Strategy Development of Halal Industry for an Improved Competitiveness of MSMEs: An Analytic Network Process Approach

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ABSTRACT

So far, there have been limited studies examining the strategies to develop the halal industry and improve the competitiveness of MSMEs in East Priangan, a high-potential area in West Java, Indonesia. Thus, this research focuses on the development of the halal industry to enhance the competitiveness of MSMEs in the area. The study utilized the analytic network process (ANP) approach and a structured questionnaire to identify suitable strategies. Seven key respondents, including academics and practitioners, were selected based on their expertise. The analysis yielded three key criteria for strategies: (1) education for MSMEs, (2) integrated financing, and (3) an MSME database. The top priority strategies include strengthening human resource capacity, halal literacy, and financing support. The research provides recommendations for MSMEs and regulatory agencies to improve competitiveness, serving as a reference for future relevant studies.

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Introduction

The important role of Micro, Small, and Medium Enterprises (MSMEs) in the Indonesian economy should not be overlooked. This makes MSMEs one of the important sectors on the Indonesian economic system (Ginting et al., 2019). According to Hafni and Rozali (2017), the role of MSMEs in the national economy includes accelerating the
distribution of economic growth through job and business opportunities, increasing foreign exchange earnings for the country, increasing people’s incomes, and strengthening the national economic structure. This is proven by data from the Ministry of Cooperatives and SMEs, which states that in 2019, Indonesia had the largest economic entity in the MSMEs sector with a percentage of 99.9% of the total businesses in Indonesia, and this number is increasing every year, even during the pandemic. Furthermore, MSMEs also have a significant contribution to the national economic growth, with the largest percentage in the GDP and employing up to 97% of the workforce in Indonesia (Yasin & Fisabilillah, 2020).

However, amidst the rapid development of MSMEs and the significant contribution they provide to the national economy, MSMEs in Indonesia still face various problems, including capital and financial issues, declining sales, difficulties in raw materials, hampered distribution, marketing, human resources, and reduced production (Arianto, 2020; Ningsih, 2020; Suparwo et al., 2018; Hubeis et al., 2015). According to Hartono and Hartomo (2014), other issues faced by Indonesian MSMEs include low access to productive resources, low human resources, low productivity, and competitiveness. In addition, according to Hubeis et al. (2015), MSMEs also face external problems such as increasingly complex national and international competition. MSMEs must align with the process of globalization and the liberalization of global trade, fostering economic connections and trade among nations, to thrive in business competition (Mulyati, 2010). Moreover, the challenges confronted by MSMEs in Indonesia, whether originating internally or externally, indicate that these enterprises currently lack sufficient competitiveness to effectively enhance people’s income and stimulate the overall national economy (Lantu et al., 2016).

Another issue faced by MSME actors related to the halal industry is the low level of public knowledge regarding the importance of halal and halal certification, which has an impact on the difficulty of expanding the market for MSME products. A significant number of business entities remain uninformed about the purpose and significance of the Business Identification Number and halal labelling for MSME products. Additionally, the emphasis placed by MSMEs on developing halal products is relatively limited, as their primary focus lies in exporting agricultural and mining commodities (Anandita et al., 2022; Qoni’ah, 2022). These issues pose a particular challenge to the development of halal UMKM in Indonesia, considering that Indonesia has the potential to become a player in the halal industry through the strengthening of halal UMKM (Febriyani et al., 2022). Febriyani et al. (2022) further suggest that to become a player in the halal industry, MSME needs to strengthen its position by increasing awareness of the importance of halal certification, which is a requirement for products to be marketed and accepted in the global market. This can be done by involving Islamic finance institutions in providing financing to MSMEs, improving the quality of human resources, particularly in managing and marketing products in the digital era, for example, by providing training to UMKM on digitalization to develop their products.

Amidst the increasingly intense global competition, MSMEs have a promising opportunity to tap into the growing halal industry. This is evident from the expanding global Muslim population and the widespread adoption of the halal lifestyle, which is a global trend. As a result, the demand for halal products is expected to increase significantly (Yulia, 2015). It cannot be denied that the increasing global trend of halal
lifestyle results in an increasing demand for halal products, so producers or business actors, especially MSMEs, need to understand the concept of halal (Novitasari, 2019).

Regarding that matter, West Java, a province of Indonesia, has great potential in the creative industry, as indicated by the contribution of the creative industry in fulfilling export needs which reach 33.56% (Purbasari et al., 2018). Furthermore, Purbasari et al. (2018) also explained that East Priangan is one part of West Java that has a high knowledge and culture-based economic potential, which includes the City of Tasikmalaya, Tasikmalaya Regency, Banjar City, Ciamis Regency, Garut Regency, and Sumedang Regency. Those are areas whose economic growth is developing very rapidly.

Given the opportunities and challenges encountered by MSMEs, especially in East Priangan, it is crucial to implement diverse competitive strategies to foster the development of the halal industry within the MSME sector. Some experts have described various strategies that can be implemented to develop MSMEs, including Ginting et al. (2019), who explained strategies for developing MSMEs from the aspects of production, technology, and human resource quality improvement. In detail, the strategies offered by Ginting et al. (2019) are 1) maintaining product quality and preserving brand value to face competition from similar businesses, 2) using technological advancements and raw materials to increase production and expand the market, 3) enhancing human resource capabilities, utilizing associations and government support to expand product markets, 4) seeking producers to achieve raw material supply stability and improving human resource skills to create unique MSME, 5) maximizing raw materials and technological capabilities to produce unique MSME products, and 6) improving the quality and variety of products to attract new customers.

Hubelis et al. (2015) elaborate that to develop competitive MSMEs, strategies that can be implemented include improving cooperation to maintain the availability of raw materials, developing MSME product centers or clusters, and increasing the role of regional governments, private companies or state-owned enterprises, universities, and research and development institutions. Similar suggestions were also proposed by Purbasari et al. (2018), where to develop sustainable and competitive MSMEs, a strategy involving collaboration and cooperation from all parties involved in the entrepreneurship ecosystem in each region is needed.

A study conducted by Ningsih (2020) suggests strategies to improve the competitiveness of MSMEs, including enhancing halal certification, using modern and appropriate technology to meet halal product standards, improving the qualifications of human resources in halal MSMEs, increasing the role of religious and educational institutions to promote halal MSMEs products to the Muslim community, strengthening linkages with downstream industries, diversifying halal SME products, increasing the role of fintech in financing and certifying halal SME products and their marketing, enhancing halal SME product branding through technology and information media, building synergy with relevant institutions for halal MSME product innovation, and strengthening the study of Fiqh (Islamic jurisprudence) to produce halal MSME products.

Purbasari et al. (2018) researched the competitive advantages of the creative industry MSME in East Priangan. The results of their research explained that the sub-sectors of the creative industry based on the concept of competitive advantage with the most potential in each region were the Fragrant Root Crafts Industry in Garut Regency, Mendong Weaving in Tasikmalaya City, and Coconut Leaf Crafts in Ciamis Regency. In addition, these...
regions also have local resources and policy support from the government, as well as domestic and international markets. To have sustainable competitive advantages, collaboration and cooperation are needed from all parties involved in the entrepreneurship ecosystem in each creative industry region.

Lantu et al. (2016) explained the development of a model for increasing the competitiveness of MSMEs in Indonesia. The results of their research concluded that six main variables can form the competitiveness of MSMEs in a province, namely the availability and condition of the business environment, business capability, policy and infrastructure, research and technology, financial support and partnership, and performance variables. Furthermore, Permana (2017) also explained that the strategy for improving SMEs in Indonesia can be done by adopting existing technological advances, government support in accelerating infrastructure related to internet access, support from courier companies in distributing SME products, nurturing an entrepreneurial spirit in the community that has competence and competitiveness.

Other studies include Yulia (2015) explaining strategies for developing the halal industry. The results of the study found that to develop the halal industry, it is necessary to prioritize the domestic halal product industry and create a business network in the global market. Nasution (2020) examined the strengthening of the halal industry for regional competitiveness and Maulana (2022) explains the potential for developing the halal industry in Indonesia amid global halal competition.

Drawing from several previous studies, this study primarily revolves around strategies aimed at bolstering the competitiveness of MSMEs. There has been no specific study that discusses the strategies for developing the halal industry with a focus on enhancing the competitiveness of MSMEs, particularly in East Priangan, which is an area with high economic potential in West Java. This study will further discuss MSME education about the halal industry, integrated financing based on Islamic Sharia such as cooperation with Islamic financial institutions, and the importance of MSME databases. Given the gap in previous research on the topic of the halal industry, particularly to enhance the competitiveness of halal MSMEs, further research on the strategies for developing the halal industry in enhancing the competitiveness of MSMEs in East Priangan is crucial.

Method

Design of the Study

This study employed the Analytic Network Process (ANP) method. ANP is a comprehensive decision-making technique that incorporates all relevant criteria and their interrelationships in decision making (Jharkharia & Shankar, 2007). To obtain the data, a survey was conducted using a model within the framework of the ANP method through a questionnaire given to experts or specialists related to the issue being studied as research respondents. The ANP questionnaire model employed in this study involves assigning weights to criteria and sub-criteria, as well as evaluating alternatives to determine the most suitable strategy (see the appendix). This method was employed to determine the priority of alternative solutions or suitable policy strategies, ensuring that the obtained input can be effectively applied to address the researched problem (Ascarya & Yumanita, 2005).
Sample Selection and Data Sources

The study included seven informants as respondents, representing various backgrounds in academia, regulation, and MSME practitioners from East Priangan. The respondents were selected through purposive sampling. The criteria for informants consisted of professors or doctors specializing in Islamic economics (academics), MSME business owners with a minimum of 10 years of experience (practitioners), and regulators holding relevant positions in the MSME and halal industry sectors. Then, the respondents filled out the ANP questionnaire instrument which consisted of criteria, sub-criteria, and alternative strategies for developing the halal industry for UMKM in East Priangan. The 7 expert respondents in this study are presented in Table 1.

<table>
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<tr>
<th>No</th>
<th>Name (Initials)</th>
<th>Expert Cluster</th>
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<tbody>
<tr>
<td>1</td>
<td>Prof. MA</td>
<td>Academician</td>
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<tr>
<td>2</td>
<td>Dr. SD</td>
<td>Practitioner</td>
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<tr>
<td>3</td>
<td>SH, M.Sc</td>
<td>Practitioner</td>
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<tr>
<td>4</td>
<td>AD,PhD</td>
<td>Academician</td>
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<td>5</td>
<td>Prof. K</td>
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Data Analysis

Once the data results from the respondents were obtained, the ANP model was utilized to establish priority rankings for each criterion and sub-criterion using the matrix-supermatrix framework. As a result, alternative strategies were identified to be implemented within the framework of developing the halal industry for MSMEs in East Priangan.

Results

Strategy Criteria

Figure 1 shows the main indicators in the Strategy Criteria for developing the halal industry to enhance the competitiveness of MSMEs in East Priangan. The results indicate that education for MSMEs can be the main strategy in the development of the halal industry, as shown by the average value based on the analysis results reaching 0.351, followed by the integrated financing indicator with a value of 0.327, and the MSME database indicator with an average value of 0.322.
Strengthening MSME Database

From Figure 2, three main indicators influence the MSME database factor as a Halal Industry Development Strategy to increase the competitiveness of MSME in East Priangan, these are recording business actors, creating a database platform, and establishing collaborations with Islamic Financial Institutions. The findings indicate that the recording of business actors is the primary indicator, with an average value of 0.365. It is followed by the indicator of creating a database platform, which holds a value of 0.360. Lastly, collaborations with Islamic Financial Institutions cooperation have a value of 0.275.
Education and Trainings of MSME Actors

Figure 3 depicts three major variables that influence the education and training component for MSMEs in the context of the growth of the halal industry in East Priangan: research programs, stakeholder synergy, and halal lifestyle education. According to the findings, halal lifestyle education is the most important indicator in delivering education to MSMEs, with an average value of 0.358. The second factor influencing MSMEs' education is stakeholder synergy (0.330), followed by research programs (0.312).

Fostering Integrated Financing

Moving on to the analysis of the Integrated Financing factor, Figure 4 illustrates three main indicators that impact the use of integrated financing as a strategy for developing the halal industry in East Priangan. These indicators are financing subsidies, Islamic Financial Institutions-wakaf synergy, and P2P-based financing. The analysis results reveal that financing subsidies hold the most significant influence on the integrated financing factor, with an average value of 0.353. Following closely is the indicator of Islamic Financial Institutions-wakaf synergy, which carries a value of 0.330. Lastly, P2P-based financing is another influencing indicator with an average value of 0.317.
Alternative Strategy of Halal Industry Development to Improve MSME Competitiveness

Figure 5 illustrates the strategic alternatives for developing the halal industry in East Priangan. To expand the halal business in East Priangan, at least five initiatives can be implemented: building human resource capacity, strengthening regulations, providing financing support, enhancing halal literacy, and provisioning halal certification. The analysis shows that the alternative of strengthening human resource capacity is the main indicator in the strategy for developing the halal industry, with an average value of 0.227, followed by enhancing halal literacy with an average value of 0.225. Then followed by the strategy of providing financing support (0.206), enhancing halal literacy (0.202), and lastly, halal certification (0.141).
Discussion

The objective of this research is to analyze the strategy for developing the halal industry to enhance the competitiveness of MSMEs in East Priangan and to explain the criteria and sub-criteria for the strategy that can be used to improve the competitiveness of MSMEs. Based on the results of the analysis, several findings were obtained regarding the criteria for the priority order of strategies.

The strategy starts with education and training for MSMEs, where the main priority is the indicator of halal lifestyle education, followed by stakeholder synergy, and research program. According to Ningsih (2020), the halal lifestyle has emerged as a global trend, exhibiting consistent growth year after year. This surge in demand for halal products necessitates an increased awareness of halal practices among producers and business actors. This trend will directly impact the increase in demand for halal products, making halal awareness very important for producers or business owners and allowing them to benefit from the increasing demand for halal products. The increasing global trend of the halal lifestyle also directly impacts the increase of halal awareness. This results in an increase in demand for halal products, so producers or business actors, especially MSMEs, need to understand the concept of halal, considering that halal lifestyle has a direct impact on the demand for halal products (Novitasari, 2019; Ningsih, 2020). Furthermore, economic benefits can also be felt by MSME players (Margarena & Setiawan, 2022). Baharuddin et al. (2015) explained that the halal lifestyle education is important for MSMEs because it can help them understand the concept of halal and its implications for their business. Moreover, by increasing halal lifestyle education for MSMEs, it can help them understand the elements of Muslim intention in buying halal products (Wiyono et al., 2022) and enhance the role of MSMEs in driving the halal industry (Puspitaningrum et al., 2021). However, in Anggraeni’s research (2016), it is highlighted that the level of literacy among MSME business actors, particularly in financial literacy, remains relatively low. Thus, education and training for MSMEs should not be underrated. Furthermore, stakeholder synergy is also important for the development of MSMEs because it helps identify and map the conditions of MSMEs in a region (Harini et al., 2019) and recommend policies that can help improve their performance (Yuningsih et al., 2022). In addition, stakeholder synergy can also help identify actions that stakeholders can take to support development (Dolmaci, 2010) and strategies for improving the performance of MSMEs through stakeholder collaboration (Yuningsih et al., 2022). Furthermore, stakeholder synergy can help understand the forms of cooperation between MSMEs so that they can benefit from sustainable economic development (Guimarães et al., 2021).

The next strategic criteria are integrated financing, with financing subsidies, Islamic Financial Institutions-wakaf synergy, and P2P-based financing. Hartono and Hartomo (2014) explained that several factors influencing the development of MSMEs are raw material costs, labor costs, promotion costs, and from the perspective of capital, where these factors are related to financing. Integrated financing and subsidized financing are important for MSME development as they can help bridge the financing gap of MSMEs (Bruhn et al., 2017), increase the financial inclusion of MSMEs (Blancher et al., 2019), and stimulate economic growth and job creation (Lin et al., 2022). Furthermore, Marlina and Rahmat (2018) explain the role of Islamic Financial Institutions, especially in terms of capital, which is crucial for micro-entrepreneurs, where financing from Islamic Financial Institutions can be utilized to expand the market and develop the business, contributing
significantly to the national economy. In addition, Islamic Financial Institutions with Zakat, Infak, Shadaqah, and Waqf (ZISWAF) institutions can fulfill the basic needs of the community and can cover the basic investment needs of MSMEs. Furthermore, to overcome financial and capital problems, MSMEs can utilize microfinance institutions or fintech, considering that one of the main roles of fintech is to provide financial services for small and medium-sized businesses (Hartono & Hartomo, 2014; Ningsih, 2020).

The next criterion is strengthening the MSME database, with its main indicator being recording business actors, followed by creating a database platform and collaborating with Islamic Financial Institutions. Gunawan et al. (2021) explained that collecting MSMEs data or MSME databases is very important, considering the important role of data in the development of MSMEs. Furthermore, it will also make it easier to explore opportunities and challenges for small businesses. In several other studies, it is also mentioned that collecting data on business actors is important, including empowering digital strategies for small and medium enterprises (Soegoto et al., 2022), assessing the readiness of MSMEs in using e-money technology (Gunawan et al., 2019), and enable owners to manage their business through an accounting bookkeeping system (Sulastri et al., 2022).

The next finding is related to alternative strategies with priority indicators being building human resource capacity, strengthening regulations, providing financing support, enhancing halal literacy, and provisioning halal certification. The importance of strengthening human resources in MSME is because it can have an impact on optimizing their performance (Hernita et al., 2021), help MSME enter the global market, positively influence MSME development (Surya et al., 2021), and increase business productivity (Hernita et al., 2021). Furthermore, Rosmadi (2021) states that if the quality of human resources for UMKM is good, then the business initiated will also run well, so that the quality of the products produced will also be competitive and superior. Leiwakabessy and Lahallo (2018) argue that the quality of human resources in MSME is still low, especially in the fields of technology, marketing, and management. Therefore, the quality of human resources needs to be considered in developing the halal industry. This is because human resources are the main strength of a business entity, especially MSME.

This study holds significance as it pertains to the burgeoning halal industry, which is experiencing notable growth alongside the global surge in the adoption of halal lifestyle practices. Additionally, MSMEs play a crucial role in the national economy, underscoring the necessity for their sustenance amidst the ongoing global economic landscape. Furthermore, East Priangan, characterized by its substantial economic potential in West Java, warrants focused empowerment. By strengthening the competitiveness of halal MSMEs, the economy of East Priangan can be enhanced, leveraging the potential of MSMEs and the creative industry.

Conclusion

The research findings elaborate that there are three aspects of halal industry development strategy criteria to improve the competitiveness of MSME in East Priangan, which are education and training for MSME, integrated financing, and MSME database. The first priority is given to Education for MSME, with the main focus on providing halal lifestyle education. This is followed by emphasizing stakeholder synergy and conducting research programs. The second priority is Integrated Financing, where the strategic
indicator is financing subsidies, followed by fostering synergy between Islamic Financial Institutions and wakaf, as well as exploring P2P-based financing options. Lastly, the third priority is establishing an MSME database. The primary indicator is collecting comprehensive data on MSMEs, followed by creating a database platform and fostering collaborations with Islamic Financial Institutions. In addition to the strategy criteria, there are at least five alternative strategies offered and considered to solve the problems in the halal industry to increase the competitiveness of MSMEs in East Priangan. The identified alternative strategies include enhancing human resource capacity, strengthening regulations, providing financial support, improving halal literacy, and obtaining halal certification. The highest priority indicators, in order, are enhancing human resource capacity, followed by strengthening halal literacy, implementing financing support, and finally obtaining halal certification.

This study has limitations, as it only considers three specific aspects: education for MSME, integrated financing, and MSME databases. It has yet to address other crucial aspects such as technology utilization, regulatory considerations, and more. Furthermore, the study solely focuses on East Priangan, neglecting other regions with higher economic potential and their need for halal industry development and MSME competitiveness. Future research should expand on these limitations by incorporating additional strategy criteria and exploring other regions with high economic potential, utilizing relevant approaches.

Authors’ Declaration

The authors made substantial contributions to the conception and design of the study. The authors took responsibility for data analysis, interpretation and discussion of results. The authors read and approved the final manuscript.

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