic financing among customers. The extensive study will enhance the adoption of Islamic financing among *halal* entrepreneur as well as to boost up *halal* economy to form a strong economic income construct for the future global *halal* economy especially in Malaysia.

## Problem Statement

According to Rahman et al., (2017) as a religious based business, all Muslim and non-Muslim should strictly follow the rules of Islam and do not violate the laws to maximize the profit. However, most of *halal* manufacturers are not subscribed to Islamic financial services because they are not compelled to adopt Islamic finance (Hughes & Malik, 2012). Since around 80% of *halal* companies controlled by non-Muslims, there is no religious impetus for them to participate in Islamic finance (Hughes & Malik, 2012). This exclusion brings to the low

adoption of Islamic financing among *halal* manufacturers. As a *halal* certified company, they should follow Islamic rules on producing *halal* product and services including financial aspect. Thus, the performance of the *halal* industry must be based on the religious perspective (Muhamad et al., 2017) especially on financial aspect (Bizri, 2017). Recognizing the significance of a *halal* business with an Islamic way of financing, much research has been conducted to explain the factors that may contribute to the adoption of Islamic financing among *halal* industry players. However, by adopting a quite limited approach, extant studies seems to miss some of the important points that may help to provide accurate and comprehensive understanding of the aspects that contribute to use another mechanism on Islamic financing such as Islamic financing.

## **Research Objective**

The objective of this study was to investigate factors related to the adoption of Islamic financings by Halal Entrepreneur.

## **Literature Review**

An extensive past empirical studies had focused on the adoption of Islamic banking and finance among individual customers. Little effort has been done to examine the adoption of towards Islamic banking and finance from the perspective of business firm. Lajuni et al., (2017) have pioneered the study on customers' intention to use Islamic banking products in an emerging and vibrant market. Mbawuni & Nimako (2017) examined the factors affecting the adoption of Islamic banking (IB), which is an innovative and emerging form of banking, in a non-Islamic Sub-Saharan African (SSA) country. Consumer attitude, readiness to comply with Sharia law, knowledge, perceived innovativeness and perceived benefits were critical determinants of bank customers' intention to adopt IB in both Muslim and non-Muslim sub-groups. Consumer attitude, readiness to comply with Sharia law, knowledge, perceived innovativeness and perceived benefits were critical determinants of bank customers' intention to adopt IB in both Muslim and non-Muslim sub-groups (Muhammad et al., 2019). The least influential factors were perceived religion effect (PRE) and perceived threat of violence (PTV). PTV was not a significant factor to non-Muslims, but it was a significantly negative factor to Muslims' intentions to adopt IB. PRE has a positive influence on Muslims' intention to adopt IB, but it has a negative effective on non-Muslims' adoption intentions. While Salleh et al., (2019) and Janahi & Almubarak (2017) examined the impact of different factors of customer service quality on customer satisfaction. The paper presents a model which is not frequently used in Islamic banking literature and shows relationships between six factors of customer service quality and customer satisfaction in the Islamic banking sector. Customers of five main Islamic banks are contributing in this study. This paper demonstrates strong and positive relationships between the six main dimensions of customer service quality (Compliance, Assurance, Reliability, Tangibility, Empathy and Responsiveness) and customer satisfaction.

## **Methodology**

During qualitative phase of the research, the data was gathered from the semi-structured interview from both user and non-user of Islamic banks to reveal different the varying differences of opinion exists between user and non-user of Islamic bank. Two major areas of

measurement were identified for further research. First, customer attitude regarding factors such as the underlying knowledge on Islamic banking product, cost benefit, regulation and religion obligation. Second, the research enriched understanding level of customers' bank selection criterion for the above-mentioned factors. Within this the barriers towards Islamic banking faced by non-users and motivations for users were also considered. Likewise in this study, case study will be adopted to investigate the adoption of Islamic financial among *halal* certification holder from JAKIM.

## **Findings**

The researcher visited the halal food industry's top management and requested them to share. The interviews were carried out once the informants agreed to participate in the study. The interviews involved with halal food entrepreneur from different manufacturing. It was generally found that there were wide differences in the opinion of the users and non-users in the semi-structured interview. Also, non-users exhibited a lower level of awareness of Islamic bank products and services. However, when asked about the basis of Islamic banking towards halal entrepreneur, users and non-users both were keen to point out *riba* (interest) as the underlying basis. There are four themes derived from the finding such as i) knowledge, ii) religion obligation, iii) cost benefits and iv) regulation. The finding from both non-users and users are as follow:

### ***Theme 1: Knowledge***

#### *Non-user 1 (NUI)*

Knowledge factors are the most influence factors towards Islamic financing among halal entrepreneurs. Most of the informants highlight that with the limited knowledge towards Islamic financing have affected them from using Islamic financing. What follows is a set of sample descriptions given by the owner of the halal food entrepreneur among non-user category about their opinion on the knowledge on Islamic financing. Accordingly, all of five non-user companies claimed that they don't apply for Islamic financing in their business because they do not have enough information on the Islamic financing info specifically for halal entrepreneur.

#### *User 1 (UI)*

However analysis from user of Islamic bank are different, where three of them admitted that they applied for Islamic financing due to their knowledge and awareness on the Islamic banking towards halal entrepreneur. For them, awareness on Islamic banking are exploding and convince them to use islamic financing in halal business, therefore they decide to use Islamic financing in their business as to strengthen halal industry. Overall, the interviewees showed that user from they have limited knowledge on the specific financing for halal food entrepreneur. It shows that knowledge on the halal financing affecting the use of Islamic financing rate among them.

## ***Theme 2: Religion obligation***

### *Non-User 1 (NU1)*

Religion factor is one of the influential towards attitude on the Islamic financing among halal entrepreneur. Since they have halal certification, therefore the awareness on the religiosity is high. Through finding, majority of the non-user and user of islamic financing of Islamic financing acknowledge that religion obligation are essential elements towards islamic financing. however, even though they don't apply for islamic financing from islamic bank it doesn't mean that they are not obey islamic principles, but they use another way in conducting halal business such as using own money and family financing. For them, they can consider Islamic religion can be one of the elements to drive them to apply for islamic financing soon and suggest that the capital must be halal too.

### *User 1 (U1)*

Nevertheless, for all users of Islamic banking, they apply for Islamic banking service because they believe islamic banking is safer than conventional, besides they want to avoid riba and get safety in the world and hereafter. In addition, they want to supply halal food to the customer with the halal source capital. The evidence can be found below:

## ***Theme 3: Cost Benefits***

### *Non-user 1 (NU1)*

Among other reasons which influence customers' decision to deal with high Islamic baking is cost of borrowing. Customers will think on the benefits in reducing cost and saving more budgets to cover another thing. Majority of the informants from non-user agreed that charge rate allocated by the bank influence them from making any service.

### *User 1 (U1)*

Different with some user of Islamic bank, they don't mind about charge rate as long as the bank use shariah contract in the transaction. It means that, the cost of borrowing is not the main factor to borrow from the bank, as long as it is the contract follow the shariah principle in the operation. Prior discussions reveal that there are consistent statements from the user and non-users of Islamic financing on religion belief towards the adoption of Islamic financing. The action of them in considering religion obligation as one of their practice is very much accepted.

## ***Theme 4: Regulation***

According to all non-users and users of Islamic financing, there is no regulation on halal financing before applying halal certification from the government. Most of criteria highlighted by the JAKIM officers are only for raw material and not to financing sources. That is why majority of halal entrepreneur in Malaysia do not use Islamic financing source. Overall, all the

informants mentioned that don't get any info on halal financing source. They are only required to prepare halal material and not halal capital.

## Conclusion

Results of users and non-users of Islamic financings carry out knowledge, religious obligations, cost benefits and regulation as a result of the adoption of Islamic financing by halal entrepreneurs. This study aims to extend the concept of connecting the gap between Islamic finance and the halal industry to increase Malaysia's use of halal financing. It is concluded that there are a large potential of the halal industry and Islamic financing in term of profit. By specifically referring to the halal industry sector, it clearly shows that it will not only benefit the Muslim per se but also will give advantages to non-Muslim.

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