



Determinants of Micro and Small Enterprise's Interest to Participate in Self-Declare Halal Certification

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ABSTRACT

The Micro and Small Enterprises (MSEs) market share is expected to increase with the halal certification of their products and services. However, MSEs have limited resources. In response, the Government introduced a self-declare halal certification program in 2022. From the total number of MSEs, which reached 8.7 million units as of March 2023, only about 79 thousand have self-declare halal certificates. Therefore, this study aims to analyze internal and external factors that influence the interest of MSEs towards halal certification through a self-declare scheme. The study involves 86 MSEs respondents from Bogor, West Java. Using Partially Least Square (PLS) with a second-order approach. The findings reveal that internal factors marginally affect MSE's interest to pursue self-declare halal certification. The three strongest indicators of internal factors are: (1) improving human resource performance, (2) increasing efficiency and financial returns, and (3) awareness of religiosity. Interestingly, external factors do not influence the interest of MSEs to obtain self-declare halal certification, except for government policy, which significantly impact the intention in the first-order test. The main implication of this research is the importance of more substantial government support to help MSEs obtaining halal certification such as socialization, training as well as mentoring Halal Self Declare Certification at an affordable cost.

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Introduction

Allah SWT commands humans to consume lawful and good food. Halal is defined as

things that are permitted by Islamic law to be consumed (Antara et al., 2016) However, the term halal has a wider scope to everyday life. The concept of halal emphasizes cleanliness, safety, virtue, purity, production, process,

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honesty, truth and food service as well as other financial and even social activities (Hussain et al., 2016). Halal also ensures a healthy life for humans (Ambali & Bakar, 2013).

The implementation of halal concept into business practices requires government support as a policy maker. Through the Ministry of Religion, the Indonesian Government has established a Halal Product Guarantee Agency (BPJPH) to support the accelerated development of the national halal industry. Halal Product Assurance aims to provide convenience, security, safety, and certainty of the availability of halal products for the public in consuming and using products, as well as increasing value added for businesses to produce and sell halal products. Through Law No. 33 of 2014, the Government has also set that by 2019, halal certification must have been carried out for food and beverage products and other products such as services and consumer goods.

To support this halal certification program, specifically for Micro and Small Enterprises (MSEs) with limited capital, in 2022 BPJPH introduced self-declare program. The self-declare scheme is expected to improve public trust. As a result, market share of MSEs will increase or even may open new market opportunities. With halal certified, MSEs are forced to be better with various standards and requirements, such as improving the administration of buying and selling, finance and maintaining the quality of their products.

BPJPH in collaboration with various agencies such as the National Amil Zakat Agency, partner universities, and the local government has been actively conducting socialization and giving periodic quotas to MSEs to participate in this self-declare program to pursue the target of mandatory halal certification in 2024, especially for food and beverage products

(Pamuji, 2023). The quota given has not been fully utilized by MSEs. Kasanah and Sajjad (2022) noted that as of September 2022, the quota was only filled with 15,462 or 4.76% of the total 324,834. Similarly, quoted from BPJPH data, as of May 2023, only around 73 thousand self-declare certifications had been issued by the BPJPH Fatwa Committee or around 0.8% of the total number of MSEs which reached 8.6 million units (Mahdi, 2022).

MSEs especially those are operating in rural areas still experience lots of constraints when participating in this halal certification program even though free of charge. Using phenomenology of MSEs in Pasuruan East Java, Aslikhah and Syu'aibi (2023) find that not all MSEs agree with the self-declare certification. There are types of MSEs who are neutral with self-declare. There are also MSEs who do not agree with self-declare as the certification need a long process and procedures. MSEs must also have a partner in the process of halal products which are difficult to obtain. In addition to inadequate facilities, most MSEs do not have documentation such as tax id number (NPWP) and business identification number (NIB) as part of the halal requirements (Ningrum, 2022). The problems and challenges of implementing self-declare are reasonable as this program is still relatively new. Therefore, it needs to be supported by academic research. This phenomenon is the background of this research with the aim of analyzing the factors that influence the interest of MSEs in participating in the self-declare halal certification program.

Several studies on halal has been previously done. Fajriani & Wiliasih (2018) analyzed the characteristics of MSEs in Bogor Regency and analyzed the factors that influenced MSEs to

participate in regular halal certification. The results show that three factors influence the interest of MSEs in Bogor Regency for halal certification, namely: the impact of halal certification on profit, level of owner's education and access to halal certification. Harbit and Syafrida (2022) conclude in their research that belief factor dominates the motivation of MSEs having regular halal certification. Sudarmiatin et al. (2020) provide interesting findings that awareness, knowledge and challenges in getting halal certification do not affect MSEs interest in the certificate. They possibly understand halal certification. However, their knowledge of halal certification does not guarantee that they will join the certification program. Rafiki (2014) proves that business experience, Islamic motivation, education, training, network size and ownership significantly influence MSEs in obtaining halal certification. On the other hand, Handayani et al. (2018) prove that the factors that prevented MSEs from obtaining halal certification include a lack of information about comprehensive halal certification, lengthy certification procedures, and limited MSEs resources, especially financial and human resources.

Specific research on self-declare is still dominated by theoretical and juridical studies such as Jakiyudin and Fedro (2022) who conclude that self-declare has the opportunity to make Indonesian products more competitive, but the challenge lies in the source of state financing as it is free. Hosen et al., (2022); Faizal and Saly (2022) highlight the problem of uncertainty in legal protection for consumers using the self-declare mechanism. Widayat et al. (2022) empirically examined MSEs in Semarang, Central Java, proving that the majority of MSEs did not have NIB, did not understand halal policies and did not

understand self-declare scheme. Similar results were found by Ningrum (2022) that the problems of MSEs in Madiun Regency, East Java include a lack of understanding of halal, limited funds for processing halal certification, limited infrastructure and documentation and the MSEs mindset that halal certification is only for large companies. Maksudi, Bahrudin and Nasruddin (2023) also strengthened with their findings that self-declare certification had no impact on consumer satisfaction due to low awareness of consumers and MSEs on the importance of halal.

This research focuses on analyzing the influencing factors of MSEs interest in following halal certification specializing in self-declare programs. In addition to being affordable in terms of cost, this self-declare scheme can be accessed more easily, coupled with massive socialization and financial assistance for the management of halal certification which has been echoed by the government. This study classifies the factors that influence interest in obtaining halal certification into two categories, namely internal and external factors. The internal factor consist of operational performance improvement, human resource performance improvement, management level awareness, financial efficiency, and religiosity awareness. While external factors are customers demand, business expansion, competition from competitors and government policies.

A total of 86 MSEs randomly spread across the city and district of Bogor West Java were involved as respondents in this study. After passing the validity and reliability tests, data was analyzed using structural equation model with second order. The results of this study primarily provide recommendations to regulators, on how to support MSEs in obtaining halal certification as a way to

increase their market share. In addition to financial support in the form of eliminating certification costs, regulators need to prepare innovative breakthroughs such as simpler procedures and requirements.

Literature Review

In 2022, BPJPH published a program to support the vision of halal certification in Indonesia. The program is called halal certification through the self-declare scheme. Self-declare is a halal certification program intended for MSEs in Indonesia who do not have sufficient capital to run a regular halal certification scheme which requires relatively high costs for MSEs. The basis of halal certification through the self-declare scheme is the declaration of halal status by the MSEs through a special scheme. In implementing the program, MSEs are required to be accompanied by Halal Product Processing Assistant (PPH) who are officially registered at the Ministry of Religion. Even though the issuance of halal certificates through this scheme is still going through the fatwa session of the Indonesian Ulema Council (MUI) (IHATEC, 2022).

Through this program, it is hoped that efforts to provide a good image for MSEs and support awareness programs in the community about halal as a lifestyle and a strategic step towards competition in winning world market competition can be carried out correctly. The halal certification program with a self-declare scheme is expected to encourage MSEs to register their products for halal certification. For MSEs, halal certificates will increase public trust to increase market share or open new market opportunities. In addition, by participating in the halal certification program, MSEs are forced to improve with various standards and requirements, such as

improving the administration of buying and selling, finance and maintaining the quality of their products. MSEs apply certification because of various reasons. Talib et al., (2017) classify motivation for implementing certification into internal and external factors. Internal motivation concerns the company's internal processes, procedures, people, and available resources. While external motivation relates to external companies like government intervention, economics volatility, social pressure and technology development.

Institutional and Falah Theories

MSEs interest in participating in self-declare can be explained by institutional theory and Falah theory. Institutional theory was introduced by DiMaggio and Powel (1991) which assumes that organizations tend to make changes towards similarities with other organizations and their environment. When the company is different from the others, it will lose legitimacy from its environment. Talib et al. (2017) followed by Sholeh and Mursidi (2023), use this institutional theory in explaining company's motivation in obtaining halal certification, namely demand for government regulation, consumer demand and competitive industrial competition.

In addition, the interest of MSEs in obtaining certification is to improve the welfare of the world and the hereafter which reflecting the concept of Islamic Economics which is known as Falah. In this study, the religious awareness of MSEs who believe that their products must be halal is a reflection of the desire to create welfare in the hereafter. Meanwhile, with halal certification, it is expected to be able to compete competitively, increase organizational performance, increase the efficiency of MSEs and make it easier to expand business, which is a reflection of world welfare. According to Caphra (2022)

economic activity is based on the concepts of monotheism, khilafah and justice. In the context of halal certification, monotheism is implemented in providing products and services that are guaranteed to be halal which is part of the endeavor to carry out Allah's commands contained in the Al-Quran surah Al-Baqarah 168 and Al-Baqarah 172. The Khilafah interprets this halal guarantee as a form MSEs responsibility to customers. Justice can be realized with this halal because customers have the right to get the best product. Rafiki (2014) define this falah theory with Islamic motivation.

The Influence of Internal Factors on the MSEs Interest to Have Self-declare Halal Certification

Halal certification means innovation and improvement to increase value. In general, the motivation to obtain certification is recognition. Previous studies classify motivation into internal and external motivation. The internal represents factors inside the company, such as enhancement performance, profit and efficiency, or high spiritual awareness from the whole team member. The external means encouragement from outside the company, such as regulator, customer demands, or hopes to be able to compete with competitors. The motivation to increase profits in the long term in obtaining certification is proven by several studies such as Fotopoulos et al.,(2009); Escanciano et al. (2014). Similar results were stated by Fajriani & Wiliasih (2018). Their research concluded that three factors influence the interest of MSEs in Bogor Regency towards halal certification, one of which was the impact of certification which was expected to increase profit.

Certification does require commitment not

only from the owner, but also from the management. Awareness especially at the management level as a policy maker is another important internal factor in obtaining certification. Commitment to offer safe and quality food on the market, while providing assurance to consumers that the product is safe for consumption (Talib et al., 2017). Lack of management commitment can be an obstacle to motivation to carry out certification, as in the research by Hielm et al. (2006), Bas et al. (2007), Jirathana (1998), Jin et al. (2008), Wilcock et al. (2011), and Karaman et al. (2012).

Halal certification is also related to religious awareness, meaning beliefs about whether or not it is permissible to consume products/services. Studies by Tieman et al. (2012) and also Wilson & Hollensen (2013) find that religious factors influence the interest of companies to obtain halal certification. The self-declare mechanism in halal certification is easier and cheaper for MSEs to obtain their certification than the regular scheme. Therefore, self declare scheme will be more efficient for MSEs. On the basis of this explanation, this study proposes hypothesis 1 as follows: Internal Factors Influence MSE's Interest in Having Self-declare Halal Certification.

The Influence of External Factors on the MSEs Interest to Have Self-declare Halal Certification

Consumer demands are one of the most important factors that drive MSEs to carry out certification. Fulfillment of consumer expectations will have an impact on market share and will ultimately affect profit and the company's business sustainability. Previous research discussing the demand for certification from customers are Jin et al.

(2008) and Macheke et al., (2013), who concluded that certification is an effort to protect consumers from the potential presence of foodborne diseases. Likewise, Escanciano et al., (2014); Mensah and Julien (2011) find that manufacturers' motivation is to ensure and improve product safety and quality. Companies must be able to ensure consumer satisfaction and meet the demand for quality and safe food (Psomas & Antony, 2015). The long-term impact is when the company is able to fulfill quality assurance, the company can attract new customers, retain existing ones, and create loyalty (Herath & Henson, 2010).

Being another external factor that motivates companies to have internationally recognized certification is due to the need for business expansion. Obtaining a halal certificate issued by a credible certification body is generally accepted as a good marketing strategy (Puspitasari & Urumsah, 2022); (Syarifuddin et al., 2022); (Armiani et al., 2021). Herdiana and Rusdiana (2022); Moore (2015) and Haque et al., (2015) explained their findings that overcoming export barriers and making it easier to enter new markets is an incentive for companies to take part in the certification program. Furthermore, Fikru's study (2014) found that international companies are driven by requests from local consumers to obtain certification. In line with Fikru (Fikru, 2014), demand from the domestic food market puts pressure on local food companies, and ultimately encourages them to implement certification (Fotopoulos et al., 2009)

Another research has highlighted government pressure as a significant motivating factor for certification, although this is related to the protection of many communities. Among these studies are that conducted by Maldonado et al., (2014); Millios et al., (2018); Othman et al., (2009); Tomasevic et

al., (2005); Wilcock et al (2011) and Yapp & Fairman (2006). In Indonesia, even though the certification is still voluntary with the government supports, it is enough to encourage MSEs to have halal certification.

Another external factor that is interrelated with the interest in obtaining certification comes from competitors' encouragement. Putra et al. (2020) confirmed with their findings that there are three factors that influence companies in carrying out certification, one of which is competition motivation. Based on the explanation and analysis of the results of previous studies, this study proposes hypothesis 2 as follows: Exrtnal Factors Influence MSE's Interest in Having Self-declare Halal Certification.

Methods, Data, and Analysis

Data in the study were collected through a questionnaire distributed to MSEs in Bogor Regency, West Java. The targeted number of samples consists of 100 MSEs randomly distributed in collaboration with small micro business associations or communities. In collecting the data, this study used the online method with the Google form. The Google Forms method facilitates distribution on a wider scope and improves data integration by not using a lot of time and money (Evans & Mathur, 2018). Determination of the target sample is determined based on the minimum number referring to Zuhdi et al. (2016) which stated that the sample used for SEM PLS of 100 respondents is sufficient.

In this study, the exogenous variables used as an analytical measuring tool consisted of two factors, namely internal and external. Where internal factors consist of five indicators in the form of (1) operational performance

improvement, (2) human resource performance, (3) management level awareness, (4) financial efficiency, and (5) religiosity awareness. Meanwhile, external factors consist of four indicators, namely (1) customers demand, (2) business expansion, (3) competition from competitors, and (4) government policies. Each indicator is measured by a number of statements with a Likert scale of 1-5. The closer the score is to 5, the more the statements in the questionnaire describe the real condition of the MSEs, while the closer it is to 1, the more the statements in the questionnaire do not describe the MSEs condition. The endogenous variable of MSEs interest is the tendency, desire and interest of MSEs in obtaining self-declare halal certification which in this study is suspected to be influenced by internal and external factors. This interest is measured by four statements with a Likert scale of 1-5. The closer the score is to 5, the more the statements in the questionnaire describe the real condition of the MSE, while the closer it is to 1, the more the statements in the questionnaire do not describe the MSE condition.

The data analysis method used in this study is Structural Equation Modeling (SEM) analysis with SmartPLS 3.2.6 software. Structural Equation Modeling (SEM) is a second-generation multivariate analysis technique that connects factor analysis and path analysis so that it allows researchers to test and estimate simultaneously the relationship

between multiple exogenous and endogenous variables with many factors (Latan & Ramli, 2013). The analysis in SEM model can be divided into two stages, namely the measurement model and the structural model. The measurement model examines the outer loading value to evaluate the relationship between the construct variables and their manifest indicators. The structural model or inner model assess the relationship between latent variables, as shown by the results of the path coefficient estimation parameter and its significance level.

Results and Discussion

Out of a total target of 100 respondents from MSEs in the Bogor area who were randomly distributed, 86 respondents were collected from June 2022 to August 2022. Of the 86, 32 of them were MSEs who already had halal certification and 54 others did not yet have halal certification either because they were in the process or did not have the opportunity to manage them. Table 1 presents the complete profile of the respondents. Based on gender classification, MSEs in this study were dominated by women as many as 63 people or 73%. The remaining 23 people or 27% are men. The education level of the majority of respondents was university graduates with a total of 44 people or 51%. The assets of the majority of respondents are between Rp. 100 million to Rp. 500 million and the total average income of the majority per year ranges from Rp. 300 million to Rp. 1 billion.

Table 1

Profile Respondents

MSE data	Number of Respondents	Percentage
Gender		
- Woman	63	73%

<http://journal.walisongo.ac.id/index.php/JDMHI/index>

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- Man	23	27%
Education		
- Elementary - Junior High School	4	4%
- Senior High School	38	44%
- University	44	51%
Asset Size (Rupiahs)		
- < 50 Million	33	38%
- 50 Million to 100 Million	9	10%
- 100 Million to 500 Million	42	49%
- > 500 Million	2	2%
Total Revenues (Rupiahs)		
- < 300 Million Per Year	38	44%
- 300 million to 1 billion per year	42	49%
- > 1 Billion Per Year	6	7%
Halal Certification		
- Already Certified	32	37%
- Not Certified	54	63%

Average and standard values deviation of each indicator internal, external and interest latent variables presented in Tables 2, 3 and 4.

Table 2

Descriptive Statistics of Internal Factors

Indicator	Mean	Stdv
1. Improving Operational Performance		
- Operational standardization	3,198	0.625
- Standardization of work procedures	3,291	0.645
- Standardization of documentation	3,256	0.574
- Formalization of internal system	3,395	0.512
- Consistency in operation	3,395	0.512
- Increase production and quality of product	3,407	0.491
2. Improving Human Resource Performance		
- Recruiting the best talents and ideas	3,302	0.648
- Awareness of quality and work environment	3,360	0.569
- The need for better employees	3,407	0.491
3. Management Awareness		
- Awareness and concern for quality production	3,407	0.514
- Compliance with company internal policy	3,407	0.514
- Encouraging all levels of employees to own or maintain certification	3,407	0.514
4. Financial Efficiency		
- Pursuing higher income	3,419	0.514
- Increase profit	3,419	0.514
- Increase sales	3,419	0.514
- Reduce production costs	3,419	0.514
5. Religious Awareness		
- Commitment for practicing fair and ethical business behaviour	3,407	0.491
- Understanding Halal products	3,407	0.491

- Belief will live after death (hereafter)	3,407	0.491
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The average respondent has a tendency to agree with the internal factors that influence their interest in obtaining self-declare halal certification as presented in Table 2. This tendency to agree is shown by almost all indicators from each dimension of internal variables having an average value below 4, but above 3, with the highest score seen in the “financial efficiency” indicator. From the description of this data, it shows that the focus

of MSEs on obtaining halal certification is more driven to increase financial benefits. The standard deviation value which is smaller than the mean value indicates that the distribution of the data is homogeneous, in other words the respondents have homogeneous (similar) perceptions about internal factors that influence the interest in obtaining self-declare halal certification.

Table 3

Descriptive Statistics for External Factors

Indicator	Mean	Stdev
1. Business Expansion		
- Expansion to local area, such as outside the city or the territory	3,349	0.646
- Expansion to overseas	3,349	0.646
- Easy to expand.	3,349	0.070
2. Competition		
- Win competition from competitors	3,279	0.179
- Competitors have their certifications.	3,291	0.179
3. Government Policy		
- Mandatory Policy	3,756	0.121
- Financial and non Financial Government Support	3,744	0.114

The average value and standard deviation of the external factor variables are shown in Table 3. As with internal variables, respondents shows a tendency to agree with external variables that affect interest in participating in self-declare halal certification, as evidenced by an average value of less than 4. The highest average value of external variables is shown in government policy indicators. This means that respondents participating in self-declare halal certification were more

dominantly driven by government policies that "required" to have halal certification and also the convenience facilities provided by the government in the certification process. This finding is consistent with Ningrum (2022) that the general problem for MSEs is limited financial resources. Halal certification has not become a priority for MSEs, unless it is mandatory and facilitated financially, for example by free certification processing fees.

Table 4

Descriptive Statistics for MSE’s Interest

Indicator	Means	Stdev
- Learn about the ins and outs of halal certification.	3,686	0.816
- Register my products on self-declare halal certification program	3,709	0.938

- Recommend partners or friends to register their products in self-declare halal certification program	3,512	0.636
- Register product results on halal certification	3,547	0.898
- Renew halal certification periodically	3,558	0.948

The mean values and standard deviations of the dimensions of the interest variable in Table 4 show consistency with the respondents' answers to the internal and external variable questionnaires. For the interest variable also shows a tendency to agree with aspects of interest in having self-declare halal certification. The average score for each statement is between 3.5 and 3.7, above a neutral, below an agreeing value. Judging from the standard deviation, which is smaller than the mean value, it indicates that the

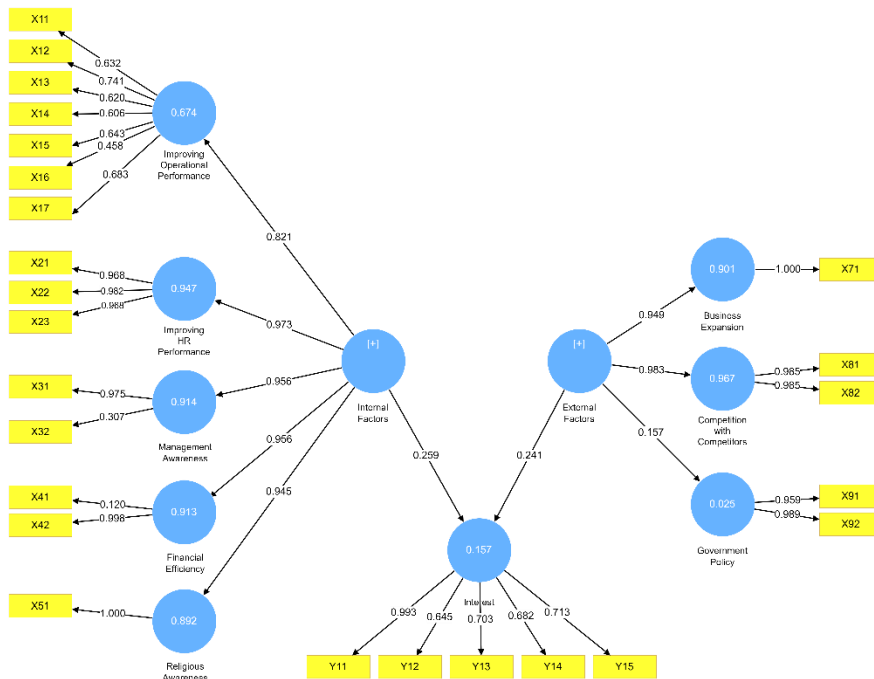
homogeneity of the respondents is quite high.

Validity and Reliability of the Measurement Model

The SEM-PLS model comprises the measurement (outer) and structural (inner) models. The first stage in the SEM-PLS is to test the outer model's validity and reliability. Figure 1 presents the results of the initial test to detect the validity of the research question items.

Figure 1

Initial Model for Detecting Validity Instrument



We used convergent validity test, as shown from the value of outer loading and average

variance extracted (AVE). The variable is considered valid when it has an outer loading

value > 0.7 for this type of confirmatory research and an AVE value > 0.5 (Henseler et al., 2009). From Figure 1, it is shown that the question items still have an outer loading value of <0.7, for example the latent variable "improving operational performance", of the seven questions, only one question has an outer loading >0.7, namely item X1.2. Likewise, from Table 5 it appears that three variables with an AVE value <0.5.

Table 5
Initial Variance Extracted (AVE) Value

	Average Variance Extracted (AVE)
Financial Efficiency	0.505
Business Expansion	1,000
External factors	0.564
Internal factors	0.462
Government policy	0.949
Management Awareness	0.523
Religious Awareness	1,000
Improving Operational Performanc	0.399
Improving HR Performance	0.946
MSE's Interest	0.447
Competition with Competitors	0.970

The preliminary results of reliability test also show several variables that are not reliable, with Cronbach's Alpha value < 0.7 and Composite Reliability less than 0.6 (Dahlan et al. 2014) as shown in Table 6.

Table 6
Initial Reliability Test

	Cronbach's Alpha	Composite Reliability
EK	0.104	0.558
EB	1,000	1,000
FE	0.754	0.821
FI	0.889	0.905
KP	0.951	0.974
KJM	0.163	0.633
KR	1,000	1,000
MKO	0.788	0.820

MKSDM	0.971	0.981
M	0.700	0.801
PK	0.969	0.985

Description :

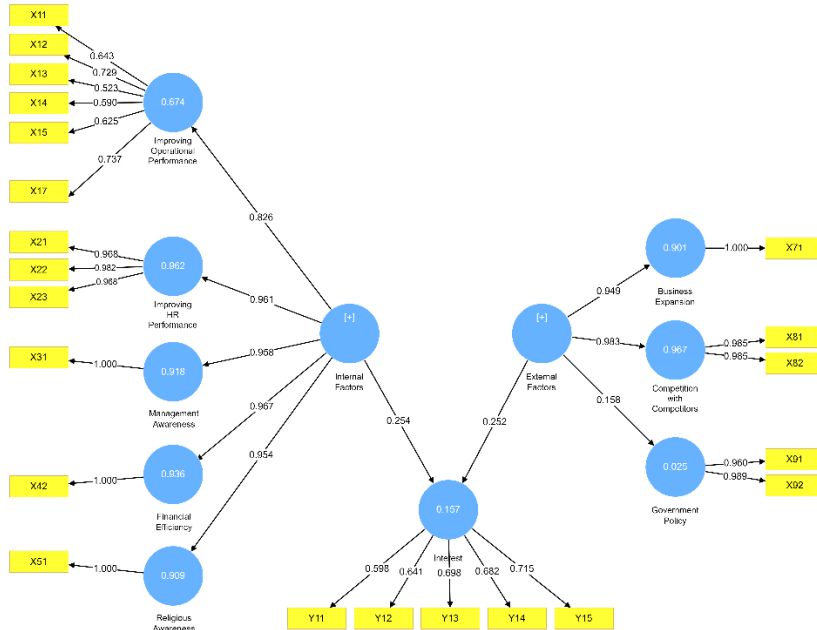
- EK: Financial Efficiency
- EB: Business Expansion
- FE: External Factor
- FI : Internal Factor
- KP: Government Policy
- KJM: Management Awareness
- KR: Religious Awareness
- MKO: Improving Operational Performance
- MKSDM: Improving HR Performance
- M: MSE's Interest
- PK: Competition with competitors

The second stage was re-tested by deleting the questions that did not meet the validity test, the results are presented in Figure 2. In the second stage of the model test, all outer loading values are > 0.6. Likewise the validity and reliability tests have fulfilled the requirements with an AVE value of > 0.4 (Table 7). The ideal AVE value should be > 0.5, only 0.4 can be accepted when the composite reliability value is > 0.6 (Huang, ChunChe et al., 2013 in Jensen).

Table 7
Final Validity and Reliability Test

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
EK	1,000	1,000	1,000
EB	1,000	1,000	1,000
FE	0.754	0.821	0.564
FI	0.912	0.927	0.569
KP	0.951	0.974	0.949
KJM	1,000	1,000	1,000
KR	1,000	1,000	1,000
MKO	0.791	0.809	0.417
MKSDM	0.971	0.981	0.946
M	0.700	0.801	0.447
PK	0.969	0.985	0.970

Figure 2
The Final Model



The value of discriminant validity can be seen from the Fornell-Larcker Criterion value and the Cross Loading value. The Fornell-Larcker Criterion value in Table 8 shows that each latent variable value is higher than the correlation value of this variable with other latent variables. For examples of Government Policy Variable of 0.974, greater than the correlation of government policie with management awareness (0.043); correlation of government policie with religious awareness 0.045; correlation of government policie with improving operational performance 0.000; etc.

Table 8:
Fornell-Larcker Criterion value

	Government policy
EK	
EB	
FE	

FI	
KP	0.974
KJM	0.043
KR	0.045
MKO	0.000
MKSDM	-0.008
M	0.394
PK	0.050

The validity test can also be seen from the cross loading value where the correlation value of the construct with the measurement item should be greater than the other constructs. As an example the correlation value of Financial Efficiency X4.2 is 1.00 which is greater than 0.170, 0.177, 0.967, 0.059 (the right column). After passing the validity and reliability tests, we conduct hypotheses testing by examining the inner model (structural model). Figure 3 shows the structural model coefficient values, and Figure 4 presents the structural model and

T statistic values.

Figure 3
Regression Coefficient Value of Structural Model

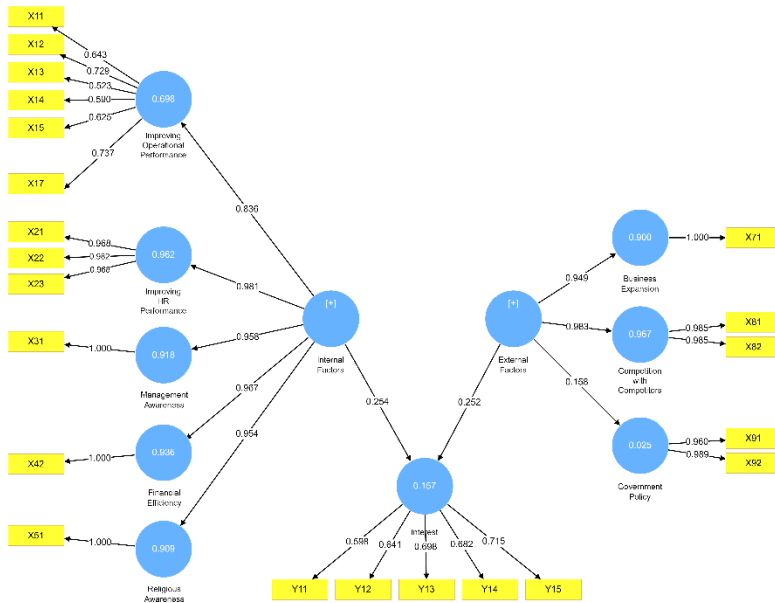
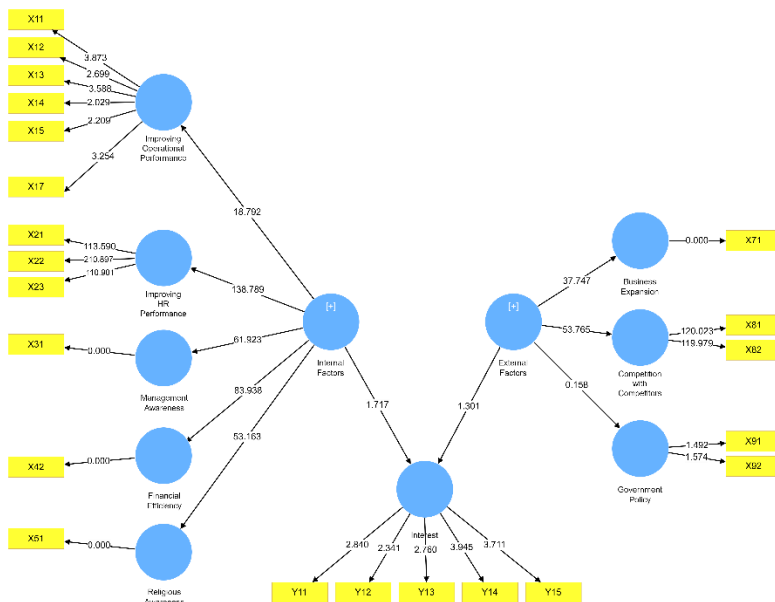


Figure 4
Statistical T Values of Structural Model



The model fit test can use one of the fit indicators resulting from the PLS algorithm, including SRMR values less than 0.10; NFI value close to 1; RMS Theta value is less than 0.102; R Square value or test the validity and reliability of the measurement model. The PLS algorithm in this study shows an SRMR value of 0.215 (> 0.10); NFI value 0.296 (far from 1); R Square 9 first-level latent variables are close to 1, except for Government Policy and MSE's interest variables. Likewise, this study has passed the Outer Model Validity and Reliability tests. Therefore, with a high R Square value and passing the outer model validity and reliability tests, it can be concluded that this research model meets the fit requirements.

Table 9

R Square Value of 9 First Level Latent Variables

Financial Efficiency	0.936
Business Expansion	0.900
Government policy	0.025
Management Awareness	0.918
Religious Awareness	0.909
Increase Operational Performance	0.698
Improving HR Performance	0.962
MSE's Interest	0.158
Competition with Competitors	0.967

Path Coefficient Value (Path Coefficient)

The partial effect of each variable can be analyzed using the path coefficient from the Bootstrapping analysis as presented in Table 4.10. The influence of internal factors on the interest in having self-declare halal certification is proven to be significant but with a 10% test, the T statistic is 1.717 and P values are 0.087 (<0.1). The direction of the coefficient is positive (0.254), meaning that

the more the motivation of MSEs incorporated in internal factors, the higher the interest of MSEs for self-declaring halal certification. Meanwhile, the influence of external factors on interest in self-declaring halal certification proved insignificant with a T statistic of 1.301 and a P value of 0.194. Therefore Hypothesis 1 is accepted with a significance test of 10%, while hypothesis 2 is rejected.

Table 10

Coefficient Values, T Values and P Values

	Original Sample (O)	T Statistics (O/STDEV)	P Values
FE →EB	0.949	37,747	0.000
FE →KP	0.158	0.638	0.524
FE →M	0.252	1,301	0.194
FE →PK	0.983	53,765	0.000
FI →EK	0.967	83,938	0.000
FI →KJM	0.958	61,923	0.000
FI →KR	0.954	53,163	0.000
GI →MKO	0.836	18,792	0.000
FI →MKSDM	0.981	138,789	0.000
FI →M	0.254	1,717	0.087

Description :

- FE: External Factor
- EB: Business Expansion
- KP: Government Policy
- M: MSE's Interest
- PK: Competition with competitors
- EK: Financial Efficiency
- KJM: Management Awareness
- KR: Religious Awareness
- MKO: Improving Operational Performance
- MKSDM: Improving HR Performance
- FI: Internal Factors

This research model uses the second order of PLS SEM to answer the two hypotheses

proposed, namely: (1) internal factors positively influence the interest of MSEs in carrying out self-declare halal certification; (2) external factors affect the interest of MSEs in carrying out self-declare halal certification. SEM PLS level two is a formative research model. In addition to analyzing the results of hypothesis testing, this section also analyzes in more detail the results of the first-order PLS SEM, which is a reflective research model.

The Influence of Internal Factors on the Interest of MSEs to Have Halal Self-Declare Certification

The results of the structural equation test (inner model) at Second Order show that internal factors affect interest to have self-declare with a positive direction of influence on a 10% significance test. The T statistic value is 1.717 and the P value is 0.087 and the path coefficient is 0.254. If analyzed in the first-order structural model, this internal factor is more dominantly represented by the variable "improving HR performance" with 3 statement points: (1) recruiting the best talent and ideas, (2) awareness of quality and work environment, (3) the need for better employees. The next two strong internal factors are represented by financial efficiency and MSE religious awareness. MSEs is committed to practicing a more fair and ethical business.

The findings regarding the importance of internal factors related to HR performance in this study are in line with the findings of Razalli et al (2013) that the human resource factor plays an important role in halal certification, especially management's responsibility in facilitating the technical team to arrange halal certification and provide halal training facilities to employees. Likewise, this research is in line with Rafiki (2014) which proves the important role of human capital in

obtaining halal certification, which emphasizes employee motivation, formal halal training and UMK educational background. On the other hand, human resources are less aware of the importance of halal certification, and are more concerned with profit, which has an impact on MSEs' lack of compliance with halal criteria, which is one of the biggest challenges in obtaining halal certification among MSEs (Yuli and Wojtyla, 2020).

Internal factors are also represented strongly by the financial efficiency variable, with the question item "increasing financial returns". MSEs have direct or indirect motivation by obtaining halal certification to be able to increase their business profits. This financial motivation is stronger than the encouragement of religious awareness which views Halal as a religious obligation. These findings support Yusuf et al's research (2017) that MSEs feel the need to obtain halal certification because of the positive impact of this certification on increasing sales, both directly and indirectly. This research is also in line with Viverita et al. (2017) that the most important motivation for MSEs to obtain halal certification is to increase sales and expand the target market.

The Influence of External Factors on the Interest of MSEs to Have Halal Self-Declare Certification

The results of this study prove that external factors have no effect on the interest of MSEs in carrying out self-declare halal certification as evidenced by the Statistical T value of 1.301 and P Value of 0.194. External factors are not strong enough to influence the interest of MSEs in obtaining halal certification, compared to internal factors. This finding is not in line with Masrurroh (2020) which proves that halal certification in the food sector is

believed to increase competitiveness, especially in the export market. Likewise, this research also does not support Ratnasari (2019) that halal certification will add value to products which will further increase company competitiveness. Instead these findings support the statement of the Turkish halal center that the halal certification system is not a commercial competition but an ideological competition (Yonetici, 2015)

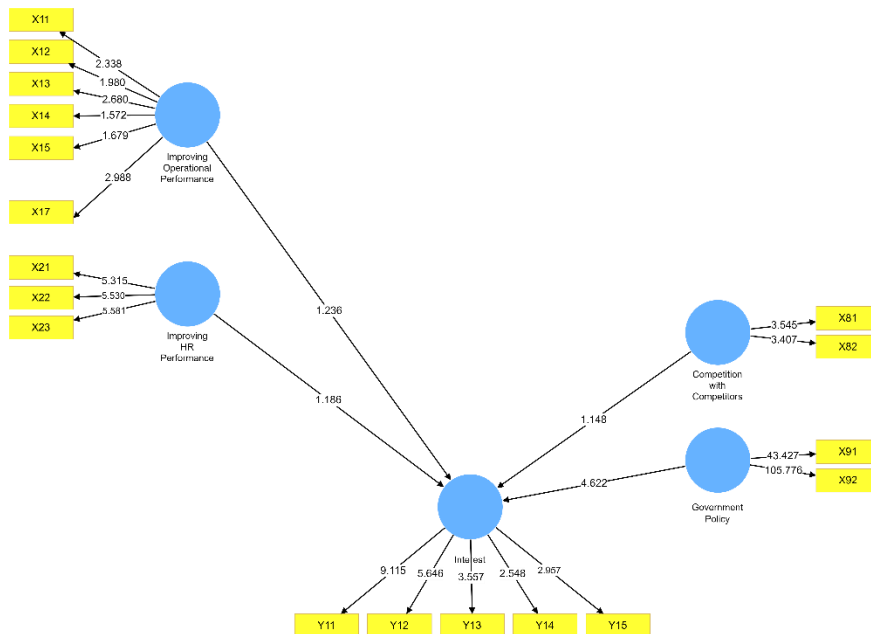
If analyzed in the first level model (first order), valid and reliable external factors are more represented by the variable "competition with competitors". MSEs to carry out halal certification externally is more encouraged because competitors carry out halal certification. Responding to competitors' actions (competitors' moves) is part of strategic management. In the context of this study, when competing MSEs carry out halal

certification, the MSEs are aware and motivated to carry out the same certification, as long as they have the capability to do so. Even though the variable "business expansion" represents the second valid and reliable external factor, MSEs see that halal certification for business expansion is not a priority.

To analyze the strength of the model and the consistency of the results of hypothesis testing, this study adds a level one model analysis, by analyzing the direct effect of each internal latent and external latent variable on interest in self-declaring halal certification. Figure 5 shows the first order model of the factors that influence the interest of MSEs in carrying out Halal certification. Table 11 presents the path coefficient values, T values and T statistics for each correlation.

Figure 5

Factors Influencing MSE's Interest to Have Self-Declare Halal Certification - First Oder Model



From Figure 5 it appears that there are only four latent variables in the model that simultaneously affect Interest in Halal Certification, namely Improving Operational Performance, Improving HR Performance, Competitor with Competition and Government Policy. Of the four variables, only one is significant, namely government policy with a path coefficient of 0.614 and T Statistics of 4.622 and P Values of 0.000. From government policy variables, it is more represented by questions about convenience from the government financially, in addition to halal certification being an obligation.

Table 11
Path Coefficient Values, T Statistics and P Values
First Order Model

	Original Sample (O)	T Statistics (O/STDEV)	P Values
KP →M	0.614	4,622	0.000
MKO →M	0.196	1,236	0.217
NKSDM →M	0.134	1,186	0.236
PK →M	0.105	1.148	0.252

KP: Government Policy
M: MSE's Interest
MKO: Improving Operational Performance
MKSDM: Improving HR Performance
PK: Competition with competitors

Building public awareness of the importance of halal certification (bottom up approach), which is literacy and appeals will make halal a culture that is deeply rooted, but takes a long time. On the other hand, government intervention in the form of policies (top down approach) for example in the form of mandatory halal certification, halal being a requirement for operational permits, halal getting tax breaks, making halal certification free, will have a strong impact on the interest of MSEs to have halal certification. This also happens with the

Islamic banking industry, where the government's political will plays a major role in the birth and development of Islamic banks (Aswad, 2015). Regulatory support for product innovation through contemporary MUI fatwas, performance monitoring policies, competency standards for Islamic banking practitioners is the key to the growth and development of Islamic banks in Indonesia (Laela, et al, 2018)

From the results of the first order analysis, it shows the consistency of the findings of this study with the second order model, that in substance MSEs are still struggling with financial problems. Halal certification will attract MSEs if it is able to increase sales. Likewise, MSEs will be happy to carry out halal certification if there is financial facility from the government. This MSEs expectation has been partially responded by the government by launching a free self-declare halal certification, in accordance with the Decree of the Head of BPJPH no 33 of 2022 concerning Technical Assistance for Halal Product Processing in Determining Halal Certified Obligations for MSEs based on statements by business actors. However, one of the obstacles to this free halal certification is that MSEs does not have a Business Identification Number (NIB), which is one of the main requirements.

Conclusion

In conclusion, internal factors influence the interest of MSEs to have halal self- declaration certification, even though the influence is weak with level 10% alpha testing. The strongest indicator of internal factors is "improving HR performance". Another important indicator of internal factors is "financial efficiency". MSEs have the perception that having halal certification will increase business profits. Another internal indicator is the religious

awareness of MSEs.

This study was unable to prove the influence of external factors on the MSE's interest to have self-declare halal certification. However, in the first order analysis, the external factor in the form of government policies has proven significantly influence on the interest of MSEs to have halal certification. The government policies may include a mandatory policy to have halal certification and the facilities provided by the government in obtaining halal certification, especially financial assistance. This findings fit to the government's action in providing free of charge for MSEs to take part in halal certification

This research has major implications for regulators. More massive sosialization and training is needed on halal certification which can be held directly by the government or government partner institutions, including religious scholars and community leaders to increase halal literacy. This will increase the overall understanding of halal, which is not solely driven to increase profits, but is part of the good deeds that MSEs should do.

In the early stages of literacy to build awareness of MSEs about halal, the government is expected to provide full support in terms of ease of obtaining certification, especially regarding affordable certification costs. The government's step with self-declaring halal certification is appropriate, but it needs strengthening from the side of halal experts and providing funds for self-declare halal certification activities.

Suggestion

This study has several limitations, including the selection of respondents without screening about their understanding of the concept of halal and self-declare certification. Future research is expected to refine the questionnaire

instrument by adding a brief explanation related to the concept of halal and self-declare halal certification. Future research can also combine the questionnaire model with the joint training model before the respondents fill out the questionnaire. In addition, based on the results of the instrument validity test, several manifest variables have a very strong correlation (perfect multicollinearity), so they must be excluded from the model. This might happen because of the repetition of information in the manifest variables. To avoid this, further research can conduct a pilot survey to test the effectiveness of the questionnaire before the questionnaire is given to the target respondents.

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