

Halal Industry in Indonesia Muslim Middle Class Consumption Behavior: An Analysis of New Institutionalism

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Abstract

The consumption pattern of the Indonesian middle class Muslim community has played a role in increasing the prospects for a number of halal industries. Certainly, for entrepreneurs, this condition is a market share that has great profit potential, where the percentage of middle-class Muslim consumers reaches 87% of the total population of Indonesia. The lack of support and implementation of halal product certification by the government causes the potential for market expansion based on the halal concept to be delayed. The government seems to still have not utilized the potential of the halal industry as state income. In fact, global economic revenue in the field of halal products is projected in 2020 to reach 2.6 trillion dollars. This paper attempts to develop an economic sociology study regarding the development of the halal industry in Indonesia through a new institutionalism approach. The focus of this paper is on the phenomenon of the transformation of consumption behavior of middle-class Muslim communities accompanied by the response of business actors and the government to halal product certification.

Keywords: Muslim Middle Class, Halal Industry, New-Institutionalism

1. INTRODUCTION

According to the Center for Middle Class Consumer Studies (CMCS), the middle class of Moslem community has through the experienced of transformation in its consumption's behavior in the last five years. This condition of market share is absolutely giving a huge profit potential for the businessman, where are the number percentage of middle-class Moslem consumer has reached 87% form the total number of Indonesian civilians (Yuswohady, 2014). As a result, many small and large business actors have participated in transforming product marketing strategies by including halal certification. The high number of the consumer is due by a demographic factor of the Indonesian community's which is predominantly Moslem. According to Central Statistics Agency, in 2015 the percentage of Indonesian's population was 85% Moslem; thus, it makes Indonesia as a country which has the highest halal market potential in the world.

The consumption pattern of middle-class Moslem community has played a role in increasing the prospects for a number of halal industries. In the other side, the development of halal industries supported by the consciousness of Moslem community for applying the lessons and the concept of Islam, specifically halal principle in many aspects of life. Halal is a norm in Islam religion which is nowadays has experienced a changing thus considered as a commodification needs or even a sign of a lifestyle for the middle class of Moslem community. Besides becoming the largest consumers of halal product in the world, Indonesia has a big potential to be the largest producer of halal product. However, the fact, Indonesia is not ready yet to dominate the world market of halal product. Indonesia ranked in the fourth position as an exporting country of halal product after Australia, Tiongkok and New Zealand which is in fact these countries is not Moslem countries. Besides, the lack of support and implementation of halal product certification by the government. The government seems to still have not utilized the potential of the halal industry as state income. In fact, global economic revenue in the field of halal products is projected in 2020 to reach 2.6 trillion dollars.

2. LITERATURE REVIEW

The development of the social sciences in the last few decades, it has appeared a sociological economic as new multidisciplinary of a social science. Sociological economic could be considered as an alternative of a new social science which can see a problem of economic community. Many social researcher concern that actually there are non-economic factors such as community context which are encourage or even obstruct the economic action. Sociological economic has many perspectives in term of concerning the economical phenomena that is reviewed from the aim of the studies, these are social institution perspective, social network perspective and the perspective of authority in economic activities (Achwan, 2014). This paper will discuss about one of the sociological economic perspectives, namely the perspective of social institutions in the contemporary aspect, specifically the new institutionalism approach. Weber is an expert actor of the classic sociological economic flow. Weber used his special thoughts about the rationality of diversity in concerning the action of economic community. One of them is about the correlation between the religion institution and the economic institution which is generates modern capitalism. Achwan (2014) stated that weber's idea became the foundation for contemporary economic sociologists. There are a lot of contemporary economic sociologist actors which no longer put the role of that religion institution onto economic phenomena. But, in the case of halal industrial development in Indonesia, the religion institution still has the important role in the economic life. This shown that the modern capitalism that omitted the religion institution, is not fully happen in Indonesia. Generally, it shown a relevance in religion institution in reproducing the capitalism system.

The contemporary flow of economic sociology does not stand on the idea of classical economic sociology, but it combines the classical flow of economic sociology with a new approach (Achwan, 2014). As in the conceptual framework of the perspective of social institutions initiated by Victor Nee on new institutionalism, it is a critique and enrichment of Granovetter's ideas about social networks. Nee's ideas came from how institutions interact with social networks and norms in directing economic action. According to Nee (in Sila, 2009) institutions are guidelines in the social structure to take collective action by regulating individual interests and strengthening relationships between individuals, so that institutions can be said to be determinants of economic behavior. In this case, the new institutionalism approach explains how institutions have an important role in economic activities, such as structuring social and economic transactions and understanding the basis of social norms, social networks, and trust (Nurina, 2012).

Nee's key concept of new institutionalism put the attention to social mechanisms where aspects of formal institutions and informal institutions are interconnected, then become the basis for every human being in achieving economic interests. This approach does provide space for intercommunity to pursue interests. In a simply, the new institutionalist approach wants to answer

how the institutional environment can build the economic action (Achwan, 2014). Nee's formal institutions concept consists of formal state regulations such as constitutions, while the concept of informal institutions is in the form of norms, the religious values, social networks, and social attachments (Sila, 2009). Nee strongly emphasizes the multi-level relationships have an impact on close coupling which is characterized by the conformity of informal institutions in the form of norms and personal and group's interests toward formal institutions. It appears as state rules related to economic behavior. Meanwhile de-coupling relationships indicated by the conflict between informal institutions and formal institutions due to differences in the interests of individuals or groups with the regulations made by the state (Achwan, 2014).

The concept of formal institutions referred by Nee consists of formal state regulations such as laws, while the concept of informal institutions is in the form of norms, values derived from religious conceptions, social networks, social attachments (Sila, 2009). Nee places great emphasis on multi-level relationships that have an impact on (close coupling), which is characterized by the conformity of informal institutions in the form of norms and interests of individuals and communities to formal institutions in the form of state rules related to economic behavior, while (de-coupling) relationships. indicated by the conflict between informal institutions and formal institutions due to differences in the interests of individuals or communities with regulations made by the state (Achwan, 2014). Furthermore, in order to explain Nee's ideas regarding the new institutionalist approach, it can be seen in the following resume table:

Table 1. Basic Principles of New Institutionalism Theory

Component	Description
Assumption	Context-bounded rationality, actors are driven by interest, shaped by beliefs, norms, and social network ties.
Actors	Organization. Individuals who articulate interests and networks within the organization.
Institution Definition	The system of relations between formal and informal institutions, which facilitate, encourage and regulate economic action.
Macro Level Mechanism	constitution, government regulations, market mechanisms, collective action.
Micro Level Mechanism	The actions of individuals in a network or organization that are driven by interest.

The point of the essence is, Nee's new approach to institutionalism emphasizes social mechanisms in the relationship between formal and informal institutions that are adapted to certain socio-cultural contexts and become the basis for achieving economic interests. Furthermore, these two institutions have a dialectical relationship in influencing human behavior and actions in economic activities (Sila, 2009). In substantial, Nee's new approach to institutionalism emphasizes social mechanisms in the relationship between formal and informal institutions that are adapted to certain socio-cultural contexts and become the basis for achieving economic interests. In addition, these two institutions have a dialectical relationship in influencing human behavior and actions in economic activities (Sila, 2009).

3. METHODS

The approach of the research in this paper is using qualitative approach, with the technique of collecting data in the form of literature review. This paper is attempted to do a development of economic sociological studies regarding the development of the halal industry in Indonesia through a new institutionalism approach. The aim of this research is about behavior consumer transformation phenomena of the halal product of the middle-class Moslem community including the response from the business actor and the government relating to the halal product certification. Then, explain the role of the new institutionalism approach in the development of the halal industry.

4. RESULTS AND DISCUSSION

The halal industry in Indonesia is concern in 10 sectors, including finance, food, tourism and travel, fashion, cosmetics, medicine, media, recreation, fitness, education, and cultural arts (Siregar, 2017). In the financial sector, Indonesia has experienced quite good financial development. Characterized by an increase in Islamic commercial banks and Islamic financial institutions. Since the establishment of Bank Muamalat as the first Islamic bank in Indonesia in 1991, Bank Muamalat growth has continued to increase by almost 40% every year. This growth rate exceeds the growth of conventional banks (Yuswohady, 2014). The increase of the middle-class Muslim community consumption marks a transformation in consumption patterns, one of which is the revolution in the use of 'hijab'. This change in consumption habits has an impact on a shift in the meaning of 'hijab' which is a legal principle in religious institutions as an order for women's headscarves, now interpreted by some as the commodification of fashion products. Especially for the middle-class Muslim community, hijab is a lifestyle trend for the middle-class Muslim community that is modern, trendy, and techy (Yuswohady, 2014). Besides hijab products, it is also accompanied by the development of halal cosmetic products. Both hijab and halal cosmetics manufacturers take advantage of the middle-class Muslim women market.

In terms of tourism and travel, several regions in Indonesia have developed halal tourism, which includes nature tourism, cultural tourism, and culinary tourism (Siregar, 2017). Besides an increasement in domestic tourism, there is also an increase in foreign tourism by some middle-class Muslim communities, such as Umrah and Hajj. The development of the halal industry in these various fields shows that the halal label has become an important factor in consumer decision making. Therefore, companies are competing to provide halal labels on their products, thus leading to the halal certification business. On the other hand, according to the report of State of the Global Islamic Economy was in 2015, Indonesia is the world's largest consumer of halal products in the first rank. This shows that in terms of production of halal products, Indonesia is still minimal. The high demand for halal products in the world is not accompanied by government support (Hidayat, 2016). Based on the findings, there are still few companies and SME in Indonesia that have halal certification, which is only around 6,231 out of 57 million total companies and SME (Hidayat, 2016). There are several obstacles faced in increasing the utilization of production in the halal industrial sector, including those related to issues of coaching, training, and mentoring business actors for SME products. Most SME business actors do not fully understand the importance of implementing and benefiting from halal certification.

New Institutionalism Perspective Toward the Halal Industry in Indonesia

This paper will focus on explaining the role of the new institutionalism approach in the development of the halal industry in Indonesia. The halal industry in Indonesia indirectly grows from the implications of the transformation of consumption patterns of the middle-class Muslim community. The high consumption pattern is caused by the increasing economic income of the

middle-class Muslim community. This condition also has an impact on increasing the status of education which then raises awareness of the application of halal principles, so that it also determines the actions of middle-class Muslim communities in economic activities. Religious institutions that regulate halal principles basically contain universal goodness, because they prohibit product ingredients that are harmful to health, such as carrion and blood of animals slaughtered with the right slaughter process and ingredients that contain alcohol because they are intoxicating. With the largest number of middle-class Muslim communities among the composition of the Indonesian population, it certainly has an influence in the form of a feedback response from business actors who see this condition as a market that bring profits. In addition, the market for halal products is thriving at the global level. Along with the phenomenon of consumerism, various halal products have emerged and are in great demand. For example, halal cosmetic products and halal hijab are in great demand by women from all of life. It is known that the trend of selling halal cosmetics reaches 50% every year (Handayani, 2016). Based on a study by Supriyadi (2005) regarding the effect of halal labeling on the sales of food products, it shows a significant relationship. Companies that implement halal certification usually get more profits.

The government also responds to the development of the halal industry that is thriving in Indonesia. Initially, the emergence of the middle-class Muslim community was the result of the socio-political conditions in the pre-reform government. In the 1990s, the government formed the ICMI (Indonesian Muslim Intellectuals Association) organization as an Islamic intellectual organization. Some view's view that there is a strengthening of Islamic bureaucrats in government (Handayani, 2016). Regarding the halal industry, the government also supports the existence of the halal industry in Indonesia. Marked by the participation of the Ministry of Trade in the 2016 World Halal Day event in Croatia, the drafting of Law Number 33 of 2014 concerning Halal Product Assurance and the establishment of the Halal Product Assurance Organizing Agency (BPJPH) as an authorized institution in providing halal certification. The new institutionalism approach basically views economic activity in multilevel, micro, meso, and macro levels, with an emphasis on the relationship between formal institutions and informal institutions. The micro level is characterized by individual interaction patterns in the middle-class Muslim community who act as economic actors based on norms (halal) in religious institutions. Then, at the meso level, which is the arena of economic organization, adjusting economic actions to the consumption patterns of the middle-class Muslim community that prioritizes halal values. Companies and SME also take into consideration by providing halal certification for their products. In the new institutionalism approach, the relationship between the micro and meso levels that results in adjustment and consideration of economic action based on norms is a form of informal institution.

As a result of the emergence of various economic organizations that prioritize halal product certification as an effort to fight for the interests of economic activities, it has become a way to influence public policy in state institutions. Through the Ministry of Trade, which has the authority to supervise economic organizations with the help of Islamic organizations represented by the Indonesian Ulema Council (MUI), they seek regulations regarding guarantees for halal products. In this case, at the macro level or institutional environment, it has produced official rules governing the economic activities of the halal industry. The official rules contained in Law Number 3 of 2014 concerning Halal Product Guarantee are a form of formal institution. Nee emphasized that in formal and informal institutional relationships, it can make an integration in a form of (close coupling) or even inconsistency of (de-coupling). The form of multi-level relationship that results in the economic activities of the halal industry is in the form of (close coupling). This relationship is shown by the increase in consumption patterns of halal products by middle class Muslim groups and the considerations made by economic organizations through halal certification. It is supported by an institutional environment that released regulations in the form of the Halal Product Guarantee Law and the establishment of an institution (BPJPH).

However, the role of the government as a formal institutional environment in carrying out the functions of monitoring and structuring the rights of economic organizations, coordinating markets and companies, and integrating formal and informal rules is not yet optimal. This condition is indicated by the lack of government support in responding to the increasing demand for halal products in the global market. When compared with the development of halal certification in other countries, it has received support from the government, groups, and academics which has an impact on increasing product value. The second problem is that there is no synergy between government agencies in conducting halal certification, where there is a problem regarding the distribution of halal certification between MUI and BPJPH. The government should move quickly in supporting efforts to increase halal certification for SME so that Indonesia does not become a consumer in the midst of the large opportunities for economic improvement in the era of the ASEAN Economic Community (Hidayat, 2016). To optimize the development of the halal industry in Indonesia in competition at the world level it requires several strategies, including increasing Indonesia's branding as a halal lifestyle center, developing human resources regarding halal products, and collaborating with stakeholders related to the development of the halal industry. If this effort is successfully carried out, it will have an impact on increasing the Indonesian economy (Siregar, 2017).

5. CONCLUSION

Indonesia as the largest Muslim country in the world has a huge potential for the halal industry. However, if it is not utilized as a potential increase in the country's economic income, then Indonesia will be trapped in the pattern of consumerism. The role of the institutional environment is very necessary. The role of the new institutionalist approach in the study of economic sociology on the development of the halal industry is manifested in the mapping of formal and informal institutions in multi-level relationships between middle-class Muslim groups, economic organizations, and the government. In this case, the government at the macro level and representing the institutional environment has a weak role. This is because the government has not been able to integrate official regulations with the implementation of economic activities at the meso and micro levels. This is indicated by the slow support for the demand for halal products and the distribution of halal certification at the ASEAN level. If the government does not immediately realize the weak role of formal institutions, the role can be taken over by the market system and the loss of supervision of the halal industry in Indonesia.

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