OBSTACLES AND STRATEGIES IN DEVELOPING HALAL INDUSTRY:
EVIDENCE FROM INDONESIA

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Abstract

Purpose of the study: Indonesia is a country with a majority of the Muslim population and the development of the halal industry should be the main focus. This study aims at examining the obstacles of halal industry development in Indonesia. It also attempts to provide strategies on how to accelerate the development of the halal industry in Indonesia.

Methodology: This study used a qualitative research approach with the Analytic Network Process (A.N.P.) analysis techniques. This analysis process is supported by Microsoft Excel and A.N.P. software (Superdecisions). The analysis results from A.N.P. are in the order of priority. Because the A.N.P. analysis technique only uses the opinions of the experts, the results of this study will be robust enough.

Main Findings: Based on the results of literature and in-depth interviews with experts, there are several important obstacles related to the development of the halal industry in Indonesia. Those obstacles are policy, production, socialization, infrastructure, and human resources. Based on the A.N.P. analysis result, from five groups found, the biggest weight is the human resource, infrastructure, production, policy, and socialization.

Applications of this study: This research compiles the development strategy of the halal industry in Indonesia based on the priority obstacles agreed by the experts. This strategy focuses on the role of four economic participants, namely governments, consumers, investors, and industry. Therefore, it will be easier to continue the strategy into the halal industry development program in Indonesia.

Novelty/Originality of this study: This study considers the priority of obstacles in the purposing strategy for developing the halal industry in Indonesia, which has never been done in previous studies. In addition, the analysis technique used refers to the opinions of experts in the Indonesian halal industry, so the results can be more applicable.

Keywords: Analytic Network Process (A.N.P.), Halal Development, Halal Development Strategy, Halal Industry.

INTRODUCTION

Halal industry has become a popular discussion and the latest trend in international business, not only in Indonesia but also in other countries. Halal products trading about $254 billion in 2018 and for O.I.C. economies can experience a 1-3% boost in G.D.P. (Dinar Standard, 2019). The halal concept is basically a part of Islamic teachings. Based on the concept of Islam as the Rahmatan Lil Alamin (mercy to the universe), Islam has regulated the life of its followers not only about worship but covers the whole part of life such as fulfilling the needs of Muslim's life. For instance, in food, Muslims are allowed only to consume halal products. In addition, the production process based on sharia principles includes in halal criterion.

Several studies have been carried out related to the halal industry in various fields. Such as concept-based research conducted by Samori, Z., et al. (2016) about halal tourism. Other researches are also related to the opportunities and challenges of the halal industry conducted by Zailani, S., et al. (2017) about Malaysian logistics companies in adopting a halal logistics system and Wilson, J. A., & Liu, J. (2011) who discusses halal-conscious consumers is risk-averse. Some researchers also analyzed the factors determining the consumption of halal products (Briliana, V., & Mursito, N.:2017; Asnawi, N., et al.: 2018; Vanity, I., et al.: 2019) and the perception of halal by consumers (Said, M., et al.: 2014; Rios, R. E., et al.: 2014; Rahim, N.: 2016; Sayogo, D. S.: 2015). Furthermore, there are studies that discuss the development of the halal industry, such as research that focuses on halal tourism (Battour, M., & Ismail, M. N.: 2016), and which focuses on halal products (Mohamad, N., & Backhouse, C.: 2014). Prabowo, S., et al. (2015) confirmed that one of the obstacles in the development of the halal industry was halal certification. Examining previous studies, there is still no research that analyzes the obstacles of the development of the halal industry. Whereas, it is very important to map the obstacles in its development effort.

Indonesia, as a country with a majority Muslim population, has huge potential and opportunities in developing the halal industry. One of the main reasons is the guarantee of market availability for the halal industry in Indonesia. However, according to Global Islamic Economy Report 2019/2020, Indonesia is ranked 5th in the development of the halal industry, far behind from Malaysia which is positioned first, from various indicators that exist (Dinar Standard, 2019). This is a big challenge for Indonesia to develop the halal industry in terms of both quality and quantity.
In the framework of the development of the halal industry, the Indonesian government established a halal industrial area by forming specific regulations of J.P.H. (Jaminan Produk Halal or Halal Product Assurance) on 17 October 2014. On the same day, the Minister of Justice and Human Rights established the regulations Number 33 of 2014. This regulation consists of 68 clauses and affirmed that the products entered and traded in the national territory of Indonesia must be halal certified. Therefore, the government is responsible for conducting Halal Product Assurance (J.P.H.). However, the implementation of the J.P.H. regulation has not had the maximum impact. In addition, there are still many producers and several government institutions that still cannot see the potential of the halal industry as a prominent business opportunity.

Hence, this study aims at examining the obstacles of halal industry development in Indonesia. It also attempts to provide strategies on how to accelerate the development of the halal industry in Indonesia.

LITERATURE REVIEW

Halal terminology is translated as anything that is useful and anything that does not harm the body, mind, and religion (Ngah, B. B. & Abdelali B. Z.; 2019). Halal as Islamic law, is any object or activity that is permitted to be consumed, used, and done. On the other hand, haram is a legal status for any object or activity that is forbidden to be consumed, used, and done (Sawari, S. S. M.; 2020). Consumption, which is one of the main pillars of Islamic economics activity, must obey the halal concept (Insani, T.D. et al.; 2019). Insani, T.D. et al. (2019) further explained that in the Quran, chapter 2, verse 168, there are three main aspects of the object that are called Halal and Thayyib (Good). First, the object or activity that will be consumed, used, and done does not contain prohibited elements. Second, the object or activity contains benefits that have a positive impact. Third, the object or activity does not contain anything that is harmful to the body and mind.

Islam is the only religious belief that directs its followers and allows the parties to officially certify, label, and brand products, services, and experiences (Wilson, J.; 2014). There are eleven groups of halal industry according to commodities and consumption (Wilson, J.; 2014), i.e. halal utilities, halal livestock, halal synthesis, transporting halal, ingested halal, worn halal, household halal & purification, prescribed halal, halal professional services, experiential halal, and halal communication channels. In practice in the halal industry, there are several phenomena that have arisen, including, there are clearly reclassification preferences related to products and services with halal monikers; there are decisions frequently on the selection of the use of the term halal in brands for means to obtain economic benefits (Wilson, J. A., & Liu, J.; 2010).

Indonesia was one of the first countries to have its own halal standard system and was recognized by many other institutions and countries, including Australia, Brazil, the Netherlands, New Zealand, and the United States (Wilson, J. A., et. Al.; 2013). Halal certificates in Indonesia are written fatwas issued by MUI (Majelis Ulama Indonesia - Indonesian Ulema Council) for products that have been pass the process of registration, auditing, and meetings of the MUI Fatwa Commission (Lembaga Pengkajian Pangan Obat-obatan dan Kosmetika Majelis Ulama Indonesia, 2020). Products that can be issued halal certificates by MUI include food products, medicines, cosmetics, consumer goods (chemicals, soap, detergents, skins, water filters, etc.), etc.

Indonesia is a country with the largest number of Muslims in the world (F. A. Amalia, Sosianika, & Suhartanto, 2020; Battisti, Bollani, Miglietta, & Salvi, 2020). However, Indonesia does not yet have a clear vision in its positioning in the halal industry. Indonesia is still not optimally working on global halal industry opportunities, because the orientation of the development of halal products is more to protect domestic Muslim consumers. In addition, the scope of certification is still in certain sectors (Lembaga Pengkajian Pangan Obat-obatan dan Kosmetika Majelis Ulama Indonesia, 2020). Furthermore, halal certification in Indonesia is voluntary, which means the company on its own initiative (with consideration to meet the demands of the Muslim consumer market) filed for halal certification including the consequences of its financing (Lembaga Pengkajian Pangan Obat-obatan dan Kosmetika Majelis Ulama Indonesia; 2019).

The development of the halal industry in Indonesia will be more focused on mapping the obstacles contained therein. This study groups the obstacles of the development of the halal industry in Indonesia into five groups, namely policy, human resources, infrastructure, socialization, and production.

The first obstacle group is policy. The policies referred to in this study are obstacles related to policies of the supply of halal products in Indonesia. Indonesia through the Indonesian Ulema Council is responsible for the certification process. However, as mentioned before, halal certification in Indonesia has not become mandatory. The second obstacle group is human resources. Human resources referred to in this study are obstacles related to resources from the producer side in Indonesia. Regarding the status of halal certification in Indonesia which is voluntary, there are several obstacles in the availability of products with halal certification in Indonesia. The third obstacle group is infrastructure. Infrastructure in this study is related to legal infrastructure obstacles regarding the provision of halal product certification. An example is an infrastructure related to the implementation of the J.P.H. (Jaminan Produk Halal or Halal Product Assurance) law such as derivative rules, implementations, systems, procedures, the number of L.P.H. (Lembaga Penjamin Halal - Halal Guarantors Institutions). The fourth obstacle group is socialization. Socialization referred to in this study is the dissemination of information relating to halal products in Indonesia. This socialization is not only from government institutions but also by various halal industry stakeholders in Indonesia. The fifth obstacle group is production. Production referred to in this study are obstacles related to the production process of halal products. As the economy in general, materials for making halal products not only come from the domestic market. The obligation of halal products to suit halal requirements is that all processes are halal. Whereas, not all material from a product has been halal certified.

METHODOLOGY

This study uses a qualitative research approach with the Analytic Network Process (A.N.P.) analysis techniques. According to Saaty & Vargas (2006), decision making in A.N.P. is to make consideration and validation of empirical experience. The types and sources of data in this study used primary data obtained from in-depth interviews with experts and practitioners who have a better understanding of the issues under study, namely the analysis of the obstacles of developing the halal industry in Indonesia.

Differences between A.N.P. surveys and other qualitative surveys which are based on surveys is that the informants who are allowed to be used in A.N.P. research must be experts in the authentic problem under study. According to Ascaraya (2015), the number of informants in A.N.P. research is not important, because what is more important in research with the A.N.P. approach is that the informants were chosen are people who are expert and competent in their fields. This will direct the research results to the right answers to the research problem. Therefore, research that uses A.N.P. usually does not use many informants. Informants involved in this research include various parties who are experts in the development of the halal industry in Indonesia. The informants in this study came from, firstly the head of the halal study center at tertiary institutions in Indonesia as representatives of the academics. Academics are experts who have a track record of research and a good understanding of the halal industry in Indonesia and existing obstacles related to the development of the halal industry in Indonesia. Second, halal researchers at the research and development centre of the Ministry of Religion of the Republic of Indonesia and representatives from halal industry practitioners. Practitioners are informants who in their daily work are in the Indonesian halal industry.

The data and information in this research are opinions represented by academics and practitioners arranged in the form of A.N.P. framework models. For the purpose of maintaining index consistency levels and facilitating the interview process with expert informants, the authors use the A.N.P. questionnaire format developed from the original questionnaire format of the Superdecision software. The format of this questionnaire is important in making the research process more effective by maintaining the rules of the method developed by Saaty. As mentioned before, there are five groups of obstacles in this research, namely policy, human resources, infrastructure, socialization, and production. In each of these groups, there are several nodes that are part of the obstacle group. The questionnaire as an interview guide is arranged in the form of a matrix and answered by the informant on a rating scale of numeric. The rating is in the range of numbers 1 to 9, where 1 means the same impact between the two obstacles in the matrix on the development of the halal industry in Indonesia and 9 means that a very, very much greater impact on one obstacle against another obstacle on the development of the halal industry in Indonesia.

If the results of the questionnaire about opinions have been collected, then the next step is processing the data obtained, using Microsoft Excel and the Superdecision software. The results of the Analytic Network Process (A.N.P.) analysis techniques in the form of priority ranking of obstacles related to the development of the halal industry in Indonesia must be addressed first. Thus the results of this study can be considered by parties related to their development.

RESULTS/FINDINGS

Based on an analysis of in-depth interviews with informants, the problem in developing the halal industry in Indonesia is divided into five groups namely policy, human resources, infrastructure, socialization, and production. The halal industrial area has great potential to be developed in Indonesia, especially by looking at a large number of the Indonesian Muslim population. Therefore, the halal industry can be one of the contributors to the economic growth of the nation as has been done by Malaysia. To support the economic growth of the nation, it is necessary to have a government policy
that speaks specifically in the development of the halal industry, as the development of the halal industry is still much underdeveloped. The problems in the Policy are 1) the unfinished implementation of the J.P.H. (Jaminan Produk Halal or Halal Product Assurance) law, 2) The lack of halal product standardization and certification, 3) The absence of roadmap for the development of halal industry.

As the country with the largest Muslim population, Indonesia has the biggest opportunity to develop the halal industry. Ideally, the Muslim population is a supporting factor in the development of the halal industry. The problems that include human resources are as follows: 1) There are still many producers who are less concerned about halal products, 2) lack of knowledge of small industries related to halal products.

To optimize the potential of the halal industry, it needs adequate infrastructure facilities. Therefore, it is necessary to improve the infrastructure services from both the government and the private sector. However, there are still obstacles in the development of infrastructure, namely: (1) lack of coordination of institutions dealing with infrastructure (2) lack of adequate infrastructure.

Supporting the implementation of the halal industry, business subjects, regulators, and the public need to understand the urgency of the halal product, not only related to food, beverage but anything related to the halal industry. Therefore, there is a need for special socialization in introducing the halal industry. But on the other hand, there are still many obstacles in the socialization problem such as (1) lack of promotion on halal (2) lack of education, socialization, and information.

In building a halal industry that can be trusted by the community, it is necessary to increase attention to the product quality. Not only the problem of halal labelling in a product but also there is a need for clarity in the production process that can be guaranteed by the existence of halal certification to compete and provide added value to the product. Thus, the refinement or improvement of the product quality can provide a stimulus in increasing productivity. However, there are still some constraints in production such as (1) limited supply of raw materials fulfilling halal criteria (2) there are still some sectors dependent on imports such as the pharmaceutical sector, 3) there is no standard definition of halal products.

Based on the analysis of A.N.P. (figure 1), from the aspect of halal industry development in Indonesia, from five groups found, the biggest weight are human resource (0.244), infrastructure aspect (0.217), and production aspect (0.203). The next priority aspect is policy related (0.190) and the last aspect of socialization (0.146).

**DISCUSSION / ANALYSIS**

The human resource obstacle is one of the main problems in the development of the halal industry in Indonesia. This is relevant to the results of research conducted by Jaelani, A. (2017). Good human resources will accelerate the development of the halal industry. This is because a better perception and understanding of human resources will provide a better perception and understanding of the market. In addition to human resources, infrastructure and production obstacles become the next challenge in the development of the halal industry in Indonesia. Infrastructure obstacles are of secondary importance in the development of the halal industry. This is consistent with several studies such as Gabdrakhmanov, N. K.: (2016), Majid, B., & Mitra, A.: (2016), and Nisha, N., & Iqbal, M. (2017). Meanwhile, production obstacles within the framework of halal industrial development have relevance in research conducted by Ali et al; and Mazhar et al (Ali, M. H., et. al.: 2017; Mazhar, M. S., et. al.: 2018).
The next priority obstacles are related to policy and socialization. The policy of a country does have a very important role in the development of the halal industry, including Indonesia. This is confirmed by the research conducted by Gabdrakhmanov, N. K. (2016), and Majid, B., & Mitra, A. (2016). Meanwhile, the socialization factor becomes the last thing but no less important in the development of the halal industry in Indonesia. Good socialization and marketing are major keys in the development of the halal industry (Battour, M. & Ismail, M. N.: 2016; Boediman, E. P.: 2017; Krishnan, S., et. al.: 2017).

Furthermore, the formulation of strategies in developing the halal industry can be focused on the results of the mapping of obstacles. In general, there are four economic participants, namely governments, consumers, investors, and industry (Thomson Reuters & Dinar Standard.: 2018). Therefore, the strategy formulated must consider these four participants. This research formulates a strategy called Halal Industry Integration Strategy. The purpose of this strategy is to maximize the role of each party. First, the governments referred to in this strategy are regulators dealing with the halal industry in Indonesia. Second, the consumers referred to in this strategy are consumers of halal products, especially Muslim consumers who have the obligation to consume halal products. Third, the investors referred to in this strategy are financial institutions, especially Islamic financial institutions that have an obligation to only invest in the halal sector. Fourth, the industrial parties referred to in this strategy are producers of both producers of domestic products and producers of export goods.

Halal Industry Integration Strategy is structured to resolve the main obstacles agreed by experts in the development of the halal industry in Indonesia, namely human resources. There are two parts in this obstacle group, namely, there are still many producers who are less concerned about halal products and the lack of knowledge of small industries related to halal products.

Halal Industry Integration Strategy includes two things. First, reviewing factors that can increase the preferences of companies or producers in the halal industry to get halal certification. There are two general theories applied to analyze the motivation of companies in implementing halal certification, namely the Theory of Planned Behavior (TPB) and the Theory of Reasoned Action (T.R.A.) (Ab Talib, M.S., et al.: 2016). Company motivation is driven by demand in the market. Indonesian Muslims, as a Muslim majority population, have a tendency to assume that all circulated products are halal products. Therefore, checking the halal label on a product to be consumed has not been a priority. De Boni, A. and Forleo, M.B. (2019) explain that challenges faced by companies in implementing halal strategies are caused by the institutional context, including awareness of halal principles and practices.

Second, analyzing the role of each participant in the halal industry to increase motivation. First, the government, by maximizing the role of formulating regulations related to the obligations of consumer goods producers to register for halal certification. Ab Talib, M.S., et al. (2016) confirm that government factors will lead companies to be more concerned with halal certification due to regulatory pressure. However, the government must provide easy access to Halal Guarantors Institutions. Second, the consumers, by maximizing the understanding of the public/consumers related to the urgency of consuming products with a halal label, especially Muslim consumers. This encourages demand will motivate producers to give concern to halal guarantees for their products. Ab Talib, M.S., et al. (2016) also confirmed that the consumer factor would lead companies to be more concerned with halal certification due to consumer pressure. Third, Islamic financial institutions as investors, Muhamed, N. A., et. al. (2014) explain that industrial collaboration can lead to a harmonious system that can support each other, where the Islamic financial system through Islamic banking and capital market instruments will channel their long-term funds to other halal industries. Fourth, the role of industry. The lack of Muslim involvement in the industry can decrease the industry's image as a country that has great potential to become a major player in the halal industry, especially in the long run Mohd Nawawi, M.S.A., et. al. (2019). Muslim workers and producers are expected to have a deeper understanding of halal practices, as well as Islamic legal and ethical standards. This can encourage the development of the number of products and companies that try to get halal certification. The increasing number of halal certifications issued will increase the competitive atmosphere in the halal industry. Ab Talib, M.S., et al. (2016) also confirmed that the competitor factor would lead the company to be more concerned with halal certification due to competitive pressure.

Halal Industry Integration Strategy which involves the role of the four economic participants, although conducting an in-depth analysis of the main obstacles in the development of the halal industry in Indonesia, also summarizes the solutions to the other four obstacles. This is due to the four obstacles intersecting and not standing alone. The role of government, consumers, investors, and industry can also cover infrastructure, production, policy, and socialization obstacles.

CONCLUSION

Based on the results of literature studies and in-depth interviews with experts, there are several important issues related to the development of the halal industry in Indonesia that is 1) policy 2) production 3) socialization 4) infrastructure 5) human resources (H.R.). Based on the A.N.P. analysis result, from 5 criteria found, the biggest weight is human resource (0.244), infrastructure aspect (0.217), and production aspect (0.203). The next priority aspect is policy related (0.190) and the last aspect of socialization (0.146).
The recommendations that can be given is a proposed strategy for developing the halal industry in Indonesia, namely the Halal Industry Integration Strategy. This strategy involves the role of four economic participants, namely governments, consumers, investors, and industry.

LIMITATION AND STUDY FORWARD

This research analyzes the development of the halal industry in Indonesia in general and has not yet selected a sector from the halal industry to study the development. However, this research is sufficient to provide a general picture regarding the development of the halal industry in Indonesia.

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AUTHORS CONTRIBUTION

All authors contribute a sizeable work to the article. The first author is responsible for developing ideas and collaborating with providers of research funding. The second author is responsible for collecting and processing research data. The third author is responsible for reviewing the entire paper. The Fourth author is responsible for exploring the literature. The fifth author is responsible for analyzing the results of the research.

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