

CHAPTER I

INTRODUCTION

A. Background

Indonesia is a country that consists of 287 million population, with almost all of them are Islamite. As Muslims, they must obey the laws prescribed in Islam, including choosing the food such as eating halal food. This is in line with The Holly Qur'an Surah Al-Baqarah verse 168, which say that:

يَا أَيُّهَا النَّاسُ كُلُوا مِمَّا فِي الْأَرْضِ حَلَالًا طَيِّبًا وَلَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ إِنَّهُ لَكُمْ عَدُوٌّ مُبِينٌ

"O people, eat what is clean and good from what is on the earth, and do not follow the steps of Satan; Because Surely the devil is a natural enemy to you.(Alqur'an Surah Albaqarah verse 168) "

As the largest Muslim population that encourages eating halal food, Indonesia has a good market for the halal food industry. The halal food industry is related to the Halal Food Supply Chain. Halal Food supply describes the whole food process activities start from the production activity, transportation activity, and wholesalers activity that has to complete in line with sharia requirements. These activities include handling the halal output from multiple perspective of suppliers into various views of consumers, avoiding the doubt, and handling the non-halal food product for satisfying the needs of both (Halal and non-halal foods) for the consumer. Also, the halal food supply chain (HFSC) needs more control due to the sensitivity of the Muslim consumer in the direction of the halal product (Tieman, M. and Darun, 2017) Halal food supply chain can help people to know the legitimacy of the halal product.

On the other hand, SMEs have a significant impact on the increasing economy in Indonesia. Every year SMEs in Indonesia overgrow. These SMEs can absorb labor until 116,4 million people (Jayani, 2020). The immense contribution of SMEs and the increasing demand for halal products in the world can certainly be an opportunity for Indonesia to improve its economy. Although Indonesia has a good market for the halal food industry, Not all food company including SMEs, seriously take advantage of halal products in their product. Some use the sustainability of products such as technology to enhance productivity and quality. Others are branding their product as a halal product.

One of the areas experiencing the development of SMEs in Indonesia is Yogyakarta City Regency. This area is located in D.I.Yogyakarta in 2019 has successfully contributed the largest GDP in Yogyakarta City Regency with a contribution of 15.18% with the number of businesses as much as 48,000 in 2020. Based on krjogja.com, from 26 million of SMEs in Jogjakarta City, only 3 million of them that already has a halal certification¹ (Widya nto, 2020). At least the percentage represents that SMEs in Yogyakarta City regency are less concerned about the halalness of their products. Most of them not aware of implementing the halal food supply chain due to the cost needed for applying halal certification.

The cost of implementing halal product motivate the players in the industry not to adopt the halal supply chain. Most of them care about the halal product but do not perceive the responsibility as other halal supply chain participants. Meanwhile, the business opportunity in adopting a halal food supply chain in Indonesia is perfect if we look into the increasing demand for these industries.

Based on the explanation above, this paper is written to analyze the impact of expected business benefits, halal integrity, and organizational readiness of food SMEs towards adoption of halal food supply chain in food SMEs in Yogyakarta City.

B. Formulation of The Problem

The formulation of the problems are:

1. Does the expected business benefit have a positive impact on adopting HFSC in food SMEs in Yogyakarta City?
2. Does halal integrity have a positive impact on adopting HFSC in SMEs food in Yogyakarta City?
3. Does organizational readiness have a positive impact on adopting HFSC in SMEs food in Yogyakarta City?
4. How is the consumer perception about Halal Food?
5. What is the obstacle in implementing HFSC in Yogyakarta City?
6. What is the solution to the obstacles in the implementation of HFSC in Yogyakarta City?

C. The objective of the research

The objective of the research is:

1. To analyze the influence of expected business benefit towards adopting HFSC in SMEs food in Yogyakarta City.
2. To Identify the influence of halal integrity into adopting HFSC in SMEs food in Yogyakarta City.
3. To analyze the influence of organizational readiness into adopting HFSC in SMEs food in Yogyakarta City.

4. To analyze the consumer perception about halal food.
5. To identify the problem in implementing HFSC in Yogyakarta City.
6. To provide solutions to the problems of implementing HFSC in Yogyakarta City.

D. Benefits of the research

1. Theoretical benefits:

This research is expected to be helpful as a theory development related to the halal food supply chain, especially in implementing the halal food supply chain in SMEs to analyze the HFSC rates in Yogyakarta City.

2. Practical benefits:

- a. For the Academician

This research can be used to reference the Impact of Expected Business Benefits, Halal Integrity, and Organizational Readiness of Food SMEs Towards Adoption of Halal Food Supply Chains in Food SMEs.

- b. For the SMEs

This research can be used as a guide for food SMEs towards their readiness to adopt the HFSC.

- c. For the future researchers

This research can be used to develop academics and contribute knowledge about the influence of expected business benefit, halal integrity, and organizational readiness towards adopting HFSC in food SMEs in Yogyakarta City.