

Navigating The Development of Halal Industry: Tracking Institutional Influences in The Indonesian Context

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Abstract

This research studies the halal industry development in Indonesia by highlighting the influence of institutional factors on halal certification. As a country with the largest Muslim population in the world, the demand for halal products is very high, making the halal industry has an important role in the national economy. The purpose of this study is to identify institutional factors that influence the growth and dynamics of the halal industry, including government regulations, the role of halal certification bodies, and support from religious and business organizations. The research method used is qualitative analysis, with secondary data collection from literature and industry reports as supporting analysis. The results show that strong and transparent government regulations, as well as close cooperation between certification bodies and industry players, are key factors in the development of the halal industry in Indonesia. In addition, the support and trust of Muslim consumers in halal-certified products also drive the growth of this industry. This study suggests improving inter-agency coordination and strengthening the regulatory framework to encourage sustainable development of the halal industry in Indonesia.

Keywords: Halal Industry, Institutionalization, Halal on Certification

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1. INTRODUCTION

The halal industry is now a worldwide trend. This is proven by the prospect of the halal industry which continues to grow every year. The State of The Global Islamic Report (2019) states that around 1.8 billion Muslims are consumers of the halal industry. With a total consumer expenditure of 2.2 trillion dollars, the consumer opportunity of the halal industry is increasing by 5.2 percent annually and is expected to continue to grow. According to projections, the CAGR (Compound Annual Growth Rate) of the halal industry will increase by 6.2 percent from 2018 to 2024. Halal industry consumers will also spend more money to reach 3.2 trillion dollars by 2024 (Reuters., 2020). Globally, the halal industry has grown quickly, thus Indonesian businesspeople must gain a deeper comprehension of the halal concept to take full advantage of the opportunities that are present (Baharuddin *et al*, 2015).

The halal industry in Indonesia plays a crucial role in the economy and social life of society. Institutional involvement in this industry is very important in various fields. However, there are several challenges faced in the development of the halal industry in Indonesia, such as policies covering the implementation of the Halal Product Guarantee (JPH) that have not been fully completed, the limited number of certifications and standardization of halal products, the halal industry development roadmap that still needs improvement, and human resources, including many producers who have not focused on halal products and lack of knowledge among small businesses. In addition, there are also obstacles in terms of socialization, such as the lack of promotion about halal and the lack of efforts to socialize, educate, and provide information related to halal (Madjid, 2022).

In this context, research on "Navigating the Development of the Halal Industry: Tracing

Institutional Influence in the Indonesian Context” is very relevant. This research aims to reveal how relevant institutions play a role and influence the development of the halal industry, as well as evaluate their effectiveness in facing challenges and taking advantage of opportunities. With a better understanding of institutional dynamics, strategic steps can be formulated to increase the contribution of the halal industry to the Indonesian economy in a sustainable manner.

2. METHOD

This study employs a phenomenological approach and is descriptive and qualitative. It aims to investigate many facets of human behavior by focusing on specific behavioral features. The secondary data gathered from books, journals, articles, report data about research concerns, and scientific sources pertinent to the research are used in the data collection approaches.

Three steps were included in the data analysis for this study: data reduction, data categorization, and data verification. During the data reduction stage, all data is filtered by removing or condensing information that is not pertinent to the study question. Following the reduction of the data, the information was then categorized by the research's main topic, which was the function of institutions in Indonesia's halal industry. Data verification is the last phase (Neuman, 2013).

3. FINDING AND DISCUSSION

Institutionalization of the Process of Certification, Standardization, and Supervision of Halal Products in Indonesia

Given that it is the largest producer of halal products in the world, Indonesia has a huge chance to dominate the halal market. This is because Indonesia has a sizable Muslim population and a robust halal market. It is anticipated that Indonesia's position in the global halal sector market will be strengthened by the potential of its local halal goods. The halal sector encompasses the supply of products and services that adhere to the regulations established by Islamic law. According to Islamic law, a product is deemed halal if it satisfies halal requirements, which require that every step of the production process, including distribution, be certified halal (Legalitas.org, 2024).

In the process of halal product certification, standardization, and oversight, institutions play a

critical role. BPJPH, LPPOM MUI as a halal inspection agency (LPH), and MUI are the three parties involved in the halal certification procedure. The halal product assurance is coordinated by BPJPH. Starting with verifying that all documentation is complete, LPPOM MUI arranges and carries out audits, arranges auditor meetings, issues audit notes, and presents audit findings at the MUI Fatwa Commission meeting. Based on the audit findings, the MUI Fatwa Commission then classifies a product as halal and issues a MUI Halal Decree. Companies are required by law to have established a Halal Product Assurance System (SJPH) before filing for halal certification. For organizations to effectively adopt SJPH, they must first comprehend the SJPH requirements that are necessary for the halal certification procedure (Majelis Ulama Indonesia, 2023).

An organization called the Halal Product Guarantee Agency (BPJPH) was founded with the power to oversee halal product guarantees in Indonesia. The community's comfort, security, safety, and assurance regarding the availability of halal items are the main goals of this halal product guarantee. BPJPH reports to and operates under the direction of the Minister of Religion. BPJPH has the power to establish and decide on halal product guarantees, control norms, standards, practices, and associated requirements, and issue and revoke halal certifications and labels in the course of performing its tasks (Suparto *et al*, 2016).

The Halal Examining Agency (LPH) is an institution that is tasked with examining and testing whether a product meets the halal requirements before obtaining halal certification. Business actors who want to apply for halal certification regularly will interact directly with LPH, which acts as an auditor or examiner of the product. The main task of LPH is to inspect and test products to be certified halal. In practice, LPH is responsible for preparing the audit process, including examining the registration form and its supporting documents, organizing the audit schedule, appointing auditors, and preparing audit reports.

In the process of halal certification, the three institutions have roles to play. In its capacity as a supervisor and regulator, BPJPH makes sure that the certification procedure adheres to relevant guidelines. The Indonesian National Standard (SNI), which was developed with cooperation from several halal-related

organizations and published by the National Standardization Agency (BSN), further supports the standardization of halal goods in Indonesia. Through routine inspections and audits of businesses that have acquired certification, supervision is conducted to guarantee that items that have been certified continue to follow halal requirements.

Major Challenges Facing Halal Industry Institutions

In carrying out their crucial roles, these institutions are not immune to a variety of complex and dynamic challenges. From limited resources to structural barriers, these obstacles are part of the daily reality they must face. Some of the main challenges they have to overcome include:

- a. Lack of Public Awareness and Education, the suggested socialization is to make halal product material a priority topic at Friday sermons, taklim assemblies, and other religious events. Besides that, religious studies lessons in public schools on the topic of halal products can be included in the education curriculum. To increase the socialization and education of halal certification so that entrepreneurs can take advantage of halal food market opportunities, of course, this requires efforts from relevant agencies and institutions to go directly to business locations or business associations to convey halal certification information and education. This will be a solution to the limited time of entrepreneurs in seeking information and will certainly have a big influence on the attitude of entrepreneurs in conducting halal certification. In this case, entrepreneurs must be made aware that including a halal label will have a positive effect on company performance and will also make the public more confident in the products they produce. Most consumers believe that products with halal brands have higher quality and safety standards than non-halal goods (Yulia, 2019).
- b. Suboptimal coordination between institutions such as MUI, the Ministry of Religious Affairs, and BPJPH results in various problems in the implementation of halal industry policies. For example, overlapping policies and different procedures in each agency can confuse industry players and hinder the efficiency of the certification process. Lack of synchronization in decision-making can also extend certification time and increase operational costs for halal producers.

In addition, weak coordination can lead to a lack of thorough supervision, so some important aspects of the halal industry may be overlooked or poorly regulated (Wiranto, 2022).

- c. Different interpretations of halal standards and different halal standards in each institution can cause uncertainty and confusion among both producers and consumers. While there are efforts to set national standards, different interpretations of what is considered halal can lead to inconsistencies in the application of such standards. For example, differing views on certain ingredients or production processes can make it difficult for producers to meet all the requirements. This not only makes it difficult for producers but also lowers consumer confidence in the existing halal certification as they are unsure of the consistency of the standards applied (Azam & Abdullah, 2021).
- d. Inconsistent enforcement is another significant challenge. Some violations related to halal standards may not be dealt with firmly or even ignored, which may lower the overall integrity of the halal certification system. Uncertainty in enforcement can discourage producers from fully complying with halal standards, as they feel there are no serious consequences for violations. This could adversely affect the confidence of consumers, who doubt whether the products they consume meet strict halal standards (Scaldeferri & Devidè, 2013).
- e. Limited Technology and Innovation, the halal industry still faces challenges in adopting new technologies and innovations that can improve the efficiency and transparency of the certification process and product monitoring. The use of information technology, such as online registration systems and blockchain for traceability, is still in the early stages of development and implementation.

Overall, the challenges faced by institutions in the development of the halal industry reflect the complexity and dynamics on the ground. However, with close collaboration between the government, private sector, and society, as well as the use of technology and innovation, these obstacles can be overcome. Ultimately, strengthening the role of institutions will be key in encouraging the growth of a halal industry that is more inclusive, sustainable, and able to compete at the global level. Only with a joint

commitment and concrete steps, the vision to make the halal industry a strong economic pillar can be truly realized.

The Impact of Institutional Roles and Influences on Consumer Perceptions of Product Halalness

Institutions such as the Indonesian Ulama Council (MUI), the Ministry of Religious Affairs, and the Halal Product Guarantee Agency (BPJPH) play an important role in building consumer confidence in halal products. Halal certification issued by trusted institutions gives consumers confidence that the products they consume meet halal standards. This is very important, considering that many products in the market claim to be halal without any official verification.

The role and influence of institutions in the halal industry greatly influence consumers' views on the halalness of products. Halal certification is not only considered an indicator of compliance with religious law but is also often associated with better product quality. Consumers, both Muslims and non-Muslims, tend to view halal products as more hygienic, safe, and of high quality. The strict controls and standards applied by halal certification bodies ensure that products are free from contamination and are processed cleanly and safely. Consumers are more likely to trust products that have gone through a rigorous certification process and are supervised by trusted institutions such as MUI and BPJPH.

Consistency in the implementation of halal standards and transparency in the certification process can increase consumer confidence, both at the domestic and international levels. Institutions such as BPJPH and MUI need to continue to improve transparency and accountability in the certification process by providing clear and easily accessible information to the public regarding products that have been certified. Consumers can easily verify the halal status of products through websites or applications provided by these institutions, which increases transparency and provides confidence that the products they buy are truly halal. In addition, these agencies also play an important role in educating and raising consumer awareness about the importance of halal products. Through campaigns, seminars, and educational programs, these agencies help consumers understand the concept of halal products, the certification process, and the importance of choosing halal-certified products. This increased awareness helps consumers make better decisions in choosing the

products they consume. The educational campaigns conducted by these organizations contribute to increased consumer understanding and, in turn, drive demand for halal products.

Strategies to Strengthen Institutional Roles and Influence in Halal Industry Development

To strengthen the role and influence of institutions in the development of the halal industry, several strategies can be proposed:

a. Improved Interagency Coordination

To prevent overlapping policies and accelerate the certification process, it is important to improve communication and coordination between relevant institutions. Institutions such as the Indonesian Ulama Council (MUI), Ministry of Religious Affairs, Halal Product Guarantee Agency (BPJPH), and other institutions must work together synergistically. This collaboration will ensure that any policies issued can be implemented more effectively and efficiently, and provide greater benefits to society.

b. Improving communication and coordination

Improving communication and coordination between the Indonesian Ulama Council (MUI), Ministry of Religious Affairs, Halal Product Guarantee Agency (BPJPH), and other related institutions is a crucial step to avoid overlapping policies and accelerate the certification process. A synergistic collaboration between these institutions will ensure that the policies implemented are more integrated and their implementation more effective, thus providing maximum benefits for the community and related parties.

c. Harmonization of halal standard

Harmonization of halal standards is a crucial strategic step to ensure that all products in circulation comply with established halal principles. To achieve this, it is important to develop halal standards that are harmonized and easily understood by all relevant parties. With clear and uniform standards, differences in interpretation that often arise can be reduced, so that consistency in application can be maintained.

The development of harmonized halal standards involves several important steps. The first step is to conduct an intensive and continuous dialogue between the Indonesian Ulama Council (MUI), the Ministry of Religious Affairs, the Halal Product Guarantee Agency (BPJPH), and

other relevant institutions. The purpose of this dialog is to harmonize views and build a common understanding of the important aspects of the halal standard to be implemented.

Second, the standards designed should be comprehensive and easy to understand. This means that the standard should cover all aspects related to the halalness of the product, from raw materials, and production processes, to distribution and storage. In addition, the language and terminology used in the standard should be simple and clear, so as not to cause confusion among industry players and the general public.

Third, it is crucial to conduct thorough socialization and education to all stakeholders, including producers, distributors, and consumers. Effective education will ensure that all parties understand and can follow the standards set, as well as recognize the benefits of implementing the halal standards. By designing halal standards that are harmonized and easy to understand, we can reduce differences in interpretation that are often a source of problems in implementation. This will improve the consistency and effectiveness of halal enforcement in the field, provide legal certainty for industry players, and maintain public confidence in the halal certification system. Ultimately, this will help create a better and more reliable halal ecosystem in Indonesia.

d. Information technology utilization

The utilization of information technology in the process of certification and supervision of halal products is an innovative step that can have a major impact on improving efficiency and transparency. In today's digital era, the application of technology is an urgent need to overcome various challenges in managing halal certification. This step will not only speed up the certification process but also ensure that supervision of halal products is carried out more accurately and thoroughly.

One of the most effective applications of technology is the development of an online registration system. With this system, industry players can register their products for halal certification more easily and quickly. The process, which previously took a long time because it had to be done manually, can now be simplified with just a few clicks. This online registration system also allows industry players to track the status of

their applications in real-time, providing greater transparency and reducing uncertainty.

In addition, information technology allows the establishment of an integrated halal product database. This database will function as an information center that stores complete data on products that have received halal certification. With an integrated database, relevant institutions such as the Indonesian Ulema Council (MUI), the Ministry of Religious Affairs, and the Halal Product Guarantee Agency (BPJPH) can easily access and share the information needed. This will improve coordination between agencies and reduce the possibility of errors or duplication of data.

Technology also enables the implementation of more advanced and effective monitoring systems. For example, by utilizing blockchain technology, every step in the production and distribution process of halal products can be transparently and irreversibly recorded. This ensures that every product received by consumers truly complies with the applicable halal standards. The use of this technology not only increases consumer confidence but also strengthens internal controls in each company.

e. Education and training

Education and training play a crucial role in deepening the understanding and skills of halal standards for producers, consumers, and inspectors. Organizing a comprehensive education and training program is a strategic step to ensure that every party involved in the halal product ecosystem has sufficient knowledge and can implement the existing standards effectively.

For manufacturers, education and training programs play an important role in helping them understand all aspects of halal standards, from raw material selection to production and distribution processes. This training can include topics such as identification of non-halal ingredients, hygiene procedures to be implemented in production facilities, and management of halal certification and audits. With an in-depth understanding, manufacturers can ensure that their products not only meet halal standards but can also compete in an increasingly quality-conscious global market.

For consumers, education about halal products is crucial to increase their awareness and understanding of what they consume. This

education can be delivered through various methods, such as seminars, workshops, social media campaigns, and mobile applications that offer information on halal products. With more in-depth knowledge, consumers can make more informed and confident purchasing decisions and have a higher level of trust in the halal certification system.

Inspectors also require intensive training to ensure they have the necessary skills to carry out their duties. Training for inspectors can include inspection and audit techniques, the use of tools and technology for surveillance, as well as an understanding of the applicable halal regulations and standards. With adequate skills, inspectors can carry out their duties more effectively, ensuring that all products on the market meet the established halal standards.

In addition, education and training programs need to emphasize the importance of collaboration and communication between all relevant parties. Producers, consumers, and inspectors must understand their roles and responsibilities in ensuring the integrity and quality of halal products. By discussing and sharing experiences, they can overcome the challenges faced and improve the effectiveness of halal standards implementation.

Involving educational and research institutions in this education and training program is also very important. Universities and research institutes can contribute to designing curricula and training modules that suit the needs of the halal industry. In addition, they can conduct research to identify innovations and new technologies that can improve the quality and efficiency of the halal production and certification process. Overall, organizing education and training programs for producers, consumers, and inspectors is a valuable investment for the future of the halal industry. With adequate knowledge and skills, all parties can work together to ensure halal products in the market meet high standards, provide safety and convenience for consumers, and strengthen the position of Indonesian halal products in the global market.

f. Providing incentives for producers

Incentivizing manufacturers who are committed to producing halal products is a strategic step that can support the growth of the

halal industry and ensure the availability of products that meet these standards. These incentives will not only motivate manufacturers to follow the halal certification process but also help them overcome various challenges that may arise during the process. Possible incentives include tax rebates, technical assistance, and easy access to markets. Among the various forms of incentives, tax rebates are one of the most effective to encourage producers to adopt halal standards. By providing tax relief to producers who have obtained halal certification, the government can reduce their financial burden. These tax cuts can be in the form of income tax or value-added tax (VAT) reductions for halal products, which in turn will increase the competitiveness of halal products in the domestic and international markets, as well as motivate producers to comply with halal standards.

4. CONCLUSION

Institutions in the halal industry play a crucial role in the development of this sector in Indonesia. Organizations such as the Indonesian Ulema Council (MUI), the Ministry of Religious Affairs, and the Halal Product Guarantee Agency (BPJPH) have a major role in establishing, regulating, and supervising the halal industry in the country. They are responsible for setting halal standards, certifying products, and ensuring compliance with existing regulations. This task is crucial to maintain integrity and consumer confidence in halal products. Moreover, these institutions also influence consumers' perception of the halalness of products. Certification from trusted institutions such as MUI and BPJPH assures that the product meets strict halal standards, which in turn increases consumer confidence, both Muslim and non-Muslim, in product quality and safety. While there are some challenges to overcome, effective strategies can strengthen the role and influence of these institutions, support the sustainable growth of the halal industry, and enlarge Indonesia's contribution to the global market.

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