

# HALAL LOGISTICS ISSUES AMONG THE FOOD INDUSTRY COMPANIES: A PRELIMINARY STUDY

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## Abstract

*The aims of this study is to expose the issues encountered on halal logistics mainly for food products as to ensure the integrity status along the supply chain network. Since halal is pertinent for the Muslim and also to the non-Muslim, it makes 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 halalness is not only applicable for preparation, but also the process of managing the storage, handling of raw materials, procurement, and transport. Those processes include either food or non-food throughout the supply chain network with a compliance of the Shariah principles. The data collection used in the paper is based from a series of interviews and publications. The study would like to contribute some new findings in the halal logistics areas as well as for the future studies. The results were also be recommended to be deeply discussed for the benefits and future practices of halal logistics companies in understanding the halalness concept.*

**Keywords:** *Supply Chain Network, Halal Logistics, Halalness Concept*

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## Introduction

Over the last decades, Muslim consumers are faced with a broad selection of products and services offered by thousands of companies worldwide. However, the finest choice selected by them must be from range of halalness 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 (Papadopoulos *et al.*, 2008; Lever & Miele, 2012; Kearny, 2010).

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Besides that, in average the non-Muslims are having a widely knowledge on halal products and services that are significantly goodness of life, rationality, hygiene, safety and environmental friendly (Aziz & Chok, 2013; Gayatri & Chew, 2013; Marzuki, Hall, & Ballantine, 2012). Currently, thousands of products and services produced at the global level have different 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 continuing to expand as resulted from the Muslim's population that roughly rise from 1.3 billion in 2000 up to 2.2 billion in the year 2030 (Pew Research, 2011).

Similarity to the halal market value which now is 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 or transportation is part of the halal logistics function where involves the overall supply chain network right from the origin to final consumption, "from farm to fork" (Talib *et al.*, 2013). Halal logistics as described by Tieman (2013), is not much different with 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 an infant 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).

This paper aims to preliminary exposing the issues encountered on halal logistics in Malaysia mainly for the food industry. Data collected for the study are obtained from primary sources of series of semi-structured interviews and secondary sources (publications).

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

Malaysia is one of the Islamic background countries which 61% of the overall population of 30 million are Muslim (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 non-Muslim producers and manufacturers (Mohamad, 2013). This indirectly led to Muslim society, depending their lawful fate of the halal and haram to the hands of those producers. Although there are various parties responsible to keep the halalness, but nevertheless there are some issues striking inequalities of the management courses in various aspects such as processing, packaging, transportation, storage and delivery.

Therefore, it is extremely important for the government and its agencies to help the entrepreneurs from a Muslim background, particularly the Bumiputera to participate in the production of halal food and services. This in turn would offset the power supply which is owned by the existing manufacturers from 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 are granted. Based on that number, 5400 companies have approved to make use the halal certifications and 87.8% of them are coming

from Small and Medium Enterprises (SMEs) but less than 10% are Muslim entrepreneurs. This statement is aligned with Tieman's findings where he did mention that the most parts of the food supply chain, including farming, food manufacturing, restaurants, logistics, and retail chains are dominated by non-Muslim countries and businesses (Tieman, 2015). **As an example**, several large multinational companies such as Tesco, Kelloggs, Carrefour's, Nestle, KFC, and McDonalds, at this moment have dominated more than 90% of the halal global market in Muslim and non-Muslim countries.

In 2013, Malaysia has exported MYR32.84 billion worth of halal products and increased about 14.8% or up to MYR37.69 billion in 2014. Most of the Malaysian halal export value is dominated by several markets group such as APEC (Asia-Pacific Economic Cooperation), OIC (Organization of Islamic Cooperation), TPSEP (Trans-Pacific Strategic Economic Partnership), ASEAN and EU. 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. Among the drivers of the halal development industry were also derived from a high demand and awareness of consumers' intention to purchase halal brands (Aziz & Chok, 2012) and the high halal level of awareness, knowledge and attentiveness of the entrepreneurs (HDC, 2015).

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

Halal logistics management is subsequent the Shariah Laws that involving with the new series of activities alongside the transportation, product production, processing and packaging, storage and warehousing, inventory, scheduling and distribution, retailing and delivery and consumer service (Tieman, 2013; Talib *et al.*, 2014; Talib *et al.*, 2015). By that the Malaysia government has launched the MS1500:2004 (Malaysian Standard, 2004) prescribes the general guidelines in 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 becoming a new important industry. Other than Penang Port (the first halal port in Malaysia), Port Klang (North Port) and the Port Klang Free Zone (PKFZ) are two areas that have been designed to promote Centerport 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 had operated 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).

## Halal Logistics Issues in Malaysia

### Halal Certification

In general, the halal certification issued by JAKIM is not compulsory for product and service producer, manufacturer, distributor, trader, repackaging, food premise, and abattoir but it is encouraged by the willingness (JAKIM, 2015). From overall number of 5400 certified halal companies recorded in the HDC, less than 30% of them are Bumiputera entrepreneurs. This has shown that non-Bumiputera 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 around the globe. Unfortunately, many of Bumiputera entrepreneurs that mostly coming 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 term 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 oversea demand! On the other hand, I think we (Bumiputera) entrepreneurs are still having a negative rationality on halal certification procedures! They are also lacking of 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 works to support these companies!"*

### Certified-Cleaning

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 undergo an additional cleaning or site must be applied by using clay and water. As one of the largest shipping lines in the world, the APL Company has launched the certified-clean containers (e.g., certain sticker 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 offers the same service of sertu in dry and refrigerated containers. Unfortunately, not many of the manufactures are keen to make use the service at the moment.

An interview with a senior manager from one of the companies said *"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 different packages"*. To get another view about the halal and sertu containers, we

have visited one of the seaports. And the company's operations manager said *"We have a dedicated area for halal containers which can amount 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... empty since we offer it to any container operators.... until now! Lastly, we have one operator... Nippon Express... they have an agreement with Brahim (food manufacturer)... to make use the halal area... at last!"*

## **Halal Practices**

Studies from Jaafar et al. (2011) and Talib et al. (2013) reveal that many of the logistics companies start to explore and invest more halal service in their operations, such as procurement, storage and warehousing, transportation and delivery that specialized for halal products. However, the number 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 produced by 5400 halal registered companies. As reported by HDC (2015), the value of halal export in 2014 by the non-Bumiputera was MYR34.25 billion as compared to Bumiputera was MYR3.44 billion. The large differences between them shows that Bumiputera exporters are lack of few steps behind. To get a picture of the matter, an interview with a senior manager of one of Bumiputera's exporters has been arranged.

He said *"More than half of business exporting mainly for food are 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 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 the importance of halal certification... issued by JAKIM!"*

## **Conclusion**

This study was conducted to explore some current issues among the halal logistics areas in the Malaysian food industry. 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 different committees between non-Bumiputera and Bumiputera are clearly exposed in terms of their level of awareness, knowledge, investment, technology-based and taking an opportunity.

Most of the Bumiputera companies should be supported by government, especially the SMEs to adopt halal logistics as part of their operation. By taking advantages of halal infrastructures, these SMEs and logistics companies can expand its halal logistics and supply chain network globally. Finally, the study found that the issues in the halal logistics areas including the production of food remain to be resolved by the halal practitioners in the halal development to ensuring the potential of halal hubs in Malaysia.

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