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FACTORS AFFECTING INTENTION TO ADOPT HALAL PRACTICES:
CASE STUDY OF INDONESIAN SMALL AND MEDIUM ENTERPRISES

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Structured Abstract:

Purpose

This study aimed to investigate the effect of religiosity, government support, consumer demand, the expectation for higher revenue, and competition intensity on Indonesian SMEs' intention to adopt halal practices.

Design/methodology/approach

This study used a quantitative approach and surveyed 228 SME owners through electronic media and direct contact. This study then applied the Structural Equation Modeling to evaluate the relationship between constructs. This study also conducted some modifications on the hypotheses structured to obtain the best model.

Findings

This study found that religiosity, government support, and expectation for higher revenue have positive and significant effects on SME's intention to adopt halal practices; conversely, consumer demand and competition intensity do not have significant effects.

Originality/value

While in Indonesia, many studies have been conducted on consumers as subjects concerning halal awareness and revealed a positive effect on the intention to consume the products, still, to the best of the authors' knowledge, there are no studies targeting producers, especially SMEs, as the research subjects. This study had fulfilled some gap on contributing factors that encourage the adoption of halal practices on the producers' side, especially on SMEs. Therefore, this study provided insights into how to bridge the producers' and consumers' interests regarding halal fulfillment. The findings also provided input on the policy- formulation at the early stage of halal policy implementation.

Keywords:

Halal practices, Small and Medium Enterprises, Government Support, Policy

Article Classification:

Marketing, Government Policy and Regulation, Entrepreneurship

INTRODUCTION

Halal practices have been proven to provide benefits for both Muslim and non-Muslim consumers, including increasing the sense of security in consumption, giving confidence in product hygiene, and assuring quality (Ambali and Bakar, 2014). Halal at its apex is that which is pure, praiseworthy, and of benefit (Wilson and Liu, 2011). For Muslims, halal means fulfilling the requirements laid down by the Shariah law (Ambali and Bakar, 2014), and it should be a given and present in all consumed commodities (Wilson and Liu, 2011). In the context of business strategy, ensuring halal practices could be an effective strategy when entering Muslim countries (Wilson and Liu, 2010), or countries where Muslim forms either simple majority (such as Malaysia) or minority as in most Europe or Western Countries (Latif ., 2014). Accordingly, through regulation number 31 of 2019 on Halal Product Guarantee, the Indonesian Government has required all food, drinks, medicines, and cosmetics products to obtain halal certificates starting in October 2019. This obligation applies to all segments, from large industries to small ones. It requires that the whole business process meets halal standards starting from raw material

preparation until the product sales. The primary purpose of this halal certification is to protect domestic consumers who are predominantly Muslim. With halal certification, Muslim consumers will feel safe to consume the products. To strengthen consumer protection, Indonesian Government also requires the inclusion of a "non-halal" label for products that contain "non-halal" ingredients.

Extensive researches have been carried out on attitude towards halal certification both on consumer and producer sides. Sarawati and Akma (2014) found that consumers have experienced an increased awareness of the consumption with the halal label. This conclusion is in line with a study by Khalek (2014), which concluded that younger consumers have a positive attitude towards products with halal labels. Khalek *et al.* (2015) also found that the presence of halal labels is positively correlated to attitude and can lead to buying behavior. Nurcahyo and Hudrasyah (2017) added that halal labels strengthen the intention to buy because they provide a sense of safety and comfort in consuming the products. That researches indicated a positive attitude towards halal labels which lead to buying behavior, which ideally should motivate the business entities to adopt halal certification.

Nevertheless, several studies on the producer's side regarding the halal practices' adoption revealed mixed and inconclusive findings. Talib *et al.* (2016) argued that halal certification has implications on organizational performance. Nordin *et al.* (2016) stated that halal certificate would improve the company's financial performance since the certification process requires the most ultimate level of quality standards. Conversely, findings of Pratisti and Maryati (2019) found that halal certification for the commercial industry did not have a significant impact on financial performance. In line with the study, Yunos *et al.* (2014) stated that although the halal label increases consumer confidence, its effect on the company's financial performance remains unknown. These differences indicate that there is still a debate over the impact on business performance, hence hampering the entrepreneurs' intention to adopt halal practices. One primary reason could be the potential for organization to be under further scrutiny once they declared to be 'halal' and it involved broader aspects such as the treatment of employees and their associated working environment (Wilson and Liu, 2010). The efforts to fulfil comprehensive halal practices may be costly, thus, business actors do not find beneficial to modify their business practices according to halal requirements.

The debates over the business performance becomes relevant in the context of SMEs. By regulations, the Government imposes fee for halal certification and is only valid for four years to be re-audited. This provision indeed imposes costs for SMEs while they may not necessarily be able to enjoy a significant increase in sales. Besides, an audit will be conducted at each production process, forcing SMEs to incur additional costs to modify their process to meet the halal standard. In addition, SMEs are the most common form of business in Indonesia, where more than 95 percent of business types fall into this category (Central Bureau of Statistics 2019). SME also contributed to IDR 8,573 trillion or 61.07 percent of total National Gross Domestic Products and absorbed 116.98 million workforces (97 percent) of the total workforces in 2018 (Ministry of Cooperatives and Small and Medium Enterprises 2019). Therefore, the halal certification policy will undoubtedly have a broad impact on the national economy.

While many studies have been conducted on consumers as subjects concerning halal awareness and revealed a positive effect on the intention to consume the products (Mutmainah. 2018; Fahmi, 2017, Fitria and Kusumadinata, 2017; Nurcahyo and Hudrasyah, 2017; Sarawati and Akma,2014), still, to the best of the authors' knowledge, there are no studies targeting producers, especially SMEs, as the research subjects. Therefore, a study that investigates the motivation which encourages SMEs to adopt halal practices becomes an interesting subject.

Several studies have tried to investigate the factors that encourage businesses to adopt halal practices. Qoyum and Fauziyyah (2019) concluded that religiosity contributed significantly to SMEs' intention to use shariah finance and believed that it is a blessing practice. Gursoy et al. (2017) concluded that religious value shapes entrepreneurs' attitudes in running their businesses. Azmi et al. (2018) stated that adoption factors of halal standards for halal businesses consist of technological, organizational, and environmental, which involves consumer demand, competition, and government support factors. Rezai et al. (2010) argued that quality factors involved in halal practices had become a consideration in choosing products for both Muslim and non-Muslim consumers; thus, it affects the market reach and might increase the company revenue.

We proposed to include the variables in that previous studies to investigate whether they have the same effects on the producer's side. We expected this study could fill the gap of the individual, Government, consumers, business, and the market factors' effects on the producers' side, especially on SMEs' intention to adopt halal practices and bridge the producers' and consumers' interests regarding halal products in the Indonesian market. Specifically, this study aimed to investigate the effect of religiosity, government support, consumer demand, the expectation for higher revenue, and competition intensity on the intention of Indonesian SMEs to adopt halal practices. We expected this study to provide insights for policy formulation to encourage halal practices adoption by SMEs in the early halal-certificate policy implementation.

LITERATURE REVIEW

Goal Directed Behavior

Our study is closely related to the motivation that directs the behavior of business actors to adopt halal practices. The theory of motivation from (Gosine and Banyai, 2006; Feldmann, 2011) argued that the reasons of behavior can be explained by two approaches: causal and goal-directed approach. Causal approach relates to occurrences that happened in the past, biological, or psychological causes. Meanwhile, goal-directed approach argues that people do something because the expected consequences are favorable for the action they choose. Locke and Latham (2002) suggested that setting a goal impact performance through four mechanism. First, goals are directive, thus, goals direct attention and effort toward goal-relevant activities. Second, goals energize people and motivate them to put greater efforts. Third, goals influence persistence of the people involved on the effort to achieve the goals. Fourth, goals affect action indirectly that they facilitate the development, discovery, and/or use of task-relevant strategies and knowledge.

The motivation which drives the goal directed behavior can be categorized as internal and external factors. The forces that influence motivation occur both within as well as externally to the individual Kozlowski (2012). Kanfer et al. (2012) added that motivation is a dynamic process

driven by personal, sociopsychological, and contextual factors that interact with one another. In other words, it is a joint function of internal psychological processes and environmental factors and can be properly analyzed when the person and the context of the action are taken into consideration (Kozlowski, 2012). By characterizing behavior as being directed at a goal, the action itself is mediated by knowledge of contingency between the action or outcome (Dickinson and Balleine, 1994). The knowledge itself can be conceived as expectation or belief (Dickinson, 1980; Bolles 1972) or an associative connection (Colwill and Rescorla, 1986). Dickinson and Balleine (1994) argued that goal directedness also requires that the outcome of the action should be represented as a goal for the agent at the time of performance. The goal also serves as reference signals in feedback loops, that is, individuals wish to reduce the perceived discrepancy between the actual state and the desired end state (Boekaerts, *et al.*,2006). Therefore, people will evaluate the actions that had been taken and change them to achieve the desired end state. We considered that the intention to adopt halal practices are stemmed from the SMEs actors' internal and external motivation to fulfil their religious value and to increase their business performance. Those goals direct the behavior of the SME actors to take actions due to their personal motivation, government supports, and market-related factors.

Religiosity
Religiosity is the appreciation of one's religion, including symbols, beliefs, values, and behavior (Oviedo and Szocik 2020; Roccas 2005). Religious rules also include restrictions on consumption; therefore, religious values can be the basis of one's consumption behavior (Mutmainah 2018; Alam 2011). In practice, religiosity influences entrepreneurs on how to run a business. Halal certification is one way to establish a reputation in business (Kubota *et al.* 2017). Reputational bonding may serve as an essential entrepreneurial strategy to signal trustworthiness with suppliers and customers through social embeddedness (Guiso *et al.* 2006). Gursoy *et al.* (2017) suggested that religion cannot be ignored and plays a critical role in shaping individuals' values and entrepreneurial behavior. In addition, practicing Muslim entrepreneurs have more respect for, commitment to, and acceptance of the religious and traditional customs and ideas than those of non-practicing Muslim entrepreneurs. Therefore, this paper proposed the following hypotheses:
H1 Religiosity has a positive and significant effect on the intention to adopt halal practices.

Government Support
Talib *et al.* (2016) stressed the importance of government and regulatory instruments in halal certification. Nurrachmi (2017) stated that the government should provide a subsidy for business owners to earn a halal certificate to strengthen the halal practices, especially those who support the regional revenue. Poniman *et al.* (2015) stressed the halal system sustainability's importance through traceability in the value chain networks. Talib and Ai Chin (2018) also supported the importance of traceability and stated that Government support as one of the critical factors to achieve the halal supply chain networks.

On the demand side, Yusuf *et al.* (2016) argued for the importance of support in marketing aspects. That study emphasized the importance of government support to promote the excellence of halal labels such as building trade complexes specifically for halal products. Zakaria *et al.* (2017) emphasized that the government should provide continued education for consumers about the importance of halal certificates in order to increase awareness, which might lead to purchasing

behavior. The increasing demand should provide a long-term benefit for businesses that hold halal certificates. Therefore, this study proposed the second hypotheses:

H2: Government support has a positive and significant effect on the intention to adopt halal practices.

Consumer Demand

Hasibuan *et al*. (2017) argued that halal trends have become the needs of the global market and that growth is also driven by factors outside the fulfillment of religious obligations. The existence of halal products has received recognition in the world and has become a reference that the halal product has the guarantees as hygienic, good, and healthy goods (Nasution *et al*. 2016). Global demand for halal products includes food, pharmaceuticals, personal care, cosmetics, banking services, travel, and education (Islam and Chandrasekaran 2013). Othman *et al*. (2009) stated that the halal logo strengthens consumers' confidence due to the full acceptance among Muslim consumers. Aisyah (2017) concluded that consumers' attitudes, subjective norms, perceived behavioral control, and intention directly affects consumers' decision to purchase halal cosmetics and personal care products. Jaafar *et al*. (2011) also argued that the consumers' demand had driven the industry to ensure the halal aspects are included in the manufacturing process and the supply chain activities. Al-Banna (2019) argued that the halal label is vital to guarantee the customer that they purchase halal food.

In the Muslim segment, the halal label is crucial in the halal food sector. The halal certification motives are mostly related to health, animal welfare, religiosity, and food safety (Perdana *et al*. 2018). The demand emphasized that the ingredients and the process of producing the food should comply with the halal process. The halal label helped convince Muslim consumers that they purchase halal food (Razzaque and Chaudry 2013), which has a positive impact on food purchasing (Awan *et al*. 2015). Therefore, this paper proposed the third hypotheses:

H3: Consumer demand has a positive and significant effect on the intention to adopt halal practices.

The Expectation for Higher Revenue

Although there are still debates on the impact of halal certificates on company revenue, research showed that halal labels could strengthen consumer confidence and producer credibility (Yunos *et al*. (2014). Giyanti and Indriastiningsih (2019), in their study, concluded that there is no significant difference in the profit margin of SMEs before and after obtaining a halal certificate as well as between halal certified and non-certified SMEs. However, the employees of these SMEs perceived that the certified halal practices have a better performance, including an increase in production capacity, product quality, sales, net profit, number of consumers, consumer loyalty, and market share. Luthfi and Salehudin (2011) looked at the consumer switching intention; and concluded that even with halal labels which do not come from a reputable institution, it still reduces the switching intention to other products.

Sani and Akbar (2015) argued that the halal system goes in line with food processing safety and quality. Besides, Talib and Ali (2009) argued that products or services that are halal-certified would ensure the whole production process complying with the quality standard outlined by the respective body or institution. This quality factor is essential and is not just about religious obligation by Muslims, but it is now considered the standard of practice and choice by Non-

Muslims (Rezai *et al*. 2010). Ismail *et al*. (2017) also argued that religion does not have a significant effect on non-Muslim halal consumption, while safety and marketing aspects, in which some of the halal guarantees, become significant motivations. Therefore, it is likely that the halal certificate will increase the SME consumer base on both Muslim and non-Muslim segments. This study proposed the fourth hypotheses:

H4: The expectation for higher revenue has a positive and significant effect on the intention to adopt halal practices.

The Competition Intensity

According to established standards, the guarantee of product quality, functionality, and security is consistent with the current trend of consumer awareness. It is expected to deliver some form of competitive advantage to the manufacturers (Ishak *et al*. 2016). In the context of halal standard, Perdani and Chasanah (2018) stated that the halal system guarantee that Muslim consumers are safe to consume the products, especially whose raw materials are not from Muslim countries. The halal products or food also gain a worldwide discussion due to its recognition as an alternative benchmark for safety, hygiene, and quality assurance (Ambali and Bakar 2014).

Rajagopal *et al*. (2011) argued that *halal* certification had become a new marketing paradigm that marketers can use it to differentiate their products and services in the current competitive environment. The halal certificate provided an added value for the products, which might become a competitive advantage (Ratnasari *et al*. 2019). Luthfi and Salehudin (2011) revealed that a halal label would significantly increase the intention of Muslim consumers to buy the product. In terms of gaining competitive advantage, the halal certificate could increase acceptance in the Muslim majority country, which results in a larger market share (Kubota *et al*. 2017). Therefore, this paper proposed the fifth hypotheses:

H5: The competition intensity has a positive and significant effect on the intention to adopt halal practices

METHODOLOGY

This study used 5 Likert scale questionnaires as the research instrument. We sent questionnaires to 470 SMEs that have food, beverage, medicine (including herbals), and cosmetics as their products located in West Java Province. We used both electronic and conventional media. We sent questionnaires via the electronic form to SMEs listed in the database of the Office of Small and Medium Enterprises, West Java Provincial Government. Besides, we also asked for assistance from field workers to conduct face-to-face surveys with SMEs without any recorded contacts.

We managed to obtain 250 returned questionnaires; however, only 228 could be further processed. The questionnaire consists of six variables, namely religiosity (RG), government support (GS), consumer demand (CD), the expectation for higher revenue (HR), competition intensity (CI), and intention to adopt halal practices (IA). RG, CD, CI each have four items, while GS, HR, and IA each have three items as indicators. The questionnaire consists of two parts; the first part asked about the respondents' identity and business profiles, while the second part consists of statements related to constructs in this study. Respondents gave answers on five Likert scales where one means strongly disagree, while five means strongly agree. Table 1 displays the items of each construct.

This study then used Structural Equation Modelling (SEM) techniques to test the structural models that depict the relationship between constructs and it required two stages of processing. The first stage is the measurement model test to determine the validity and reliability of the instrument, while the second stage is the structural model test that aims to test the hypothesis and determine the goodness of fit of the model (Hidayanto *et al.* 2014). Fig. 1 displays the hypotheses model.

Table 1 _Constructs and item indicators here_

Fig.1 _Hypotheses Model here_

RESULTS
Respondent's Business Profiles
All of the respondents in this research have products that are obliged to obtain a halal certificate. Most of the respondents have food and beverages as their products (65.79%), followed by medicines and herbal products (19.3%), and cosmetics (14,91%). Most of the respondents have run their businesses for 2-5 years (34,65%), followed by more than five years (30,26%), 1-2 years (25.44%), and less than one year (9.65%). Most of the respondents also do not have a halal certificate (92.54%). Based on the objective to understand the factors that affect the intention to adopt halal practices, these non-adopter respondents most likely provide insightful responses. Table 2 displays the respondent's business profiles.

Table 2 Respondents' business profiles here

Measurement Model Test
Measurement model test aims to evaluate the reliability and validity of the indicators within each construct (Hidayanto *et al.* 2014). Validity is defined as the measure of the accuracy of an instrument used in a study (Linn 2000); while reliability is the degree of consistency of an instrument. In other words, a reliable instrument should provide identical scores (Kerlinger and Lee 2000). The validity test evaluates every question, and the results are presented in the corrected total items correlations, then it will be compared with the R-Table. Valid items should have a total item correlation value above the r-table (Sugiyono 2014). This study involved 228 samples, then the value of the degree of freedom (df) is 226. Given the df value at a significance level of 5%, the r-table is 0.135.

Reliability tests use construct reliability (CR), and variance extracted (VE) indicators, where reliable items must have CR values above 0.7 and VE values above 0.5 (Aritonang 2007). Table 3 displays the validity and reliability results. It shows that the corrected total-item correlation value for all items is above the r table, while the CR and VE values of each construct are above 0.7 and 0.5. Therefore, this research instrument is valid and reliable to test the hypothesis constructs.

We then conducted the discriminant validity test, which aims to test the constructs, whether they are different, and each can be treated as an independent construct. Table 4 displays the discriminant validity test results and indicates that the correlation between constructs is significant at a significance level of 5%. Therefore, the constructs involved in this study have good discriminant validity and are independent (Waluyo, 2016).

Table 3 Validity and Reliability Test here

Table 4 Discriminant Validity Test here

Structural Model Test

The authors used the maximum likelihood estimation to test the structure of the model and determine the parameters of the construct. The measurement model should fit with the data based on assessment criteria such as Statistic Chi-Square (X2), CMIN/df, Goodness Fit Index (GFI), Comparative Fit Index (CFI), Adjusted Goodness of Fit Index (AGFI), Tucker Lewis Index (TLI) and Root Mean Square Error Approximation (RMSEA) (Olivares and Forero 2010; Cheung and Rensvold 2009).

Estimates of the initial model structure result in chi-square values, p-values, CMIN / df, GFI, CFI, AGFI, TLI, and RMSEA, which still do not meet the expected criteria; thus, the model has not obtained a good fit. Therefore, we modified the structure (figure 2) and re-estimated the model. Table 5 displays the comparison of the estimation results of the initial hypotheses model and the modification model.

Fig.2 Modified Model here

Table 5 Comparison of GoF between Hypotheses and Modified Model here

Table 5 shows that the modification model has the indicator values of CMIN / df = 1.75, GFI = 0.923, CFI = 0.967, TLI = 9.954, and RMSEA = 0.058. Only the AGFI indicator is slightly below the cut-off value. In accordance with the cut-off value, the modification model has a better fit than the hypotheses model.

Hypotheses Testing

The next step is to test the hypotheses. Furthermore, to fulfill the significance criterion, it requires that the value of t calculation is more than the t table, and the p-value is less 0.05 (t table at df = 226 and the 0.05 significance is 1,964) (Sugiyono 2014). Table 6 displays the estimation results.

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Table 6. *Estimation Results here*

Table 6 shows that the t-calculation on construct RG ---> IA, GS ---> IA, and HR ---> IA has a higher value than t-table. The p-values on these constructs are also less than 0.05. Conversely, the t-calculation on construct CD ---> IA and CI ---> IA has a smaller value than t-table. The p-values on these constructs are also higher than 0.05. Therefore, only RG ---> IA, GS ---> IA, and HR ---> IA meets the hypotheses. Conversely, the CD ---> IA and CI ---> IA does not meet the hypotheses. Table 7 summarizes the hypotheses' results.

Table 7. Hypotheses Results here

DISCUSSIONS
This study revealed that religiosity, government support, and expectation for higher revenue have a significant and positive effect on SME intention to adopt halal practices. This finding is in line with the conclusion by Ahmad *et al*. (2015), which stated that religion could be considered as a crucial indicator in any decision-making process. It is the foundation that leads a person to behave lawfully and ethically. Knowledge of religion influences a positive attitude towards the halal label, which may lead the intention to adopt in the business process (Al-Banna 2019; Rahman *et al*. 2011).

Religiosity measures an individual's level of commitment to ones' religion and the level of that particular religion's reflection in the attitude and behavior of an individual (Johnson *et al*. 2001). This awareness encourages SME owners as the people most responsible for the financial performance to adopt halal certification. This finding is in line with those of Rahman *et al*. (2011), which found that the majority of entrepreneurs have sufficient knowledge about the halal process and combined with the religiosity aspect; this encourages them to adopt halal certification. This explanation is also in line with the findings by Said and Elangkovan (2013), which stated that in addition to material benefits, selling products with a halal label is a form of spiritual dimension awareness. In addition, Muslim thought which emphasizes that a code of ethics has to permeate business practices in such a way that business is a collective and societal obligation (Wilson, 2014) may encourage SME owners to provide undoubtedly halal products as reflected in the halal certification. This positive relationship between religiosity and intention to adopt halal practices may deliver an advantage for the government to implement halal obligations. The government can adopt a communication strategy that emphasizes the importance of halal practice as a manifestation of religious commitment.

Government support has a significant and positive effect on SME intention to adopt halal practices. This result is in line with Azmi *et al*. (2018) and Zailani *et al*. (2015), which emphasized the importance of government support for the adoption of halal practices and encouraged the development of halal business. Ngah *et al*. (2014) also argued that the lack of government support could explain why the majority of businesses did not adopt halal practices. Rezai *et al*. (2010)

argued that business operators tend to trust halal programs followed by a government commitment to support their implementation. One form of this commitment is outlined in the national masterplan, which aims to form a halal industry and to make an international halal hub in the long run (Ambali and Bakar 2014).

SMEs in Indonesia rely on the government's commitment to supporting halal certification in Indonesia as part of the 2019-2024 Sharia Economic Masterplan. Specifically, the documents have put the supporting programs for the halal industry by providing financing facilities through sharia financial institutions. The government also plans to provide a tax incentive scheme for investors who invest their capital to build the halal industry. From the demand side, the government will create market synergy with halal tourism, which has the potential to bring tourists from both foreign and domestic (Bappenas 2018). Therefore, the government aims to develop both the business side as halal providers and the demand side by creating halal markets.

Expectations for higher revenue have a positive and significant effect on the intention to adopt halal certification. This result is in line with studies that revealed the halal practices' positive impact on the likelihood of business growth (Talib *et al.* 2017; Kubota *et al.* 2017). SME positions the halal promotion as an essential part of marketing strategy. Under the government regulations, SMEs can put halal logos on their product packaging only after obtaining the halal certificate. SME owners consider this halal logo will increase the selling value of products, especially in the Muslim segment. SME owners can legally conduct a campaign that emphasizes the halal aspects in their products and put the messages in the promotional materials as well as in their direct communication to consumers. This advantage is in line with some other findings, which argued that a halal certificate could be a useful marketing tool and part of a strategy to secure a larger market share (Perdana *et al.* 2018).

In contrast, this study found that consumer demand did not have a significant effect on the intention to adopt halal practices. This result differs from studies which stated that consumers in Indonesia are having keen awareness, which leads to high demand for halal products (Fitria *et al.* 2019; Mutmainah 2018). Wilson *et al.* (2013) argued that Islamic marketing, which brings faith, the divine, and the sacred as well as the profane so forthrightly into the marketing mix attract greater scrutiny from all stakeholders. Nevertheless, our result indicated that demographic and geographical factors also influence the consumers' intention to scrutiny the halal aspects as Soesilawati and Yuliana (2013) stated that people who live in Muslim majority regions have lower demands on halal certificates than people who live in Muslim minority regions. People who live in a Muslim majority region tend to believe that they always buy halal products without any label attached in the packaging. This belief leads to lower demand for a legal halal certificate on the products. We surveyed respondents located in West Java Province, which has the largest Muslim population in Indonesia (West Java Central Bureau of Statistics 2019). Moreover, this study did not differentiate respondents based on the Muslim majority and minority regions. This study may conclude different results if the Muslim majority and Muslim minority regions are taken into consideration during the sampling process. Another explanation stemmed from the character of Indonesian consumers which are becoming more demanding along with their economic growth. They are searching for functional and emotional benefits from rather than just Islamic aspects (Wilson *et al.* 2013). Therefore, halal certificate in this context represents an obedient towards religious teachings, do not significantly increase demand without any additional value offerings.

Thus, it hampers the SMEs' intention to adopt halal practices. The insignificant effect of consumer demand on SME intention to adopt halal practices may also in line with findings from Latif *et al.* (2014) which argued that there is a different need for halal logo based on the number of Muslim populations. Consumers in a major Muslim population country, tend to consider that all products are halal even without the label. In fact, they still perceive that all products are halal, and the absence of the label does not prevent their buying intention. Therefore, the producers do not see it is beneficial to add extra costs to obtain halal certificate for their products.

Competition intensity does not have a significant effect on SME intention to adopt halal practices. This result differs from the study by Rajagopal *et al.* (2011), which stated that halal certification could create product differentiation and competitive position against competitors. However, this result is in line with a study by Iranmanesh *et al.* (2015), which stated that the effect of competitive intensity on halal orientation strategy was not significant, one of which was caused by the additional costs needed to implement the strategy. Maryati *et al.* (2016), in her study, found the fact that the high cost and the length of time needed to obtain the certificate become the main obstacle for SME to adopt halal certification. Thus, SMEs do not to consider halal certification as one of the competitive strategies. We suggested that the same caused hampers the Indonesian SMEs intention to adopt halal practices. Our respondents may perceive the benefit of halal certification could not develop a competitive position for them, and they tend to consider other strategies to outperform their competitors.

Related to the goal directed behavior theory, this study proved that not all factors involved in this study give significant contribution on SME intention to adopt halal practices. Religiosity and expectation for higher revenue as internal motivations were proved to have significant effects; conversely, some external motivations were not proved to have that effect. In case of religiosity and expectation for higher revenue, this study proved that both moral and material obligation have significant effects on the way SMEs doing their businesses. Conversely, the consumers' perception toward halal-certified products in a major Muslim population country does not encourage SME to adopt a comprehensive halal practice. In addition, the obstacle to obtain halal certificate from the authorized body hampers the SME's intention since they perceived it does not provide additional competitive advantage.

CONCLUSIONS

The primary purpose of this study is to investigate the effects of religiosity, government support, consumer demand, the expectation for higher revenue, and competition intensity toward SMEs' intention to adopt halal practices. The study concluded that religiosity, government support, and expectation for better revenue have positive and significant effects on the intention to adopt halal practices. Conversely, consumer demand and competition intensity do not have significant effects on the intention to adopt halal practices. We believed that this study had fulfilled some gap on contributing factors that encourage the adoption of halal practices on the producers' side, especially on SMEs. Therefore, this study provided insights on how to bridge the produces' and consumers' interests in halal production and consumption.

Overall, the significance of religiosity, government support, and expectations for higher revenue provide a frame for policy formulation. The government should communicate that the adoption of halal practices is a form of fulfilling religious values in the regulation campaign. In terms of

material benefits, the government should provide incentives in the form of tax reduction, subsidies to obtain halal certificates, and marketing support for halal practicing SMEs. The government should also pay attention to the consumer demand and competition intensity that have not affected the intention of SMEs to adopt halal practices. The government must educate consumers about the importance of halal-certified products, which cover the entire production process. With the growing number of consumers demand, the halal practicing SMEs should have a more competitive position.

Our study concluded that both spiritual and material aspects become the contributing factors to running SME businesses. Other researches on the consumers' side also proved that spiritual and material factors had significantly influence consumer purchasing behavior. The relationship between businesses and consumers, which involves both spiritual and material factors, is an interesting concept, especially in the Indonesian market with a large Muslim segment. Further studies should exploit other variables within spiritual and material aspects to provide a better understanding of consumer needs, which can be taken into consideration into strategic business development.

This study produced different results compared to several other studies in terms of the significance of some factors that affect the intention to adopt halal practices. We conducted this study on SMEs which have food, beverage, cosmetic, and pharmaceutical products without any differentiation in the product categories. The authors also conducted the study in a Muslim majority region; thus, other studies conducted in any different condition will likely conclude different results.

Finally, we expected this study to contribute to policy consideration to encourage SMEs to adopt halal practices, especially in the early years of halal obligations implementation. In accordance with this study, SMEs in Indonesia still depend on government support that provides convenience in halal certification. Therefore, the government should formulate policies that accommodate the motivation and interests of SME owners, as reflected in this study, to increase the number of halal practice adopters.

RESEARCH LIMITATIONS
This study has limitations primarily in the geographical factors that only involved one province; thus, the generalization must be considered carefully. This study also did not limit the respondents within a specific product category, which may result in different consumer characteristics. Further studies can develop a survey that covers a broader geographical area and involve more respondents so that the results obtained can represent the factors that encourage SMEs to adopt halal practices more thoroughly.

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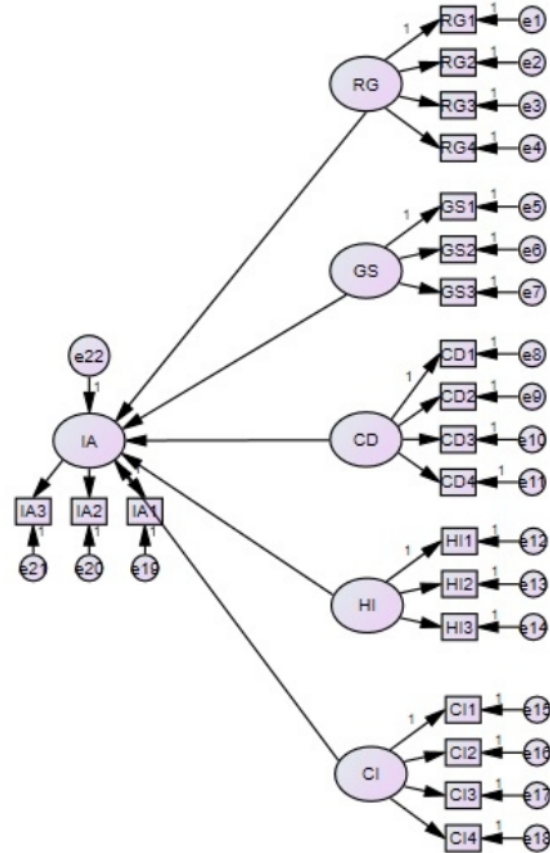| Constructs	Items	References
Religiosity (RG)	RG1 Knowing about obligations in religion RG2 Knowing about prohibitions in religion RG3 Always carry out religious orders RG4 Always consume halal food	Jamal & Sharifuddin (2015), Agag and El-Masry (2016)
Government Support (GS)	GS1 Knowing government support programs for halal certification GS2 The government give adequate supervision during halal certification process GS3 The Government provides adequate support in the halal certification process	Nasrullah (2019)
Consumer Demand (CD)	CD1 Consumers ask whether the product already has a halal certificate CD2 Consumers pay attention to the halal label on the product CD3 Consumers make purchases only when there is a halal label on the product CD4 Consumers pay attention to the validity period of the halal label	Fitriah and Kusumadinata (2017), Mutmainah (2018)
Expectation for higher revenue (HR)	HR1 Halal certificate is a useful marketing tool HR3 Halal certificate increases revenue HR3 Halal certificate expands the market	Awan *et al*. (2015); Nordin *et al*. (2016); Fitria *et al*. (2019)
Competition intensity (CI)	CI1 Having a halal certificate is an advantage CI2 Having a halal certificate increases the seller's reputation CI3 Halal certificate encourages consumers to choose the seller's product CI4 Halal process provides a better financial performance	Ratnasari *et al*. (2019); Rafiki (2019), Nordin *et al*. (2016).
Intention to adopt halal practices (IA)	IA1 Adopting halal practices improves my business image IA2 Adopting halal practices improves my business performance IA3 I intend to adopt halal practices for my business	Rahman *et al*. (2011).

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Fig.1 Hypotheses Model

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Type of products		Monthly revenue	
Food and beverages	65.79%	Less than IDR 10 million	38.60%
Cosmetics	14.91%	IDR 10 - 20 million	39.04%
Medicines and herbal	19.30%	IDR 20-50 million	11.40%
		More than 50 million	10.96%
Business duration			
Less than 1 year	9.65%	**Already exported the products**	
1-2 years	25.44%	Yes	10.96%
2-5 years	34.65%	No	89.04%
more than 5 years	30.26%		
Already have halal certificate		**Number of employees**	
Yes	7.46%	1-5 people	52.63%
No	92.54%	5-10 people	39.04%
		more than 10 people	8.33%

Variable	Indicator	Corrected Item-Total Correlation	Loading Factor	CR	VE
Religiosity (RG)	RG1	0.651	0.803	0.876	0.639
	RG2	0.735	0.865		
	RG3	0.657	0.821		
	RG4	0.525	0.699		
Government Support (GS)	GS1	0.515	0.807	0.85	0.653
	GS2	0.382	0.818		
	GS3	0.397	0.8		
Consumer Demand (CD)	CD1	0.625	0.759	0.823	0.541
	CD2	0.389	0.629		
	CD3	0.634	0.837		
	CD4	0.687	0.701		
Expectation for Higher revenue (HR)	HR1	0.623	0.906	0.847	0.655
	HR2	0.672	0.873		
	HR3	0.556	0.617		
Competition Intensity (CI)	CI1	0.537	0.744	0.894	0.678
	CI2	0.477	0.869		
	CI3	0.461	0.826		
	CI4	0.455	0.85		
Intention to Adapt Halal Certification (IA)	IA1	0.626	0.816	0.828	0.618
	IA2	0.525	0.711		
	IA3	0.576	0.826		

	Correlation		Estimate	P	Remarks
RG	<-->	GS	0.226	***	Significant
RG	<-->	CI	0.322	***	Significant
CD	<-->	BI	0.219	***	Significant
RG	<-->	BI	0.405	***	Significant
RG	<-->	CD	0.291	***	Significant
GS	<-->	CD	0.251	***	Significant
GS	<-->	BI	0.161	***	Significant
CD	<-->	CI	0.18	***	Significant
BI	<-->	CI	0.156	***	Significant
GS	<-->	CI	0.098	0.048	Significant

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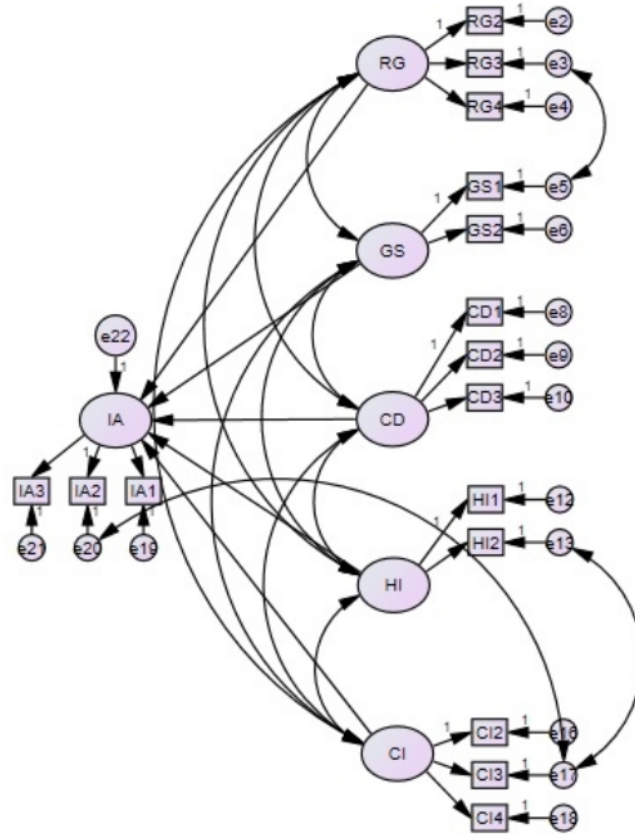
Fig.2 Modified Model

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GoF index	Cut-off value	Hypotheses Model		Modified Model	
		Indicator Value	Status	Indicator Value	Status
Chi-square	Close to 0	717.068	Poor fit	151.459	Poor fit
CMIN/df	<2	3.897	Poor fit	1.761	Good fit
GFI	>0.9	0.755	Poor fit	0.923	Good fit
CFI	>0.9	0.812	Poor fit	0.967	Good fit
AGFI	>0.9	0.692	Poor fit	0.879	Marginal fit
TLI	>0.9	0.785	Poor fit	0.954	Good fit
RMSEA	<0.1	0.113	Poor fit	0.058	Good fit

Path	Standardized Estimates	t calculation	p	Remarks
RG---> IA	0.112	1.967	0.049	Significant
GS--->IA	0.081	3.569	***	Significant
CD--->IA	0.12	0.03	0.976	Not significant
HR--->IA	0.119	1.967	0.049	Significant
CI--->IA	0.061	0.221	0.825	Not significant

Hypotheses	Results
H1 Religiosity has a positive and significant effect on the intention to adopt halal practices	Supported
H2: Government support has a positive and significant effect on the intention to adopt halal practices	Supported
H3: Consumer demand has a positive and significant effect on the intention to adopt halal practices	Not supported
H4: Expectation for higher revenue has a positive and significant effect on the intention to adopt halal practices	Supported
H5: The competition intensity has a positive and significant effect on the intention to adopt halal practices	Not supported

Cek. 2 Dr. H Fachururaji, M.M

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