



The Urgency of Halal Labelling for MSMEs in the Culinary Industry: Evidence from Demak Indonesia

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ABSTRACT

This study aims to scrutinize the critical need for halal labeling for the community, particularly Muslim MSMEs stakeholders in the culinary industry. As a result, it can be used as a reference for obtaining halal product certification from the certified authority. This study also contributes to culinary MSMEs owners in improving product quality for customers' satisfaction. For MSME customers, halal labeling provides a level of trust and comfort in consuming culinary products. This study employs a descriptive qualitative method and elicited the data by interviewing MSME owners and consumers in Demak Regency, Indonesia. The results reveal that products with halal certification reflect higher levels of hygiene, making them superior products. Moreover, these certified products are able to gain access to the targeted market as requested by culinary MSME owners. Culinary MSME owners in the culinary industry possess an understanding of the procedures required for obtaining halal certification. In addition to culinary MSME owners, consumers also need halal labels as part of an integration process that combines information regarding potential habits, such as purchasing decisions. Therefore, the use of halal labeling can benefit all involved culinary MSME stakeholders.

Keywords:

Halal labeling; Halal culinary products; MSME stakeholders; Culinary MSMEs.

1. INTRODUCTION

The economic sector in halal food produced by Micro, Small, and Medium Enterprises (MSMEs) presents an emerging potential to boost economic growth. Thus, the Indonesian government is actively promoting the growing popularity of the domestic halal food and beverage industry to encourage the growth of the halal business. Central Java encompasses various MSMEs, including culinary, fashion, embroidery, cloth, and many others.

According to data from the Department of Cooperative and MSMEs of Central Java Province (Dinkop UMKM Jateng, 2022), MSMEs significantly contribute to regional economic growth [4]. These statistics demonstrate the significant impact of the business sector, with

101,588 units comprising 99.99 percent of all enterprises. Employment absorption is also substantial, with 617,184 people representing 96.78 percent of the workforce. Further, the sector contributes 39.9 percent to the overall value of the economy and performs a major part by contributing to 60.85 percent in the gross domestic product (GDP) from the production of non-oil and gas (Pujiono et al., 2018) [10]. In 2022, the number of UMKM products in Central Java province was recorded at 4.2 million units. The total number consists of 3,776,843 micro business enterprises (90.48%), 354,884 small-sized enterprises (8.50%), 39,125 medium-sized enterprises (0.94%), and 3,358 large-scale enterprises (0.08%) (Dinkop UMKM Jateng, 2022) [4].

Despite the significant presence of MSMEs in Central Java, many do not possess halal certificates. The majority of MSME owners are still unaware of the efforts being made to implement this labeling (Syafitri et al., 2022) [17]. They only believe that the products they produce are truly halal, even without official halal certification from the related authority. Indeed, the acquisition of halal labeling certifications by MSME owners may greatly facilitate their ability to compete in the national market and even expand into the international market (Syafitri et al., 2022) [17]. Demak Regency has a total of 13,018 MSMEs, with 14,438 male workers and 252 female workers. Demak is one of the regencies in Central Java province that has several MSMEs, including MSMEs in the sectors of trade and repair, livestock, agriculture, fisheries, rentals and contractors, accommodation, food and beverages, services, and other sectors (Dinkop UMKM Jateng, 2022) [4].

Researchers have conducted several studies on halal labeling, among them by Salam et al. (2022) [13]. This study employed a qualitative methodology to demonstrate that halal labeling on food and beverage products produced by MSMEs in Sampang Regency substantially boosted consumer preference for these products. In line with that research, Febriyanti and Rohmanu (2021) conducted a study in Pulung Ponorogo District to investigate the halal labeling of culinary MSME products in Pulung Ponorogo District [5]. Their findings showed that the labeling practices carried out by business owners followed the three basic ideas of the symbolic interactionism theory from Herbert Mead. The results of this study demonstrate that the actions taken by business owners are derived from cognitive processes (mind) regarding their own identity (self) and then implemented within the broader community (society) where the individual is located. The factors behind business owners carrying out halal labeling practices follow the three basic premises of the symbolic interactionism theory proposed by Blumer (Dasipah, 2017) [3].

Ihsani's study (2021) further supports the aforementioned research on the implementation of halal labeling in the growth of culinary MSMEs in Bandung [6]. The study indicates that the Government and relevant organizations are actively working on their initiatives to achieve the envisioned number of halal labels to cater to the international market and attract foreign tourists. In the next 5-10 years, the estimated time period is expected to achieve 50-70% for becoming one of the world's halal tourist destinations. In addition, Mustafa (2021) conducted an additional study examining the government's role in empowering MSMEs [9]. This involved providing funding resources to banks and the private sector, offering assistance with facilities and infrastructure to MSMEs, and conducting outreach on business permits, funding, and promotion in order to empower MSMEs in Sidraop Regency.

The halal labeling on culinary products from MSMEs in Demak Regency has not been completely recorded in the MSME data collection. Special attention should be given to the lack of data on culinary MSMEs, particularly those that are halal designated. Hence, it is essential to determine how crucial it is to set up halal labeling for MSMEs and consumers. Considering the current condition that the majority of individuals in Demak are Muslims, it is crucial to enforce the practice of halal labeling on all products for consumption.

2. LITERATURE REVIEW

2.1. Halal Labeling

According to Ministerial Regulation No. 69 of 1999, a halal label refers to any visual representation, such as images, text, or a mix of both, that is attached to the outside packaging of a product. According to Article 10 and Article 9, businesses engaged in producing and packaging items intended for sale in Indonesia must ensure that the products are halal and authorized for consumption (Anggraini & Suryoko, 2018) [2]. Thus, it is essential that the product packaging has halal certification information.

The Indonesian Council of Ulama (MUI, *Majelis Ulama Indonesia*) protects consumers by establishing the Assessment Institute for Food, Drugs, and Cosmetics (LPPOM MUI) in 1989, ensuring halal product consumption (LPPOM MUI, 2022) [7]. Furthermore, MUI supervises the licensing of different processed food products by MSME entities to ensure they comply with halal label authorizations. This statement aligns with Presidential Decree No. 23 of 1991 concerning the Coordination of Health Matters by the Republic of Indonesia Coordinating Minister for People's Welfare (Menko Kesra) in collaboration with MUI (Anggraini & Suryoko, 2018) [2].

2.2. Micro, Small, and Medium Enterprises (MSMEs)

As defined by the law, MSMEs are vital to the economy and contribute to the pursuit of justice. MSMEs refer to productive enterprises operated by people, organizations, families, or small companies that fulfill the criteria for being classified as micro businesses (Sarfiah et al., 2019) [14]. MSMEs are defined differently based on the perspectives of different organizations, institutions, and even legal systems. As to Law number 20 of 2008 on MSMEs, MSMEs are described as as follows:

1. Micro-enterprises refer to productive businesses owned by people and/or individual business entities that fulfill the specific conditions outlined in this Law.
2. A small business refers to an independent and productive economic venture conducted by individuals or business entities that are not subsidiaries or branches of MSMEs, Medium Enterprises, or Large Enterprises but instead comply with the conditions stipulated in the Law for small-sized businesses.
3. A small business refers to an independent and productive economic venture conducted by individuals or business entities that are not subsidiaries or branches of MSMEs, Medium Enterprises, or Large Enterprises but instead comply with the conditions stipulated in the Law for small-sized businesses.

As per Law Number 20 of 2008 Article 6, micro-enterprises are defined by their financial status and sales performance. The qualifications for micro businesses include having a maximum net value of IDR50 million, excluding property and buildings used for business premises, with annual sales results not exceeding IDR300 million. The eligibility requirements for small enterprises include a minimum net value of IDR50 million and a maximum net worth of IDR500 million, excluding property and buildings used for commercial purposes. The business's annual revenues range from IDR300 million to IDR2,5 billion. Meanwhile, medium-sized businesses are defined as having net assets ranging from IDR500 million to a maximum of IDR10 billion, excluding buildings and property used for business premises. On the other hand, they can have annual sales results ranging from IDR2,5 billion to a maximum of IDR50 billion (Rido & Sukmana, 2021) [12]. MSMEs in Indonesia have a strategic advantage because they do not require large amounts of cash like bigger enterprises, hence making establishing a business less challenging. The required workforce does not need specific formal educational qualifications. Furthermore, most of these businesses are situated in rural areas and do not require the same infrastructure level as bigger enterprises. Furthermore, throughout Indonesia's economic crisis, MSMEs shown remarkable resiliency (Sarfiah et al., 2019) [14].

2.3. MSME Owners

MSME owners have a significant impact on the mentoring process to enhance their digitization capabilities. Therefore, it is crucial for them to be directly involved in the decision-making process between social platform service providers and MSME actors. This mentorship process should align with the aims of creating a favorable environment and enhancing current capabilities to take full advantage of its potential for economic digitalization (Ratnawati, 2020) [11]. In general, MSMEs create a sustainable community that is passed down as a family business, but some MSMEs are founded independently with no prior family influence (Anggraeni, 2022) [1]. The location of the MSME

is determined by the ease with which raw materials can be obtained, such as culinary MSMEs in Demak Regency. The success of the Culinary MSMEs depends on whether or not the MSME actors understand what business they are operating. MSME actors must be able to figure out environmental changes in order for MSMEs to adapt to these shifting circumstances.

The business environment may be categorized into two types: the external environment, which includes the remote environment and the industrial environment, and the internal environment, which includes the characteristics within the scope of MSMEs (Pujiono et al., 2018) [10]. In order to proactively address potential issues, marketing strategies are used to enhance the empowerment of MSMEs. These strategies serve as a means to promote the competitiveness of MSMEs. Strategy is a way to overcome challenges by deciding on the most effective ways to survive and thrive, prioritizing markets, customers, businesses, and products to focus on. A business's performance depends heavily on the presence of a competitive strategy. To improve competitiveness, business entities must leverage unique advantages throughout four stages of customer engagement: customer awareness, customer sensitivity, customer alignment, and customer partnership (Utami, 2021) [19].

Furthermore, MSMEs may utilize critical resources to enhance their competitiveness and ensure customer satisfaction. These resources include customer-centricity, commitment to excellence, emphasis on convenience, focus on innovation, dedication to service, and prioritization of efficiency. Therefore, understanding marketing strategies and business practices to attain a competitive edge is crucial for obtaining a successful business. In order to enhance marketing strategies, marketing professionals engage in three crucial actions: (1) contributing to the analysis phase to determine strategic planning; (2) collaborating with other members of the business unit team to provide services to consumers; and (3) enhancing and executing strategic marketing plans in the market (Sianturi, 2020) [15].

3. RESEARCH METHOD

This study employs a qualitative method in the form of field research. This study aims to examine the importance of halal labeling for those in the MSME sector, the process for obtaining halal labeling, and the effects of halal labeling on both MSME actors and customers who purchase their products. This study aims to investigate the significance of halal labeling in relation to government initiatives in regulating MSME owners' business permits and halal labels. Researchers collected the data by gathering information and research data from culinary MSME stakeholders in Demak, Indonesia. The data used for this study are comprised of both primary and secondary sources. The collection of primary data involved conducting direct interviews with informants (Wahid, 2017) [20]. The primary data were collected from informants (Sugiyono, 2005), particularly staff members of the Ministry of Religious Affairs of Demak Regency, culinary MSME owners, and customers of halal products [16]. The secondary data were acquired from journal articles and literature that are relevant to halal labeling and MSMEs.

4. RESEARCH FINDINGS

4.1. The Urgency of Halal Labeling for Culinary MSMEs in Demak

The issue of halal labeling is an urgent concern for Micro, Small, and Medium Enterprises (MSMEs) in Demak Regency. In order to enhance customer trust and gain a competitive edge in the market, MSMEs must ensure that their culinary products hold a valid license for business and have been certified as halal. Furthermore, MSME products that have the halal certification are expected to experience enhanced market acceptance, particularly among Muslim customers in both domestic and international markets (Nurul Qomariyah, MSME owner, Personal communication, April 5, 2023).

MSMEs in the culinary industry that have acquired halal certification are eligible for support in the process of obtaining halal labeling for their culinary products. The use of

halal marking on culinary food products provides significant advantages for MSME owners. Implementing halal labeling may enhance product competitiveness and boost production revenue, hence increasing the number of sales. The implementation of halal labeling can provide additional advantages for the government by generating contributions to government income. The use of halal labeling can improve the perception of MSME products among the general public and will directly and indirectly impact customer preferences, desires, and purchase decisions. The greater the number of individuals who endorse the use of MSME products with halal labels, the higher the demand for their products will be, resulting in an upsurge of revenue from sales (Yuwana & Hasanah, 2021) [21].

4.2. The Need for Halal Labeling for Culinary MSMEs in Demak

As the awareness of religion and spirituality develops, Muslim consumers become more capable of making discerning choices when selecting culinary MSME products. In Indonesia, Muslim customers are protected through an organization that provides halal certification for culinary food products, allowing them to make informed choices. The organization that provides such certification is the LPPOM MUI. This establishment offers halal certification services that allow products to be labeled as halal. From an Islamic standpoint, it is essential to consume products that are genuinely halal and inseparable from the principles of Islam. Muslim consumers' religious beliefs play a significant role in shaping their behavior, lifestyle, taste, attitudes toward others, resources, and ecology (Toyo, 2019) [18].

MSME owners can potentially get several advantages from halal labeling, including the establishment of a Unique Selling Point for their product, access to the global halal market, expansion into several Muslim nations, and enhanced trust among consumers. Halal labeling must be used to boost product sales. This can improve more customer trust when selecting and purchasing our products (Ika Murniati, MSME owner, Personal

communication, July 14, 2023). The significance of this halal labeling relates to the process of culinary MSME owners in Demak Regency obtaining halal certification and the impact of halal labeling on both MSME owners and customers in the same area.

The implementation of halal labeling for culinary products by UMKM actors in Demak Regency plays a crucial role. It serves as a means for producers to fulfill their responsibility towards Muslim consumers, as the halalness of culinary products is vital to the religious teachings and values of Muslims. This labeling system enhances consumer trust and satisfaction, improves the reputation of culinary products, and enhances the competitiveness of UMKM actors in the culinary industry. Labeling culinary products as halal can serve as an effective instrument for marketing and sales, particularly in broadening the market reach (Kisfakiya, MSME owner, Personal communication, July 14, 2023).

4.3. Procedures for Halal Labeling Ownership by Culinary MSMEs in Demak

The institutions that offer certification for halal labeling are the Halal Product Assurance Organizing Body (BPJPH, *Badan Penyelenggara Jaminan Produk Halal*) under the auspices of the Ministry of Religious Affairs of the Republic of Indonesia (Kemenag RI), and LPPOM-MUI, and many other Halal Inspection Agencies (LPH, *Lembaga Pemeriksa Halal*). In Demak Regency, every culinary product that displays the halal label from the Institution must meet the requirements and criteria set by the halal management team in order to obtain approval. The necessary prerequisites for culinary MSMEs owners in Demak to obtain halal labeling include possessing a Business Identification Number (NIB, *Nomor Induk Berusaha*), providing a photocopy of their Identity Card (KTP, *Kartu Tanda Penduduk*), submitting a Curriculum Vitae (DRH, *Daftar Riwayat Hidup*), presenting a copy of the halal provider certificate, providing a copy of the halal supervisor decision, outlining the name and type of product, providing a list of products and their associated names, and demonstrating a

clear product management process. The requirements for categorizing culinary MSME products as halal include a halal policy, a halal management team, training and education, appropriate materials, suitable products, adequate production facilities, documented procedures for critical activities, traceability, proper handling of products that do not meet the criteria, internal audits, and management reviews (Kisfakiya, MSME owner, Personal communication, July 14, 2023).

Regular inspections will be conducted to ensure compliance with current regulations in the production of culinary products by MSMEs in Demak, with a specific focus on halal labeling. Furthermore, MSMEs might enhance their consistency in utilizing truly halal materials that are appropriate for customer consumption. MSME owners in Demak Regency have the opportunity to engage in collaborative efforts with other MSME actors in order to produce culinary products. This is done in compliance with the regulations that ensure a true representation of halal and culinary products permitted for consumption. Islamic business standards are ethical ideals derived from the Qur'an and As-Sunnah utilized in commercial activities that conform with Islamic teachings. The fundamental concepts of Islamic business ethics embrace unity, balance, discretion, responsibility, truth, virtue, and honesty.

Consequently, a halal certificate can be made to guarantee the halal status of the culinary food product, and the packaging of the product must display a halal label. The halal certification enables customers to differentiate between halal and non-halal products. As to Law Number 18 of 2012, food is considered the most essential and fundamental human need, and ensuring its provision is recognized as a fundamental right for all people of Indonesia. The paper defines food as any substance derived from agricultural, plantation, forestry, fisheries, or livestock sources, which can be processed or unprocessed and consumed by humans as food or beverage. This includes food additives, raw materials, and other substances used in food and beverage preparation, management, or production.

4.4. Contribution of Halal Labeling for MSMEs and Consumers in Demak Regency

Halal labeling offers advantages to MSMEs, including halal information that can enhance the sales value of culinary food products. This implies that the marketing process is simplified regarding market entry and market segmentation. A dependable marketing strategy is essential for marketing a culinary MSME product, as the production process may be halted if the culinary food product is not in high demand in the market (Utami, 2021) [19].

Consequently, it is crucial for MSMEs to possess a comprehensive understanding of market segmentation. In order to ensure that their products are in alignment with consumer preferences and market purchasing power, micro, small, and medium-sized enterprises (MSMEs) must prioritize the quality and culinary appeal of their offerings. Moreover, the majority of Indonesians are Muslim, which is why a significant number of consumers are interested in consuming halal products. The level of interest in consuming halal-labeled products will be determined by the consumers' sense of trust. The addition of halal labeling fulfills the requirements of a Muslim, thereby providing additional benefits to both culinary MSMEs and their consumers (Muhtadi, 2020) [8].

Cleanliness, simplicity, generosity, moral values, and religiosity are particularly important to Muslim consumers when they consume culinary products. In order to ensure that their purchasing power is in alignment with their requirements and that there is no waste or avarice, consumers must carefully consider their purchasing power. The consumer's consumptive simplicity must generate *maslahah* (beneficial) value for both them and the community. Consumption is prohibited to establish animosity toward the adjacent community in order to provoke conflict. Consumer needs must be the sole basis for consumption from an Islamic perspective, as no other motives have no *maslahah* value.

5. CONCLUSION, SUGGESTIONS, AND RECOMMENDATIONS

Halal labeling is mandatory for culinary MSMEs in Demak Regency. This is due to the fact that products that are labeled halal are more appealing to consumers, thereby increasing the product's selling power. MSMEs have to understand halal labeling in order to implement it as a strategy that can lead to an increase in product sales. Culinary MSMEs in Demak Regency require halal labeling to facilitate the entry of their products into market segments, particularly among Muslim consumers. The public can be assured that the culinary products produced are truly halal for consumption by the halal labeling on a product. The aim for the future is for all MSMEs to be able to take ownership of halal labeling, allowing products to access the market on a national and international scale and having a positive impact on both MSMEs and consumers or customers after the sales share.

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