

# Halal food certification for improving the competitiveness of small and medium enterprises

*by* Sri Herianingrum

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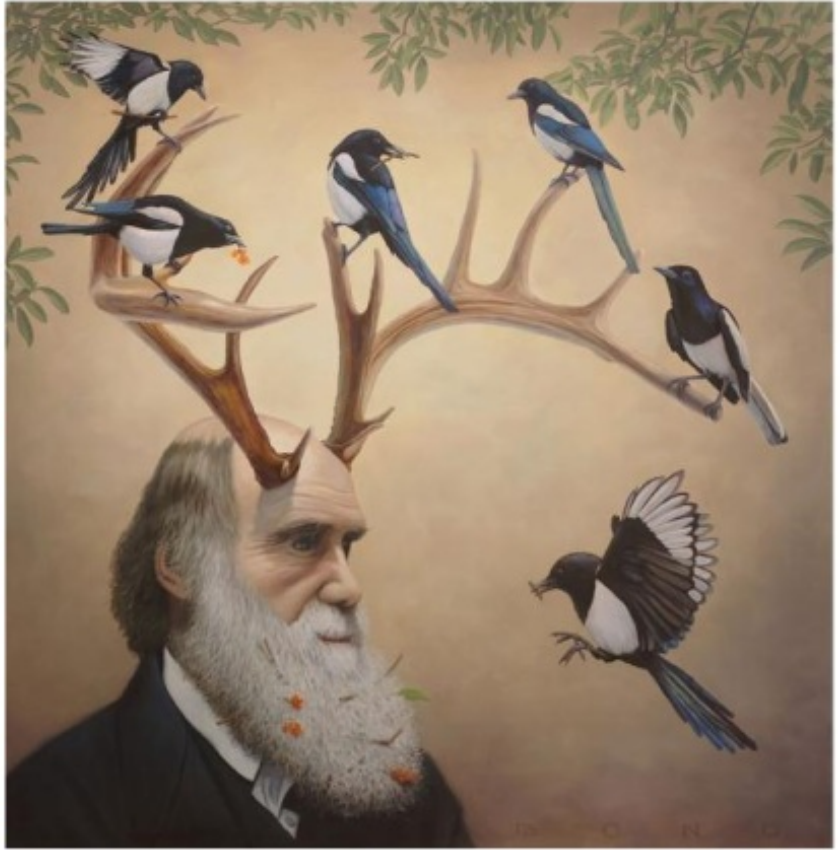
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## Halal food certification for improving the competitiveness of small and medium enterprises

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### Abstract

The purpose of this study is to find out what factors influence and which factors play the most powerful role in influencing efforts to improve the competitiveness of Small and Medium Enterprises in Eastern Indonesia via a comparative qualitative research method. The results of this study found that there are several factors influencing efforts to improve the competitiveness of Eastern Indonesia Small and Medium Enterprises. In conclusion, the dominant factor is that policy and infrastructure want to illustrate the extent to which the implementation of policies and infrastructure in locations around MSMEs operate can support or hinder businesses to operate.

**Keyword:** Halal, Food, Certification, Competitiveness, SME.

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## Certificación alimentaria halal para mejorar la competitividad de las pequeñas y medianas empresas

### Resumen

El propósito de este estudio es descubrir qué factores influyen y qué factores desempeñan el papel más poderoso en influir en los

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esfuerzos para mejorar la competitividad de las pequeñas y medianas empresas en el este de Indonesia a través de un método de investigación cualitativa comparativa. Los resultados de este estudio encontraron que hay varios factores que influyen en los esfuerzos para mejorar la competitividad de las pequeñas y medianas empresas del este de Indonesia. En conclusión, el factor dominante es que la política y la infraestructura desean ilustrar hasta qué punto la implementación de políticas e infraestructura en las ubicaciones que operan alrededor de las MIPYME puede respaldar u obstaculizar el funcionamiento de las empresas.

**Palabra clave:** Halal, Alimentación, Certificación, Competitividad, PYME.

## 1. INTRODUCTION

At present, the concept of sharia is being warmly discussed and is becoming a trend in society, especially in Indonesia. The concept of sharia which was initially very familiar in the banking world is now beginning to touch other sectors such as the tourism sector. Tourism is one of the industrial sectors which is currently growing very rapidly throughout the world. ELIAS, OTHMAN & YAACOB (2016) say that over the past decade, the perspective of halalness has spread from the origin of the way of life of Muslims around the world in providing consumers with food, products and services on a mass-production scale and related to safety, cleanliness and quality assurance and environmentally friendly.

One of the halal concepts that is currently developing is halal tourism. Halal tourism is needed and sought after by Muslim tourists in the world and is one of the new phenomena that has emerged in the halal industry. Halal issues can play a role in advancing the tourism industry, many Muslim and non-Muslim countries are set to direct the market of

Muslim tourists by providing tourism products, facilities and infrastructure to meet their needs. Indonesia is no exception. Indonesia is called feasible as a halal tourism center because the majority of its population is Muslim. As CHOOKAEW, CHANIN, CHARATARAWAT, SRIPRASERT & NIMPAYA (2015) stated, <sup>11</sup> the concept of halal tourism is an actualization of the Islamic concept where halal and haram values are the main benchmark, this means that all aspects of tourism activities are inseparable from halal certification which must be a reference for every tourism actor (CHOOKAEW ET AL., 2015).

According to PERDANI & CHASANAH (2018), the construction of a halal <sup>20</sup> guarantee system is very important because it is to safeguard products whose raw materials are not from Muslim countries. With halal certification, SME products obtain added value so that they will increase the competitiveness of Indonesian products in the international world. Moreover, global corporate products have also begun to enter the halal industrial business market. In some countries, businesses with halal labels have become a new trend. In Thailand, the growth of the halal industry has reached 9% per year. MAISON, MARCHLEWSKA, SYARIFAH, ZEIN & PURBA (2018) state that in Malaysia this certification system can influence product and service purchasing decisions and more and more companies are starting to submit their products and services to be certified halal. In some non-Muslim countries, even this industry labeled halal has increasingly attracted attention.

Meanwhile, from the perspective of consumers from Muslim countries, they prefer halal labeled products from the Muslim State. <sup>4</sup> This is evidenced by research by MAISON ET AL. (2018) which examine the role of halal (explicit) labels and country of origin (implicit) in predicting

positive product perceptions among Muslim consumers. The results of these studies people who in religious-based buying behavior do not seem to trust halal-labeled food produced in countries other than Islam. The same thing was expressed by Nasution and Rossanty that halal labels had a positive and significant influence on purchasing behavior. In addition, the country of origin also affects purchasing behavior. The role of the country of origin as a moderator variable has a positive and significant impact on the halal label and the buying behavior of imported frozen food (NASUTION & ROSSANTY, 2018).

Perception in the context of Islamic economics has certain limitations. Muslim consumer perceptions are born of Islamic teachings. Some limitations that must be adhered to in the perceptions of Muslim consumers MUFLIH (2006) include: consuming products - halal, prioritizing basic needs, being economical and not excessive, and aiming to seek Ridho Allah SWT (EBADI & DAMIRCHI, 2018)

The increase in the world's Muslim population has influenced the trend of the global halal industry. This situation leads to increased demand for food, products and services with Halal Certification status. The definition of halal itself is what is permissible in Islamic law. Foods that meet halal requirements are marked by a halal label on the packaging and must be very attractive to Muslims who follow a certain set of rules outlined in the Koran. In ALZEER, RIEDER & HADEED, (2018) research stated that the notion of halal was not well understood. Their findings about the halal understanding well are rational Halal understanding, Tayyib and Khabith in the context of food security is very important. Considering Halal as a subject and Tayyib as a process,

facilitating procedures for Halal certification (GUNBATAR & KARALAR, 2018)

The main goal of Tayyib is to produce clean and pure food, and to create a feeling of comfort as the main goal, which can be achieved if food is produced in accordance with Sharia (Islamic principles). Halal-labeled food must reflect the Halal and Tayyib concepts, specifically the identification of all ingredients involved in the production, Halal status determination and toxicity, and the elimination of breathing, unclean (ritually unclean) and toxic materials (ALZEER ET AL., 2018). Meanwhile, Halal certification is the process of checking and evaluating products or services that are in accordance with halal requirements in accordance with Sharia law. Products and services with Halal Certificate status will help consumers to make consumption decisions easily (REZAEI & NEMATI, 2017).

According to AFRONIYATI (2014), halal certification was issued in Indonesia since 1989 and halal certification is not only published in Muslim countries but also in non-Muslim countries, such as Singapore, Australia, New Zealand and others. The halal certification process is not only based on product output, but involves a process ranging from raw materials to the creation of a product.

Halal certification can also attract business owners who are suspected of distributing non-standard food items to be punished by administrative fees, civil sanctions, and criminal sanctions. However, law enforcement of consumer food protection arising from court decisions is not optimal. As a result, there is a guarantee of a lack of legal certainty for

consumer protection and legal compliance for business actors. According to WIRYANI, NAJIH & HARIS (2018), the optimization of law enforcement for the protection of halal and thoyib food consumers' needs to be done through the following efforts: reformulation of criminal sanctions; increase the professionalism and sensitivity of law enforcement; and increasing community participation (WIRYANI, NAJIH & HARIS, 2018).

Based on the research, then there is an opportunity for Indonesia to become a center for halal tourism not only in Java but also in East Indonesia, given that the area visited by tourists is Eastern Indonesia such as Bali and Lombok, and therefore the existence of halal product certification at UMK is very needed. Based on the above background, in this study, we want to analyze what factors influence the increase in the competitiveness of SMEs in Eastern Indonesia and what are the most influencing factors, as well as how the role of halal certification in SME products faces the International Halal Tourism.

## 12 2. RESEARCH METHOD

The research design used in this study is a qualitative method (by using a qualitative approach to case studies and data mining with the method of depth interview) and literature conceptual approach. The data used in the first (qualitative) approach is one shot, which is collected through data mining in the form of depth interviews and focus group discussions to key informants. Informants as many as 12 people from Small Medium and Enterprises owners in the food and beverage sector and the Department of Industry and Trade as well as Indonesian Religious



Board in the local area in Eastern Indonesia (Bali and Lombok). In addition to completing the depth of the discussion and allowing more in-depth findings to be produced, literature studies have also been conducted on several similar research results.

### **3. RESULT AND DISCUSSION**

The following is a discussion of the results of extracting data on informants and strung together with several sources of triangulation of the results of previous relevant research in order to answer the formulated problem questions. Based on the results of this study can give birth to a model of government policy to support halal tourism through the service of issuing halal certification both on food and beverages produced by Small and Medium Enterprises in tourism areas in Eastern Indonesia.

#### *3.1. Factors that influence efforts to improve the competitiveness of Eastern Indonesia Small and Medium Enterprises in facing International Halal Tourism*

According to the Organization for Economic Co-operation and Development (OECD)

mention that competitiveness is the ability of companies, industries, regions, country, or between regions to produce income factors and employment factors relatively high and sustainable way to face international competition. Because industrial competitiveness is a

phenomenon at the micro-level of the company, then national industrial development policies are preceded by reviewing the industrial sector as a whole as a basis for measurement. The results of the analysis are;

- a. First, competitiveness is a continuous process, and not a static process.
  
- b. Second, competitiveness models in the context of companies or SMEs need to consider three dimensions of competitiveness as conceptualized. The potential dimension covers the scope of competitiveness and organizational ability. Meanwhile, the process dimension reflects the ability to manage work; while performance is a result and variable of various factors that shape it such as (1) the character, behavior, skills and knowledge possessed by the entrepreneur; (2) the character of the sector, market and strategic business environment; and others.
  
- c. The third result, namely the high level of competitiveness of a small and medium scale company can be maintained through the fulfillment of four types of capabilities, namely.
  1. The ability of the company to increase market share, profits and sustainable value-added growth.
  
  2. The company's ability to access and manage various resources and capabilities (controllability).

3. The company's strategic ability to assess its level of competitiveness compared to other companies (relativity).

4. The company's ability to continue to create competitive advantage (dynamism).

d. Fourth, the model of competitiveness of SMEs needs to consider the influence of the internal aspects of the company, the external environment and the entrepreneur / business owner (the process or perspective of entrepreneurial behavior).

e. Fifth, based on these three approaches, the connection is hypothesized into three principal tasks of an entrepreneur, namely:

(a) establish the scope of competitiveness;

(b) creating organizational capabilities; and

(c) determine the goals and strategies for achieving them.

### *3.2. The most powerful factor in influencing efforts to improve the competitiveness of Eastern Indonesia Small and Medium Enterprises is facing International Halal Tourism*

Of the several factors mentioned above, the most powerful factor in influencing efforts to improve the competitiveness of Eastern Indonesia

Small and Medium Enterprises in facing International Halal Tourism is that there are six main variables that shape the competitiveness of SMEs namely the availability and conditions of business environment infrastructure, research and technology, financial support and partnerships, and performance variables. The factors are:

#### 1. Availability & Conditions of the Business Environment

The availability and condition variables of the business environment describe the situation or main capital owned by a business entity in starting its business. The conditions referred to in this context are conditions that already existed during the business began. To be clearer, some sub-variables are forming a variable of availability and environmental conditions of this business, namely:

##### Sub-variable Availability of Resources

On the other hand, indicators of the availability of raw materials, as well as machinery and equipment try to capture information on how easy business access is to get the raw materials needed. The ease of access to raw materials around business locations will certainly make it easier for businesses to carry out their production activities. This certainly can facilitate businesses to be more advanced.

##### b. Sub-variabel Market Condition

Market conditions, in this case, are measured from two indicators, namely the market situation and business competition. Both indicators try

to see how the condition or condition of the market in the location around the business environment. Indicators of the market situation try to describe the size of the market and the ability of the market in the location around the business running. Market size wants to show how many potential residents who can become markets for businesses that are run, temporarily market ability tries to show the purchasing power of the market there are locations around the business operating. Meanwhile, sub-variables of market conditions described through business competition indicators which include information about how much the intensity of business competition in the location around the business is operating.

## 2. Business Ability

The business capability variable is initially called a process variable. However, to avoid misperception, the name of the process variable is then replaced as a variable business capability. The business capability variable in this context wants to describe the extent to which the business being run is able or able to manage existing business processes both in technical and managerial terms. This variable is measured in 4 (four) sub-variables, namely technical or production capability, managerial ability, governance capability and service arrangement, and entrepreneurial ability. These four variables are considered very important in shaping the ability of a business to manage its business as a whole.

### a. Technical / production capability sub-variable

Technical / production capabilities aim to capture information about business capabilities in managing business operations processes day

by day. In this case, the sub-variable of technical / production capability is measured in two indicators namely worker ability and production capability. Indicators of worker ability illustrate how the capabilities of HR possessed by businesses in supporting production, whether the competencies of HR can support the acceleration of the production process or vice versa. On the other hand, production capabilities want to describe the extent to which businesses can meet their production targets every day.

#### b. Managerial Ability

Managerial skills, in this case, want to describe the extent to which businesses implement a good management system in managing their business. To measure this managerial ability sub-variable, system indicators and business policies are formed.

#### c. Sub-variable of Governance and Service Governance Capability

The intended governance and governance capabilities are to see the extent to which the administrative system is organized and the services carried out by the business in carrying out its business processes. The sub-variable consists of two indicators, namely legal and administrative, which intends to see the regularity of the application of the applicable laws in the business, as well as governance procedures to measure how business services to consumers.

#### d. Entrepreneurial Ability variable.

Entrepreneurial ability is closely related to the extent to which business managers can see opportunities and develop their business to be more advanced through innovation and utilization of existing opportunities. In this case, then two indicators are formed, namely innovation indicators and opportunity / market identification indicators to measure sub-variables of entrepreneurial ability.

#### **4. RESEARCH AND TECHNOLOGY**

Research and technology variables describe the level of utilization of technology and research and development in business. The use of technology tries to see the extent to which a business utilizes technology for production, management and marketing purposes. Research and development describe how a business utilizes the results of research, and innovates through research and development activities in its business even though the form is simple.

The external support variable aims to measure two main things, namely capital and business partners. Capital access tries to see how easily businesses can access existing capital assistance facilities. Likewise the case with business partners, in this context what you want to describe is how business involvement in a good partnership program is proclaimed government and private sector.

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There has been an increase in interest in Halal Food Certification (HFC), especially from the consumer point of view. Research on HFC often concentrates intentions or consumer purchasing behavior,

13 willingness to pay, awareness or perception and level of confidence. The reasons behind the increasing attention in HFC research can be attributed to increased awareness, attention and knowledge of halal food among consumers. Halal certificates have a broad economic perspective where they are viewed from the side producers of halal certificates have roles including:

- 9 a. As producers' responsibility to Muslim consumers, considering that halal issues are part of Muslim life principles
- b. Increase consumer trust and satisfaction
- c. Improve the image and competitiveness of the company
- 9 d. As a marketing tool and to expand the marketing area.

## 5. CONCLUSION

6 This study shows that there are several factors influencing efforts to improve the competitiveness of Eastern Indonesia Small and Medium Enterprises namely Availability & Conditions of Business Environment, Business Capability, Business Performance, Policy and Infrastructure, Research and Technology, and External Support. The dominant factor is that policy and infrastructure want to illustrate the extent to which the implementation of policies and infrastructure in locations around SMEs operate can support or hinder businesses to operate. In this case, there are several measurement indicators, namely the application of legal policies,



the application of economic policies, the application of socio-cultural policies, and the completeness and availability of business supporting infrastructure.

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