

## **A PRELIMINARY STUDY OF HALAL LOGISTICS ISSUES AMONG FOOD MANUFACTURING COMPANIES**

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### **ABSTRACT**

*This paper is presenting some issues encountered on halal logistics mainly for food products as to ensure the integrity status along the supply-chain network. Since halal is applicable for the Muslim and also to the non-Muslim, it makes it imperative that halal products were recognized and known globally especially for health, safety and hygiene. With a view of that, a study on halal logistics is extremely important in ensuring the concept of halal is not only applicable for preparation of food, but also the process of managing its storage, handling of raw materials, procurement, and transport. Those processes include all types of food throughout the supply-chain network with a compliance with the Shariah principles. The method used for the study is coming from a qualitative approach involving a series of interviews and supported by secondary data. The results from the study would contribute some of the novel findings in the halal logistics areas as well as suggestions for the future studies. The results were also recommended to be further discussed for the benefits and future practices of halal logistics companies in understanding the halal concept.*

**Keywords:** *food, halal, logistics, supply, product*

### **INTRODUCTION**

Recently, the Muslim consumers worldwide have been faced with a broad selection of products and services offered by thousands of companies. However, the finest choice selected by them must be from range of halal products as well as services. Therefore, the mass demand for halal products and services is irrefutable linking to with many different points of interest; the rise of Muslim social classes, social groups, trade unions, customers' organizations, business companies, international governments and transnational organizations (Papadopoulus *et al.*, 2008; Lever, John and Miele, 2012; Kearny, 2010). Besides that, on average the non-Muslims are having a wide knowledge on halal products and services that are significantly goodness of life, rationality, hygiene, safety and environmental friendly (Aziz and Chok, 2013; Gayatri and Chew, 2013; Marzuki, Hall, and Ballantine, 2012). Currently, thousands of products and services produced at the global level have been differently labelled on account of *halalization* process such as symbolism, logo and certification (Fisher, 2011) from countries such as Malaysia, Australia, UAE, Singapore, Indonesia and China (Adams, 2011). In the near future, the global halal food markets will be

continue to expand resulting from the Muslim's population growth; roughly expected to rise from 1.3 billion in 2000 up to 2.2 billion in the year 2030 (Pew Forum, 2011).

The halal market value is now valued around USD\$632 billion per year, and it represents 17% of the entire global food industry. Therefore, the halal market's potential is very promising for those halal producers to disseminate their products internationally. Storage, dissemination, delivery and transportation are part of the halal logistics function where it involves the overall supply chain network right from the origin source to final consumption, "from farm to fork" (Talib *et al.*, 2013). Halal logistics as described by Tieman (2013), is not much different from conventional approaches such as managing procurement, movement, storage and handling of material parts, livestock, semi-finished or finished products both food and non-food throughout the supply-chain network with a compliance of Shariah principles. Essentially, the area of halal logistics industry in Malaysia is still at an infancy stage so that any matters concerning such as competencies, know-how and publications are quite limited (Zulfakar *et al.*, 2012; Tieman, 2013; Talib *et al.*, 2014).

## LITERATURE REVIEWS

### **An Overview of Halal Food Manufacturing Industry in Malaysia**

Malaysia is one of the Islamic background countries where 61% of the overall population of 30 million are Muslims (Index Mundi, 2014). Therefore, the halalness concept is vital for Muslim's usage every day and becomes a most concern responsibility within a plural society. In Malaysia, however, more than 80% of food products are coming from non-Muslim producers and manufacturers (Mohamad, 2013). This indirectly led to Muslim society, depending on their lawful fate of the halal and haram in the hands of those producers. Although there are various parties responsible to keep the halalness, nevertheless, there are some issues striking inequalities of the management courses on various aspects such as processing, packaging, transportation, storage and delivery.

Therefore, it is enormously important to the government and its agencies to aid the Muslim entrepreneurs, especially the Bumiputera to join the production of halal food and services. This in turn would offset the power supply which is owned by the existing manufacturers from the non-Muslims. According to JAKIM and Halal Development Corporation (HDC) reports in 2014, there are about 94% from the total of 2.3 million products that applied the halal certification so granted. Based on that number, 5400 companies have been approved to make use of the halal certifications and 87.8% of them are coming from Small and Medium Enterprises (SMEs) but represent less than 30% Muslim entrepreneurs. This statement is aligned with Tieman's (2015) findings where he did mention that most parts of the food supply chain, including farming, food manufacturing, restaurants, logistics, and retail chains are dominated by non-Muslim countries and businesses. As an example, several large multinational companies such as Tesco, Nestle, Kentucky Fried Chicken, and McDonald's, at this moment have dominated more than 90% of the halal global market in Muslim and non-Muslim countries.

In 2013, Malaysia exported MYR32.84 billion worth of halal products and with an increase of about 14.8% to the MYR37.69 billion in 2014. Most of the Malaysian

halal export value is dominated by several markets groups such as APEC (Asia-Pacific Economic Cooperation), OIC (Organization of Islamic Cooperation), TPSEP (Trans-Pacific Strategic Economic Partnership), ASEAN and EU (European Union). The value of export of products is focused on food and beverages, ingredients, palm oil derivatives and healthcare products. To keep abreast on exporting global halal products, Malaysia has set up several halal standards (e.g., laws, logo and certification), halal hubs, halal parks and halal ports, including the halal logistics. As suggested by Kamaruddin et al. (2012), halal logistics are a pathway of halal products to be globally marketable and potentially as a new lucrative business. The main drivers of the halal development industry are contributed by high demand and awareness of consumers' intention to purchase halal brands (Aziz and Chok, 2012) and the high halal level of awareness, knowledge and attentiveness of the entrepreneurs (HDC, 2015).

### **Halal Logistics: Malaysian Perspectives**

The concept of halal logistics is not much different with the conventional, but it must follow the guideline provided by Shariah Laws. Therefore, halal logistics is an Islamic way in managing all series of activities alongside the transportation, product production, processing and packaging, storage and warehousing, inventory, scheduling and distribution, retailing and delivery as well as the consumer services (Tiemann *et al.*, 2013; Talib and Hamid, 2014; Talib *et al.*, 2015). By that the Malaysia government has launched the MS1500:2004 (Malaysian Standard, 2004) prescribes the general guidelines for the production, preparation, handling, and storage of halal food. In addition, the MS2400:2010 (Part 1-3), were introduced mainly for the purpose of halal logistics. Those standards will strengthen the vision of Malaysia to be a global halal hub and for that, the importance of halal logistics as well as halal industry was started to become a new important industry. Other than Penang Port (the first halal port in Malaysia), Port Klang (North Port) and the Port Klang Free Zones (PKFZ) are two areas that have been designed to promote port-to-port trade and manufacturing industries involved in producing halal products primarily for export. Currently, there are about 50 companies from several countries such as China, US, and UK operating in PKFZ. In 2014, they had revenue of MYR55 million and up to MYR65 million in 2015 and will be around MYR100 million in 2017; the majority of the revenues is coming from the related export of halal industry (PKFZ, 2015).

## **METHODOLOGY**

This paper aims to present the important issues encountered on halal logistics in Malaysia, mainly for the food manufacturing industry. Therefore, it is important to obtain the information from the industry as recent as possible. In order to do that, the method for data collection is coming from two sources. First, the primary data was collected via a qualitative process where a series of semi-structured interviews were conducted with main informants of four major companies in halal logistics and food manufacturing industry. The questions during the interviews were constructed from the previous research and were modified for the purpose of the study. Secondly, the secondary data was collected from the publications such as journals, books and some conference proceedings. The interviews were guided by some relevant questions, and they were recorded with a digital device. After completing the process of interview

transcriptions, they were sent back to those informants for the verification and validation. It is an important approach where some of the information about the companies might be confidential and cannot be allowed to be published. To be secured the concern letter for the purpose of the study had been declared and was understood by both parties.

## RESULTS

### Halal Certification

In general, the halal certification issued by JAKIM is not compulsory for product and service producer, manufacturer, distributor, trader, repackaging, the food premise, and abattoir, but it is encouraged by the willingness (JAKIM, 2015). From the overall number of 7,700 certified halal companies recorded in the HDC, less than 30% of them are Bumiputera entrepreneurs. This has shown that non-Bumiputeras are more willing to invest financially, effort and time to acquire the halal certification. They have known the true value of Malaysian's halal certification to endearing the billions of Muslim consumers across the globe. Unfortunately, many of Bumiputera entrepreneurs who mostly come from SMEs are not willing to make the same effort. They are likely to be in the "nature of judgement" to invest in acquiring the halal certification. As a consequence, they are hindering themselves to sell their products locally as well as to export in the halal international markets.

One of the CEOs logistics companies said, *"Indeed, in terms of numbers, Bumiputera (entrepreneurs) are far left behind as compared to them (non-Bumiputera) in producing halal food products regardless of our local market or for overseas demand! On the other hand, I think we (Bumiputera) entrepreneurs are still having a negative rationality on halal certification procedures! They are also lacking in expertise as well as knowledge on the international halal industry! Perhaps, they are also thinking of high cost for halal logistics implementation! Lastly, they have no idea what kinds of products can be exported! Thus, our government should do more ground work to support these companies!"*

### Certified-Cleaning (Sertu)

Some previous research has done so far to identify the critical issues in the halal logistics, especially in three main areas; the transportation and movement, the storage and warehousing and the operations and processing in the terminals (Tieman *et al.*, 2012; Tieman, 2013; Talib *et al.*, 2014; Talib *et al.*, 2015). To fulfil halal principles, these areas must be separated by non-halal (haram) parts or products physically even inside the container, shelves, and cold-rooms or packaging. If there is a breach or contamination, the process of undergoing an additional cleaning or site must be applied by using clay and water. As one of the largest shipping lines around the world, the APL Company has launched the certified-clean (Sertu) containers (e.g., a special sign stamped on containers) for halal shipments from Malaysia to Southeast Asia and Middle-East countries. Other logistics companies such as *Kontena Nasional*, *Gerimis Baiduri*, and *MISC* also offered the same service of Sertu in dry and refrigerated containers. Unfortunately, not many of the food manufacturers are keen on making use of the service at the moment.

An interview with a senior manager from one of the logistic companies in Shah Alam, said that *“We have offered Sertu container for quite some time, but the responds are not encouraging. Last time, we had offers from one of the hypermarkets... since we are practicing the halal logistics, they had to withdraw... That was because they are still practicing the mishmash of non-halal and halal but with the different packages.”*

To get another view about the halal and Sertu containers, we visited one of the seaports operated in Port Klang. The company’s operations manager said, *“We have a dedicated area for halal containers, which can amount to up to 50 units of forty-foot long containers... if I am not mistaken... since two years ago. But as you can see... the area still waiting for dedicated containers... the place was empty since we offered it to any container operators.... until now! Lastly, we have one operator... the Nippon Express... they have an agreement with Brahim (food manufacturer)... to make use the halal area... at last!”*

### **Halal Logistics Practice**

Studies from Jaafar (2011) and Talib et al. (2013) reveal that many of the logistics companies start to explore and invest more in halal service in their operations, such as procurement, storage and warehousing, transportation and delivery that specializes in halal products. However, the numbers of non-Muslim and Muslim companies that are interested to practice the halal logistics are not equivalent. According to HDC (2015), there are 2.35 million of halal certified products in Malaysian markets, which are being produced by 7,700 halal registered companies. As reported by HDC (2015), the value of halal export in 2014 by the non-Bumiputera was the MYR34.25 billion as compared to Bumiputera was the MYR3.44 billion. This figure shows a huge difference between those exporters and clearly that Bumiputera are still lagging behind. In order to get a picture about that, an interview with a senior manager of one of Bumiputera’s exporters had been arranged.

The senior manager agreed that most of the Bumiputera exporters must do something. He said, *“More than half of business, exporting mainly for food is not fully technology-based! That is the most important obstacle for us! Secondly, we as SME players are impossible to get access to entrepreneurial knowledge and skills, including the financial assistance! And thirdly, we need some kind of supply chain networks locally and internationally. Perhaps government should look at these matters in depth! And lastly, during last three years, we see more Bumiputera involved in halal industry, but most of them are not aware of the importance of halal certification... issued by JAKIM!”*

## **CONCLUSION**

This study was conducted to explore some current issues regarding the halal logistics in the area of Malaysian food manufacturing companies. There are three important issues gained mainly from the semi-structured interviews respectively from four companies; two of logistics service companies, a sea port and a food product exporter. The three issues are; halal certified, certified-cleaning or Sertu, and halal practices. The halal logistics issues highlighted in the study are important because it is a rapidly growing industry in Malaysia; importantly, its influence on the halalness concept that

must be applied. Understanding the issues also brought up some obstacles faced by food manufacturers and halal logistics service providers in terms of level of awareness, knowledge and financials. Moreover, the success of halal logistics is depending upon the willingness of food manufacturers to practice it as well as high demand from the end consumers. The study also found that non-Bumiputera companies, including MNCs are dominating the production of halal food. Whilst, the Bumiputera companies, which constitute less than 30% of the halal certification, should be educated and supported by government, as a strategy to adopt the halal logistics as part of their operations. By using halal platform made by government, such as halal parks and international halal trade exhibitions, these companies can expand their halal logistics practices at an international level. Although the aim for the study has been achieved, but it is limited to the small part of the halal logistics area. Further study should be carried out to investigate more issues in a wide range of those areas. Perhaps it can be completed via quantitative method with the massive survey forms to test some hypotheses.

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