


WILLINGNESS TO PAY FOR HALAL LOGISTICS: A STUDY ON THE NON-
MUSLIMS IN MELAKA

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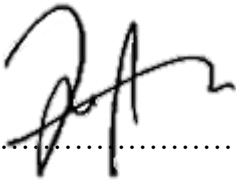
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Report submitted in fulfillment of the requirement for the degree of Bachelor of
Technology Management (Supply Chain Management and Logistics)


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DECLARATION OF ORIGINAL WORK

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“I hereby declare that this thesis and the work presented in it are my own except for the quotations and summaries that have been duly knowledge.”

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DEDICATION

This study is dedicated to my beloved parents who gave me the strength with their guidance, love, and support.

A special feeling of gratitude to my loving parents for being the sources of my inspiration and motivation.

To my supervisor, friends and classmates who shared their knowledge and encouragement to finish this research.

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Thank you.

ABSTRACT

Halal logistics has recently becoming a blooming trend due to the seeing of increase demand especially from the non-Muslims society. However, many potential logistics providers are still hesitant to adopt this service with doubts on the customers' willingness to pay for the novelty "halal logistics service". This study aims to investigate the factors that influence the willingness of non-Muslims in Melaka to pay for halal logistics. With the guide of Theory of Planned Behavior (TPB) as conceptual framework, the relationship of knowledge and awareness towards halal logistics, perceived demand for halal logistics, and perceived cost towards halal logistics on the willingness of non-Muslims to pay for halal logistics in Melaka is being studied. By using quantitative research design along with convenient sampling, 150 data were collected by a survey via online and face-to-face distribution. SmartPLS 3.3.9 software was employed in data analysis. Results show that only perceived demand for halal logistics and perceived cost towards halal logistics have significant influence on the willingness of non-Muslims to pay for halal logistics while the awareness and knowledge towards halal logistics not significantly influence the willingness of non-Muslims to pay for halal logistics. This study contributes to fill the gap of study for non-Muslims society, advance the knowledge on the factors influencing willingness to pay for halal logistics, and beneficial for future potential investment, government, policy makers, and the industry players.

Keywords: Halal Logistics, TPB, Willingness to Pay, Willingness to Pay for Halal Logistics, Awareness and knowledge towards halal logistics, Perceived demand for halal logistics, Perceived cost towards halal logistics

ABSTRAK

Logistik halal telah menjadi trend yang berkembang pesat berikutan dengan peningkatan permintaan dalam beberapa tahun kebelakangan ini terutamanya di kalangan masyarakat bukan Islam. Namun begitu, ramai pembekal logistik halal yang berpotensi masih teragak-agak untuk membekalkan perkhidmatan ini atas keraguan tentang kesanggupan pelanggan untuk membayar "perkhidmatan logistik halal" yang baharu. Kajian ini bertujuan untuk mengkaji faktor-faktor yang mempengaruhi kesanggupan masyarakat bukan Islam di Melaka membayar logistik halal. Dengan panduan Teori Tingkah Laku Terancang (TPB) sebagai kerangka konseptual, hubungan pengetahuan dan kesedaran terhadap logistik halal, persepsi permintaan terhadap logistik halal, dan persepsi kos terhadap logistik halal terhadap kesediaan masyarakat bukan Islam untuk membayar logistik halal di Melaka telah dikaji. Dengan menggunakan reka bentuk penyelidikan kuantitatif bersama persampelan mudah, 150 data telah dikumpul melalui pengedaran tinjauan secara atas talian dan bersemuka. Perisian SmartPLS 3.3.9 telah digunakan untuk menganalisis data. Keputusan menunjukkan bahawa hanya persepsi permintaan terhadap logistik halal, dan persepsi kos terhadap logistik halal mempunyai pengaruh yang signifikan terhadap kesanggupan orang bukan Islam untuk membayar logistik halal manakala hubungan pengetahuan dan kesedaran terhadap logistik halal tidak mempengaruhi secara signifikan terhadap kesanggupan masyarakat bukan Islam untuk membayar logistik halal. Kajian ini menyumbang untuk mengisi jurang pengajian bagi masyarakat bukan Islam, memajukan pengetahuan tentang faktor-faktor yang mempengaruhi kesanggupan membayar logistik halal, dan bermanfaat untuk potensi pelaburan masa depan, kerajaan, pembuat dasar, dan pemain industri.

Kata kunci: Logistik Halal, TPB, Kesanggupan Membayar, Kesanggupan Membayar Logistik Halal, Pengetahuan dan Kesedaran Terhadap Logistik Halal, Persepsi Permintaan Terhadap Logistik Halal, Persepsi Kos Terhadap Logistik Halal

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LIST OF ABBREVIATIONS

UTeM	-	Universiti Teknikal Malaysia Melaka
JAKIM	-	Jabatan Kemajuan Islam Malaysia
TRA	-	Theory of Reasoned Action
TPB	-	Theory of Planned Behavior
DSM	-	Department of Standard Malaysia
LSP	-	Logistics Service Provider
MS	-	Malaysian Standard
ACCCIM	-	Associated Chinese Chambers of Commerce and Industry of Malaysia
CASS	-	Cargo Account Settlement System
PLS-SEM	-	Partial Least Squares Structural Equation Modelling
SEM	-	Squares Structural Equation Modelling
KAW	-	Knowledge and Awareness
PD	-	Perceived Demand
PC	-	Perceived Cost
WTP	-	Willingness To Pay For Halal Logistics
AVE	-	Average Variance Extracted
HTMT	-	Heterotrait-Monotrait
VIF	-	Variance Inflation Factors
KAA	-	Knowledge and Awareness
PD	-	Perceived Demand
PC	-	Perceived Cost
R ²	-	Coefficient of Determinant
F ²	-	Effect Size
Q ²	-	Predictive Relevance
B	-	path coefficients
FDI	-	Foreign Direct Investment

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter will serve as an overview for the entire research project. It will start with the introduction of research background regarding the topic: Willingness to pay for Halal Logistics: A study on the non-Muslims in Melaka. Thus, it will follow with the research problem that exist and need to be solved. Then it will continue with the reveal on research question, objectives of the study, and scope of study. Limitation of the study as well as the boundaries and constraints encounter will also be discussed. Next, significance of research to theoretical and practical contribution will be explored. Thus, the summary which summarizing the results and findings will be recorded.

1.1 Background of Study

In Arabic, Halal can be defined as the things and actions which is literally permissible and lawful to the context of proper Islamic practice (Bergeaud-Blacker, et al., 2015). Halal industry can be known as the engagement of a series of halal activities

and procedures that ensuring the “Halal-ness” of the final consume products or services that being delivered. While, Halal Logistics can also be known as the process which taking control over “Halal-ness” of the flow of product or services from raw materials in procurement, to semi-finished product in manufacturing, to the product storage, and until it reaches to the final consumers.

In nowadays, the Halal term is no longer a brand-new word to publics, instead, it is a new trend and new market exploration to the world. According to the Global Islamic Economy Report 2018/2019 by Thomson Reuters (2016), global halal market is estimated in reaching 9.71 trillion USD by 2025. Meanwhile, the global halal market value is also estimated to growth and hit 11.2 trillion USD in 2028 from the value of 7.2 trillion USD in year 2020 (Adroit Market Research, 2021). With this, Malaysia will be the nation who lead the halal industry as according to the Global Islamic Economy Indicator (GIEI) since Malaysia has been a few more steps standing in front of the world Islamic economy system. The CEO of Halal Development Corporation (HDC) Dato’ Seri Jamil Bidin announced that Malaysia recorded an increase of RM 1.2 billion to RM 43.39 billion in 2017 from RM 42.2 billion in year 2016 to emphasize on the performance of Malaysia as one of the leading global halal hubs (Salama, 2018). On the Halal Cluster Week in November 2021, Deputy Secretary-General of MITI, Dato Seri Norazman Ayob had showcased that the halal Malaysia brings huge opportunities in potential trade and investment up to 80 million USD (Bernama, 2021) and this will definitely contribute to the long run halal market growth.

Halal is not only the concept that anchored by Muslim society but also the new choice of standard life quality to the Non-Muslim society. Ismail et al. (2017) reveals that the increase of knowledge and awareness on consumable health and safety promotes the concern of non-Muslims towards halal products. With expansion of halal concept and the opportunity of the market, halal concept is no longer binding to the aspect of food, instead, bunches of halal products and services are emerged such as halal-logistics, halal-healthcare, halal-cosmetics, halal-pharmaceuticals, halal-tourism, halal-financial-services, and the lists go on. Halal is undeniably germinating from food and product based to a more sustainable value of logistics and supply chain (Ahmed, 2019) since halal is now already instilling as a lifestyle but not only a concept. Nevertheless, Halal is not only concerning on the consumption and purchase, it comprises of the whole flow and process of logistics activities (Kasim, et al., 2017).

Halal logistics will be the main character or system which in-charged to ensure the halal integrity during the flow of goods across proper warehousing and transportation activities before it arrive to final consumers (Nghah, et al., 2014). Halal logistics controlling and assuring the activities of halal supply chain (warehousing, transporting, and terminal) in place and prevent the vulnerability (Tieman, et al., 2012). Therefore, halal logistics will be focused in this study as it is the current circumstances that driven Halal industry since “logistics” may be the major process control to prevent the products from contaminated with non-halal products during the flow of the logistics (Sham, et al., 2017).

Apart from Muslims, society of non-Muslims are also attracted for Halal products due to the emphasize of halal concept on cleanliness, safety, and usefulness (Adirestuty, et al., 2021), the demands and opportunities of Halal logistics will also be increased. In year 2019, 286.96 billion USD was been valued as the global halal logistics market size (Grand View Research, 2020) which means halal logistics have a very potential value in the future trend. Therefore, logistics player could not ignore of the trend and should take a deeply look into it. Previously, many studies and researches are done to have an investigation towards non-Muslims intention and perception to purchase halal product such as the research from Wibowo & Ahmad (2016); Haque et al. (2015); Ismail & Nasiruddin (2014). However, it looks like less studies are being made to look for the willingness of non-Muslim to pay for Halal Logistics. Determining the willingness of non-Muslim to pay for this type of services is crucial since halal logistics will only exist and being embraced by the logistics providers or companies if there is a high willingness to pay for it. It is anticipated that this research's findings will contribute in some way for Malaysia halal logistics development and in addition, acts as a niche of better understanding regarding the demand for halal logistics for logistics service provider (LSP).

1.2 Problem Statement

Halal logistics is seemed to be the critical role which promotes the success of halal industry especially for halal food products (Nghah, et al., 2017). As according to the potential development of future halal industry, Malaysia government has taking initiatives in promoting the halal logistics services. Incentives and strategies are being introduces to promote the halal services' trade and investment. Numerous incentives are being introduces (NASDAQ OMX Group & Edbiz Consulting, 2012):

- Exemptions of tax for export income or revenue to halal logistic operators, halal industry players, and halal park operators.
- Double deduction on expenses to meet the standard in obtaining JAKIM halal certificate for halal product producers.
- Five years of 100% Investment Tax Allowance to companies who producing halal food.

The figure below shows the detail incentives support for various halal industry players.

Halal Park Operators:	Halal Logistic Operators:	Halal Industry Players:
- Income Tax Exemption (100% tax exemption for 10 years) OR;	- Income Tax Exemption (100% tax exemption for 5 years) OR;	- Income Tax Exemption on export revenue (100% for 5 years) OR;
- Investment Tax Allowance (100% for 5 years)	- Investment Tax Allowance (100% for 5 years)	- Investment Tax Allowance (100% for 10 years)
- Exemption on import duty & sales tax for cold room equipment	- Exemption on import duty & sales tax for cold room equipment	- Exemption from import duty on raw materials
		- Double deduction on expenses incurred in obtaining international quality standards, Sanitation Std Operating Procedures & regulations for compliance for export markets.

Figure 1.1: Incentives details for various halal industry players

Source: Halal Industry Development Corporation

However, many of the Halal food manufacturers still refuse to implementing Halal logistics services in their business. (Nghah, et al., 2017). Adoption of halal transportation is comparatively low, only 15% of Halal manufacturers are implementing the services of halal transportation from the halal logistics provider (Nghah, et al., 2014; Nghah, et al., 2019). This might be due to the reason that the potential adopters have certain degree of scruple on the large capital or investment

needed to adopt for halal logistics service. A halal product is declared as “Halal” if it remains halal from origin until the end of the supply chain flow. Therefore, a product that has received halal certification should be monitored throughout the whole supply chain in addition to complying with the particular requirements in manufacturing practices inspections (Ngah, et al., 2020) and especially during the halal logistics transportation to ensure the fully complies of halal requirement. Once the halal product player adopts for halal logistics services, additional expenditures for facilities, warehouses, and handling tools is needed to ensure a thorough segregation of halal products from those non-halal products (Nor, et al., 2016). Higher operation cost will be incurred for new adoption and as a result, higher transportation fees will be charged and bear by the consumers who demands for it (Ngah, et al., 2021). From this, willingness of consumers especially the non-Muslims to pay for halal logistics which charge higher than conventional logistics is one of the main issues considering by potential halal logistics adopters. Will non-Muslim customers pay for halal logistics to minimize the likelihood of halal items becoming contaminated?

According to Majid et al. (2019), from the latest statistical data of JAKIM, only 86 of logistics company is certified as Halal Logistics Provider comparing to the number of companies who is certified for Halal certification in F&B companies, eating establishment restaurants, cosmetics and pharmaceuticals.

No	Certification Scheme	Related MS	No of companies
1	Food and beverage	MS1500	4800
2	Abattoir	MS1500	147
3	Eating establishment	MS1500	1334
4	Cosmetics	MS2200 -1	313
5	Pharmaceuticals	MS2424	194
6	Logistics	MS2400	86

Table 1.1: Halal certification scheme and number of companies in Malaysia

Source: JAKIM Statistical Data

This can be seemed that the adoption of halal logistics among the LSP is relatively low compare to other halal product or market. Halal logistics is firstly being introduced to provide the sense of satisfaction and confidence to Muslim consumers regards of halal products (Fathi, et al., 2016). Problem of low halal logistics adoption again arises and

this might be caused by the concerning of LSP towards the perception and willingness of consumer to pay for halal logistics especially the non-Muslim consumers. In order to disclose the willingness of non-Muslim people to pay for halal logistics which seemed can contribute as the reference to LSP that have positive intention towards the adoption of halal logistic services, this research is being conducted.

Halal logistics is existed to ensure halal product's integrity throughout consumption points (Aziz & Zailani, 2016) and ensure for the best control performed of halal products' transportation in accordance to the Islamic Law, Syariah (Sham, et al., 2017). Throughout the whole process stages or flow, all activities in halal transportation operation are purely based to the concept of Syariah to avoid the risk of cross-contamination (Sham, et al., 2017) and assure for authenticity of "Halal-ness". The willingness of adoption by LSP or 3PL providers towards halal logistics are usually a deeper insight beyond the values that halal activities brought once they implement it, instead, the logistic providers concern about the real halal requirements from consumers' perspective. There will be a next coming question, is there really a perceived demand among non-Muslim consumers for halal logistics services?

Moreover, halal is usually perceived or considered as a term which being used extensively among Muslims and unfamiliar to non-Muslims people. However, according to Malaysia Islamic Development (JAKIM), data showing that there are over 60% of halal certified manufacturer companies (multinational) owned by non-Muslims (Bernama, 2019). As according to the minister in the Prime Minister's Department, Mujahid Yusof explained that the data is due to the realization of non-Muslims on the benefits and importance market halal certified products internationally and domestically (Salama, 2019). From this, it can be considered that non-Muslims society is having certain degree of knowledge, awareness, and perception regarding what "halal" is and have intention to adopt or pay for it. Since there is demand for halal market, the willingness of potential consumers to pay for halal logistics should be drawn with higher concerns and attentions. From the past researches or studies, there are plenty of researches or studies which focus on the willingness or intention of Muslims to pay for halal logistics such as the research from Kamaruddin et al. (2012); Fathi et al. (2016); Kamaruddin et al. (2018); Asri & Ngah (2018) and the lists go on. Instead, there is less and only few studies which being conducted to realize the

willingness of non-Muslims to pay for halal logistics. Hence, this research is conducted to contributing more in filling the gap of studies in halal logistics.

1.3 Research Questions

It is an essential part of a study called research questions as it act as the framework and focusing the direction of a study. Based on above discussion, this research aims to find out the factors that might influence the willingness of non-Muslim consumer to pay for halal logistics. The following research questions provide a more detailed insight for the issue of this study:

- i. How attitude such as the knowledge and awareness relate and influence the willingness of non-Muslims to pay for halal logistic?
- ii. Why subjective norm such as the perceived demand on halal logistics relate and influence the willingness of non-Muslims to pay for halal logistics?
- iii. What type of perceived behavioral control (perceived cost) relate and influence the willingness of non-Muslims to pay for halal logistics?

1.4 Research Objectives

The objectives of this research are to investigate the factors that influence the willingness of non-Muslim in Melaka to pay for halal logistics. The research objectives are stated as below:

- To find out whether attitude such as the knowledge and awareness affects the willingness of non-Muslims to pay for halal logistics.