



Positioning Malaysia as Halal-Hub: Integration Role of Supply Chain Strategy and Halal Assurance System

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Abstract

HALAL-HUB is a concerted effort among the Islamic organizations/bodies such as Halal manufacturers, Halal traders, buyers, and consumers from all over the world. To be the central trading hub for Halal products, Malaysia must intelligently market itself and achieved Halal-hub main objective of providing a credible platform in connecting global Halal supply-chain and certification for Halal Assurance. Existing literature provides a number of examples that illustrate how supply chain strategy and marketing intelligence improve firm's performance. The literature, however, lacks theoretical support to facilitate an understanding of the magnitude of supply change strategies, structure of halal assurance system and marketing intelligence to support the scope of relational of Halal-hub. This article uses the strategy-structure-performance paradigm to position Halal Hub relative to the nature of relationships within the broader supply chain strategies, Halal Assurance systems and marketing intelligence a firm employs. The framework presented is a first step towards a more holistic and theory-based approach to understanding the link between, supply chain, halal assurance system, marketing intelligence and Halal-hub. This framework also is designed to serve as a basis for future research in this area.

Keywords: Halal-hub, Marketing intelligence, Supply chain strategy, Halal assurance system

1. Introduction

Today, Muslim consumers have given an increase attention to their foods concerning their halalness. This is a very good point in term of Islamic practices and faith. Hence, it has long been a stated goal of the Malaysian government to establish Malaysia as a global *Halal* hub for the promotion, distribution and production of *Halal* products and services to the muslim countries all over the world. This is in tandem with the statement made by Malaysia's Deputy Prime Minister, Dato' Seri Najib Tun Razak:

"...Plans to turn Malaysia into a *Halal* hub does not mean operations to produce *Halal* food must be based only in the country. Malaysian investors could invest in countries where research and development facilities and expertise are available to produce and export *Halal* food" (Bernama, 2005).

The Government present focus is on developing relationships between the rapidly expanding Islamic finance and banking industry and the global *Halal* market (Utusan Online, 2004).The Malaysian government, under the visionary

leadership of our Former Prime Minister, Tun Dr Mahathir Mohamad, realizing the importance of this industry and its bright future, has seriously worked towards the implementation of the Islamic values in developing this sector. Since 1959, Malaysia has taken steps which have been regarded as an international pioneer in researching and developing the *Halal* instruments and products as a standard in the financial services field as well as Takaful at the governmental level through the establishment of Syariah Advisory Council by Central Bank of Malaysia (BNM) (Samsudin, 2005). Pioneering efforts are also carried out in the Malaysian Islamic Capital Market by the Malaysian government through the Securities Commission (SC). Today, we find an establish Syariah Advisory Council (SAC) providing the necessary guidelines under eminent Islamic economist and scholar, to mould suitable *Halal* investment instruments. This council also is tasked with the responsibility of classifying the organization listed in the Malaysian Stock Exchange which is dealing in accordance to the Syariah so that the Muslims can participate with a clear conscience in Malaysia's capital market and investment sector (Samsudin, 2005).

Conversely, the Malaysian *Halal* Certification for food and consumable good issued by the sole authority Islamic Development Department Malaysia (JAKIM) or State Islamic Religious Council (JAIS) is also highly recognized and recommended in the international market. Despite its size, Malaysia is the only country whose *Halal* certification is issued by the Government, unlike in other countries whose certifications are endorsed by their respective Islamic associations. JAKIM's *Halal* logo is now among the most widely recognized and respected symbols of *Halal* compliance in the world (Adam, 2006). The launching of the Malaysian *Halal* Standard MS1500:2004 in August 2004 further demonstrates the Government's commitment to the creation of clear and practical guidelines for *Halal* compliance. This MS1500:2004 is developed in accordance with ISO methodologies and is the first *Halal* Standard to be developed by a Muslim nation. After several years of dedicated hard work, the National Body of Standardization and Quality (SIRIM) has completed the "Malaysian Standard MS1500, General Guidelines on the Production, Preparation, Handling and Storage of *Halal* Foods", which includes compliance with GMP (Good Manufacturing Practices) and GHP (Good Hygiene Practices). This new standard will further strengthen Malaysian *Halal* certification which is already the longest established and most widely recognized registered *Halal* logo in the world (Badawi, 2004).

Malaysia plans to become a global hub for Islamic *halal* food by 2010, using its edge over other Muslim nations in trading, logistics, banking and *halal* certification (NewsEdge, 2006). The Malaysian government in its 2006-2010 national economic development plans talks about creating a nodal agency to promote the country as a center for *halal* foods that meet Islamic dietary requirements and the religiously approved way of slaughtering animals. Malaysia certification standard for *halal* food moreover is widely recognized. In addition, it has a highly developed logistics network including ports, and is fast becoming a hub for Islamic financing (Bernama, 2006)

The *Halal* market is growing at a tremendous rate; approximating at a global rate of 2 billion Muslim consumers all over the world. However, only 6 million with access to *Halal* products (Bernama, 2006). This is in the researcher's point of view are due to lack of strategic systems and procedures among the *halal* product producers and the government. With such a multiplier effect, Malaysia should question on how they can capitalize on the 25% of the global market and capture the world's *Halal* market. Furthermore, with the onset of global diseases (*bird flu, mad cow disease, etc.*), *Halal* is being recognized as a new benchmark for safety, hygiene and quality assurance even by non-Muslim consumers. Therefore the objective of this paper is to propose the strategy-structure-performance paradigm to position the Halal Hub relative to the nature of relationships within the broader supply chain strategies, *Halal* Assurance systems and marketing intelligence a firm employs. The framework presented is a first step towards a more holistic and theory-based approach to understanding the link between, supply chain, *halal* assurance system, marketing intelligence and *Halal*-hub. This framework also is designed to serve as a basis for future research in this area.

1.1 Position Halal-Hub in Malaysia

With the introduction of MS1500:2004 certification, Malaysia is trying to promote a standard which can be replicated by other countries as a coherent yard stick for *Halal* certification. The first step for Malaysia to position them as *halal* hub is hosting a forum and debate in *Halal* product and services.

As competitive free trade environment, which dominates the world economy, it is crucial for global *Halal* industry players to ensure that *Halal* food products and services find their own strength and capitalize on their market niche. "*Halal*" is an Arabic word meaning lawful or permitted and can generally be translated as "permissible" or "allowed" in English. The opposite of *Halal* is "*Haram*", which means unlawful or prohibited. *Halal* and *Haram* are universal terms that apply to all facets of life. Contrary to popular belief, the word *Halal* is not only used in the context of consumables or products used by the Muslims. It has a wide range of application. From inter human relationship, clothing and manner, social and business transaction, trade and financial services to investments or any others which is parallel to guidance specified by Islam (MITI Online, 2004). *Halal* issue is starting to make its presence felt, and *Halal* is the new defining market force in most Islamic countries. With Muslims now making up close to a quarter of the world's population, it should really come as no surprise that *Halal* is starting to have a significant impact on global markets. This new market force is driven by several factors. Firstly, many Muslim nations are reaching a stage of development

whereby they can begin to impinge on world markets, both as producers and consumers. Secondly, and significantly, items such as *Halal* meat and Islamic banking services are increasingly popular among non-Muslims, enhancing the wide-spread rapid growth in these industry sectors (The Asian World Street Journal, 2005).

The *Halal* marketplace is emerging as one of the most lucrative and influential market arenas in the world today. Geopolitical events, public interest, food related health scares and overall consumer demand have converged to push the *Halal* issue into the forefront of consumer awareness worldwide. In fact, the most important engine of growth of the *Halal* is a shift of perception. *Halal* food, for example, has been around for over fourteen hundred years, but it is only in recent decades, and particularly in multi-cultural societies, that the labeling and branding of *Halal* products has developed. Obviously, *Halal* is no longer just a purely religious issue; it is becoming a global symbol for quality assurance and lifestyle choice. The global market for *Halal* goods and services is developing into a powerful force in the arena of world commerce and finance. *Halal* Products and Islamic Financial Services represent a combined strength of over one trillion USD annually, and market monitoring indicates that the current strong growth trends can be expected to continue over the next five to ten years (The Asian World Street Journal, 2005).

The *Halal* business industry constitutes 112 countries, catering for 1.8 billion Muslim populations, amounting to close to USD 300 billion (NewsEdge, 2006). The best thing is, Muslims are not the only one consuming *Halal* products. The potential in this market is tremendous. Based on the research done by *Halal* Industry Development Corporation (HDC), they found that the acceptance towards *halal* product was increasing not only among the Muslims but also among the non-Muslims. Graph 1 and 2 shows the acceptance level of *halal* product among non-Muslim consumers and potential global *halal* product marketed in the market respectively.

On the other hand, to be the central trading hub for *Halal* products, intelligent marketing and strategic supply chain orientation as well as structured through *Halal* Assurance system must be adopted. Producers of Muslim's products, first of all must understand and study the supply chain and the production process. Whether its supplying canned food to the Middle East, or *halal* cosmetics to the Americas, they must be able to penetrate the whole supply chain. "Malaysian Standard MS1500, General Guidelines on the Production, Preparation, Handling and Storage of *Halal* Foods", which includes compliance with GMP (Good Manufacturing Practices) and GHP (Good Hygiene Practices) will further strengthen Malaysian *Halal* certification which is already the longest established and most widely recognized registered *Halal* logo in the world (Badawi, 2004). On the other hand, supply chain strategy is an iterative process that evaluates the cost benefit trade-offs of operational components. An organization may choose a strategy directed at supplier management as a way to remain competitive and establish network with supply chain partners, including suppliers, distributors, customers, and even customers' customers. And for all these reasons, a well executed supply chain strategy results in value creation for the organization. (A UPS Supply Chain Solutions, White Paper, 2005) and hence position Malaysia as *Halal*-hub.

The purpose of this article is to develop a theory-based framework to guide both practitioners and researchers in understanding the role of *halal* assurance systems in supporting integration within the supply chain that facilitates a broader understanding of such inconsistencies. Specifically, we extend the strategy-structure-performance paradigm to the supply chain level and *Halal* assurance position integration within the realm of supply chain management. The resulting framework may be used as a foundation to guide the evolution of future research and practice.

The following section will discuss on the link between strategies namely supply chain strategy and structure (i.e *halal* assurance system and marketing intelligence). The next section proposed conceptual framework of *Halal*-hub positioning strategy followed by conclusion, implication and recommendation for future research.

2. The link between Strategy-Structure and Performance (SSP)

Strategy's impact on firm performance was a focus of research promulgated by Chandler (1962), who postulated that firm strategy drives organizational structure. Study of Chandler then extended by Rumelt (1974) who was first made the link between strategy-structure and performance (SSP). His finding constitute that particular strategy-structure combinations were superior to others with respect to financial performance. Other researchers such as Amior and Teece (1978); Hoskisson (1987); Teece (1981) further has corroborated the strategy-structure-performance link in other setting. All these researchers conclude the importance of strategy-structure congruency as a necessary requirement for organizational performance (Brewer and Speh 2001; Egelhoff 1988; Galbraith and Kazanjian 1986; Miles and Snow 1984).

By extending the SSP to the supply chain level, issues of strategy and structure take on new meanings. Since competition increasingly occurs at the supply chain level (Christopher 1992), strategic management theory needs to address strategy and structure within the supply chain context. In the context of *halal* food and services firm, supply chains, (which involve collaborative, multi-firm relationships across suppliers, customers, and third parties), will enhance the performance of the firm and further strengthen *halal*-hub position of the country with the interaction of proper structure of *halal*-assurance system. Proposed conceptual framework of *Halal* Hub Positioning is depicted in

Figure 1.

2.1 Supply Chain Strategy

Supply chain management is "the systemic, strategic coordination of the traditional business functions within a particular company and across businesses within the supply chain. Its main objective is to improving the long-term performance of the individual companies and the supply chain as a whole' (Mentzer, 2001). Supply chain management leverages external firm relationships to develop inter-firm coordination resulting in increased operational performance and shareholder value maximization (Christopher and Ryals 1999). Such relational strategy requires that firms create structures and processes that integrate the cross organizational behavior of supply chain partners, creating a common vision and objectives (Rodrigues et al. 2004). Integration is essential to aligning multi-firm operations into a supply chain system. Lambert et al. (1998) complement this definition by emphasizing the importance of integration business processes across supply chain firms of *halal* product and services in order to deliver value to end users and strengthen the position of a country's as *halal*-hub.

Defee and Stank (2005) point out two important dimensions of supply chain strategy. First, they stress the importance of strategic goal alignment. In a multi-firm context, the strategies of many firms must be consistent with each other. The second important dimension of supply chain strategy is a shared belief in the value of the supply chain as a competitive entity (Defee and Stank 2005). Supply chain effectiveness is enhanced when firms share this similar belief (Ellram 1995). When considered together, goal alignment and commitment to the supply chain as a competitive differentiator reflect what Mentzer et al. (2001) refer to as supply chain orientation (SCO). SCO is a management philosophy implying that a firm sees beyond its own borders and understands the strategic importance of managing the various flows across the entire supply chain. (Speier, Mollenkopf and Stank, 2008)

2.2 Halal Assurance System (HAS)

Halal Assurance System is a system, which must be implemented by a producer or company to assure that the products produced are *halal*. This system is set up based on three zero's concept, i.e., zero limit (no *haram* material used in the production), zero defect (no *haram* product is produced) and zero risk (no disadvantageous risk should be taken by the producer or company). (Chaudry, et.al 1997)

For any producer or company who are willing to produce *halal* food or ingredient, they must set up a *halal* assurance system. The system consists of five components, i.e., standard of *halal* management and *halal* system, standard audit of *halal* system, *Haram* Analysis Critical Control Point (HrACCP), *halal* guideline and *halal* database. The general guideline of all of these components must be written and documented in one manual called *halal* manual. The manual includes also *halal* policy of the producer and objectives of the system. The commitment of the producer in producing of *halal* foods consistently can be reflected from this manual (Sumner, 1995).

Hence, for a company producing *halal* product, the structure for *halal*-assurance systems play a critical role in integrating the processes that facilitate the creation of value within firms and across the supply chain (Bowersox et al. 2006; Porter, 1991). The assurance system integration between firm is enables the entire supply chain to become responsive to end-customer needs, potentially producing product with *halal* certification as a means to satisfy customer needs. Thus, effective *halal*-assurance system investments can create competitive advantage for a firm within and across the supply chain as a capability for creating value (Bowersox et al. 2006; Bowersox et al. 1999; Foster 2006).

The previous discussion provides a basis for understanding the strategic role of *halal*-assurance systems within the supply chain. SSP suggests that in order to capitalize on these strategic approaches, *halal*-assurance systems must be configured within the structure of the supply chain in order to "fit" the overall supply chain strategy (Brewer and Speh 2001; Galbraith and Nathanson 1978; Lambert and Pohlen 2001; Miles and Snow 1984; Stank et al. 2001). Appropriate supply chain structures will be based upon the Integration of processes and decision-making activities across supply chain participants (Defee and Stank 2005). Lack of integration will thwart the ability of multiple firms to work as a cohesive supply chain unit (Bowersox et al. 1999; Brewer and Speh 2000; Chow et al. 1995; Mollenkopf et al. 2000; Williams et al. 1997). Intra- and inter-firm integration become crucial elements to creating a supply chain structure that fits the supply chain strategy. *Halal* management is managing of all the functions and activities necessary to determine and achieve *halal* products. *Halal* system is defined as the organizational structure, responsibilities, procedures, activities, capabilities and resources that together aim to ensure that products, processes or services will satisfy stated or implied aims, i.e., production of *halal* products.

As firms increase their commitment to a supply chain orientation, there will be an increased need to share *halal* assurance leading to *halal* system integration. Higher levels of supply chain complexity and uncertainty lead to greater investments in *halal* assurance system integration (Choudhury 1997; Kim et al. 2005; Premkumar et al. 2005). In sum, firms having a higher supply chain orientation will see greater value in organizational performance if the level of *halal* assurance system integration is higher in order to realize *halal* hub position. Therefore we proposed:

Proposition 1:

Firms having a higher supply chain orientation and invest in higher levels of halal assurance systems integration will create greater value of organizational performance and further strengthen HALAL-HUB position.

2.3 Marketing Intelligence

A marketing intelligence system is a set of procedures and sources used by managers to obtain their everyday information about pertinent developments in the environment in which they operate. The marketing intelligence system supplies data about the market (Kotler 2000). Another definition of marketing intelligence system is that it is a system for capturing the necessary information for business marketing decision making (Hutt and Speh, 1989). The fundamental purpose of marketing intelligence is to help marketing managers make decisions they face each day in their various areas of responsibility. Marketing intelligence systems include marketing research, MISs, and DSSs. DSSs have become the most popular marketing intelligence tool in manufacturing industries because of the rapid development of the Internet and information technologies.

Kotler (2000) also believed that there are four steps to improve the quality and quantity of marketing intelligence. First, train and motivate the sales force to spot and because they are the company's 'eyes and ears,' they are in an excellent position to pick up information missed by other means. Second, motivate distributors, retailers, and other intermediaries to pass along important intelligence. Third, purchase information from outside suppliers/research firms; they gather data at much lower cost than the company could do on its own. And finally, establish an internal marketing information center to collect and circulate marketing intelligence. Marketing intelligence is clearly a broad and complex function whose effectiveness dramatically affects the quality of marketing decisions.

Applying theories and concepts from supply chain strategy, structure, and marketing intelligence, this paper proposes the concept of positioning the *halal*-hub. We suggest that firm's supply chain orientation strategy and the structure of its *halal* assurance system integration will lead into successive of *halal* producer's firm, and in an attempt to position Malaysia as *halal*-hub.

The increasing importance of firm marketing intelligence within many supply chains across a variety of industries is consistent with the Resource Base View (RBV). The RBV emphasizes the link between competitive advantage and the internal organization of the firm (Eisenhardt and Martin 2000). The RBV depicts an interaction between the internal resources of the firm with the external environment where successful firm strategies are a consequence of both external and internal factors because changes in the environment can change the value of resources (Hansen and Wernerfelt 1989). Firms with a clear understanding of their resources are likely to perform more effectively because they can leverage existing resources to develop new processes (Prahalad and Hamel 1990a). Teece, Pisano, and Shuen (1997) introduce the notion of dynamic capabilities where combinations of competencies and resources are developed, deployed, and protected over time. Thus, firms that have made appropriate investments into its internal resources and processes using marketing intelligence system (i.e marketing research, MISs, and DSSs) can help in the positioning of *halal*-hub. Therefore, it is proposed that:

Proposition 2

Firms that has made appropriate investments into its internal resources and processes using marketing intelligence system (i.e marketing research, MISs, and DSSs) can enhance the relationship between the integration of supply chain orientation and halal assurance system

Thus, we argue that the level of marketing intelligence that a firm exhibits will enhance the fit between supply chain strategic orientation and halal assurance system integration structure.

3. Conclusion

Halal produce is fast gaining worldwide recognition and this is not merely because the Muslim Ummah is growing in number, but more significantly, because *Halal* is being recognized as a new benchmark for safety and quality assurance. *Halal* food is highly sought after, not just by the 1.5 billion Muslims around the world, but by people from diverse races and religions who are looking for clean and pure food. Malaysia is serious to position itself to be the *Halal* food hub center in the Asian region and the pioneer in the globalization of *Halal* certification. However, the country must first have a dedicated entity and blueprint to provide a clearer objective and guideline in the industry. Unless we have an agency to drive this, we will not be successful in the *Halal* industry. Currently, Malaysia's strength lies in its certification. Without a blueprint, incentives, schemes or grants provided by the Government, Malaysia will not be able to reach industry players around the world as they will not be aware of the facilities provided for them (Adam, 2006).

To date, no research has been carried out to gauge neither the *Halal* industry's growth locally nor the sectoral involvement breakdown of *Halal* players and its performance index. Although much has been promised to spur the *Halal* industry, there is no dedicated ministry or association given the task of reinforcing the country's hope of becoming a dominant player in this sector. Clearer and stable supervision is crucial to achieve the Government's

objective of becoming a *Halal* hub; otherwise Malaysia will lose out to other non-Muslim countries, which are already dominating the industry. As a matter of fact, non-Muslim countries such as Thailand, Brazil, Argentina, Australia and New Zealand are already actively producing *Halal* certified meat to cater to increasing needs of the Moslem consumers around the world (Adam, 2006).

4. Implications and Future Research

The previous discussion emphasizes the importance of investing in *halal* assurance systems (HAS) relative to the firm's supply chain and relationship strategies. Likewise, investment in HAS adoption may affect the supply chain orientation. The situation would be expected to exist within the context of a relational exchange strategy to affect product *halalness*. The strategy-structure framework developed here provides a means to view the integration and the related *halal* assurance systems in the context of the intended goals and objectives of *halal* hub positioning within a broader supply chain strategic orientation. This context has been missing from much of the literature and research related to the role of *halal* assurance system in supply chain management.

Our framework provides a predictive approach to evaluating *halal* assurance system integration structures that fit the supply chain orientation in determining the success of *halal* products and the producers firm and further strengthening *halal* hub position of a country. Therefore, the primary implication of the framework is to the future researcher on emphasizing the importance of creating a fit between the *halal* assurance system (structure) employed and the relationship with supply chain strategic orientation. A second contribution has both academic and managerial implications. We have emphasized the importance of viewing supply chain relationships heterogeneously, so that *halal* assurance system requirements can be better understood and implemented based on the recognition of differences between supply chain relationships. Poor fit between an *halal* assurance system and relational objective may account for much of the disappointment often reported as the product is not *halal* in totality (i.e in terms of raw materials, packaging on processes).

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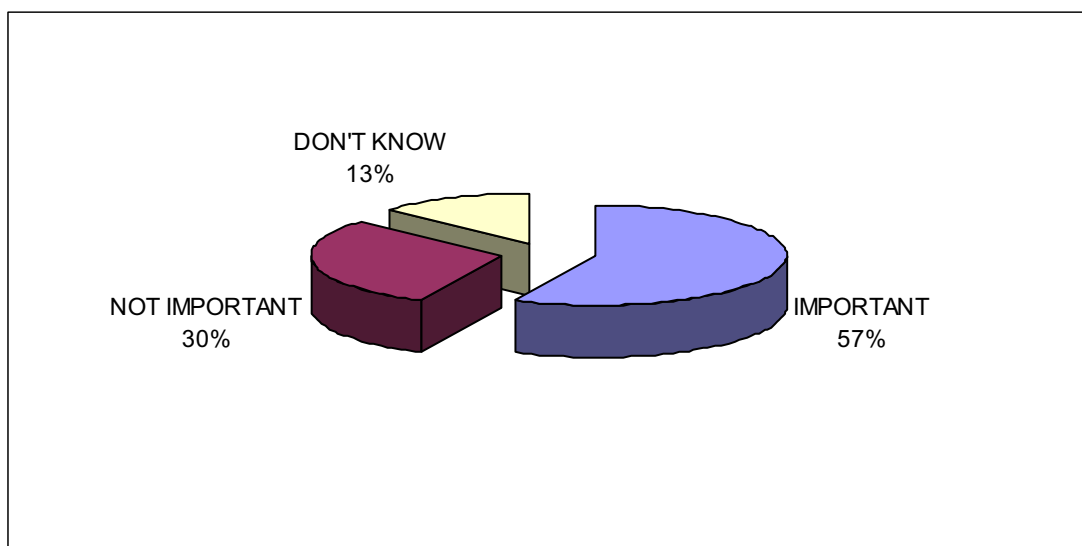
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Graph 1.

ACCEPTANCE ON THE IMPORTANCE OF HALAL PRODUCT (AMONG NON-MUSLIM)

	Frequency	Percentage
IMPORTANT	299	57%
NOT IMPORTANT	158	30%
DON'T KNOW	68	13%
TOTAL	525	100%

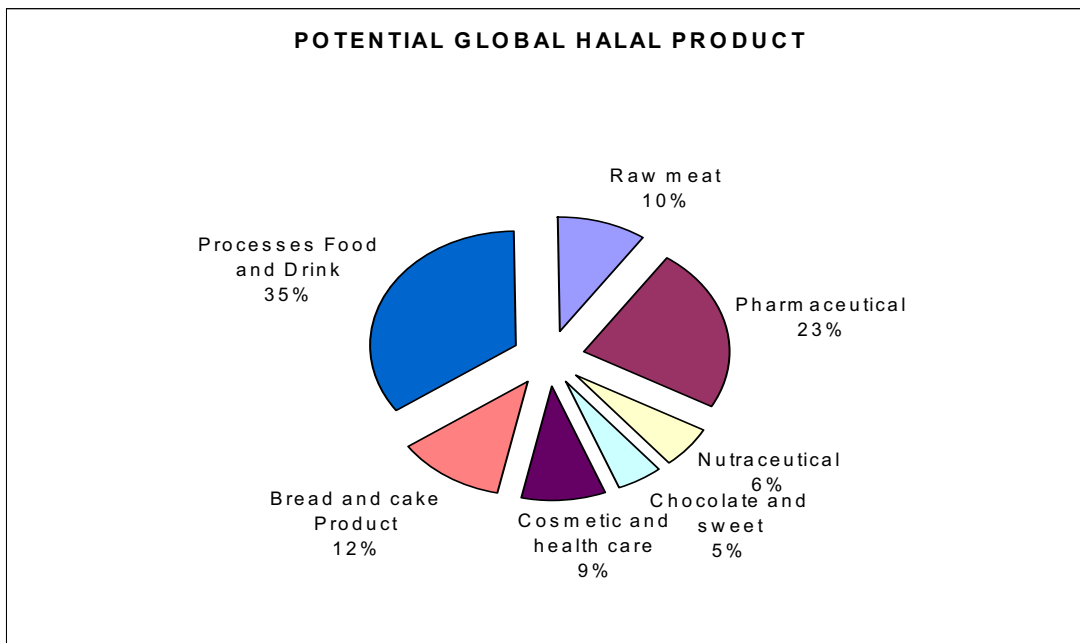


Sources: HDC- Merdeka Centre Domestic Halal Market Study (2005)

Graph 2.

POTENTIAL GLOBAL HALAL PRODUCT

	Percentage
Raw meat	10%
Pharmaceutical	23%
Nutraceutical	6%
Chocolate and sweet	5%
Cosmetic and health care	9%
Bread and cake Product	12%
Processes Food and Drink	35%



100% = USD2.77 trillion

Potential Global Halal Product

Sources: HDC (2005)

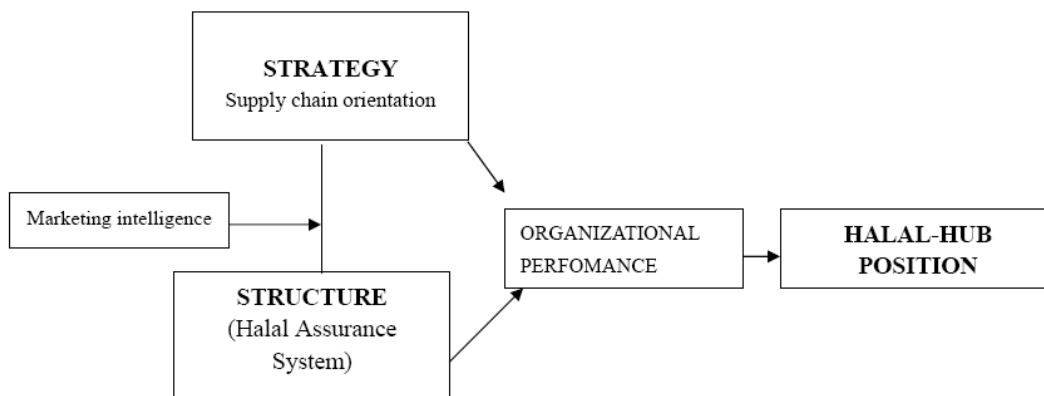


Figure 1. Conceptual framework of *Halal*-Hub Positioning