

## STRATEGIES FOR STRENGTHENING HALAL INDUSTRIES TOWARDS INTEGRATED ISLAMIC ECONOMIC SYSTEM IN INDONESIA: ANALYTICAL NETWORK PROCESS APPROACH

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**Abstract.** *Halal economy has become a crucial issue in the context of the development of the global Sharia economy. The halal economy is a holistic concept and integral to Sharia values. One of the problems facing the halal economy is the absence of an integrated system between the halal industries and Islamic finance in Indonesia. This research aims to investigate the problems contributing to the divergence of the halal industries from Islamic finance in Indonesia and find solutions in the form of strategic priorities. Data obtained through in-depth interviews and focused discussions with ten experts. It reveals that the main problems are regulation, human resources, institutional building, services and information technology (IT), sharia issues and public awareness. By using the analytical network process (ANP) approach, it finds that the rater agreement value of  $W = 0.5514$ , meaning that 55.14% of respondents agree the problems are, based on the order of priority, regulations (17.4%), services and IT (17.0%), institutional building (16.6%), human resources (16.4%), Sharia Issues (16.4%) and public awareness (16.3%). As for alternative priority strategies, the rater agreement shows the value of  $W = 0.5754$ , meaning that 57.54% of respondents agree the three main alternative strategies for building the integrated halal industries in Indonesia, namely, strengthening regulations and policies (13.8%), building halal lifestyle (13.3 %) and strengthening human resource capacity (12.7%). It concludes that the regulatory and policy aspects rank first and foremost priority for the development of an integrated Sharia economic system. All stakeholders need to strengthen regulatory and policy aspects so that they are responsive for the development of the halal industries in Indonesia to be able to compete at the national and global levels.*

**Keywords:** *ANP, Halal Industries, Islamic Finance, Integrated Islamic Economic System, Strategy Alternatives, Indonesia*

**Abstrak.** *Ekonomi halal telah menjadi isu yang sangat krusial dalam konteks perkembangan ekonomi Syariah global. Ekonomi halal merupakan sebuah konsep yang holistik dan integral dengan nilai-nilai Syariah. Problem terbesarnya adalah belum adanya suatu sistem terintegrasi antara industri halal dengan lembaga keuangan Syariah di Indonesia. Penelitian ini bertujuan melakukan investigasi terhadap permasalahan yang menyebabkan munculnya divergensi industri halal dari keuangan syariah di Indonesia, memetakan permasalahan sehingga dapat diurutkan berdasarkan skala prioritas, serta menemukan solusi berupa alternatif strategis prioritas. Data diperoleh melalui wawancara mendalam dan diskusi*

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*terfokus (FGD) dengan sejumlah ahli terdiri dari regulator, ulama, akademisi, dan pelaku bisnis syariah berdasarkan kriteria utama yaitu: regulasi, sumber daya manusia, institutional building, layanan dan teknologi informasi (IT), isu syariah dan public awareness. Dengan menggunakan pendekatan analytical network process (ANP), ditemukan aspek kriteria di atas, hasil rater agreement menunjukkan nilai  $W=0.5514$ , yang berarti 55.14% responden sepakat berdasarkan urutan prioritasnya adalah regulasi (17.4%), layanan dan IT (17.0%), institutional building (16.6%), sumber daya manusia (16.4%) dan Isu syariah (16.4%) serta Public awareness (16.3%). Dari setiap kriteria tersebut selanjutnya dapat diidentifikasi urutan sub kriteria masing-masing. Adapun untuk alternatif strategi prioritas, hasil rater agreement menunjukkan nilai  $W=0.5754$ , yang berarti 57.54% responden sepakat berdasarkan urutan prioritasnya, tiga alternatif strategi utama untuk membangun industri halal di Indonesia adalah penguatan regulasi dan kebijakan (13.8%), buiding halal lifestyle (13.3%) dan penguatan kapasitas sumber daya manusia (12.7%). Kesimpulan akhir penelitian menunjukkan bahwa aspek regulasi dan kebijakan menduduki urutan prioritas pertama dan terpenting untuk membangun sistem ekonomi syariah yang terintegrasi. Implikasi penelitian ini adalah perlunya adanya perhatian yang serius dari para stakeholder untuk penguatan aspek regulasi dan kebijakan agar responsif terhadap kebutuhan pengembangan industri halal di Inonesia agar mampu bersaing di tingkat nasional maupun global.*

**Kata Kunci:** *ANP, Industri Halal, Sistem Ekonomi Syariah Terintegrasi, Alternatif Strategi, Indonesia*

## **Introduction**

Halal economy has now become a world trend, developing not only in Muslim countries but also in non-Muslim countries. Conceptually, halal labeling is not a matter of Islamization but rather a necessity for Muslims as part of their belief and the nature of human needs for a better life. The idea is underpinned by a study of Jamaluddin et al. (2008) entitled *The Emergence of Global Halal Industry Ecosystem*, stating that the development of halal industries was stemmed from a halal holistic concept. It means that all business activities in many sectors must be in line with moral values so that halal industries and services produce better sanitation, comfort, and safety in addition to meeting Sharia requirements. Likewise, research conducted by Bohari and Fuad (2013) entitled, *The competitiveness of halal food industry in Malaysia: A SWOT - ICT analysis* discusses that the halal food industry is very important for Muslims around the world because it gives them a sense of security, that whatever they consume, use and buy is Shariah-compliant.

The halal economy is now a new economic current that has the potential to drive global economic growth. This potential can be seen from, first, the increasing growth of the world's Muslim population, which is expected to reach 27.5% of the total world

population in 2030. Based on data from the Halal Industry Development Corporation (2016), it is estimated that the size of the halal product and service market will reach US \$ 2.3 trillion. Based on data from the Halal Industry Development Corporation (2016), it is estimated that the size of the halal product and service market will reach US \$ 2.3 trillion. Second, increasing economic growth in Muslim countries. Indonesia itself as a country with the largest Muslim population certainly has the potential as well as enormous opportunities to become a major player in the world halal industry. At least it can be seen from two sides, namely: from the Sharia financial sector and the real halal sectors of Sharia business industries.

In terms of Islamic finance, the growth rate continues to rise, as of August 2018, the total sharia financial assets of Indonesia (excluding Sharia Shares) reached Rp 1,265.97 trillion or USD 84.80 billion (OJK, 2018). However, in terms of market share, the overall Sharia Financial institutions in Indonesia until September 30 only stood at 8.58% outside of the Syariah stock market share (OJK, 2018). In addition to the development of Islamic financial institutions, currently, the Islamic Economy has developed in the context of the halal industry, namely food, cosmetics, tourism, fashion and others that have been certified as halal products. According to Comtrade data in 2017, the role of Indonesian halal product exports reached 21% of total exports. Upon looking at data from the 2017 Comtrade, the Indonesian halal product reached 21% of total exports. Although the amount is still relatively small, the development of Indonesian halal product exports has increased by 19% from 2016. At the same time, the number of Indonesian tourists increased and achieved a growth rate of 10.3%. Global Muslim traveller expenditure tends to continue to increase, wherein 2016 has reached US \$ 169 billion, and is expected to reach US \$ 283 billion in 2022.

In this regard, global tourism data shows that Indonesia ranks fourth as the most significant Muslim tourist whose expenditure reaches US \$ 9.7 billion, or equivalent to Rp 141 trillion, with a total domestic tourist of 200 million people. As the largest archipelago country with more than 17 thousand islands, 300 tribes, 746 languages and dialects, as well as more than 800 thousand mosques, Indonesia has great potential to continue to contribute to increasing state income through Muslim friendly tourism. Currently, Indonesia has been included in the Top 5 halal tourism destinations in the world. In 2020, the tourism sector is projected to be the most significant contributor to the country's foreign exchange earnings. This increase is a positive result of halal tourism acceleration in several tourist destinations in Indonesia such as Lombok, Padang, Aceh, Bangka

Belitung, Jakarta and North Maluku. Furthermore, unique attractions and adequate facilities have significantly supported the increase in halal tourism (National Development Planning Agency, 2018).



A number of national halal industries have emerged, and in 2015 Indonesia became the largest country with a Muslim population in the world of 209.1 million according to Pew Research, an international research institute (Pew Research, 2019). As the largest Muslim population in the world, Indonesia is a halal market gold mine with the potential to become not only a major market but also a major producer of halal products. The halal food market is estimated at around USD10 billion per year with annual growth of 7-10%, while annual halal food expenditure is more than USD70 billion (Santoso, 2011). Unfortunately, halal industry business opportunities in Indonesia have not been able to be utilized by Muslims themselves. Global Islamic Economic Report 2018 data shows that no Muslim country is the top 10 exporters of halal products (GIER, 2018). This was confirmed by research written by Wahab and Kamarubahrin (2019) under the title *Halal Industry: Are the Businesses fully Awake?*

This study states that currently, the target market of every company is all countries in the world, including Muslim countries. The countries of Japan and Australia strive to increase investment and excellent service to Muslim consumers to increase the number of Muslim customers for their products. In other words, the majority of Muslims, including Indonesia, are only the target market and consumers of halal products and services from non-Muslim countries rather than being producers. This fact was also reinforced by Noor and Moi (2015). Their article, entitled *Potential of the Halal Industry for the Maghreb Countries*, investigated the potential of the halal industry in the Maghreb countries namely Algeria, Libya, Mauritania, Morocco and Tunisia where the majority of their Muslim population practiced the Maliki school of thought. The Muslim population is almost 100 percent in these countries, which is a good indicator of the halal product market. This study confirms that being a country with a majority Muslim population is a driver for the halal industry. Unfortunately, even though the Muslim population is very large, their contribution to the global halal market is small and insignificant.

This problem is worsened by the halal industry's lack of integration with Islamic finance. Elarag (2016) in a study entitled *Halal Industry: Key Challenges and Opportunities* find a variety of challenges in developing halal business including international Halal standards, especially in terms of approval or authority for Halal certification, and the difficulty of obtaining compliance with Islamic finance. The halal industry is still focused on meeting halal standards from the aspect of business substance but has not touched the halal aspect in terms of financing. Likewise if viewed from a legal perspective through Indonesian Law No. 33 of 2014 concerning Halal Product Guarantee, which focuses on the guarantee of halal products in terms of materials and production processes, it has not yet addressed the importance of aspects of halal financing or Islamic financing for halal products.

Although both Islamic finance and halal products in various other real sectors have similar values, principles and markets, the two sectors are still developing separately. The halal industry only focuses on halal materials and production processes. Still, it uses conventional funds to finance its business. At the same time, Islamic financial institutions have not captured the broad business opportunities of the halal industry with competitive Sharia financing in terms of profit sharing and margins. This separation is indicated by the current low penetration of Islamic financial institutions towards halal industry players. Data shows that many companies do not use Islamic finance even though they produce halal products and services (The Star Online 2011). A study by Thomson Reuters shows that of the 250 companies in the global halal industry with a market capitalization of US \$ 132 billion, only 50% are listed as companies that meet halal standards according to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Thomson Reuters 2015).

Indeed, if these two industries can be connected and converge, they can support each other to seize opportunities and potential benefits. Estimated value is around USD 3.2 trillion in 2012 and doubled around USD 6.4 trillion in 2018. With a growth value of around 20% per year, this industry is worth around USD 560 billion per year. High growth was formed not only by demand factors but also by supply factors which resulted in the expansion of the halal product and service market. The halal economy has become one of the fastest-growing consumer segments in the world with a market of around 1.8 billion Muslims. This raises a question of what factors inhibiting the halal industry in Indonesia to play its main role in the global market. Also, regarding the strategic problems faced, there has been no integrated Sharia economic system, which causes such great potential to be unactualized.

For this reason, this research aims to investigate the problems that cause the divergence between Islamic finance and the halal industry. From the analysis of potentials, opportunities and problems faced by this study, this study aims to find alternative priority strategies and the most crucial strategy from a number of alternatives available to build an integrated Sharia economic system. By using the analytical network process (ANP) approach (Saaty, 2015), this research is based on literature review, in-depth interviews and focused discussion with a number of experts consisting of regulators, scholars, academics, and sharia business practitioners. It identifies 6 (six) main criteria of problems facing Islamic finance and halal industry and their integration: (a) regulatory aspects, (b) human resources, (c) institutional building, (d) information technology and services (IT), (e) sharia issues and (f) public awareness. This research is expected to make a positive contribution to the conceptual development of the halal economy. Besides, this study can be used as a reference by stakeholders in the formulation of national strategic policies that are responsive to the needs of the development of the halal industry and the development of a conducive ecosystem for Indonesian halal products to be able to compete at the national and global

levels. The research has limitations because it does not analyze the halal industry from all aspects but only focuses on a number of criteria considered as problems encountered in the context of the unintegrated Sharia economic system in Indonesia, particularly the synergy between the financial institutions and the halal business industry in various sectors.

## Literature Review

Halal is an Arabic word used in the Qur'an, defined as the thing or action permitted by sharia. Halal is an object or action that is permitted or legitimate to be used or taken, according to Islamic law (Ali et al., 2017). The opposite of halal is haram, which means it is prohibited, illegitimate, or illegal (Ali et al., 2017; Jafari & Scott, 2014). Tieman (2011) states that illicit goods, including pork, blood, carcasses, and liquor that are not suitable for consumption. The designation of halal or sweetener is applied to every object and action. According to Shariah, this appointment "provides guidance for all aspects of life" (Jafari & Scott, 2014). According to the Sunnah, people must consider what is halal and haram to safeguard their religion and honor (Annabi et al., 2017; Tieman, 2011). According to Tieman (2011), individuals consider consumption risks and avoid questionable and dubious products. Halal Industry is an industry and business activities carried out in accordance with Sharia principles. Although the word halal is related to the Islamic religion, the Halal Industry provides benefits for the entire global community. The global halal product and service ecosystem includes various interrelated industries which can be grouped into four major groups, namely: food, traveling, lifestyle, and finance (Bank Negara Malaysia, 2014)

### **Research on the halal industry has been carried out, including:**

Some research on the halal industry have been carried out. An article, entitled "*a Comparison of Halal Inspection Process between Federal and State Halal Certification Body in Malaysia*" written by Sulaiman et al. (2019), was carried out to investigate the differences in the practice of halal certification processes in Malaysia; problems that can affect the efficiency of halal certification; the best solution through utilization technology and information. Another study conducted by Bilgin and Nakata (2016), entitled "*A New Look at Faith-Based Marketing: The Global Halal Market*" discusses that halal marketing is faith-based marketing or placing consumer-friendly religiosity. A number of companies that have implemented a halal marketing strategy include Nestle, Walmart, and McD. These companies are very concerned about the needs of Muslim consumers such as in India and China. Another Research entitled, *Adoption Factors of Halal Standards: The Malaysian Perspectives* written by Azmi et al. (2016) with a recent literature review approach on the issue of halal, found that the adoption of halal standards for halal business consisted of three fields; technology, organization and environment. Another research entitled *Antecedent of halal brand personality* written by Ahmad (2015), aims to create and manage halal brands as valuable business assets based on the dimensions of the halal brand personality proposed in the micro



spectrum of halal and Tayyiba concepts in Malaysia.

Opportunity to use brand personality attributes is a mechanism to get the main dimensions of high halal brand attributes. The study uses five dimensions, namely, Purity, Joy, Safety, Sophistication and Truth. These factors have contributed to the halal Brand Personality which has been considered as a guarantee and screening process for halal products and services. Another research entitled *Halal Clusters* written by Tieman (2015). It proposes the concept of halal cluster to manage halal food production and commerce in better manner. Food production and trade has been described as a weak link in the halal value chain. To ensure availability and access to halal food, a new paradigm is needed to better regulate the production and trade of halal food through halal groups. The halal cluster model is proposed based on five pillars, namely, Muslim consumers, education and research, halal integrity network, halal supply chain and enabling. Another research entitled *Halal Governance in Indonesia: Theory, Current Practices, and Related Issues* written by Hudaefi and Jaswir (2019). The focus of this research is a review of halal governance practices in Indonesia using qualitative documentary methods. This study examines substantive material related to restrictions in the practice of halal governance which includes four themes, namely: legislation and regulation, management control, supervision and implementation, information, education and communication. Research shows that halal governance has been implemented well in Indonesia;

Another research entitled *Sustainability and Future Challenges of Halal Products* conducted by Nizam et al. (2019), aims to analyze the challenges faced by consumers and consumer awareness to consume halal products. The study uses four variables, namely awareness of halal labels, halal literacy, and acceptance of Islamic image, safety and product quality. This research contributes to the understanding of how consumers perceive the sustainability of consumption of halal products. A research, entitled *The Emergence of Global Halal Industry Ecosystem* written by (Jamaludin et al., 2018), concluded that the progress of the halal industry consisting of holistic halal concepts that combine all sectors and values are expected to go beyond food into the scope of business and trade and non-product food and other tourism. The Halal industry and services produce better sanitation and safety, besides meeting Sharia requirements to create more opportunities for halal products and increase trust among consumers and business organizations. A research, entitled *The influence of halal orientation strategy on the financial performance of halal food items* written by Zailani et al. (2019), discusses the influence of halal orientation strategies on the financial performance of halal food companies. Data were obtained from a survey of 154 halal food companies in Malaysia and analyzed using the partial least square technique. The results show that halal materials, halal storage and transportation positively affect financial performance, while the halal production process negatively affects financial performance. Another research, entitled *The competitiveness of halal food industry in Malaysia: A SWOT - ICT analysis* was written by Bohari et al. (2013), analyzes the competitiveness of halal food

businesses in Malaysia using ICT-assisted SWOT analysis techniques. It was found that the industry was characterized by 16 strength factors, 18 weaknesses, nine opportunities, and nine threat factors. To improve competitiveness and current readiness for future challenges is a comprehensive ICT-based strategy recommended;

Another research, entitled Halal logistics in Malaysia: a SWOT analysis written by Hamid (2014), discusses strengths or weaknesses and external opportunities or threats (SWOT). An analytical study of the halal logistics industry in Malaysia is to identify SWOT in the halal logistics environment and to uncover strategies to utilize strengths and opportunities and correct weaknesses and overcome threats. Another research, entitled Drivers of consumers' willingness to pay for halal logistics written by Kanapathy (2016), aims to investigate the factors that motivate consumers in Malaysia to pay for halal logistics and their consequences on their demand for halal logistics certification. Data was collected through a survey which responded 313 randomly to selected consumers. The smallest partial square technique is used in the analysis. The results show that consumers' perceptions about halal logistics, their concerns about halal, and media coverage have a positive and significant effect on consumers' willingness to pay for halal logistics. Another research, entitled Halal certification, the inadequacy of its adoption, modeling and strategizing the efforts written by Haleem et al. (2019), argues that the purpose of adopting effective halal certification through assessment and accreditation (HCAA) is very important for higher levels of customer satisfaction. This study aims to identify barriers to adoption of HCAA and analyze using structural models of interrelated barriers. Another research, entitled Country-of-Origin Effect on Consumer Purchase Intention of Halal Brands written by Borzooei and Asgari (2015), discusses that the purpose of this study is to explore whether the country of origin influences purchase intentions in choosing halal brands from Muslim and non-Muslim countries. The findings indicate that the country of origin does not affect consumers when choosing a halal brand. The model is obtained by expressing the factors that influence consumer purchase intentions in the market, namely: halal requirements, halal industry procedures, business environment, halal interpretation and labor resources. The findings also show that Britain is the most reliable non-Muslim country, while Saudi Arabia has been found to have strict regulations on halal compliance among Muslim countries.

Unlike the research conducted above, this study was conducted to analyze the problems faced in the development of an integrated Sharia economic system through a strategic partnership between Islamic finance and the halal business industry in Indonesia.

The approach is carried out using an analytical network process (ANP) where several criteria and sub-criteria are developed from the cluster to analyze further priority criteria and sub-criteria, as well as the selection of strategic alternatives to determine the most important strategies and priorities to be completed so that halal economic integration can be realized.



## **Relevant Theory**

### **Halal Value Chain**

Halal Value Chain is a series of connected organizations, resources and knowledge flows involved in the creation and delivery of value to end customers in the halal industry chain (Kaiser EDP, Imarat Consultants & NYZ Afripeak, 2016). In Indonesia, Islamic economic scholars-activists seek to strengthen the entire halal industry value chain, from upstream to downstream. This is done for all the priority clusters and measured in the Global Islamic Economy Report ranking. Besides that, they also augment theses with clusters/aspects needed by the national economy, such as renewable energy or social security. The primary strategy to strengthen the halal value chain in Indonesia is carried out through five primary programs: 1.) Building a halal hub in various regions in accordance with the comparative advantages of each superior region. 2.) Develop halal standards that are effective and accepted throughout the world. 3.) Halal lifestyle campaign. 4.) An incentive program for local and global players to invest in supporting the development of the halal value chain industry (starting from raw materials, production, distribution and promotion). 5.) Establish an international halal center to strengthen cooperation with other countries (BAPPENAS, 2019).

### **Regulation**

The first Islamic economic institution in Indonesia is represented by Islamic banking as a pioneer in implementing the real and legal Islamic economic system. To meet the needs of the public for the realization of a sharia-compliant banking system, the government has included the possibility of the implementation of the Islamic banking system in Indonesia. Law No. 21 of 2008 concerning Islamic Banking has become a solid foundation for the existence of Islamic banking in Indonesia. In Indonesia, government regulations on food labeling and advertising require each producer or importer of products to have a halal certificate for their products.

There is excellent potential for Indonesia to become a global halal center if it can overcome several challenges. First, the state has not yet had comprehensive halal regulations. The issuance of this comprehensive regulation will encourage the growth of the halal business and halal food. Second, the lack of monitoring of halal practices in Indonesia has long been a concern of Indonesian Muslims (Permani, 2011). Therefore, more regular and rigorous monitoring and inspection practices are recommended. The third is that most halal products in the country lack the authorities' approval. According to the Food and Drug Monitoring Agency, only 37% of all halal products sold in Indonesia have official halal certificates, due to the lack of awareness among producers about the need for halal certification (Nasdaq Omx, 2012).

Indonesia also regulates the halal nature of products consumed by the public. Law number 8 of 1999 concerning Consumer Protection (UUPK) is the legal umbrella for the implementation of consumer protection in Indonesia. In its development, the regulation of halal certification has so far been sectoral, partial, inconsistent and not systemic and voluntary, which has resulted in the lack of strong legal legitimacy (S. Hasan, 2014). Besides, there are still many products circulating in the community that are not all guaranteed halal, so it requires a comprehensive arrangement that includes products and services. Based on these reasons, the implementation of halal certification is then specifically regulated in Law number 33 of 2014 concerning Halal Product Guarantee (UUPJH). The authority responsible for issuing halal certificates is the Halal Product Guarantee Agency (BPJPH) in accordance with Government Regulation Number 31 of 2019 Article 1 Paragraph (9), under the supervision of the Ministry of Religion.

The object of halal certification regulated in UUJPH is not only broadly related to food products. This can be seen from the provisions of Article 1 number 1 of the UUPJH which states that certified products include goods and/ or services related to food, beverages, medicines, cosmetics, chemical products, biological products, genetic engineering products, and goods used, consumed or utilized by the community.

### **Human Resource**

Under Article 5 of the UUJPH, the government is responsible for the administration of halal product guarantees, which in this case, the Ministry of Religion. To hold the halal product guarantee, the government will establish a Halal Product Guarantee Agency (BPJPH) which is supervised by and responsible to the Minister of Religion. The establishment of BPJPH as an effort to protect consumers must also be seen as a system. Law as a system is an order or unit consisting of interrelated parts or elements, interacting with one another, organized and cooperating to achieve the goal of that unity (Mertokusumo, 2006).

The implementation of halal certification by LPPOM-MUI has been carried out in collaboration with relevant ministries and institutions (MUI, 2015). So in the context of the establishment of BPJPH, the duties, functions and authorities of ministries and institutions related to the implementation of halal product guarantees need also to be reviewed. This is necessary so that synergy occurs and no overlapping of authority between ministries and institutions related to BPJPH relating to the delivery of halal product guarantees. Based on the description above, the problem is how the implementation of halal certification in Indonesia related to Law No. 33 of 2014 concerning Halal Product Guarantee (UUJPH) and how is the Halal Product Guarantee Agency (BPJH) in implementing halal certification in Indonesia (Suparto; Djanurdi; Yuanitasari; Sarwando, 2016).

In the development of the Halal Industry in Indonesia, the government also launched the National Sharia Finance Committee (KNKS) in 2017. The National Sharia Finance Committee (KNKS) is an institution that functions as a catalyst for the development of Islamic finance on a national and international scale. KNKS launched the Master Plan of Sharia Economy of Indonesia (MEKSI) 2019-2024 which recommended four main steps and strategies, namely: (1) strengthening the halal value chain with a focus on sectors that are considered potential and highly competitive, (2) strengthening the Islamic financial sector with a master plan that has been outlined in the Master Plan of Sharia Financial Architecture of Indonesia (MAKSI) previously and refined into this master plan, (3) strengthening the Micro, Small and Medium Enterprises (MSME) sector as the main driver of the halal value chain, and (4) strengthening in the digital economy, especially trade (e-commerce, market place) and finance (financial technology) to encourage and accelerate the achievement of other strategies. To carry out these four strategies, MEKSI 2019-2024 outlines some basic strategies that must be carried out, namely increasing public awareness, increasing the quantity and quality of human resources, strengthening research and development (R&D) capacity, and strengthening fatwas, regulations and governance (KNKS, 2019).

### **Institutional Building**

Government agencies can be called an organization. Judging from its role and function as an institution that serves the community, government institutions have programs to support welfare and facilitate the community. The program will form a policy program. (Soekanto in Harun dan Ardianto, 2011). According to Kasali (2005), the participating parties determine the success of an organization called stakeholders. Stakeholders themselves consist of two elements, namely internal and external stakeholders. Government institutions have a very crucial role in the development of sharia economy in Indonesia, where how government institutions in Indonesia can support the synergy between aspects listed in sharia economics. According to the Indonesian Sharia Economic Master Plan (MEKSI) 2019-2024, the identification of Indonesia's sharia economic policy stakeholders is based on the categories of ministries and institutions, namely KNKS stakeholders, ministries, and other institutions, as well as community associations/organizations. Various existing agencies will have roles that specifically contribute to the development of the halal industry.

### **Service & IT**

Adapted from the report of the Committee for the Acceleration of Priority Infrastructure Provision or KPPIP (2018), the digital economy includes economic activities that use networks and internet platforms as infrastructure that cannot be released from the community. The ASEAN Investment Report 2018 defines the digital economy as the application of technology using the Internet for the production and trade of goods and services. Meanwhile, IMF in its publication entitled "Measuring Digital Economy"



concluded that the term digital economy is often used to show that digitalization has spread to all sectors of the economy, from agriculture to warehousing.

In relation to the digital Islamic economy (Islamic digital economy), there is currently no international convention on its definition. Thomson Reuters and Dinar Standard (2015) calculate the digital Islamic economy based on e-commerce transactions and digital advertising spending by Muslims. The scope is narrowed down to e-commerce and fintech businesses. According to a Thomson Reuters report (2015), the digital Islamic economy has a potential market in several industrial sectors, ranging from education, halal food, halal tourism, Muslim fashion, halal pharmacy and cosmetics, and Islamic finance.

In realizing the vision of making Indonesia the center of Islamic economics in the world, the digital Islamic economy consists of the digital economy and industry development 4.0 acts as an enabler in the halal industry. Adoption and implementation of digital technology and industry 4.0 in halal industries cover sectors of the halal food and agriculture, media and recreation, pharmacy and cosmetics, Muslim fashion, halal tourism, and Islamic finance. The contribution of the digital Islamic economy to the Islamic economy is expected to drive the growth rate of the digital Islamic economy, which ultimately contributes to GDP (BAPPENAS, 2018).

### **Sharia Issues**

Direct contact between halal goods and haram/illicit products has the potential risk of contamination, which is a critical problem and must be avoided by consumers (Tieman, Ghazali, & Van Der Vorst, 2013; Yaacob, Jaafar, & Rahman, 2016). Consumers also feel the risk of illicit purchases and consumption (Tieman, 2011). According to Lu et al. (2005, p. 109), “The researcher concludes defining perceived risk as consumers’ perceptions about the uncertainty and bad consequences associated with purchasing a product (or service).” Mai (2001, p. 36) states that “poor purchasing decisions can produce risks such as (a) financial risks, (b) performance risks, (c) social risks, (d) physical risks, (e) psychological risks, (f) risks of lost time, and (g) risk opportunities. “Radzi, Saidon, and Ghani (2016) identified the main risks in halal food supply management: production risk, purchase price risk, halal compliance risk, demand risk, and procurement risk.

Japanese companies in Malaysia have felt these risks. Fuseini, Wotton, Knowles, and Hadley (2017) highlighted the importance of the safety and health of halal food in response to the discovery of illicit goods in the UK, which caused Muslim consumers to experience panic and great difficulties. Halal consumers can feel environmental risks, quality risks, and health risks due to the possibility of contamination of halal products and direct contact with illicit products. Consumers may also feel psychological and social risks because they doubt the contents of halal goods because they have been advised to avoid the

consumption of sacred objects to protect their religion and honor. In addition, Bonne and Verbeke (2006) and Bonne, Vermeir, Bergeaud-Blackler, and Verbeke (2007) report that because consumers may need to spend time and effort increasing, buying, and consuming halal goods, they will feel a loss of time and financial risk.

Risk is recognized as a multi-dimensional construction that critically influences consumer decision making (DeFranco & Morosan, 2017; Lu et al., 2005). Bauer (1960) defines risk in terms of uncertainty and the consequences associated with consumer responses. For example, social risks increase the intention of second homeowners to buy products based on nature tourism activities (Tangeland et al., 2013), and perceived risks negatively affect satisfaction and behavioral intentions of tourists to Thailand (Tavitiyaman & Qu, 2013). Reisinger and Mavondo (2005) revealed that social and cultural risks increase the level of travel anxiety, which negatively influences tourists' intentions to travel. Likewise, Nugraha (2014) found that the decision to visit destination countries that were at risk was negatively affected by perceived risk. Park et al. (2005) report the negative impact of perceived risk on customer intentions for clothing purchases. Lu et al. (2005) found that perceived risks negatively affect intention to use online applications. Their findings indicate that the negative effect of risk is more substantial among the sustainable use group compared with the trial and leave groups.

### **Public Awareness**

The development of Islamic economics in Indonesia affects the demand for various Islamic financial products. The global market in the halal industry is very high. Opportunities for the development of the halal industry in Indonesia are enormous. For example, West Sumatra, the majority of the population, is Muslim (98 percent based on BPS West Sumatra data). Public awareness to use halal products is also high. Recently, the province won an award as the best halal culinary destination at the 2016 World Halal Tourism Award (WHTA) competition event in Abu Dhabi, United Arab Emirates (UAE). According to the Global Islamic Economy Report (GIEI, 2018/19), with 215 million Muslim residents, in aggregate Indonesia spent USD 218.8 billion on all sharia economic sectors in 2017. Indonesia is a country with the highest level of halal food consumption which is USD 17 trillion of total global halal food and beverage expenditure of USD 1,303 trillion in 2017. Indonesia's ranking for the global Islamic economy increased from 11th to 10th. This was driven mainly by improvements in the ranking of halal food. A large number of Muslim population with the most significant value of halal food consumption in the world has not yet become a driving force for Indonesia to increase the production of certified halal food. Despite increasing scores in the GIEI index, Indonesia in the halal food sector remains in 11th rank as last year (BAPPENAS, 2018).

From the various reports, one of the most significant contributions is public awareness. Consciousness is having or showing realization, perception or knowledge of a situation or fact. Meanwhile, knowledge is defined as the fact or condition of knowing something with familiarity obtained through experience or education (Writz and Matilla, 2003). This awareness is closely related to someone's literacy in understanding a thing. Literacy has two components, Potential and Enforcement. Potential literacy consists of knowledge of a particular situation, personal involvement with the situation, and social involvement in the world. While Enforcement requires a specific set of competencies in action, which together help shape the situation: recognize needs; articulate the problem; contribute to the process and analyze the consequences. These definitions, although used initially in other literacy contexts, might also be appropriate to be used to describe literacy in the context of halal consumption (Ingerman and Collier-Reed, 2010).

## **Method**

This study is qualitative in nature with the ANP method (Saaty, 2005), based on a selection of priority strategies from a number of strategies found based on the Strengths, Weaknesses, Opportunities and Challenges clusters. Each cluster consists of sub-clusters that consistently highlight five aspects as determinants, namely: Regulatory aspects, human resources, institutional building, services and information technology (IT), sharia issues and public awareness. The Analytical Network Process (ANP) approach is carried out to find a formula of a strategic partnership between the halal industry and Islamic financial institutions, the community, supporting associations and the government as the regulator. Analytic Network Process (ANP) is a mathematical theory that is able to analyze the influence of the assumptions approach to solving the shape of the problem. This method is used in the form of resolution with consideration of adjusting the complexity of the problem by decomposing the synthesis accompanied by a scale of priorities that produces the most significant priority effect. ANP is also able to explain the model of dependent factors and feedback systematically. Decision making in ANP application is by conducting consideration and validation of empirical experience. The use of the ANP-AHP method in research has been widely used in various research areas, as has been done by Sipahi & Timor (2010), Lee (2010) and Ho (2008). In Islamic economic and financial research, some applications of the ANP method can be seen in the studies of Rusydiana and Nugraha (2018), Ascarya (2015),

Amalia and Atiqah (2015), Nugroho and Rusydiana (2019), Haura et al. (2016) and Rusydiana (2016) and Devi (2017). Likewise, research by Rusydiana (2018a, 2018b) and Nugroho et al. (2018). The ANP data processing will be carried out using the super decision software version 2.1.



## Analysis and Discussion

This section is divided into three parts. The first part will explain the research process carried out, namely the construction phase of the model, the quantification phase of the model, the analysis phase and the results. The second and third parts will address the research questions of this paper. Based on a literature review and in-depth interviews with the experts, a research model was formed. The model formed is depicted in Figure 4.1. The model was formed using Super Decision 2.10 software. This software has been popular enough to be used in ANP (Analytic Network Process) research.



Figure 1 ANP Model for Integrated Halal Economy

Figure 1: is the ANP model, having feedback nature, i.e. every arrow goes up and down (back and forth). The feedback network can depend on the criteria but can also depend on the alternatives. In fact, these criteria can depend on the alternatives and fellow criteria. Meanwhile, feedback increases the priorities derived from the judgments and makes the predictions more accurate. The model depicted in Figure 1. Explains that the purpose of developing the model is to find out an effective partnership strategy between the Islamic finance industry and the halal industries for the integrated system. The model divides criteria into six aspects, namely: Regulatory aspects, human resources, institutional building, services and information technology (IT), sharia issues and public awareness. Each of these criteria consists of 3 specific sub-criteria. In this study, there are as many as eight (8) alternative strategies related to strategic partnerships between the Islamic financial industry and the halal industries in Indonesia.

After the ANP model is formed, the next step is to make the ANP model in the super decision software to obtain a pairwise comparison questionnaire to determine priorities. The step taken after the model was formed was to conduct further interviews with ten experts.

Experts came from regulators such as Bank Indonesia, practitioners of Islamic finance and the halal industries, as well as academics from several universities. In the interview, a paired comparison was conducted to find out the priority criteria, sub-criteria and alternative strategies from each expert. In order to be easier for the authors to obtain the results of the questionnaire with a large number of questions and to maintain the level of consistency, the authors use a comparative questionnaire model in accordance with the model that has been modified by Ascarya (2015) in tabular form. To answer the question, the questionnaire is equipped with a table with a description of the scale/rating of scoring and the respondent is given an ANP network model as an attachment.

In this study, the objectives set are in accordance with the research objectives, namely setting strategic priorities related to the strategic partnership between the Islamic financial industry and the halal industry in Indonesia. In conducting the synthesis and analysis, two instruments are used, namely; geometric mean and Eigenvalue. To find out the results of individual assessments of the respondents and determine the results of opinions in one group, an assessment is done by calculating the geometric mean (Saaty, 2006). Pairwise comparison questions from respondents will be combined to form a consensus. The geometric mean is a type of average calculation that shows a particular tendency or value which has the following formula:

$$(\prod_{i=1}^n a_i)^{1/n} = \sqrt[n]{a_1 a_2 \dots a_n}$$

(4.1)

 $n =$  Respondent 1...  $n$  $i =$  Pairwise 1..... $I$ 

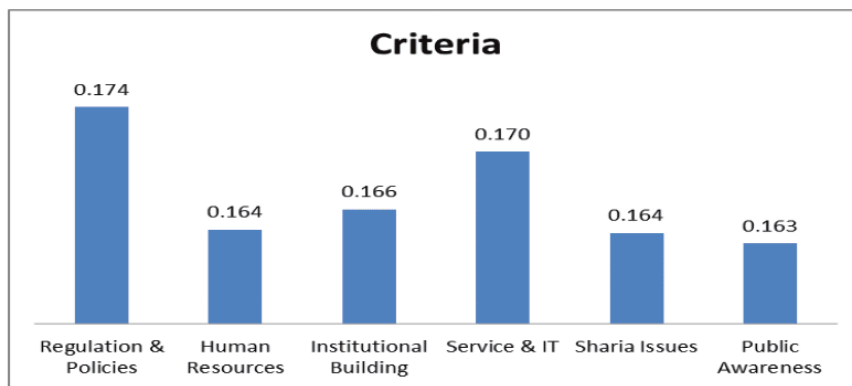
## Discussion

This section will describe the strategic partnership between the Islamic financial industry and the halal industry in Indonesia in terms of criteria, sub-criteria and alternative strategies. The discussion will be based on the opinion of each expert (expert) while also seeing the combined opinion of all existing experts. In addition, a comparison will be made between the opinions of the experts as a whole by presenting the results of the full weighting.

### Integrated Halal Economy Criteria Aspect Priority

As in general the ANP method that always uses the criterion aspect in each of its decision makings, so in this study, as also has been explained in the literature review chapter, the criteria used for strategy selection along with the criterion aspects are derived from interviews and other previous research literature. In general, there are six main criteria related

to strategic partnerships between the Islamic finance industry and the halal industries in Indonesia, namely: (a) regulatory aspects, (b) human resources, (c) institutional building, (d) information technology and services (IT), (e) sharia issues and (f) public awareness. As is the case with the ANP method, which also compares aspects of criteria to get priority, a ranking is also carried out among these six criteria. It aims to get which of these aspects is the most priority. Based on the results of interviews with experts, the priority of each aspect is obtained, as shown in Figure 4.2.



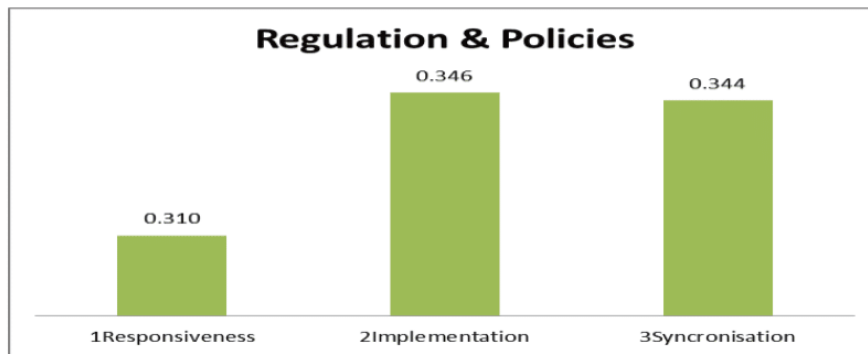
**Figure 4.2 Synthesis of Criteria Aspect Results**

The result statistically indicates the consensus of the experts regarding the criteria of integrated halal economy criteria. Figure 4.2 shows that the priority aspects in this study are Regulation and policy criteria of 17.4%, Service and IT criteria of 17.0%, institutional building criteria of 16.6%, human resources (16.4%) and sharia issues (16.4%) and public awareness criterion of 16.3%. The result of the rater agreement for the aspect cluster shows the value of  $W = 0.5514$ , which means that 55.14% of respondents agreed that, based on their priority order, the criteria for the strategic partnership of Islamic finance and the halal industry are related to regulations, services and IT, strengthening institutional relations, HR, sharia issues and public awareness. The result of the rater agreement of 55.14% above reflects similar result with the answers from the respondents where 7 out of 10 people or the majority of respondents answered the most priority aspects are related to government regulations and policies, while the rest answer other criteria. Determination of the priority order of other aspects has a relatively varied level of answers among respondents. Therefore the rater agreement (level of conformity) was at 55.14%. It can be concluded that the priority aspect of strategic partnership of Islamic finance and the halal industries is regulatory and policy criteria, ranking the first and foremost priority.



### Integrated Halal Economy Sub-Criteria Aspect Priority

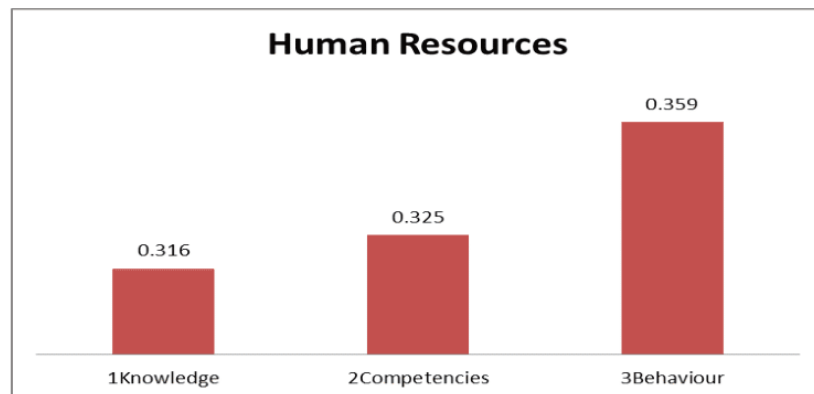
Based on the results of interviews with experts, the priority of sub-criteria from the aspects of regulation and policy is shown in Figure 4.3 below.



**Figure 4.3 Synthesis Results of Regulations and Policy Sub Criteria.**

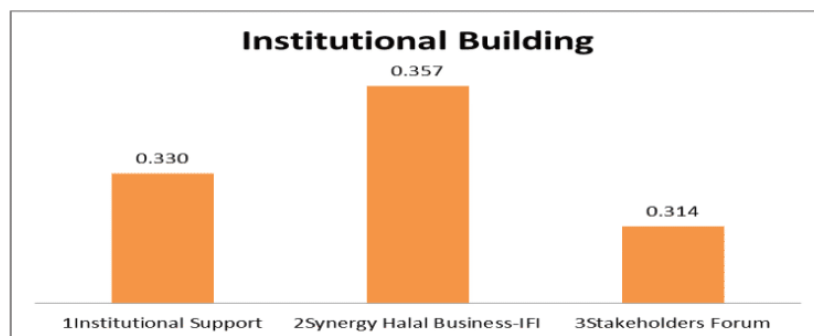
The result statistically shows a consensus from experts related to the regulatory and policy sub-criteria in establishing a strategic partnership of Islamic finance and the halal industries. In Figure 4.3, it is explained that the priority results for the regulatory and policy sub-criteria show that the priority aspects in this study are related to the implementation of policies by 34.6%, followed by synchronization of policies by 34.4%, and finally the responsiveness of 31.0%. The results of the rater agreement for the regulation and policy sub-criteria cluster showed a value of  $W = 0.4183$ . It indicates that 41.83% of respondents agreed that in terms of the order of priority, the regulatory and policy sub-criteria in establishing a strategic partnership of Islamic finance and the halal industry is the issue of implementation as the first priority.

The result of the rater agreement of 41.83% shows similar findings with the manual answers from the respondents. 6 (six) out of 10 (ten) respondents answered that the most priority regulatory sub-criteria is implementation, while the other respondents have different answers. Likewise, the determination of the priority orders of the second and third aspects which have quite varied levels of answers among respondents. Therefore the rater agreement (level of conformity) was at 41.83%. In line with the problem of human resources, based on the results of interviews with experts, the priority sub-criteria on aspects of human resources is shown in Figure 4.4.



**Figure 4.4 Results of Human Resources Sub Criteria Synthesis**

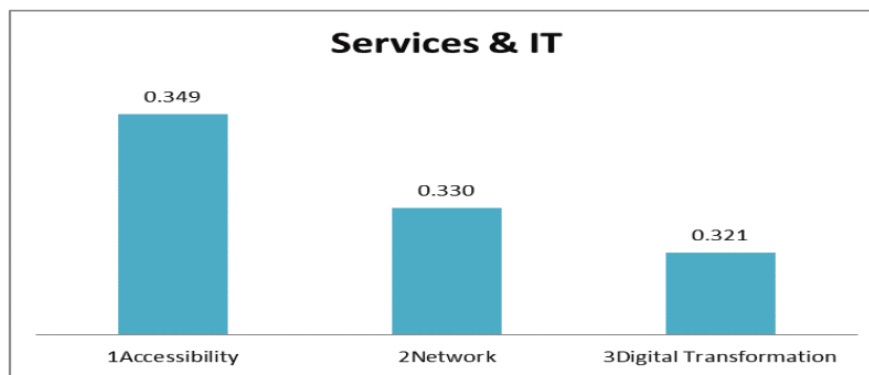
The results show statistically the consensus of experts related to sub-criteria of Human Resources in the framework of building a strategic partnership of Islamic finance and the halal industries. In figure 4.4 it is explained that the priority result for the aspects of human resources show that the priority in this cluster is behavior sub-criteria (35.9%), followed by the HR competency sub-criteria (32.5%) and finally is the understanding (knowledge) (31.6%). The result of the rater agreement for this cluster shows the value of  $W = 0.4387$ . It means that 43.87% of respondents agree that based on their priority order, the sub-criteria of Human Resources in the framework of building a strategic partnership of Islamic finance and the halal industries are behavior, competence and knowledge of human resources, respectively. Furthermore, based on the results of interviews with experts, it is also obtained priority sub-criteria on aspects of institutional building, as shown in Figure 4.5.



**Figure 4.5 Institutional Building Sub Criteria Synthesis Results**

The results obtained statistically show the consensus among experts related to institutional building sub-criteria within the framework of building a strategic partnership of Islamic finance and the halal industry. In Figure 4.5 it is explained that for the results of the priority aspects of the institutional building shows that the priority in this cluster is the synergy between the Islamic financial industry and halal industry and business by 35.7%,

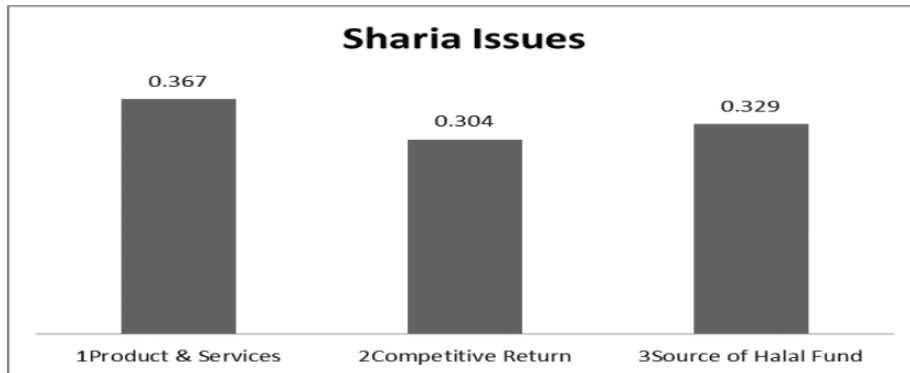
followed by Institutional support by 33% and finally related to the initiation of stakeholders forums amounting to 31.4 %. The result of the rater agreement for this cluster shows the value of  $W = 0.3385$ . It means that 33.85% of respondents agree that based on the priority order, the sub-criteria for institutional building in the framework of building a strategic partnership of Islamic finance and the halal industry are the synergy between the Islamic financial industry and the halal industry and business, institutional support, and stakeholder forum initiation, respectively. Regarding service and information technology aspects, based on interviews with experts, priority sub-criteria on service and IT aspects are obtained, as shown in Figure 4.6.



**Figure 4.6 Synthesis Results of Services & IT Sub Criteria**

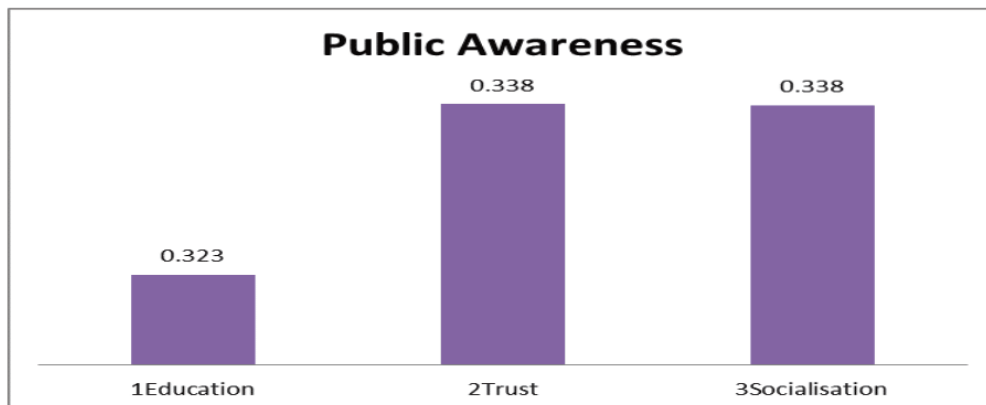
The results show statistically consensus from experts related to the services and IT sub-criteria in the framework of building a strategic partnership of Islamic finance and the halal industry. In figure 4.6 it is explained that the priority results for the service and IT aspects show that the priority in this cluster is related to accessibility by 34.9%, followed by networking by 33% and finally is related to digital transformation by 32.1%. The results of the rater agreement for this cluster show the value of  $W = 0.2385$ . It means that 23.85% of respondents agreed that based on their priority order, the service and IT sub-criteria within the framework of building a strategic partnership of Islamic finance and the halal industries are accessibility, networking and digital transformation, respectively. As for aspects of the issue of shari'ah, based on the results of interviews with experts, priority sub-criteria in this aspect are obtained, as shown in Figure 4.7.





**Figure 4.7 Results of Sharia Issues Sub Criteria Synthesis**

The results obtained show statistically consensus from experts related to sub-issues around sharia in the framework of building a strategic partnership of Islamic finance and the halal industry. In Figure 4.7 it is explained that for the results of the priority aspects of the sharia issues shows that the priority in this cluster is related to products and services by 36.7%, followed by the issue of willingness to source halal funds by 32.9% and finally related to competitive returns by 30.4%. The results of the rater agreement for this cluster show the value of  $W = 0.1755$ . It means that 17.55% of respondents agreed that, based on their priority order, the sub-criteria of sharia issues in the strategic partnership of Islamic finance and the halal industries are the issues of sharia financial products and services, halal fund sources and competitive return, respectively. Furthermore, based on the results of interviews with experts, priority sub-criteria in the last aspect, namely public awareness is shown in Figure 4.8.



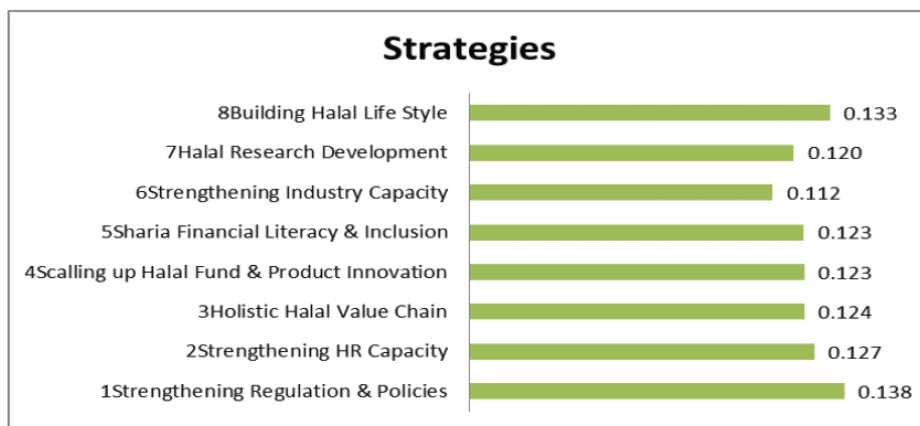
**Figure 4.8 Results of Public Awareness Sub Criteria Synthesis**

The results obtained statistically show the consensus from experts related to public awareness sub-criteria in the framework of building a strategic partnership of Islamic finance and the halal industry. In Figure 4.8 it is explained that for priority results the aspect of public

awareness shows that the priority in this cluster is related to the issue of trust (trust) and socialization which both weight 33.8%, and followed by the education of 32.3%. The results of the rater agreement for this cluster show the value of  $W = 0.2385$ . It means that 23.85% of respondents agreed that based on the priority order, the sub-criteria of public awareness in the framework of building a strategic partnership of Islamic finance and the halal industry are the socialization and building of public trust in the Islamic financial industry, followed by education.

### Alternative Priority Strategies for Sharia-Industry Financial Partnership for Halal Industry

Based on the results of interviews with experts, alternative strategic partnerships between the Islamic finance industry and the halal industry in Indonesia are obtained, as shown in Figure 4.9 below.



**Figure 4.9 Results of Alternative Synthesis of Integrated Halal Economy Strategy**

The results obtained show the consensus of experts regarding strategic partnerships between the Islamic finance industry and the halal industry in Indonesia statistically. Figure 4.9 shows that the results for alternative priority strategies are strengthening regulations and policies (13.8%), followed by a Buiding Halal Lifestyle strategy (13.3%) and Strengthening human resource capacity (12.7%). The next strategy in strengthening the partnership between the Islamic financial industry and the halal industry is relatively not too different in weight, namely Holistic Halal Value Chain (12.4%), increased halal funds and product innovation (12.3%), increased sharia financial literacy and inclusion (12.3%) and development of halal research (12.0%). Last but not least is the strategy to strengthen the capacity of the Islamic and halal financial industry (11.2%).

The results of the rater agreement for alternative clusters show the value of  $W = 0.5754$ . It means 57.54% of respondents agreed that based on their priority order, the three

main strategic alternatives related to strategic partnerships between the Islamic financial industry and halal industries in Indonesia are Strengthening regulations and policies, Building Halal Lifestyle strategy and strengthening the capacity of human resources in the Islamic financial industry and halal industries. The results of the rater agreement of 57.54% above indicate conformity when viewed again through the answers of the respondents, as shown in the complete table. 8 (eight) out of 10 (ten) respondents answered the most priority aspect is strengthening of regulations and government policies related to the halal industries and Islamic finance. At the same time, the rest answer the other criteria with a diverse rate of priority. Determining the priority order of the next aspects has a relatively varied level of answers among respondents. Therefore the rater agreement (level of conformity) is at 57.54%.

## **Conclusion**

By using the ANP (analytical network process) method, in general, there are six main criteria related to the strategic partnership between the Islamic financial industry and the halal industry in Indonesia, namely: (a) regulatory aspects, (b) human resources, (c) institutional building, (d) information technology and services (IT), (e) sharia issues and (f) public awareness. Based on interviews with ten experts in the financial sector and halal industries analyzed using the ANP approach, it shows that the priority aspects are the Regulation and policy criteria (17.4%), followed by the IT and Service criteria 1 (7.0%) and institutional building criteria (16.6%). The next criterion priority is related to human resources (16.4%) and sharia issues (16.4%) followed by the last rank the Public awareness criteria (16.3%). The results of the rater agreement for alternative clusters show the value of  $W = 0.5754$ , which means 57.54% of respondents agreed that based on their priority order, the three main strategic alternatives related to strategic partnerships between the Islamic financial industry and halal industry in Indonesia are Strengthening regulations and policies, Building Halal Lifestyle strategy and Strengthening the capacity of human resources in the Islamic financial industry and halal industry in general. These results provide the conclusions from the explanation of aspects of priority strategies for the criteria for the strategic partnership of Islamic finance and the halal industries in which regulatory and policy criteria rank first and foremost priority. This research contributes to stakeholders related to Indonesia's great potential to become a leader in the context of the global halal industry through strategic partnerships between all parties and related institutions that are strengthened with the support of a conducive ecosystem, regulation and responsive policies.



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