

The Influences of Islamic Practices on Halal Supply Chain Integrity: A Study from the Perspective of Herbal Food SMEs in Malaysia

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Abstract- This paper provides a thorough discussion and proposes a conceptual framework examining the relationships between herbal-based SMEs' Islamic practices on halal supply chain integrity and firms' performance. The framework is established to fill the gap of most recent halal studies that are merely focusing on halal supply chain integrity (HSCI) and examining the influence of supply chain integration (SCI) on halal supply chain integrity (HSCI) and firms' performance. However, very few relevant studies have investigated the role of human capital in influencing halal integrity in the supply chain, from perspective of Islamic practices. This paper will shed some light on measuring determinants of HSCI from Islamic perspectives, consisting of four dimensions, namely Islamic education, Islamic motivation, Islamic business training, and business experience. The proposed conceptual framework provides a significant sign that to strengthen the halal supply chain integrity, the halal certification solely is not enough. It requires a force beyond the certification. Human capital from Islamic perspectives should be considered to support other comprehensive supply chain elements and to reflect actual conditions of the firms' performance. With the business owner's Islamic practices, it promotes effective interaction between the business owners and their employees to demonstrate ethical and integrity into the work to reach higher products integrity and optimal performance.

Keywords- Business owners, Islamic practices, halal integrity, halal supply chain

1. Introduction

In most developing countries, 90% of firms are classified under small medium enterprises (SMEs) and these firms are microenterprises [35]. Small medium enterprises (SMEs) have become an important sector in developing countries particularly Malaysia. In Malaysia, 98.5% of the business establishment are SMEs which cut across all sizes and sectors [27]. Mostly, SMEs are focused in different sectors such as services (89.2%), manufacturing (5.3%), construction (4.3%), agriculture (1.1%), and mining and quarrying (0.1%). Malaysian SMEs have been backbone to the country and contributed significantly to the country's

economic growth. The SMEs' contribution to the country's GDP in 2016 was about 36.6%, only a 0.3% increase from 36.3% in 2015 and it is expected to increase to more than 37% in 2018. The export value also has increased to 18.6% in the last two years compared to 17.7% only in 2015. These figures showed that SMEs has become another economic generator for the country.

Among various business sectors, agriculture sector particularly herbal industry in Malaysia, has become another economic generator and has the potential to become a significant industry [25]. Realizing small scale herbal entrepreneurs promising future in the Malaysian agriculture, Malaysia has initiated the high value herbal products initiatives under the Economic Transformation Program (ETP) new key economic areas (NKEA) EPP1 [26][30] which emphasizes on improving product quality and marketing efforts to tap the global demand in the dietary and herbal supplements as well as the botanical drugs in the upstream and downstream segments. Malaysia herbal industry generated gross profits of more than RM 5.4 billion in a year. Besides, it is forecasted that herbal local markets to grow around RM29 billion by 2020, 15% more than RM7 billion in 2010 [16]. One of the essential key that forced the growth of the herbal industry is consumers' lifestyle. People nowadays is more emphasize on health and natural as well high cost of the modern medicines. [44] indicated that almost 80% of the world's population depends on herbal medicines to heal their sickness. Based on these facts, the herbs industry has tremendous potential growth.

Malaysia is well known for its rich natural resources and dense forests. According to [33] the rich flora of Malaysia includes 15,000 known plant species, of which 2,000 species have medicinal value and high potential for commercialization. With a unique combination of the multi-racial nation, the herbal industry creates a great opportunity for the development of herbal industry. The Chinese with their traditional Chinese herbal medicine, the Indians used the Ayurveda medicinal system while the Malays with Jamu, traditional Malay medicines, and Islamic medication system. Thus, the herbal industry, as it is growing interest in the potential of the market has

quicken the move towards the development of global standards. The herbal industry supply chain needs to fulfil the various standard requirements in the market. Each stage in the supply chain is controlled by a standard like Good Agricultural Practices (GAP), Good Manufacturing Practices (GMP), International Standard of Organization (ISO) and Halal Certification by authorised authorities to obtain a consistent quality and reliability of end herbal products. It can be said that proper strategies, regulations, and standards set by the regulatory bodies are essential to enhance the Malaysian halal herbal industry. However, ensuring halal integrity remains the biggest challenge [40], particularly the halal herbal industry. Thus, this study aims to propose a conceptual framework examining the relationships between herbal-based SMEs' Islamic practices and halal supply chain integrity.

2. Literature Review

2.1 Human Capital Development Issues in Halal Industry

Within the halal certified companies, entrepreneurs understanding on the concept of entrepreneurship in Islam is important in managing and executing halal business and services including halal logistics and supply chain [20][24]. The business owners or entrepreneurs must perform business not solely for profit. They should have religious spirituality along with economic needs to serve their communities and fulfill religious duties [31]. This important function should always be the priority of entrepreneurs mainly small and medium enterprises (SMEs) that involve in halal businesses to ensure the interest of all parties in a business transaction. Through the Islamic entrepreneurs' skills, knowledge, and experience, the small scale firms generally will have a better understanding of their business objectives. In halal business operations, the firms must comply with the Shariah law. It means that any processes or activities in the manufacturing firm must not harmful and safe to be consumed as stressed by the Shariah law, and thus is permissible or allowable. Furthermore, the food products must be produced in a pure, clean and safe way by using equipment that not contaminated with any non-halal or *haram* [11]. All these need to be strictly followed by both the management and operation staffs to ensure the integrity of food products along the supply chain.

However, recently, there were number of unethical issues among herbal based foods were discovered and received the public's attention. As an example, [21] claimed that cheaper ingredients or dust are added to the ground up pepper and then shipped across the world. These peppers are bleached in mass with hydrogen peroxide in which looks like a cement mixer. Furthermore, chickens are seen in the footage to be running around while grinding, storing and drying is taking place in pepper industry. Another incident has been shaken the consumers when the Malaysian government seized imitation of fake herbal teas sold in Singapore in a raid [6]. Not only that, Malaysian

favourite instant coffee product with Tongkat Ali has been recalled in United States a year ago. The instant coffee which is said to contain three herbs has been voluntarily recalled by its distributor following the reported death of a consumer [19].

Observing all these problems, the causes of the unethical incidents are investigated. According to the Department of Islamic Development Malaysia [14] activities of the supply chain such as processes, manufacturing, and packaging, receiving, handling, storing and delivery of products must be verified and certified as *halalan toyyiban* by authorized persons. Nevertheless, it is argued by many researchers of relevant halal studies that halal personnel are lack of awareness on halal concepts and understanding the halal supply chain covering activities like procurement, sourcing of raw materials, storage, and transportation [10][12]. Furthermore, [4] highlighted the needs of knowledgeable personnel that equipped with halal related education because the halal industry in Malaysia is facing a shortfall of knowledgeable personnel who understand the Shariah concepts and know how to implement into real industrial practice. Not only the industry is facing the shortage of suitable halal consultants, but their skills and competencies are also questionable due to inadequate standard criteria for halal personnel. The lack of halal related knowledgeable person among the management and staffs have triggered some business to manipulate the halal business for the sake of profit. This is clearly indicated that practices of Muslimpreneurs are necessary for ensuring halal firm performance. As indicated by [41] from an Islamic perspective, human capital is the integration of physical and spiritual which means a better person equipped with technical knowledge, skills, and good values as taught in Islam religion.

2.2 Definition of Human Capital

[36] defined human capital as the ability and efficiency of people to transform raw materials and capital into goods and services through the educational system that they have gained either formal education, off-the-job, and on-the-job training. Education is an essential determinant of an individual's productivity which has significant relationship towards organizational growth. More recent studies have confirmed that knowledge enhances the capabilities and capacities of people to perform as well as determine the effectiveness and efficiency of services provided. This is the most challenging part for any of business [45][22]. In fact, several past studies particularly in the labor economic theory, reporting that skills and knowledge are necessary which can be used to increase productivity and employment probabilities [32]. [15] argued that human capital is a collection of resources embedded in people. It consists of knowledge, talents, skills, abilities, experience, intelligence, training, and wisdom possessed collectively by individuals in a population, an organization or a country. In view of above definitions, human capital refers to people with ability in terms of knowledge and competencies, whom may be highly skilled, creative, motivated and

collaborative and knowledgeable people who understand the dynamic business environment context. These people enable to understand and realize their own job duties and responsibilities. These collective values would represent a form of wealth which can be directed to accomplish the goals of the nation, an organization or a university. Thus, they continually learn, develop, share, integrate and use their knowledge both individually and collaboratively to cultivate enterprise competencies/capabilities, innovation, expertise, and speedy business processes in a proactive manner.

2.3 Relationship between Human Capital and Halal Supply Chain Integrity

Mostly, in halal small and medium enterprises (SMEs), business owners play a prominent role in facilitating halal integrity. They must possess strong and diversify characteristics of leadership styles. The practices of the entrepreneurs must be according to Shariah compliance such as Halal management, Halal production, and Halal logistics. Concerning the matter of Islamic practices among the business owners', they need to understand religious dimension beside economic dimensions where business owners meet their economic need, serve their communities, and fulfill religious duties. Thus, by having resources including human capital that possess motivation, skills, education, and experience, the owners of SMEs could enhance halal supply chain integrity and contribute to the optimal performance. Following this discussion, the study hypothesized that: -

H1: Owner's Islamic practices have a positive relationship in strengthening halal SC integrity.

2.3.1 Islamic Motivation

There is a large volume of published studies describing the theory and concept of motivation. [43] described motivation as the action of an individual in a certain way is based on their expectations where the outcomes generated from the action will be followed by an individual. Further, [13] defined motivation as a set of forces that lead people to act in a certain way while [8] indicated that motivation can add value to firms' performance. Thus, motivation is a key that drives the inner force of an individual to accomplish and achieve both personal and organizational goals. From the human capital perspective, the business owners' put together their beliefs that may explain the logic and sense of one's behavior. This mainly involves an individual's behavior or actions within the business. According to Islamic perspective, an entrepreneur's motivation in halal business reflects as a Muslim to earn money by carrying out the task to Almighty Allah SWT as well as pay responsibility towards all other Allah's creation which lives on the earth [7]. Accordingly, based on the discussions, the study hypothesized that: -

H1(a): Owner's Islamic motivation has a positive relationship in strengthening halal SC integrity.

2.3.2 Islamic Business Training

In an organization, entrepreneurship training should be given to all levels to increase the entrepreneurial spirit and understand the direction of the business [37]. According to [34], attending relevant training can add value to the entrepreneur's skills, knowledge, and network as well training can be useful to develop commercial activities and obtain new and better management technique. In addition, according to [38] by attending specific training, it may motivate and encourage the employees to grow in their area of interest as well change their actions in the workplace which may give a positive sign on the firm's productivity. From the Islamic perspective, Islamic training including moral and spiritual development of an individual and demonstrated eventually into physical development. Based on the needs of new job-technical knowledge, entrepreneurs need to obtain continuous training to get new skills for the organization. Halal logistics and supply chain is a newly developing concept in the industry where the person who provides the service should gain knowledge of halal and Shariah standards. These will serve as the core knowledge in conducting halal business. Even most of the training methods are rely on Western techniques, it could be integrated with Islamic model [2] Islamic related training and development are required as it can increase a person's belief in God. The Muslims entrepreneurs should work with full capacity, eagerness, and sincerity to achieve greatness and success for themselves, as well as for the society, and more importantly for the life in the Hereafter. Thus, the proposed hypothesis is: -

H1(b): Owner's Islamic business training has a positive relationship in strengthening halal SC integrity.

2.3.3 Islamic Education

Business owners' who have acquired better education level will ensure efficiency in their work and enhance skills [39]. The formal education background would be essential for business owners' to develop new discipline into their business through innovation, knowledge, and skills. However, [28] suggested that most business owners or managers do not give much attention to their education. These owners/managers mainly operate their businesses based on their beliefs and past experiences. [31] described education has a positive influence on firm performance and business growth. Particularly, in small firms, business owners' act as a gatekeeper. Relevant studies showed that entrepreneurs' knowledge and skills can drive motivation which positively influencing communication and support the organization's business activity [5][17][29]. In a halal business, entrepreneurs Islamic education determines individual ethical and moral behavior together with formal and logical. To guarantee the integrity in halal operations, the entrepreneur's Islamic education background would add advantage to individual's actions in terms of sincerity, simplicity, autonomy, solidarity, and self-control. By having formal education together with Islamic knowledge and skills would be helpful for business owners' in making

strategic decisions to strengthen the integrity in halal business. Thus, the proposed hypothesis is: -

H1(c): Owner's Islamic education has a positive relationship in strengthening halal SC integrity.

2.3.4 Business Experience

A business owners' experience is primarily derived from observations and skills as well as knowledge gained in previous workplaces. It is believed that working experiences have a significant impact on a firm's growth [9]. The logic behind this is entrepreneurs successful actions or strategies influenced by business experience. Their previous experiences help to mould mindset in a different way. This helps them to act differently compared to those who have less experience, as they often referred to past experiences in making any decisions within the current organization. [18] summarized that previous experience will be very useful business planning and management. It will give value added to the business operations as past experiences can teach and improve the current systems. Thus, the proposed hypothesis is: -

H1(d): Owner's business experience has a positive relationship in strengthening halal SC integrity.

3. Conceptual Framework

In the context of halal approaches, ensuring the integrity of halal food is challenging over the long and complex supply chains [3]. Standards and regulations alone will not either sustainable or effective in the long run to mitigate the food quality risks and supply chain vulnerability. Human capitals in halal firms are required to obtain general and specific knowledge and pose interpersonal relationships to add valuable position and better performance. It is not easy to imitate and replace one's knowledge as the growth of human capital influence by unique processes that are related to firms' strategies, cultures, and individual experiences. Firms with outstanding human capital will perform better than their competitors. It is believed that with capable Islamic business, owners may strengthen the halal supply chain integrity and offers optimum supply chain performance.

The element of Islamic practices is constructed as an antecedent with halal supply chain integrity. This is because, in the context of halal business, the owners must possess a strong and diversify characteristics of Islamic leadership practices. A religious owner may influence other employees and guide their ethical behavior, such as communicating ethical standards and disciplining employees who demonstrate unethical behaviors. [1] considered the owners characteristics of human capital constitute a key determinant of business success and give a positive impact on firm's performance. [11] highlighted that to strengthen the entrepreneurial activity from the Islamic perspectives, the elements of Shariah Law must be practiced. Therefore, the needs of owners or top

management and managers with the special ability to understand the Shariah Law are much demanded. In line with the above discussions, the proposed conceptual framework of this study is showed in Figure 1.

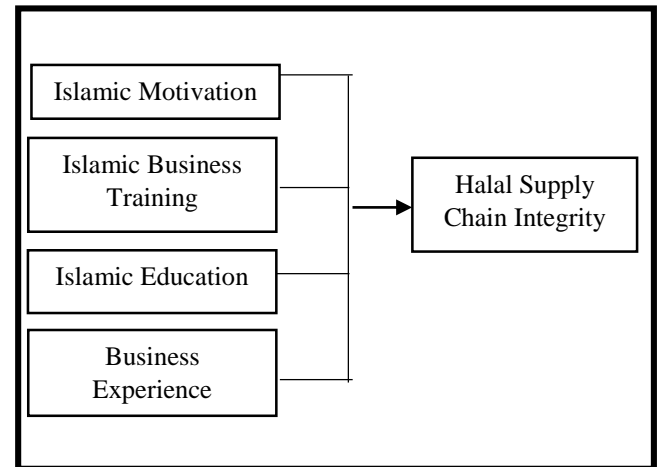


Figure 1: Proposed Conceptual Framework

Based on the proposed conceptual framework (Figure 1), it could be further confirmed based on studies by [31][23] that the influences of human capital and Islamic practices on firm's performance are crucial. The conceptual framework proposed that human capital from Islamic perspectives should be considered to support other comprehensive supply chain theoretical frameworks to reflect actual conditions of the industry. Thus, the proposed conceptual framework examines the independent influences of Islamic human capital practices on halal supply chain integrity in a firm with regard to its performance. This conceptual model provides an insightful foundation for the analysis of factors influencing halal supply chain integrity.

4. Conclusion

Human capital is important in building social and economic growth in the halal herbal industry. In line with government objective on enhancing the halal industry, apart from obtaining halal certificate, other factors are important in ensuring the integrity of the industry. This paper highlighted the formal education with Islamic knowledge and skills and halal related training are crucial determinants in the halal herbal industry. These determinants are needed to develop halal knowledgeable entrepreneurs so that they able to suit themselves into the real halal herbal industry and current halal business environment. Besides, as an entrepreneur, the capability of motivating and nurturing others to get them to work together to achieve firms' goals are deemed necessary. Therefore, an entrepreneur who possess Islamic motivation can lead and motivate employees in the right direction to oblige with Allah SWT and thus, lead to firm's performance.

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