

Organising Halal Responsibility in a Company

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This viewpoint is about how best to organise and integrate halal in a company and its operations. In many cases, the matter of halal is left to the internal halal committee to organise, which is not only incorrect but also provides a major corporate reputation risk for businesses operating in or exporting to advanced Muslim markets. The halal responsibility is a foremost shared responsibility and concerns different levels of the organisation, namely: top management, risk management, marketing, operations, as well as the internal halal committee.

The halal industry is a fast-growing industry, today covering not only food but also non-food (such as cosmetics, pharmaceuticals, and modest fashion) as well as services (hotel, restaurant, café, logistics, and tourism). Muslim-majority countries are developing more specialised halal standards and promoting halal certification in the industry. Some countries, like Indonesia, are making halal certification mandatory. Although harmonisation of halal standards, currently championed under OIC/SMIIC in Turkey, is an important agenda for the Muslim world, it is an evidently slow process to realise. Therefore, the halal industry needs to assume that for the foreseeable future the reality is a grand diversity of halal standards and halal requirements for Muslim-majority countries.

This makes halal management complex and critical to organise well for companies active in Muslim markets. There is an urgent need to professionalise halal management in companies, to create a more sustainable halal management system contributing to the corporate reputation and protecting its sales and licence to operate in key Muslim markets. For example, in Indonesia, a country with the largest Muslim population in the world, the focus has been on the “halalness” of products (and their components), and not as much on the actual business processes.

The following sections will discuss in detail how to organise halal in an organisation.

Top management

As halal is moving away from a product approach and towards a supply chain and value chain approach, the ambition level of the company is foremost a top

management decision. The ambition level is related to the envisioned **halal maturity** of the company, namely: Level 1: Muslim company (not halal certified); Level 2: Halal product (product or service is certified by an independent halal certification body); Level 3: Halal supply chain (halal is addressed throughout the brand owner supply chain); and Level 4: Halal value chain (halal is addressed throughout the brand owner business value chain). For the management, it is essential to clearly identify by when the envisioned level of halal maturity is being reached. This gives direction to the organisation to detail a halal strategy to make this happen. Hence, the halal maturity of a company is one of the critical key performance indicators for top management.

Second, top management is responsible to craft the corporate **halal policy & statement**. Similar to a quality policy statement, a halal policy is shared with its supply chain partners and external stakeholders. Amongst others, a halal policy covers: (1) the responsibility of an organisation in protecting the halal integrity along the supply chain/value chain (*niyyah*); (2) the scope of halal certification of the organisation (*halal standards*); (3) the assurance to the consumer or customer (*the promise*); and (4) the method of assurance (*control mechanism*).

Top management forms an **Internal Halal Committee** (also known in some countries as the Halal Management Team) in the organisation and appoints its members: chairman, halal executive, and senior representatives from key departments such as procurement, risk management, supply chain management, production, marketing, quality division, etc.

Location decisions are also halal-relevant, pertaining to the location of production plants. In an increasing number of countries dedicated halal ecosystems are being developed, so-called halal parks or halal zones, simplifying halal for brand owners and achieving halal synergy in the brand owner supply chain. Malaysia, with an estimated 22 halal parks, has been the pioneer in halal park development, which model has been emulated by other countries. In neighbouring Indonesia halal parks are also being developed. Modern Halal Valley in Indonesia is an example of such an advanced halal ecosystem, with special halal synergy programmes for farmers, small and medium enterprises, and larger industries. In the year 2019 Modern Halal Valley launched the halal cluster network, connecting halal ecosystems: locally, regionally, and globally.

Risk management

Risk management is responsible for the following **halal certification decision**: for which products and markets are halal certifications required? Halal certification decisions are based on the need to protect sales and the licence to operate in its

domestic and export markets. This requires intelligence on the halal requirements of the Muslim markets the company is operating in and its key export markets.

Risk management is also responsible for **monitoring** the corporate halal reputation and for key Muslim markets also its licence to operate rating. The corporate halal reputation is a collective representation of the firm's past actions and halal performance, and the future ability to meet halal requirements. The strength of a company's halal reputation is based on its halal authenticity, the trustworthiness of the halal certification body, messages by company and supply chain partners, and messages by external stakeholders. Their drivers interact with each other and determine the corporate halal reputation. The key drivers for a licence to operate are the ability to anticipate halal market requirements, addressing them through a solid halal authenticity, a trustworthy halal certification body (HCB), right messaging by both companies and supply chain partners, and positive messages by external stakeholders. Hence, effective alignment between the halal market requirements and the four factors should be in place. This requires the introduction of a dedicated halal risk report or a halal section in the general risk report.

Risk management is also responsible for detailing an effective **halal issue and crisis management** through halal issue and crisis management protocols. Few companies realise however that a halal issue is very different from a traditional contamination incident, as halal is part of a religion, extremely sensitive, requiring specific actions and communication. Negative publicity about a halal incident becomes a threat to both sales and corporate reputation. In a highly connected world, a halal issue can easily snowball into a halal crisis. Why is this the case? The reason for this is the occurrence of 'mass formation' of halal incidents. The beginning may be a simple picture or video of a halal incident, which creates a highly contagious sentiment. This incites widespread rage among Muslim consumers. Then the people demand action! This could lead to heroic deeds, but in most cases, it leads to pure violence.

Marketing

Marketing decisions are related to **branding halal** on product packaging, outlets and services; and market communication. There are different ways of branding halal: (1) halal co-branding (when 'halal', 'Islamic' or 'shariah' are jointly used with a corporate brand on a product, outlet or service); (2) halal ingredient branding (the halal logo is part of the product label, like any quality certificates); (3) halal coding (instead of a halal logo, a code is used to communicate to the Muslim consumer the product, outlet, or service is halal certified); or (4) not

communicating about the halal status at all (as if its products or services are not halal certified).

Marketing is also responsible for **market communication**. Sales story, product name and symbol, product image positioning, and sales promotion should be halal positive or halal neutral. Marketing should avoid non-halal references or pushing the product into a grey area that can easily receive negative reactions in Muslim markets. Marketing is often considered an afterthought in halal certification. Instead, marketing should be involved from day 1 to ensure the right halal branding and market communication. Creating products that are on the edge of halal and non-halal are risky and if these are under consideration, need to be designed by halal experts.

Internal halal committee

The internal halal committee develops, implements, monitors and controls the effectiveness of the **halal assurance system** implementation and compliance with halal certification requirements. The very core of the halal assurance system is halal risk control in the company and its supply chain, and raw materials control. It is important that knowledge of the halal assurance system is effectively communicated through staff training: both general onboarding as well as part of specific technical departmental training for purchasing, logistics, marketing, and risk management.

The internal halal committee appoints an **internal halal auditor** to conduct halal internal audits at key business operations and supply chain partners. Nonconformity from the halal internal audit and corrective actions must be implemented immediately and verified by the internal halal committee.

The internal halal committee **reviews the halal assurance system** at least once a year, which needs to be approved and verified by top management.

Operations

Various departments and divisions in a company are executing primary (such as logistics, operations, marketing, sales, and services) and supporting business activities (such as procurement, technology, human resource development, and firm infrastructure) as well as in halal risk and reputation management in the company's halal value chain as shown in **figure 1**.

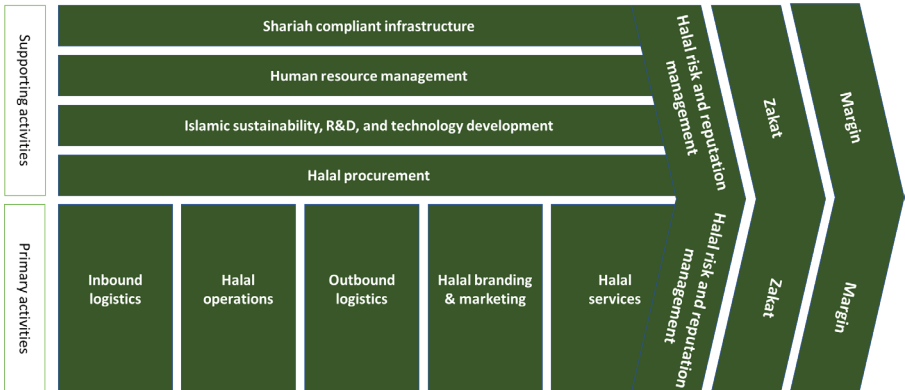


Figure 1: Halal value chain

Within each primary and supporting activity, there are four activity types that play different roles in a value chain activity:

- **Direct process activities:** activities directly involved in creating value for the (Muslim) consumer
- **Indirect process activities:** activities that make it possible to perform direct activities
- **Quality assurance activities:** quality control activities that ensure the quality (tayyib) of direct and indirect activities
- **Halal assurance activities:** halal control measures that ensure the halal integrity of direct and indirect activities as identified in the halal assurance system manual

It is critical that the halal assurance system defines the actual halal assurance activities for each halal value chain activity for the company. It is good to realise the complexity of the supply chain management function when halal value chains are connected in a halal value chain network. Alignment is essential between the supply chain partner's value chain and the brand owner's halal value chain. Taking a 'halal by design' approach is recommended, which can be supported by a halal supply chain and value chain design blueprint.

Policy recommendations

A company cannot be involved in the halal industry without a proper organisation of halal. This is essential to protecting corporate halal reputation, sales, and

licence to operate in its key Muslim (majority) markets.

As halal is moving away from a product approach towards a halal supply chain and value chain approach, establishing and maintaining a halal management system is far more complex today than ever before. It is critical for companies to realise that the requirements of the halal certification body are just the bare minimum, focusing on current compliance, but not on developing halal excellence, strengthening the corporate halal reputation, sales, and licence to operate rating in advanced Muslim markets.

For a more sustainable halal management system, halal needs to be implemented top down with high involvement of top management, risk management, marketing, and operations. A halal excellence programme is recommended for senior management to better understand the key fundamentals of halal business management and how halal impacts their business strategy, operations, supply chain, and value chain. Also, technical training is required for key departments' procurement, manufacturing, logistics, marketing, and risk management.

As governments in Muslim (majority) countries are developing new (*read: more stringent*) halal standards and regulations, halal business management education of the halal industry at business schools will be essential for the new generation of business leaders to be ahead in halal excellence in operations and supply chain management.

Halal performance needs to be systematically measured by companies in order to manage and control a halal management system. For this, a halal risk report could be essential intelligence to feed top management with halal key performance indicators and performance data.

With the increasing costs related to halal certification and compliance, companies need to understand the hard impact on their sales and profit. At the same time, policymakers need to measure the perception and response (potentially negative) of the industry to the added costs of halal certification and compliance. A formal mechanism of cooperation may be needed between industry and government in order to boost halal certification of industries in both Muslim (majority) and non-Muslim countries.

Future qualitative and quantitative research is recommended to better understand halal decision-making by top management, risk management, marketing, procurement, operations and the internal halal committee; halal excellence development in companies and their supply chains; halal value chain management; and halal key performance indicators.

Notes

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