Barriers and Drivers for Halal Supply Chain on Small-Medium Enterprises in Indonesia

Fitra Lestari, Tengku Nurainun, Yenni Kurniawati and Mohammad Dzaky Adzkia

Abstract—Halal supply chain in SMEs not only provides a value proposition on consumer health but also on economic value for business actors. Currently, the number of halal certifications for SMEs in Indonesia is still limited. Problems in the halal supply chain need to be studied in order to facilitate and increase SMEs in obtaining halal certification. To overcome the gap of study, it is necessary to identify the barriers and drivers for SMEs in the implementation of the halal supply chain. The SCOR model was adopted in research to describe the activities of the business process and business actors involved in managing halal certificates. Then, there were 7 respondents who were interviewed including experts such as 2 auditors, 2 researchers, 1 policymaker and 2 food and beverage owners in one of the provinces in Indonesia. Thus, the study adopted a qualitative method by combining a case study approach and the literature review. The literature found that there are 11 barriers and 10 drivers in the halal supply chain in SMEs. Short-term validity and issuance of Halal certification are the biggest barriers. Then, the Halal certification program is getting the highest score for the drivers which facilitates efforts to implement the halal supply chain strategy. This study has analyzed the barriers and drivers for making suggestions in improving public policies regarding SMEs and their management in implementing the halal supply chain. Further research is suggested to examine the relationship between all actors in the halal supply chain to deal with existing obstacles.

Index Terms—Halal supply chain, barriers, drivers, small-medium enterprises, Indonesia.

I. INTRODUCTION

Small medium enterprises (SMEs) are important pillars in the economy of the country to increase economic growth and employment. SMEs are also one of the business units that interact with various other business actors and customers for obtaining profit. A study asserts that SMEs must produce products in accordance with consumer needs and meet the standards set by the government [1]. This is intended to the circulating products can ensure the health and safety of consumers. In addition, the government is obliged to supervise SMEs in the production process and product distribution to consumers [2]. In Indonesia, SMEs are monitored by several institutions that are authorized by the government to audit and monitor the products produced and distributed.

The Halal Assurance of a product is a crucial issue in Indonesia. There are many food and beverage products distribute in the market for consumers to consume. Thus, to ensure that this product is proper for consumption, the Indonesian government adds one of the requirements for product quality assurance in the form of halal certification due to the majority of the Indonesian population is Muslim [3]. Muslims are required to consume halal food and drink according to Islamic concepts. Thus, the government as the policyholder must supervise and assist SMEs in the halal certification process. There are several institutions in Indonesia that are involved in the supervision of halal certification including the private and public sectors such as BPOM, LPPOM, and BPJPH. This institution is a forum for fostering, supervising and evaluating halal certification for business units in obtaining halal product guarantees.

Figure 1 is the process of obtaining halal certification in Indonesia [4]. There are several entities involved in the process of obtaining halal certification including applicants (business units), government agencies, halal supervisors and halal auditors. Further, several government agencies that are involved in this halal certification process are the Halal Assurance Agency (LJH) in the form of BPJPH and MUI, Halal Inspection Agency (LPH) in the form of LPPOM and other related institutions in conducting audits to the production floor in a business unit. The procedure for making halal certification starts with the applicant (business unit) who cooperates with the internal halal supervisor in preparing all document requirements. Then, the document is sent to the government agency to select and see the completeness of the document. This result will be determined by the government to issue a halal certificate that is valid for a certain period. Obviously, a series of halal certification application processes involving several entities are expected to have efficiency and effectiveness in this service process. Thus, this can facilitate and increase the number of business units in obtaining halal certification in Indonesia. The description of the business process above points out that the design of halal certification involves several actors in a system. The relationship between actors in a business process can be studied with a supply chain strategy [5]. Thus, it is necessary to implement a halal supply chain for SMEs in Indonesia.
Currently, the total of halal certifications in Indonesia indicates that there are still many products from SME business units that do not yet have halal certification. Thus, Muslim consumers have difficulty distinguishing halal and non-halal products. A study proves that halal certification can provide a value proposition and it is not merely in terms of health but also in economic value [6]. The perspective and trust of the consumer in Halal products can increase the productivity of a business unit [7]. Obviously, problems in the halal supply chain need to be studied in order to facilitate and multiply SMEs in obtaining halal certification. To overcome the gap of study, it is necessary to identify the barriers and drivers for SMEs in the implementation of the halal supply chain.

The formulation of the problem in this research is the existence of barriers and drivers that must be found for SMEs in implementing a halal supply chain in Indonesia. Thus, this study aims to identify the barriers and drivers of SMEs in implementing the halal supply chain. The expected benefit of this research is to be able to identify the barriers and drivers of SMEs in conducting certification. Then, it can be input or consideration for policymakers to overcome problems in SMEs in Indonesia. Then, the object of this research is SMEs in the food and beverage sector is one of the provinces in Indonesia. Thus, this study requires the adoption of a qualitative method by combining a case study approach and literature review.

I. METHODOLOGY

A. Research design: case studies in Indonesia

This case study of this research was undertaken in Indonesia in the implementation of the halal supply chain to identify the barriers and drivers in obtaining halal product certification. Thus, several actors or business units are involved in the halal supply chain strategy. Responding to the issue, this study adopted a case study approach. A study explains that case study research adopts a qualitative approach to produce in-depth studies in revealing variables that affect a system [8]. Information collected in this study was carried out by semi-structured interviews with various parties and open-ended methods in Focus Group Discussions with halal certification auditors [9]. This discussion was carried out to obtain information related to the barriers and obstacles of SMEs in the implementation of the halal supply chain.

B. Data collection

Data collection to find drivers and barriers was undertaken through literature review and interview respondents to actors in the halal supply chain. Interview data were collected between February 2021 and May 2021. Then, the results of the interviews were recorded and a transcript was written to document the data collection.

1) Literature review

Several academic journals were selected and consulted for a literature review. The selection of articles was in accordance with the combination of two criteria; namely, the selected studies must simultaneously discuss SMEs and government policies. Further, the collection of selected studies consisted of a number of literature reviews, especially in the Journal with the issue of Halal Research. Table 1 provides an overview of the literature review.

<table>
<thead>
<tr>
<th>Themes</th>
<th>Barriers</th>
<th>Drivers</th>
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<tbody>
<tr>
<td>Micro Small Enterprises</td>
<td>[10], [11], [12], [13]</td>
<td>[15], [12], [10], [16]</td>
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<tr>
<td>Medium Enterprises</td>
<td>[10], [11], [13], [14]</td>
<td>[14]</td>
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<tr>
<td>Policy</td>
<td>[10], [11], [13], [14], [12]</td>
<td>[14], [17]</td>
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2) Interview

The informants consisted of 5 experts and 2 SME owners to obtain information related to the barriers and constraints as well as the drivers of SMEs in the implementation of the halal supply chain. Validation was carried out by adopting a qualitative approach [18] through synchronizing the list of barriers and drivers identified in the literature review with interview data. In addition, interview data with secondary data to ensure the validity of claims made by respondents. Secondary data sources included company websites, annual reports, newspaper articles, and other data. Then, transcripts and interview reports were validated through re-confirmation to the interviewees to gain feedback in finding a list of barriers and drivers in the halal supply chain. Table 2 shows the respondents in this study.
C. Data processing

Data processing was undertaken by identifying by conducting a literature review on previous research to obtain an overview of the barriers and drivers of SMEs in the implementation of the halal supply chain. Then, it also conducted interviews with experts including auditors, academics, practitioners and the government. Data interpretation was carried out through thematic analysis methods [19] which it would be made an in vivo coding. Then, this was continued by making keywords and their grouping from respondents’ statements to determine the barriers and drivers that have been identified in the literature review. Moreover, the barriers and drivers were analyzed using the SCOR model for each business process. A list of barriers and drivers based on the literature review can be seen in tables 3 and 4.

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>PROFILE RESPONDENT</th>
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<tr>
<td>No.</td>
<td>Respondent</td>
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<tr>
<td>1</td>
<td>Respondent A</td>
</tr>
<tr>
<td>2</td>
<td>Respondent B</td>
</tr>
<tr>
<td>3</td>
<td>Respondent C</td>
</tr>
<tr>
<td>4</td>
<td>Respondent D</td>
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<tr>
<td>5</td>
<td>Respondent E</td>
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<tr>
<td>6</td>
<td>Respondent F</td>
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<tr>
<td>7</td>
<td>Respondent G</td>
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</table>

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<tr>
<th>TABLE 3</th>
<th>BARRIERS COMPARED WITH LITERATURE</th>
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<tbody>
<tr>
<td>No.</td>
<td>Barrier</td>
</tr>
<tr>
<td>1</td>
<td>Difficult licensing bureaucracy</td>
</tr>
<tr>
<td>2</td>
<td>Limited financial resources</td>
</tr>
<tr>
<td>4</td>
<td>Lack of information</td>
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<tr>
<td>5</td>
<td>Overconfident</td>
</tr>
<tr>
<td>6</td>
<td>Short-term validity</td>
</tr>
<tr>
<td>7</td>
<td>Issuance of Halal Certification</td>
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<tr>
<td>8</td>
<td>Bad service</td>
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<tr>
<td>9</td>
<td>Low level of education</td>
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<td>10</td>
<td>Lack of enforcement</td>
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<tr>
<td>11</td>
<td>Consistency</td>
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II. RESULT AND DISCUSSION

The results of this research discovered that there were barriers and drivers of SMEs in implementing the halal supply chain in the management of halal certification. This was obtained from the results of interviews with informants and linked to the results of the interviews with the literature review.

A. Barriers

The results of the literature review obtained 11 items that became the barriers of SMEs in the halal supply chain in the halal certification process. Figure 2 is a list of barriers and their frequency percentages. In more detail, the barriers in the form of “Short-term Validity” and “Issuance of Halal Certification” were obtained with a value of 67%. “Short-term Validity” describes a short certification validity period, which is 2 years, which is one of the reasons why business units do not want to apply for halal certification. Respondent A in his interview, argued that:

“They feel scruple to the validity period for 2 years and are very happy if the validity period for 4 years”.

Respondent E also had the same opinion as to the statement of Respondent A. They asserted that SMEs felt scruple to this regulation for 2 years due to the costs incurred for certificate renewal were quite large. In line with the statement above, the business owners who have been interviewed by researchers pointed out:

“For the future, we still do not know whether it is still through the MUI Institution or enough with a halal guarantee institution. However, if it is still MUI, it should be the same for a duration of 4 years because if 2 years is too short.” (Respondent F)

“In my opinion, as an MSME, it is very short for 2 years due to we will have more costs to come out and MSMEs always think about costs.” (Respondent G)
The Issuance of Halal Certification outlines the barriers to the halal certification issuance process. The barrier is the slow process of issuing Halal certification and logos in Indonesia. Respondent B as a halal supervisor, said:

“For publication, it is not too long, but it will take 3-4 months from initial training to the issuance of certification”.

Respondent D also explained about the issuance of certification that applies in Indonesia.

“So far, we have issued publications every 2 months to the center, because from the center, publications will be created to the website every 2 months through halal journals, whereas, for the issuance (printing) of our certifications, the maximum is 70 days based on the regulation of the Indonesian Minister of Religion”.

The business owner also argued:

“For publishing, it is undertaken after people from Bank Indonesia conduct a survey at the place of business actors, and it is approximately 1 month after conducting the survey for the issuance, I think the time used for publishing is quite long, it would be better if it could be rushed.” (Respondent F)

“We have received the halal certificate after 2 months of carrying out the audit. In my opinion, this can be said to take a long time to publish, but because it is free, we will accept it.” (Respondent G)

B. Drivers

There are 10 item drivers based on a literature review that is driving SMEs in the implementation of the halal supply chain in the halal certification process. Figure 4 shows that the Halal Certification Program is the highest because this program is a free halal certification program for SMEs with the value of this item at 83%. Respondents said they were greatly assisted by the current free halal certification program. Free halal certification programs can be sourced from institutions, communities, associations and government institutions. The free halal certificate program is one of the biggest causes of business actors who have the willingness to do the halal certification. Thus, one of the reasons for SMEs in conducting halal certification is due to the existence of subsidy funds or the existence of a halal certification program from the government or from other organizations. Respondent A argued:

“This year, there are many programs to provide free halal certificates for SMEs throughout Indonesia. Currently, the number of SMEs that meet the requirements is less than the certificate quota. This is because their documents are incomplete and they do not have enough time to handle it.”

Respondent E also shared his opinion about this free halal certification program.

“The government has made every effort by providing socialization, technical guidance, and assistance to SMEs to take care of this halal certification.”

Business actors who have been interviewed feel very helped by the existence of this free halal certificate program. They say:

“I received certification assistance from the government in 2020. This is assistance due to the Covid-19 pandemic. We are assisted by being given coaching funds and paid for making the halal certification.” (Respondent G)

“Our business unit includes SMEs assisted by Bank Indonesia and we do not know anything about the costs. Everything has been completed including the halal guarantee.” (Respondent F)
The SCOR model above consists of five activities in the business process including, plan, source, make, deliver, and return. Plan, being the entity or stakeholder involved in the form of the Halal Assurance Institution (BPJPH, MUI, and the Government). In this plan process, this government agency has full control over supply chain planning and control in creating a halal certification. In practice, if the stakeholders in the make process do not meet the requirements for making a certification, then LJH will return to the MRO (maintenance, repair, and operation) product. The return process carried out is in the form of returning documents. Source, supplier of the procurement of raw materials. In this case, the stakeholders in the source process are slaughterhouses and product distributors. In its application, if there is a defective product, the defective product will be returned to the relevant breeder or farmer and if there is an excess delivery from the breeder or farmer, the source stakeholder will return the excess product. Make represents activities or processes related to the production process. In the food and beverage business unit, if in practice there are product defects and excess products, a return will be made to the previous stakeholder, namely the source. Deliver is a distribution process, both finished goods and services to meet consumer needs. Stakeholders in this deliver process do not produce or produce a product but resell the product (acts as a distributor). If there is a defect or excess product, the deliver stakeholder will return it to the owner, namely the make of stakeholder.

Moreover, there are several recommendations that the government can be undertaken to overcome the issues regarding the halal certification process, including collaboration between government agencies [30] related to halal products in the form of regulations and technical implementation by SMEs. Further, cross-subsidies by the government [31] or other policies are carried out so that the costs incurred for designing certification are lighter and it would be better not to pay. Clear rules as guidelines for implementing guidelines and technical instructions in conducting halal certification need to be socialized. Obviously, the existence of these barriers and drivers is expected to assist policyholders in performing public services in the management of halal product certification for business actors in Indonesia.
I. CONCLUSION

The aim of this study was to identify the inhibiting factors and also facilitate efforts to implement the halal supply chain strategy for SMEs in Indonesia. The literature has been found involving 11 barriers and 10 drivers in the halal supply chain in SMEs. By combining insights from the review with empirical data, this study contributed to the existing literature by providing new insights into the barriers and drivers for halal supply chain implementation. This new insight has been relevant for the choice of SMEs on the business model through the perspective of a halal supply chain strategy by applying the concept of the SCOR model. This model has analyzed the barriers and drivers to make more specific suggestions to improve public policy regarding SMEs and their management in implementing the halal supply chain. The findings of this study implied that the government could support SMEs in various ways in an effort to implement the halal concept in their business processes. Moreover, having the change of regulations, as a result, will encourage greater or lesser opportunities for SMEs to develop their businesses. Other factors must also be taken into account for initiating changes to the set of barriers and drivers in SMEs. Future research is suggested to explore the relationship between all actors in the halal supply chain involved is structured well to deal with existing barriers.

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REFERENCES