

An Overview of the Shariah Governance of the Halal Industry in Malaysia: With Special Reference to the Halal Logistics

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ABSTRACT

Malaysia has adopted a more holistic approach towards the improvement of a Halal industry. The creation of a Halal ecosystem is being embraced by the government with the foremost point of situating Malaysia as a worldwide Halal center by 2020. Governance is a strategy which an association embraces to guarantee that parts of the association take after the set guidelines, control, arrangements and procedures though Shariah governance is just the arrangement of corporate governance as indicated by the Islamic standards. Specifically, Shariah governance is a set of institutional and organizational arrangements, policies, processes, procedure rules, regulations and laws which leads the organization towards Shariah compliance. Further to that, the acceptance of Halal logistics is highly welcomed in Malaysia as not only it is a Muslim country but due to the strong government support. Therefore, this paper intends to concentrate on an overview of the Shariah governance of the Halal industry. However, it further highlights on the Shariah governance that exists in the present Halal logistics industry in Malaysia. It is hoped that the findings of this study will give reasonable comprehension and mindfulness on the significance of Shariah governance. The analysis in this research used qualitative method. In addition, its significance shall serve as a reference for the public and private agencies in implementation of Halal as the implementation of Shariah governance in Halal Logistics Industry can enhance alert of the Halal industry in Malaysia.

KEYWORDS: Shariah Governance, Halal Industry, Halal Logistics Industry.

INTRODUCTION

Halal Industry in Malaysia

Halal is significant to Islam and various global industries. It comprises of Halal food, pharmaceuticals, cosmetics, packaging and logistics products and services. Halal industry has now extended past the nourishment segment to incorporate pharmaceuticals, cosmetics, health products, toiletries and medical devices and services for example logistics, advertising, print and electronic media, packaging, marking and financing [20]. As of late, with the expansion in the quantity of princely Muslims, the Halal business has extended further into way of life offerings include Halal travel, hospitality and fashion. They additionally specified that this improvement has been activated by the adjustment in the mentality of Muslim buyers and ethical patterns around the world. As expressed by [20], a more all encompassing methodology towards the advancement of a Halal industry and making a Halal ecosystem is being attempted by the Malaysia government with the key point of situating Malaysia as a worldwide Halal center by 2020. Halal industry in Malaysia is valued approximately USD\$30 billion and is expected to grow by 25% in the coming year. Malaysia does have an important part to play in the overall growth of the global Halal industry considering that the total market is estimated to be \$10 trillion and growing. Malaysia with a 28 million people constituting among the largest economies in the East Asian region and the Muslim population 60% of this population. Other contributing factors exist consist of increased on the demand for Halal goods and services due to the growth in the number of Muslim worldwide and purchasing power [21].

Halal Logistics Industry in Malaysia

Halal logistics has become an upward trend globally. It is considered as a new revolution from conventional logistics operations, which will make the logistics players become a competitive advantage within the industry. In 2010, the term Halal logistics have arisen in the logistics industry in Malaysia [12] and one of the future developing industries in Malaysia. According to [16], logistics can be referred to transport, storage, services or manufacture or premises sales related to the management and control food, beverages and merchandise. However, Halal logistics activities going from transportation, warehousing, material handling, procurement and others must be Halal all together for Muslim customers to appreciate a wholesome product and services [18]. Halal logistics is characterized as the way toward dealing with the procurement, movement, storage and

handling of material parts, livestock, semi-completed or completed stock both sustenance and non-nourishment as well as related data and documentation courses through the association and the inventory network in consistence with the general standards of Shariah [23, 24]. Last but not least, Halal logistics are very invited in Malaysia since it is a Muslim nation due to strong government supports [17].

Definition of Shariah and Shariah Governance

Shariah can be defined as the totality of the Creator's commands and prohibitions that regulates the life of every Muslim in all aspects [8, 9, 10]. Shariah governance is an arrangement of institutional and hierarchical arrangement to ensure that there is a viable autonomous oversight of Shariah consistence over the issuance of significant Shariah professions, spread of data and an inward Shariah compliant review which leads the organization towards principle of Shariah compliance [4, 14]. The standards of Islamic finance place extraordinary accentuation on solid corporate administration values and structure, straightforwardness, exposure of data and strict adherence to Shariah standards. Nevertheless, the Shariah governance framework is a set of organizational arrangements through which Islamic financial institutions (IFIs) ensure effective oversight, responsibility and accountability of the board of directors, management and Shariah committee [4]. The framework serves as a guidance towards guaranteeing a working situation that is agreeable with Shariah standards at all times. Shariah standards give the establishment to the practice of Islamic finance through the recognition of the fundamentals, conditions and standards spread by Islam. Exhaustive consistence with Shariah standards would convey certainty to the overall population and the monetary markets on the validity of Islamic finance operations. Bank has built up the important component for the Islamic financial system to work in a way steady with Shariahmuamalah standards with an obviously characterized institutional plan inside Islamic monetary organizations directed by the Bank in Malaysia. A two-layered Shariah governance structure has been set up, include the Shariah advisory body at the Bank and a supervisory Shariah committee group shaped at the separate IFIs [3].

LITERATURE REVIEW

Concept of Halal

Halal refers to things or actions which are permitted or lawful in Islam otherwise it will be non-halal [11]. Besides, all issues concerning Halal or Haram and even all points of view must be referred to Quran and Sunnah (Hadith). In the verse Quran al-Baqarah: 168, Allah said:

“Oh Mankind! Eat from the earth, which is Halal and Tayyib and follow not the footsteps of the devil. He is an open enemy for you”.

Sayyiduna Abu Hurayrah (radhiallahuanhu) reports that the Prophet (salallahualaihiwasallam) said, “A time will come upon the people wherein a man will not bother what he intakes; whether from a Halal source or haram” (Bukhari).

Halal Certification in Malaysia

Halal certification is a procedure to get Halal accreditation through a few stages to prove materials and production process are complying with the Islamic standards. Halal food certification is an examination of food processes from preparation, slaughtering, ingredients used, cleaning, handling, processing and storage as well as transportation and distribution. Halal certification in Malaysia issued by JAKIM is recognized globally across many countries as it is one of the pioneering countries initiating and leading to halal products [2]. It is also mentioned that Halal certification in Malaysia can only be obtained when the food has been confirmed by nutritious and prepared from permissible ingredients in a clean and hygienic manner. Halal certified product is the main purpose behind Muslim buyers purchase Halal food products for everyday consumption. As stated by [19], it is due to the Halal certified products instill the sense of confidence and trust that the food products that they purchased comply with Shariah. Halal certification in Malaysia provides for greater customers confidence. It also allows customers to make choice on their purchases.

Halal Certification Authorities in the Halal Logistics Industry

The main authority that issued the Halal certification in Malaysia is a Department of Islamic Development Malaysia (JAKIM) and the State Islamic Religious Council (JAIN). However, with the introduction of the Trade Descriptions Act 2011, it has introduced two subsidiary legislations on Halal certificate and logo. The two recognized authorities are JAKIM and Majlis Agama Islam Negeri (MAIN) which have the right to endorse and issue the certification [1]. MAIN which are the Islamic Religious Council of Negeri Sembilan, Pahang, Pulau Pinang, Perak, Perlis, Selangor, Terengganu, Sabah, Sarawak, Kuala Lumpur, Johor, Melaka and Kelantan. These Islamic bodies are responsible for the Halal monitoring and enforcement at state level inclusive of all

activities related to Muslim social and economic environment. Thus, JAKIM and MAIN only are given the authority by the Malaysian government to issue halal certificate. This is clearly stated in subsection 2 of [25] which demonstrates that:

1. For the purpose of this Order, JAKIM and JAIN shall be the competent authority to certify that any food or goods or service in relation to the food or goods is halal in accordance with Trade Description (Interpretation of "Halal") Order 2011.
2. No other person shall certify that any food or goods or services in relation to the food or goods are halal except the competent authorities as stated in paragraph (1).
3. In order to obtain the certification from the competent authority, the applicant must fulfill all standards, procedures and circulars enforced by the Chief Director of JAKIM.

Other Relevant Authority in Halal Logistics Industry

The Ministry of Domestic Trade, Co-operative and Consumerism (MDTCC) are one of the other authorities for Halal industry. JAKIM will make an inspection through monitoring, follow-up and complaints from consumers. The inspections will be conducted by enforcement officers either periodically or suddenly with two officials from JAKIM comprise of Shariah officers and food technologist as well as several officials of other institutions such as JAIN, Ministry of Health (MoH) or the Department Veterinary Services (DVS) and MDTCC[13].

Halal Requirement References in Halal Logistics Industry

Halal Requirement References in Halal Logistics Industry comprise of Malaysia Standard (MS), Manual Procedure for Halal Certificate (MPPH), Halal Assurance Management System (HAS) and the Trade Descriptions Act (2011).

Malaysia Standard (MS)

Department of Malaysia Standard was developed standard for Halal logistics industry in 2010. MS2400 consists of three parts comprising of management system requirements for transportation of goods and/or cargo chain services, warehousing and related activities as well as retailing. MS2400:2010 is very important documents to be referred to all companies that provide logistics services for halal products in an effort to ensure the safety and purity of the Halal product from farm to consumer. If every logistics company complies with all the requirements documented in Halalan-Toyyiban Assurance Pipeline (HTAPS), it would allow a company to obtain halal certification from the JAKIM. However, this Standard will be read together with Halal Food-Production, Preparation, Handling and Storage-General Guidelines (Second Revision) (MS1500:2009), Good Manufacturing Practice (GMP) for Food (First Revision) (MS1514:2009) and Food Safety according to Hazard Analysis and Critical Control Point (HACCP) System (First Revision) (MS1480:2007).

Manual Procedure for Halal Certification (MPPH)

Manual Procedure for Halal Certification (MPPH) comprises of a guideline for Halal auditor in JAKIM and JAIN/MAIN to explain the requirements that must be followed by Halal certification in Malaysia. Currently, schemes for Halal certification in Malaysia can be partitioned into seven classifications which include food and beverages, premise, consumer goods, cosmetics and toiletries, slaughterhouse, pharmaceutical and logistics [16]. Apparently, logistics are one part of the scheme. Logistics can be categorized into warehousing, retailing and transportation. Halal products stored in the warehouses, shops and transported must be isolated into reasonable categories such as partition of cleaning and wet items. Plus, it requires the Halal products stored at good temperature control. On the other hand, it requires to prevent animals and unauthorized personnel from entering the territory of the distribution center and having up to date Halal documentation. In addition, the effectiveness of Halal detection system and any components of religious worship are not permitted within the warehouse. The ritual cleansing process must be undertaken if it is discovered polluted with najasmughallazah. Applicants ought to have an effective tracking system include a record of the latest movement of containers in transportation process. Applicants should also have a Halal Assurance System comprise the presence of special rules for workers and implement Good Hygiene Practice (GHP). Besides, the compartment ought to be washed according to the Islamic ritual cleansing procedures when it arrived in Malaysia before storing Halal goods [16].

Halal Assurance Management System (HAS)

Halal Assurance System is an integrated management system to ensure the halal integrity is intact throughout the halal supply chain. It serves as a document in maintaining the consistency of halal product or services produced or offered by the company. It is very important for the company to understand the processes involved throughout the supply chain and as to construct a manageable plan to prevent the risk of contamination or quality issues to the halal certified products. It advances the selection of frameworks when creating, executing and enhancing the adequacy of controlling Halal immaculateness and validity. This rule might be utilized by a

Halal testament holder to satisfy Halal measures, controls and prerequisites in Halal accreditation. Moreover, this rule sets out the standards of a Halal certification framework and its application. It gives a deliberate way to deal with guarantee and safeguard Halal honesty of items. This depends on the idea of powerful quality administration framework all through the supply chain. It also describes a practical approach for organizations, which have obtained or intend to obtain Halal certification from competent authorities in Malaysia. Besides, HAS might be perused together with significant Halal standard and prerequisites issued by competent authorities. Last but not least, the manufacture is responsible to develop and manage the HAS to confirm compliance of the complete supply chain process with the requirement set by this competent Halal authority [15].

Trade Descriptions Act (2011)

Trade Descriptions Act (2011) is an act enacted for the purpose of promoting good trade practices by prohibiting false trade descriptions or misleading statements, conduct and practices in connection to the supply of merchandise and benefits and to accommodate matters identified with it [24].

Management Responsibilities in Halal Logistics Industry

In the perspective of management responsibilities in the Halal logistics industry, Malaysia Standard (MS), Manual Procedure for Halal Certification (MPPH), Halal Assurance Management System (HAS) and the Trade Descriptions Act (2011) outlines some general requirements on the responsibilities of the management and further specifies certain specific requirements for each of them.

Top Management

In clause 3.2.2.1 of [8, 9], the top management shall appoint halalan-toyyiban leader, committee and Shariah advisor.

Halalan-Toyyiban Leader

As stated in clause 3.2.2.2 of [8, 9], a halalan-toyyiban leader appointed by the organization shall have the responsibility and authority to ensure the halalan-toyyiban management system is established, implemented and maintained in accordance with the standard. Their responsibilities include organizing and coordinate the halalan-toyyiban activities such as perform verification and validation activities on the Halalan-Toyyiban Assurance Pipeline. Furthermore, they need to initiate corrective actions and control processes include product recall and withdrawals until the unsatisfactory condition related to halalan-toyyiban requirements have been corrected. Last but not least, the halalan-toyyiban leader also needs to initiate preventive action to prevent recurrence that will affect the halalan-toyyiban status and report on the suitability and effectiveness of the halalan-toyyiban management system for management review.

Halalan-Toyyiban Committee

As mentioned in clause 3.2.2.3 of [8, 9], a halalan-toyyiban committee was set up to develop, maintain and review the halalan-toyyiban risk management. The committee shall have the knowledge and experience with regard to the organization's processes and halalan-toyyiban principles and applications. The halalan-toyyiban committee shall clearly define responsibility include monitor, identify and record any problems regarding the processes and report any problems encountered related to the implementation of Halalan-Toyyiban Assurance Pipeline to the halalan-toyyiban leader for further action.

Internal Halal Committee

As stated in clause 2.1 of [15], Internal Halal Committee (IHC) is a committee build by the organizations to be responsible in developing, monitoring and controlling the HAS to guarantee its effectiveness. According to clause 5.7.3.1 of [16] and clause 4.1 of [15], they shall consist minimum at least four members comprise of chairman, internal Halal executive, officer responsible in making the purchase decision of raw material. In addition, they also need to appoint a minimum of two employees of Muslims and the company should establish Halal Security System refer to SJHM 2011 (Sistem Jaminan Halal Malaysia 2011). In addition, the coordinator of the IHC responsible to manage Halal matters of the company. Further to that, Halal supervisor must be one of the committee in slaughter house. They also shall be knowledgeable and well trained both in Halal standard and certification requirements. Other than that, the management must fully established the terms of reference of the IHC. The HAS shall be reviewed periodically at least once a year in order to make sure the effectiveness of IHC. However, in the event of control are ineffective an immediate review is necessary due to change of IHC, monitoring schedules and operation as well as supply chain.

Halal Executive Officer

As expressed in provision 3.1 of [7], the administration should delegate Muslim halal executive officers or build up an advisory group which comprises of Muslim work force who are mindful to guarantee the viability in

usage of the inner halal control framework. Plus, the management might guarantee that they are trained in the halal standards and its application. The administration might guarantee that adequate assets for example labour, facility, monetary and infrastructure are given keeping in mind the end goal to execute the halal control systems.

Auditor

Auditor is a person who conducts an audit or review. He is a person technically competent in auditing Halal procedures and requirements in a particular food processing technology or field. As expressed in clause 9.1 of [16], the audit officer shall consist of those individuals who do not responsible in Halal Certification Panel. The audit must be lead by at least two officers. Those officer to be delegated must be in grade 27 and above and more specific Islamic affairs officer and technical officers in the relevant field. They has the privilege to take tests of crude material for examination. Their extent of examination incorporates the documentation and company profile, ingredients, equipment and utensil, packing, storage, packaging, transportation, employees, premises and waste management. The field confirmation reviews incorporate opening meeting, report survey, assessment, audit and shutting meeting. They has a privilege to take pictures for proofs and for futher activity the photocopy of review report must be sent to the candidate. For purpose of verification, they can make follow up session after restorative activity done. Moreover, they have the privilege to take tests of food, ingredients, raw materials or others which are necessary to be taken for research center tests. Presently, the Chemistry Department laboratory is the official laboratory for the Halal certification in Malaysia.

Governance Issue in implementing Halal Logistics Industry

There are a few governance issues that arise include to what extend of the effectiveness of the enforcement done by JAKIM from the aspects of law. Currently, the law only permits JAKIM to withdraw Halal certification to the company without jurisdiction power to prosecute in court [5]. In addition, for the purpose of monitor and enforcement will be done by JAKIM while any action will be carried out by MDTCC. It can be summarize that the function of JAKIM is to validate any error that happen in any Halal issues as well as being witness to such cases. However, MDTCC functions are to seize, compound and prosecute the owner of any companies whether eateries, food product or slaughter house that guilty. Hence, the enforcement by JAKIM itself is still low. In addition, JAKIM itself do not have real power in term of law in order to assist the smoothness of Halal enforcement task. They still depending to other agencies like MDTCC, Local Authorities (LA), DVS and MoH. Those agencies will carried out their enforcement power depending on their right and power in Halal related matters [6]. Last but not least, the usage of certified Halal logo has caused the public questioning the validity on some of the products or services that claiming to be Halal [22] due to lack of enforcement done by JAKIM.

CONCLUSION AND RECOMMENDATIONS

It can be concluded that the acceptance of Halal logistics is highly welcomed in Malaysia. There is saying in the Holy Quran that “the Halal is clear and the Haram is clear. Between the two are doubted matters concerning, which people do not know whether there are Halal or non Halal. The one who avoids them order to safeguard his religion and his honor is safe” [26]. It obviously demonstrations it will give benefit both to Muslim and non-Muslim population. In addition, this sector can generate income for the country and achieve the desire of government to be a global halal hub as mentioned in Third Industrial Master Plan 2006-2020. But, certain aspects must be enhanced from time to time. Ultimately, the mission and vision of Malaysia to be global Halal hub will come into reality. However, there are a few issues arise in achieving this mission and vision. Therefore, the government and the authorities should immediately take action in order to solve these issues. First, it is recommended that proper strategies need to be developed for Shariah governance framework in Halal logistics for example they can learn from the existing Shariah governance framework in Islamic finance. It is suggested that the government and authorities need to create specific Halal law in overcoming those issues arise. Without effective laws, many issues will arise and can ruin the effort of government to make Halal Logistics industry as a new source of world economic development. Last but not least, this research shall serve as a reference to the government, Halal authority, Standards Malaysia, Halal certification authority, higher institutions and researchers. Therefore, it is recommended that with this implementation of Shariah governance in Halal logistics industry can help the industry well develop in Malaysia.

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