# STRENGTHENING MSMEs COMPETITIVENESS THROUGH HALAL CERTIFICATION INITIATIVES

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**Abstract**

Micro, Small, and Medium Enterprises (MSMEs) are a strategic sector that significantly contributes to the national economy. However, in facing global competition, MSMEs still encounter several limitations, particularly related to quality standards and the ability to meet the demands of modern markets. On the other hand, the increasing demand for halal products—both in domestic and international markets—creates strategic opportunities for MSMEs to strengthen their competitiveness through halal certification. This study aims to analyze how halal certification contributes to improving MSMEs competitiveness and to identify the challenges faced by business actors in the certification process. Using a descriptive qualitative approach, data were collected through in-depth interviews, observations, and documentation studies, and analyzed using the Miles, Huberman, and Saldaña model. The findings show that halal certification serves as a differentiation instrument capable of increasing consumer trust, strengthening product legitimacy, and expanding market access. Certification also encourages internal improvements through enhanced production management, hygiene, and quality consistency. However, low halal literacy, cost constraints, administrative complexity, and limited assistance remain major obstacles for MSMEs in obtaining certification. This study contributes to the development of competitiveness theory, value-added theory, consumer behavior theory, and institutional theory, while offering practical implications for MSMEs, the government, and certification bodies to strengthen the national halal ecosystem. Therefore, halal certification holds significant potential as a sustainable strategy for enhancing MSME competitiveness.

**Keywords:** Halal Certification, Msmes, Competitiveness, BPJPH, LPPOM MUI, SJH/HAS, Consumer Trust.

## Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the national economy. MSMEs act as the main driver of economic activity due to their contribution to the Gross Domestic Product (GDP), which exceeds 60%, and their ability to absorb more than 90% of Indonesia's workforce (Ministry of Cooperatives and MSMEs, 2023). This considerable role indicates that the sustainability and competitiveness of MSMEs significantly determine national economic growth (Tambunan, 2019).

However, in a global era characterized by technological advancement and market openness, MSMEs face various challenges in improving their competitiveness. Competition arises not only from local entrepreneurs but also from imported products and large companies that possess higher production and quality standards (Porter, 1985). Challenges for MSMEs include limited innovation, low product standardization, and insufficient access to technology and quality certification (Suryani & Hendrawan, 2021). These conditions make improving product quality and differentiation crucial steps for MSMEs to maintain competitive advantages.

Amid these challenges, demand for halal products in both domestic and global markets continues to increase. As the country with the world's largest Muslim population, Indonesia has strong potential for developing the halal industry, where the halal lifestyle trend increasingly influences consumer preferences (Aziz & Chok, 2013). Globally, the halal industry has also experienced rapid growth, especially in the food, cosmetics, fashion, and pharmaceutical sectors (Global Islamic Economy Report, 2022). The rise in demand creates opportunities for MSMEs to expand markets by providing products that comply with halal standards.

Halal certification plays an essential role as an instrument of quality assurance, safety, and consumer trust. This certification ensures that products are processed according to Islamic principles while meeting specific hygiene and quality standards (LPPOM MUI, 2020). The presence of a halal label has been proven to increase consumer trust, strengthen brand image, and directly contribute to improving product competitiveness (Fauzi & Yuniarti,

2020). In other words, halal certification can serve as a source of competitive advantage for MSMEs (Barney, 1991).

However, despite the substantial potential impact of halal certification, many MSMEs have not yet obtained certification due to cost barriers, lack of information, limited mentoring, and perceptions that the certification process is complex (Widyaningsih, 2021). This situation causes MSMEs to miss opportunities to enter the growing halal market segment.

From an academic perspective, a research gap still exists because few studies specifically analyze how halal certification affects MSME product competitiveness. Most existing studies focus on halal consumer behavior, the implementation of halal assurance systems, or general analyses of the halal industry (Rahman & Zailani, 2017). Therefore, research that examines the relationship between halal certification and MSME competitiveness is essential to provide empirical insights, theoretical development, and more comprehensive policy recommendations.

## Literature Review

### MSMEs and Competitiveness

Micro, Small, and Medium Enterprises (MSMEs) are an economic sector that significantly contributes to national development, particularly through employment absorption, increasing community income, and generating added value across various sectors. In Indonesia, MSMEs are defined based on asset and turnover criteria as stated in Law Number 20 of 2008, which positions MSMEs as small-scale business units characterized by simple organizational structures, flexibility, and orientation toward local markets (Ministry of Cooperatives and SMEs, 2021). From the perspective of development economics, MSMEs are considered a sector capable of surviving economic crises due to their closeness to community needs and relatively rapid adaptability (Tambunan, 2019).

The competitiveness of MSMEs is a crucial issue in efforts to improve their position in domestic and global markets. Porter (1990) explains that a firm's competitiveness is determined by a combination of internal and external factors encompassed within the diamond model, such as factor conditions, demand conditions, related and supporting industries, and firm strategy and structure. In the context of MSMEs, competitiveness is heavily influenced by product quality, the level of innovation, pricing strategies, and consumer trust in the brand. Product quality is a key element in attracting consumer interest, as good quality reflects consistent production standards and the ability to meet market expectations (Kotler & Keller, 2016).

Meanwhile, innovation plays an important role in creating sustainable competitive advantage. Innovation is not only related to developing new products but also includes process innovation, marketing innovation, and business model innovation, enabling MSMEs to adapt to shifts in consumer needs and technological dynamics (Schumpeter, 1934).

In addition to quality and innovation, pricing also influences the competitive position of MSMEs. Appropriate pricing requires calculations that consider production costs, the added value of the product, and competitive market conditions (Kotler & Armstrong, 2018). MSMEs that can deliver high-quality products at affordable prices have a greater opportunity to survive amid increasing competition. Furthermore, brand trust is another factor contributing to MSME sustainability. Consumer trust in a brand develops through positive experiences, consistent quality, and assurances of product safety, including the presence of certifications or quality standards (Chaudhuri & Holbrook, 2001).

Nevertheless, MSMEs still face various challenges in enhancing competitiveness, especially when entering global markets. Major challenges include limited capital, low-quality human resources, suboptimal use of digital technology, and weak capacity to meet international standards such as food safety standards or certifications required in export markets (World Bank, 2020). Additionally, competition from imported products—often associated with more consistent quality and competitive pricing—further intensifies the pressure on domestic MSMEs. This condition is exacerbated by limited adoption of information technology and low digital literacy, causing MSMEs to lag in modern marketing practices such as e-commerce and digital branding.

Overall, MSME competitiveness is not only determined by internal factors such as quality, innovation, and pricing but is also strongly influenced by external environmental support and compliance with global standards. Therefore, improving MSME competitiveness requires comprehensive interventions through

capacity building, developing human resources, expanding access to technology, and meeting various internationally recognized quality standards.

**The Concept of Halal Certification**

Halal certification is an important instrument to ensure that a product complies with halal standards based on Islamic teachings, covering inputs from raw materials, production processes, to distribution. In the context of both food and non-food industries, halal certification serves not only as a religious assurance but also as a strategic tool for increasing consumer trust and business competitiveness, particularly for MSMEs. In general, halal certification is defined as a process of granting formal recognition that a product meets halal requirements according to syariah provisions established by authorized institutions (Aziz & Chok, 2013). This definition indicates that halal certification is a formal, standardized, and accountable verification mechanism.

Halal standards in Indonesia have evolved in line with regulatory changes. Prior to 2019, halal standards referred to the Halal Assurance System (HAS 23000), developed by LPPOM MUI as the inspection body. This standard emphasizes a management system ensuring that raw materials, production facilities, and operational procedures meet halal requirements (LPPOM MUI, 2012). Since the implementation of Law No. 33 of 2014, the authority for halal certification shifted to the Halal Product Assurance Agency (BPJPH), while LPPOM MUI and halal inspection bodies (LPH) serve as examiners. This change strengthens the halal regulatory framework through a more comprehensive national standardization system covering materials, processes, risk management, and periodic audits (BPJPH, 2020). The transformation reflects the state's effort to enhance legal certainty and improve halal system quality to align with global standards.

The halal certification process consists of several administrative and technical stages, including registration, document verification, raw material examination, facility audits, halal fatwa decisions, and certificate issuance. For MSMEs, this process may bring significant implications. On one hand, halal certification provides strategic benefits such as increased consumer trust, broader market access, and improved product reputation (Fauzi et al., 2021). It also helps MSMEs enhance operational standards through more hygienic, structured, and transparent production management. On the other hand, many MSMEs face obstacles such as certification costs, administrative complexity, limited technical knowledge, and lack of support (Halim & Salleh, 2020). As a result, the effectiveness of halal certification implementation for MSMEs is strongly influenced by internal readiness, regulatory support, and the availability of adequate mentoring ecosystems.

Overall, halal certification plays a strategic role in strengthening MSME competitiveness and business sustainability. The standards implemented by LPPOM MUI and BPJPH ensure that the certification process operates objectively and measurably, providing economic added value as well as religious assurance for consumers. This theoretical review demonstrates that halal certification is not merely an administrative process but an integral part of a quality management system that directly affects product quality and MSME competitiveness in domestic and global markets.

**Method**

This study employs a descriptive qualitative approach to gain an in-depth understanding of how halal certification can enhance the competitiveness of MSME products. This approach was chosen because it enables the exploration of meanings, perceptions, and firsthand experiences of business actors within real and dynamic contexts, particularly concerning the implementation of halal certification as a competitive strategy. A qualitative approach also allows the researcher to examine aspects that cannot be reduced to numerical data, such as changes in production behavior, perceived quality, and consumer trust (Creswell, 2018; Moleong, 2019). Thus, this method provides space to observe the relationship between halal certification and competitiveness holistically.

Data were collected through in-depth interviews, observations, and documentation studies. Semi-structured interviews were conducted with MSME actors who had obtained or had not yet obtained halal certification, representatives of BPJPH or LPPOM MUI, and consumers as end users. Purposive sampling was used to select informants who were truly relevant and knowledgeable about the halal certification process and the dynamics of MSME product competitiveness (Patton, 2015). Observations were conducted to directly examine the application of halal standards at production sites, while documentation was used to obtain additional

information on regulations, SOPs, and administrative evidence related to halal certification. The combination of these three techniques enriched the data and ensured its comprehensiveness.

Data analysis followed the Miles, Huberman, and Saldaña model, which consists of data reduction, data display, and conclusion drawing (Miles et al., 2014). Data reduction was carried out by categorizing information based on major themes such as certification challenges, its benefits for competitiveness, and consumer perceptions. The data were then presented in narrative and matrix formats to facilitate the identification of patterns across themes. To ensure the validity of findings, the researcher applied source triangulation, technique triangulation, and member checking following qualitative trustworthiness principles (Lincoln & Guba, 1985). Additionally, research ethics were upheld by maintaining informant confidentiality and securing informed consent from all participants prior to data collection.

## Findings and Discussion

### MSMEs' Understanding and Awareness of Halal Certification

MSMEs' understanding and awareness of halal certification serve as key prerequisites for the successful implementation of halal standards in production processes. The findings reveal that the level of halal literacy among MSME actors varies considerably. Some business owners understand halal certification not merely as an administrative label but as an assurance system governing the entire production chain—from raw materials to distribution (Aziz & Chok, 2013). However, others continue to perceive halal as a simple symbol attached to packaging without acknowledging the verification mechanisms underlying it. This condition aligns with previous studies showing that limited education and outreach contribute to low comprehension of halal concepts within the MSME sector (Karia et al., 2015).

MSMEs' awareness of the importance of halal certification is also influenced by market orientation and managerial capacity. MSMEs targeting modern markets or broader consumer segments generally exhibit higher awareness of halal certification as a determinant of consumer trust and purchasing decisions (Ali et al., 2017). They view halal certification as a strategic instrument for improving product legitimacy, market differentiation, and selling value. Conversely, MSMEs focusing on traditional markets often postpone certification efforts due to perceptions that the process is complex, costly, or has limited direct impact on sales. This observation is consistent with earlier studies showing that administrative barriers constitute a major obstacle to halal adoption among MSMEs (Bohari et al., 2017).

Besides internal factors, MSMEs' understanding of halal certification is also shaped by the information they receive regarding government regulations. Since the implementation of the Halal Product Assurance Law (UU JPH), halal certification should have become a key priority for business actors. However, many MSMEs still lack knowledge of regulatory obligations, the mandatory halal timeline, and the roles of institutions such as BPJPH and LPPOM MUI (Zailani et al., 2015). Limited outreach and guidance have led some business owners to perceive halal certification as difficult to access, despite government initiatives such as the free halal certification program (SEHATI). This reinforces the finding that low halal literacy constitutes a structural barrier that hinders MSME readiness to enhance competitiveness through halal certification (Tieman, 2011). Therefore, improving awareness and continuous education efforts becomes a strategic necessity to ensure that MSMEs perceive halal not merely as an administrative requirement but as a quality and trust assurance standard.

### Process and Challenges Faced by MSMEs in Managing Halal Certification

The halal certification process for MSMEs generally involves several key stages, starting from registration, completing the Halal Product Assurance System (SJPH) documents, halal audit, and the issuance of the certificate by authorized institutions such as BPJPH and LPPOM MUI. Although this procedure has been standardized, various studies show that MSMEs still face difficulties in understanding and meeting the administrative requirements required during the initial registration stage (Nawi et al., 2019). Unpreparedness of raw material documents, limited understanding of halal critical points, and lack of technical capability in preparing the SJPH often become obstacles that hinder the smooth execution of the certification process. This indicates that the certification process is not only related to formal compliance but also demands managerial and documentation competencies, which many MSMEs still lack.

Apart from administrative challenges, cost barriers also become a major factor influencing MSMEs' decisions in obtaining halal certification. Although the government has provided facilitation programs such as free halal certification for certain MSMEs, many business owners still perceive that audit costs, laboratory testing, and improvements in production facilities burden small businesses with limited capital (Abd Rahman et al., 2017). Previous studies show that high cost perception is one of the reasons why MSMEs are reluctant or postpone managing halal certification (Muhamed et al., 2019). Additionally, technical challenges such as limited human resources, lack of understanding of halal standard operating procedures, and the need to adjust production equipment increase the complexity of the process MSMEs must undergo.

Another challenge faced by MSMEs is the lack of adequate assistance and access to information related to the halal certification process. Many MSMEs feel that they do not have clear guidance regarding the necessary steps, required documents, or standards to be fulfilled (Zailani et al., 2017). Limited socialization from government agencies or facilitators causes many business actors to rely on informal information from other MSMEs, which is often incomplete or inaccurate. Other studies also highlight that institutional support and weak inter-agency coordination are significant barriers in accelerating halal certification for MSMEs (Talib et al., 2016). These conditions make the certification process slow and confusing for first-time applicants.

Overall, the challenges faced by MSMEs in the halal certification process reflect the need for more comprehensive interventions, ranging from technical guidance, procedural simplification, to increasing halal literacy among business owners. Several studies emphasize that the success of halal certification implementation highly depends on how well MSMEs understand and follow the established standards, as well as the support provided by the government and related institutions (Tieman, 2011). With more systematic efforts, these barriers can be minimized so that halal certification becomes a strategic instrument to enhance MSME competitiveness in both domestic and international markets.

**Halal Certification as a Strategy to Improve MSME Competitiveness**

Halal certification plays a strategic role for MSMEs in enhancing product competitiveness, especially in countries with a Muslim-majority population such as Indonesia. The halal label does not only serve as evidence of compliance with sharia principles but also acts as an important indicator of product safety, quality, and hygiene. Various studies show that consumers give higher preference to products with halal assurance, as they are perceived to be more trustworthy and safe for consumption (Aziz & Chok, 2013). Thus, halal certification directly contributes to increasing consumer trust, which is essential in product differentiation strategies amid an increasingly competitive market.

In the context of competitive strategy, halal certification can function as a form of value addition that distinguishes MSME products from competitors, both in domestic and global markets. Several studies reveal that halal-certified products have greater opportunities to enter modern markets such as supermarkets, large retail chains, and export markets (Bohari et al., 2017). Halal certification provides formal legitimacy that enhances product image and credibility in the eyes of distributors and consumers. Moreover, global demand for halal products continues to rise, especially in South Asia, the Middle East, and Europe, enabling halal-certified MSMEs to expand their marketing networks (Tieman, 2011). This highlights halal certification as an important instrument in strengthening competitiveness and market expansion.

Furthermore, halal certification can also encourage improvements in MSME internal quality through the implementation of better production operational standards. The certification process requires business owners to improve raw material management, facility hygiene, production documentation, and implementation of the Halal Product Assurance System (SJPH). These improvements directly impact enhanced product quality, operational efficiency, and production consistency—factors that shape long-term competitiveness (Porter, 1985; Karia et al., 2015). Thus, halal certification not only provides external market confidence but also generates internal benefits through more structured and professional business processes.

Overall, halal certification can be viewed as a comprehensive strategy that strengthens MSME competitive positions through product excellence, process quality, and market legitimacy. However, the effectiveness of this strategy depends on how well MSMEs maintain compliance with halal standards and utilize certification as an integral part of their marketing and business development. Several studies highlight that MSMEs that treat halal certification as a long-term investment tend to experience greater increases in market share and consumer loyalty than those who see it merely as a bureaucratic formality (Zailani et al., 2015). Therefore, halal

certification is a strategic component in improving MSME competitiveness in market environments that increasingly demand transparency, quality, and trust.

**Managerial Implications**

**Theoretical Implications**

Research on enhancing MSME competitiveness through halal certification provides significant implications for the development of management theories, particularly competitiveness theory, value-added theory, and consumer behavior theory. First, the findings expand the understanding of Porter's competitiveness theory, particularly the concept of differentiation strategy. Halal certification functions not only as a regulatory requirement but also as sustainable differentiation that creates competitive advantages through increased perceptions of quality, safety, and consumer trust (Porter, 1985). This demonstrates that differentiation emerges not only from product innovation but also from legitimacy based on halal standards that have symbolic and functional value in Muslim markets (Tieman, 2011). Thus, this research enriches the literature on non-technical factors that enhance MSME competitiveness.

Second, the study contributes to the development of value-added theory by emphasizing that halal certification is a form of intangible value addition that increases the perceived value of products. Halal certification acts as a trust indicator that influences purchasing decisions, widening the understanding that value addition does not only derive from physical attributes or product features but also from ethical conformity and adherence to religious principles (Awan, Siddiquei, & Haider, 2015). This research provides a theoretical foundation that halal certification can be categorized as a credence attribute—an attribute that cannot be directly evaluated by consumers without third-party verification (Darby & Karni, 1973).

Third, this research has implications for consumer behavior theory, particularly the Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB). The findings show that halal certification influences consumer attitudes, subjective norms, and perceived behavioral control in selecting products (Ajzen, 1991). When consumers believe that halal products are better, safer, and aligned with their values, halal certification strengthens purchase intention. This enriches consumer behavior theory by demonstrating the importance of certification attributes in shaping behavioral intention, particularly among Muslim consumers (Mukhtar & Butt, 2012).

Fourth, the research contributes to institutional theory development. Halal certification functions as a mechanism of normative and regulative isomorphism that encourages MSMEs to improve production standards (DiMaggio & Powell, 1983). Compliance with halal standards is driven not only by regulatory pressures from BPJPH but also by normative pressures from consumers, communities, and the global market (Ruslan et al., 2020). This expands the understanding that institutional legitimacy can be a strategic instrument to gain market acceptance.

**Practical Implications**

Research on enhancing MSME competitiveness through halal certification provides several important practical implications for MSME actors, government institutions, and halal industry stakeholders.

First, for MSME actors, the findings emphasize the importance of a comprehensive understanding of halal standards and internal readiness in fulfilling documents and production processes in accordance with halal requirements (BPJPH, 2021). MSME owners need to develop production management, material control, and human resource training to ensure efficient certification processes. Increasing halal literacy and digitalizing operational processes can also accelerate MSME adaptation in a competitive halal market (Aziz & Chok, 2013).

Second, for the government and related institutions such as BPJPH and LPPOM MUI, the research emphasizes the importance of providing facilitation services, simplifying administrative procedures, and strengthening MSME-friendly regulations. Government programs offering free halal certification, especially for micro-MSMEs, can significantly increase national halal product penetration and competitiveness in the global market (Ministry of Cooperatives & SMEs, 2022). Strengthening information access and the halal ecosystem through institutional synergy is also crucial.

Third, the implications extend to the marketing and distribution sector. Halal-certified MSME products have stronger opportunities to enter modern markets, collaborate with e-commerce platforms, and reach global consumers with high preferences for halal assurance (Lever & Miele, 2012). Thus, halal-based branding and

marketing communication strategies become essential to strengthen consumer trust and competitive positioning. Halal certification enhances product reputation, credibility, and value addition (Tieman, 2011).

**Conclusion**

Research on efforts to enhance MSME competitiveness through halal certification indicates that halal certification plays a strategic role in strengthening the competitive position of MSMEs in both domestic and global markets. The findings affirm that halal certification functions not only as a regulatory requirement but also as a differentiation instrument that provides significant added value to MSME products—especially in enhancing consumer perceptions of quality, safety, and trust (Porter, 1985; Tieman, 2011). With halal certification, MSMEs are able to offer products with symbolic and functional advantages aligned with the needs of the growing Muslim market.

Furthermore, this research shows that halal certification enhances product value through increased perceived value and credence attributes, which positively influence consumer purchasing decisions (Awan, Siddiquei, & Haider, 2015; Darby & Karni, 1973). Halal certification serves as a trust indicator that shapes consumer intention and behavior, particularly in markets sensitive to ethical, religious, and quality assurance aspects. Thus, the implementation of halal certification proves effective in strengthening MSME competitiveness not only through product physical aspects but also through intangible elements that create sustainable added value.

Moreover, the study reinforces that halal certification positively contributes to improving MSMEs' internal capabilities and promotes compliance with institutional standards. The certification process requires MSMEs to enhance production governance, quality management, and operational documentation in accordance with BPJPH and LPPOM MUI standards, ultimately improving professionalism and business process quality (Ruslan et al., 2020). From the consumer behavior perspective, halal certification consistently shows a significant influence on attitudes, subjective norms, and purchase intentions (Ajzen, 1991; Mukhtar & Butt, 2012), making halal certification highly relevant as a trust-based marketing strategy.

Overall, the findings emphasize that halal certification is a multidimensional factor that strengthens MSME competitiveness through product legitimacy, improved quality, value creation, and strong influence on consumer behavior. With increasing demand for halal products in national and global markets, halal certification should be viewed as an integral business strategy rather than merely an administrative requirement. These findings provide a strong empirical and theoretical foundation that halal certification is one of the most effective mechanisms to facilitate MSMEs' entry into the modern halal economy ecosystem.

**Limitations and Suggestions for Future Research**

Although this research offers valuable insights into MSME competitiveness enhancement through halal certification, several limitations must be acknowledged.

First, the study is limited to conceptual and literature-based analysis, which does not fully capture real-world empirical dynamics. While the literature review is comprehensive, it cannot fully represent the diverse experiences of MSMEs, particularly regarding practical barriers in the halal certification process, such as costs, administrative readiness, and limited understanding among business owners (BPJPH, 2021). Therefore, broader empirical studies are needed to validate these findings using real data from MSMEs across different industry sectors.

Second, this study does not explore contextual factors in depth, such as differences between urban and rural MSMEs, halal literacy levels, and the heterogeneity of consumer preferences among Muslim and non-Muslim segments. Prior research suggests that consumer behavior toward halal products is influenced by cultural factors, religiosity, and halal knowledge (Mukhtar & Butt, 2012; Awan et al., 2015). However, this study has not fully integrated these variables into its theoretical analysis. Future studies should develop more comprehensive models by incorporating demographic, psychographic, and local/global market characteristics.

Third, the study has not examined the role of digitalization in enhancing halal certification processes and MSME competitiveness. In reality, digital transformation is increasingly important in facilitating information access, improving certification efficiency, and strengthening halal product marketing strategies (Rahayu & Day, 2020). Thus, future research could focus on digital integration in the halal ecosystem, such as halal traceability systems, e-certification platforms, and halal-based digital marketing.

Fourth, the study has not empirically tested the causal relationship between halal certification, dynamic capabilities, and MSME competitiveness. Empirical approaches such as PLS-SEM or in-depth qualitative studies using triangulation techniques could offer more accurate insights into the mechanisms through which halal certification enhances competitiveness (Tieman, 2011). Therefore, future studies should consider mixed-methods approaches to explore both quantitative and qualitative aspects more comprehensively.

Overall, these limitations present opportunities for future research to broaden and deepen understanding of the role of halal certification in strengthening MSME competitiveness. By integrating empirical methodologies, expanding research contexts, and incorporating digitalization variables, future studies can contribute significantly to theory development and practical advancements within the halal industry ecosystem.

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