

A MEASUREMENT MODEL OF SUCCESSFULL HALAL INDUSTRY

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ABSTRACT

The halal industry has experienced accelerated growth globally, contributing RM7.4 trillion (USD 2.3 trillion). Therefore, this study proposes a conceptual model of the halal industry's success within a literature review, including a descriptive-qualitative approach. It is utilised to define the indicators concerning the success of the halal industry and predictor factors that have a significant effect. This study is a conceptual work that identifies several factors that influence the success of the halal industry by surveying several factors that affect them. The survey was performed through a literature review. This study displays three indicators of success in the halal sector: business growth, growth, the decision to buy, and financial performance. In addition, this study discovered that four factors are predicted to significantly affect the success of the halal industry: halal certification, product quality, governance support, and Sharia banks. The results obtained from conceptual models and hypotheses are demanded to examine this effect. It is also utilised to design new constructions validated to confirm the halal industry in various countries. Therefore, this conceptual model stands desired to study the success of specific halal sectors further

Keyword: Halal Industry, Halal Certification, Product Quality, Governance Support, Sharia Banks.

1. INTRODUCTION

The global Muslim population has grown by 1.6 billion people, and it is estimated that the population will grow by 20% (Shariff, Jaafar, and Muhammad 2017). Along with the growth of the global Muslim population, the halal industry is experiencing rapid expansion in the sector, namely products and services (Mujahidin 2020). Halal industry enthusiasts come from Muslims and from other countries (Hanim Yusuf, Abdul Shukor, and Salwa Ahmad Bustamam 2016). The contribution made by the halal industry can appraise from the trade value of the international halal industry reaching RM7.4 trillion (USD 2.3 trillion) annually (Shariff et al. 2017). The Africa Islamic Economic Foundation (2013) has identified 15 countries with high purchasing power. Furthermore, Noor and Moi (2015) identified that, based on a global consumer base of around 1.6 billion or 23 per cent of the world's population, the world halal market is estimated to be worth USD 2.3 trillion. This is consistent with the developments of Wilson (2014), who discussed the halal phenomenon.

The State of Global Economic Report 2020/2021 states that more than 1.8 billion Muslim residents consume halal products. Moreover, consumption of halal products increases

by 5.2 per cent annually, with total consumer spending reaching USD 2.2 trillion US dollars in 2019 and will resume growing to reach USD 3.2 Trillion in 2024 (KNEKS 2021). Hidayat et al. (2021) explained that the halal industry is extensive and has great potential for development, especially in many developing countries, including food, cosmetics, pharmaceuticals, tourism/travel, media, recreation, and straightforward fashion. Gillani et al. (2016) also identified the halal industry as operating in several sectors, including food, clothing, finance, and tourism.

The study results of Hidayat et al. (2021) indicate that the halal industry faces challenges and new opportunities. The halal industry can survive the COVID-19 outbreak and can still be explored to improve ummah and Muslim countries. Therefore, the existence and success of the halal industry are a concern for all parties.

The halal industry is related to corporate entities that carry out production activities by processing raw materials into products and services, using facilities and infrastructure refer to Islamic law (Pujayanti 2020). The halal industry currently has human needs (Mujahidin 2020), including the food and beverage sector, finance, travel, fashion, healthcare, cosmetics and medicine, media and entertainment, and education (Pujayanti 2020). In addition, the halal industry plays a strategic role in enriching the economy (Fathoni 2020; Purnama et al. 2021). Therefore, the global halal industry's success cannot be separated from its various driving factors. Therefore, while the halal industry has specific indicators because it uses standards that apply to Islamic law, choosing success factors and halal industry indicators is fundamental.

Unfortunately, a successful halal industry model has not yet been illustrated comprehensively. This is because there is no global design model that ensures the success of the halal industry. Nevertheless, it has achieved partial success in the halal industry. A successful halal industry model is demanded to guarantee the sustainability of fulfilling human needs. This study illustrates the indicators and success factors for the halal industry. This serves as the basis for producing a conceptual model for the success of the international halal industry.

Several studies have discussed the halal industry in various countries, such as the Maghreb countries: Algeria, Libya, Mauritania, Morocco, and Tunisia (Noor and Moi 2015), Japan and Germany (Rahmah and Tapotubun 2020) in Finland (Kalam 2015), Malaysia (Hanim Yusuf et al. 2016; Razak, Hall, and Prayag 2019; Swidi et al. 2010), Singapore (Mohamad, Baharuddin, and Ruskam 2015), and Indonesia (Ahmad et al. 2019; Fathoni 2020; Nirwandar 2018; Pujayanti 2020; Waharini and Purwantini 2018). However, analysis related to prospects and

challenges is more often performed in various countries, both in the largest Muslim population and with the highest purchasing power (Africa Islamic Economic Foundation 2013).

Several studies have tested factors that predict the halal industry (Wahab & Kamarubahrin, 2019; Hanim Yusuf et al., 2016; Kalam, 2015; Nirwandar, 2018; Waharini & Purwantini, 2018). However, research comprehensively discussing these factors in the halal industry is limited. Such research must provide comprehensive information to various parties to develop the halal industry globally. Additionally, these findings can serve as a basis for expanding the global halal industry. Governments and investors can also use these results to develop and optimize the global halal industr. Therefore, this study aims to design a conceptual model that correlates with the success of the halal industry.

2. METHODOLOGY

This study examines specific halal industries using a qualitative descriptive approach. First, a literature search is conducted to identify various factors, including indicators that predict the success of the halal industry. Then, global halal industry expansion is explained by factors, including their indicators. Finally, the indicators obtained were utilised to analyse the significance of the combination of exogenous and endogenous variables. Then, it produces latent variables compiled for the success model in the future.

3. RESULT AND DISCUSSION

This section explains the global halal industry outcomes, including indicators and success factors. Finally, it illustrates a conceptual model of the success of the halal industry.

3.1 Development of Halal Industry

The halal industry has grown (Khan 2011) and has expanded into one of the most developed industries globally (Rahman et al. 2017). Halal industry improvement aims to help the Islamic community meet its needs through Islamic shariahs (Ramli et al. 2016). The Global Islamic Finance Report 2013 (AIEF, 2013) states that the total value of the new halal growth cluster reached USD 274.1 billion, consisting of five clusters: cosmetic/personal care, agriculture, pharmaceutical, Islamic finance, logistics, and the travel industry. The details are presented in Table below.

Table 1. Potential Growth Sectors

Cluster	Potential Value for the Halal Market (USD) (Based on 5% of Global Halal Trade)
Cosmetic/Personal Care	177 Billion
Agriculture	41.5 Billion
Pharmaceutical	30.3 Billion
Islamic Finance	25.0 Billion
Logistic	0.17 Billion
Travel Industry	0.13 Billion
Total Value for Halal New Growth Clusters	274.1 Billion

Source: Halal Industry Development Corporation, Africa Islamic Economic Foundation (2013)

AIEF (2013) identified 15 countries with the highest purchasing power: Saudi Arabia, Turkey, Iran, Malaysia, Qatar, Russia, France, Libya, the UAE, the US, Algeria, Singapore, Indonesia, Egypt, and the Netherlands. This illustrates that the highest purchasing power is not limited to the largest Muslim population. Ashfaq (2018) summarised the action plan for stakeholders correlated with the government.

Table 2. Action plan for relevant stakeholders Governments

Stakeholders	Action plan		
Governments	Facilitate 'Tayyab'/'ethical' related standards/ regulations	Facilitate ethical finance standards/ regulations, the incentive industry	Facilitate 'ethical' related standards/ regulations, the incentive industry
Industry	Expand into 'Tayyab'/'ethical' products and services	Expand into ethical/ social finance products and services	Expand into 'ethical' products and services
Consumers	Demand 'Tayyab'/'ethical' products and services	Demand social impact/ethical financial services/ attributes	Demand 'ethical' products and services
Investors	Invest in 'Tayyab'/'ethical' halal products and services	Invest in high social impact companies/ funds (with a mix of high to medical financial returns)	Invest in ethical lifestyle products and services

Source: State of the Global Islamic Economy 2018-19 (Thomson Reuters & Dinar Standard); (Ashfaq, 2018).

Based on the above table, collaboration between halal industry players, including the government, is crucial. This means an effort to optimise the potential of this halal industry to provide significant benefits to the global community. Thus, the halal industry plays an essential role in achieving UN SDGs. This includes poverty alleviation, zero hunger, responsible consumption, and better nutrition, especially in Muslim countries globally (Muhammad Ashfaq, 2018).

3.2 Indicators of Success

Indicators of success in the halal industry are essential to clarify the industry's development goals. Therefore, indicators of success have become a consideration in building the global halal industry. The literature reveals three dimensions of industrial success in the halal category: business growth, purchasing decisions and financial performance. The details are presented in Table below.

Table 3. Indicators of Successful of Halal Industry

No	Dimension	Indicator	Source
1	Business Growth	financial capital, human capital, and intellectual capital	Yusuf et al. (2016)
2	Decision to Buy	consumer behaviour in the market when buying products or services and making decisions to buy goods or services to meet physical and psychological needs	Kalam (2015), Nirwandar (2018)
3	Financial Performance	accounting-based, market-based, and risk-based	Rahman et al. (2015)

Source: From various sources

Table 3 shows that the success of the halal industry can be measured using three indicators: business growth, decision to buy, and financial performance. Business growth can be an indicator of the success of the halal industry by examining the sales and profit dimensions (Hanim Yusuf et al. 2016). Sherman (2007) adds three other dimensions: financial, human, and intellectual capital (Hanim Yusuf et al. 2016). In the context of employees, growth correlates with the compound annual growth rate for both full-time and equivalent employees during the industrial period (Dunkelberg and Cooper 1982).

Kotler (2002) described purchasing decisions regarding the activities of consumers who want to buy products (Alim, Mawardi, and Bafadhal 2018). Kotler and Keller (2009) identified five stages in the buying decision process: problem recognition, information seeking, evaluation of alternatives, purchase decisions, and post-purchase behaviour (Sholikhah, Fitri, and Mahanani 2021). This is supported by Leonidou et al. (2010) and Tan et al. (2019) in their latest articles. Buying describes a consumer's decision after considering what is bought and when, where, and how to make payments (Alim et al. 2018).

Financial performance measures the success of a financial approach. Rahman et al. (2015) identified three dimensions that can be used as indicators: accounting -, market -, and risk-based. Accounting-based indicators consist of three items: return on assets (ROA), return on equity (ROE) and return on sales (ROS). Market-based indicators include two items: stock returns and Tobin's q, whereas risk-based indicators consist of three items: the Sharpe ratio, Treynor ratio, and Jensen alpha.

3.3 Success Factors

Realising the success of the halal industry is critical to contribute to the goals of sustainable development, particularly on poverty alleviation, zero hunger, responsible consumption, and better nutrition, especially in Muslim-majority countries and globally (Muhammad Ashfaq 2018). Moreover, in the long term, the success of the halal industry can lead to an increase in the number of Muslim entrepreneurs, which, in turn, will provide prosperity to countries with a majority Muslim population and a global community (Bahri, Ali, and Aslam 2021).

Based on a literature review, this study selected four factors that significantly influence the success of the global halal industry: halal certification, product quality, governance support, and Sharia Bank. These are demonstrated in the table below:

Table 4. Success Factor of Halal Industry

No	Factors	Description	Source
1	Halal Certification	Halal industry players can develop their business with the support of halal certification	Yusuf et al. (2016)
2	Product Quality	Product quality influences buying decisions	Kalam (2015)
3	Governance Support	Government support in the form of policies, regulations, institutions, incentives (grants, finance, training, and consulting)	Wahab & Kamarubahrin (2019), (Tieman 2011)
4	Bank Sharia	Islamic banks have an essential role in developing the halal food industry	Waharini & Purwantini (2018)

Based on the above table, the halal industry's success factor can be measured by incorporating four exogenous variables into the conceptual model of the industry's success.

3.4 Conceptual Model

The conceptual model of the halal industry is fundamental as an initial preparation for testing the latent variables (exogenous and endogenous variables). Therefore, the conceptual model remains structured based on the approach of Meredith (1993), namely description, explanation, and continuous testing. Some researchers have used this approach (Bahri et al. 2021; Bonney and Jaber 2014; Kovács and Spens 2007). This is illustrated in the following standard research cycle.

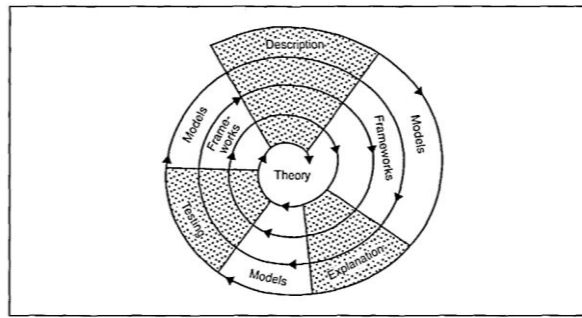


Figure 1. The Normal Research Cycle
Source: Meredith (1993)

After conducting a literature study including an analysis, a conceptual model of the halal industry's success was produced using two latent variables (exogenous and endogenous variables). There are four exogenous variables: halal certification, product quality, governance support, and the Sharia Bank. The endogenous variable, particularly the success of the halal industry, includes four dimensions: business growth, growth, the decision to buy, growth and development, and financial performance. Based on this literature review and the description above, four hypotheses must be tested in the development research.

1. Halal certification significantly influences the success of the halal industry. (H1)
2. Product quality significantly influences the success of the halal industry. (H2)
3. Government support significantly influences the success of the halal industry. (H3)
4. Sharia banks significantly influence the success of the halal industry. (H4)

The conceptual model concerning the success of these halal industries consists of four exogenous factors and endogenous variables, namely, the success of the halal industry. Furthermore, four hypotheses are proposed. The conceptual framework of the success of the halal industry is presented in the following section.

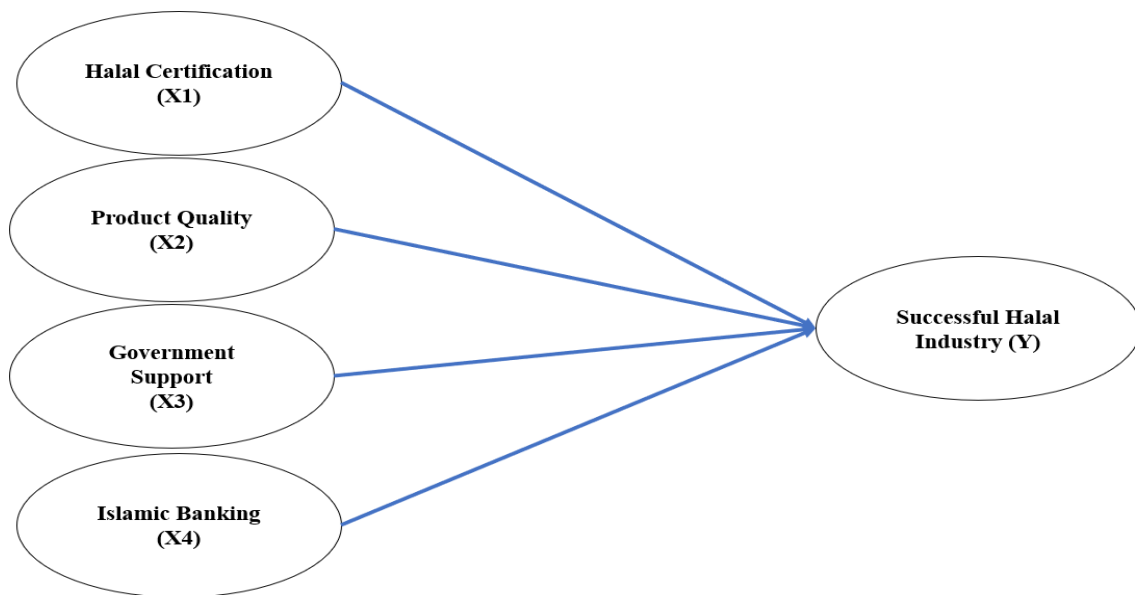


Figure 2. Proposed Conceptual Framework of Successful Halal Industry
Source: author (proceed)

Figure 2 shows that four endogenous variables were identified (halal certification, product quality, government support, and Islamic banking), and one exogenous variable (successful halal industry). All latent variables (endogenous and exogenous) form the proposed conceptual framework of a successful halal industry which needs to be tested in the future. For example, halal certification can help business actors meet the needs of Muslims (Purnama et al. 2021) and encourage them to penetrate export markets (Fathoni 2020). The results of a study by Wilson (2014) stated that the call to certify products and practices and then label them formally had given rise to a new cultural phenomenon. Hence, the demand to carry open labels, messages, and expectations about lawfulness should increase within and outside the Muslim geography worldwide (Wilson 2014).

Based on the opinion of Kotler (2002), product quality is related to the characteristics and properties of a product and services that influence its ability to satisfy consumer needs (Alim et al. 2018). Service quality can be identified by comparing consumers' perceptions of their services (Lupiyoadi 2001). Lupiyoadi (2001) explains that the quality of a company's products can be determined by identifying consumer expectations.

According to Tieman (2007), governance support can be provided in the form of policies, regulations, institutions, and incentives (grants, finance, training, and consultation) (Wahab & Kamarubahrin, 2019; Maman et al., 2018). Wahab and Kamarubahrin (2019) explain that government support is related to the contribution of the halal industry sector to future economic growth. Thus, government support plays a strategic role in the halal industry's success. Ultimately, Islamic banking factors play an essential role in developing

the halal industry (Waharini & Purwantini, 2018). Islamic banking also plays a significant role in financing. The financing provided by Islamic banking can encourage the halal industry to continue increasing its business capacity. Thus, Islamic banking plays a strategic role in the halal industry's success.

Established in existing literature, development analysis is required to test the conceptual model. This conceptual model is open to further development by adding indicators and factors predicted to influence the success of the halal industry.

4. CONCLUSION

The halal industry represents new hope for building a global economy. It also means a solution to achieving global development goals related to poverty alleviation, zero hunger, responsible consumption, and better nutrition, especially in Muslim-majority nations and globally. Therefore, it is vital to identify these indicators and examine their influence of success factors on the halal industry.

This study classifies four indicators of success in the halal industry as follows: business growth, growth, decision to buy, growth and development, and financial performance. In addition, this study identified four factors predicted to be successful in the halal industry: halal certification, product quality, governance support, and the Sharia Bank. Finally, a conceptual model of the halal industry is produced based on four factors, with results following the normal research cycle. A limitation of this study is the use of a literature review method, including the results of previous research. Therefore, development analysis is required to test the success of the halal industry, supported by an appropriate theoretical background.

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