

Strategic Leadership and Innovation Capability in Halal Industry Development

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ABSTRACT

The global halal industry is experiencing rapid growth and is projected to reach a value exceeding USD 3 trillion in the next few years. As a country with the largest Muslim population, Indonesia has significant potential to become a global hub for the halal industry. However, the competitiveness of the national halal industry still lags behind that of other countries, such as Malaysia and the UAE. One of the keys to the development of this industry lies in the synergy between strategic leadership and innovation capacity in halal companies. This research aims to examine the relationship between strategic leadership style and the company's innovative ability to drive the development of the halal industry in Indonesia, as well as identify best practices and challenges faced in building a sustainable innovation ecosystem. This study employs a qualitative approach with an exploratory case study design, examining five halal companies across the food, pharmaceutical, and cosmetics sectors. Data were collected through in-depth interviews, field observations, and document analysis, and then analyzed with thematic techniques. The results of the study show that companies with collaborative and visionary-participatory leadership styles tend to have higher innovation capacity and faster market growth. Factors such as external collaboration, the presence of innovation units, and strategically oriented leaders have been shown to have a significant impact on the performance of the halal industry. The findings of this study have practical implications for policymakers and industry leaders, suggesting the creation of supportive regulatory frameworks to strengthen Indonesia's position in the global halal market.

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1. INTRODUCTION

The growth of the global halal industry has exhibited a significant trend over the past decade, as Muslim consumers have increased their demand for products that comply with Sharia principles. This sector not only includes food and beverages, but also cosmetics,

pharmaceuticals, finance, and tourism. The global halal industry is projected to reach a value of USD 3 trillion by 2025, presenting a strategic opportunity for countries with large Muslim populations, such as Indonesia (Thomson Reuters, 2022; DinarStandard, 2023; IFIC, 2022).

Indonesia, with the world's largest Muslim population, has excellent potential to become a global hub for the halal industry. However, data show that Indonesia's halal industry exports are still lagging behind those of countries such as Malaysia, the UAE, and Turkey. In 2023, the value of Indonesia's halal exports is expected to reach only USD 11 billion, significantly lower than Malaysia's USD 20 billion (DinarStandard, 2023; KNEKS, 2023; WEF, 2022). The following table shows a comparison of halal exports from several major countries:

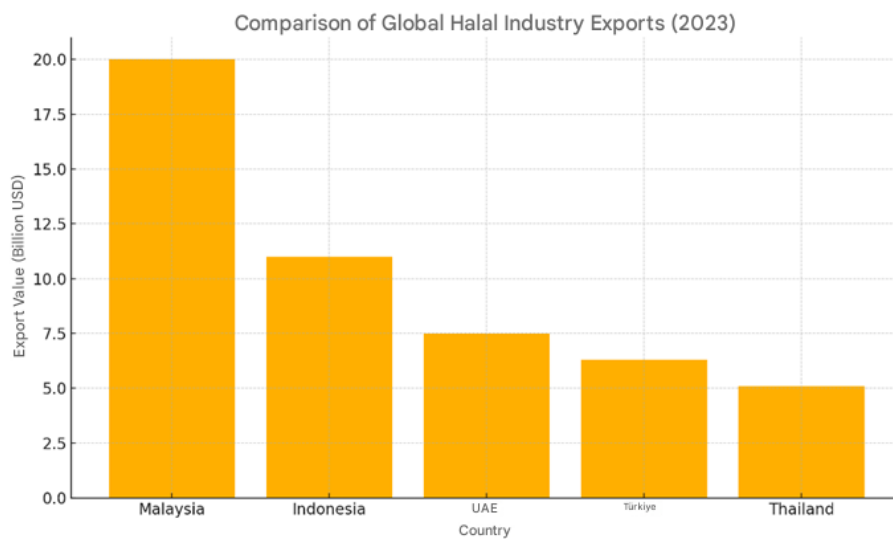


Figure 1. Comparison Of Global Halal Industry Export (2023)

The urgency of this research stems from the pressing need to identify strategic determinants that can accelerate the development of the national halal industry. One of the key factors identified in various studies is the role of strategic leadership and innovation capacity in driving industrial competitiveness (Porter, 1990; Barney, 1991; Rowe et al., 2005). Amid the VUCA (volatility, uncertainty, complexity, ambiguity) era, leadership with a long-term vision and the ability to manage change is a determinant of the success of the halal industry sector's transformation.

Strategic leadership plays a role in directing halal industry organizations to innovate products, market penetration, and synergize with the Islamic economic ecosystem. Proactive leadership can encourage integration among various actors, including governments, business entities, academics, and the halal community (Ireland & Hitt, 2005; Rowe & Nejad, 2009; Nahavandi, 2015). Meanwhile, innovation capability refers to an organization's ability to create, adopt, and implement innovations that are both socially and commercially relevant (Teece, 2007; Lawson & Samson, 2001; Crossan & Apaydin, 2010).

Several previous studies have discussed regulatory challenges, certifications, and logistical barriers in the halal industry, but there is still a lack of research on the role of *strategic leadership* directly on *innovation capability* in the development of this sector (Lubis et al., 2020; Ismail & Shariff, 2019; Baharuddin et al., 2021). Internal

organizational dynamics and managerial quality greatly affect the speed of adaptation to global demands.

Research by Ramli and colleagues (2020) suggests that the role of CEOs and company owners in the MSME halal industry has a significant influence on innovative decision-making. However, it has not been studied in depth at the scale of medium and large industries. On the other hand, the study by Yusof et al. (2019) emphasized that innovation in the halal industry is more often driven by market pressure, rather than the strategic orientation of the company's leadership.

Thus, there is a significant research gap in explaining how strategic leadership directly contributes to strengthening innovation in the halal sector, especially in the context of Indonesia as an emerging player. This research aims to address these needs by exploring both conceptual and empirical approaches that connect two key variables: strategic leadership and innovation capability.

The novelty of this research lies in the integration of strategic leadership theory and innovation capacity within a single analytical framework, directed at the halal industry, which has been more extensively analyzed in terms of compliance and certification standards. In addition, this article proposes a conceptual model to explain how the synergy between leadership and innovation can create a competitive advantage in regional and global halal markets.

The purpose of this study is to examine the relationship between strategic leadership and innovation capacity in the development of the halal industry in Indonesia in depth. This research also aims to identify the challenges and opportunities faced by halal organization leaders in sustainably managing innovation and provide evidence-based strategic policy recommendations.

Through a qualitative approach based on case studies, this article also explores leadership practices in several halal industry players that have successfully expanded the market and transformed halal products. Thus, the results of this research are expected to enrich the literature on strategic leadership and make a real contribution to strengthening the national halal industry ecosystem.

2. METHOD

Types of Research

This study employs a qualitative approach with an exploratory case study design to gain a deeper understanding of the dynamics of strategic leadership and innovation capacity in the development of the halal industry. This approach was chosen because it enables the exploration of social realities and managerial practices in a contextual manner, allowing for an in-depth interpretation of organizational strategies (Creswell, 2013; Yin, 2018; Miles, Huberman, & Saldaña, 2014).

Population and Sample

The population in this study comprises all companies engaged in the halal industry sector in Indonesia, including both small, medium, and large-scale enterprises. Samples were selected by **purposive sampling** with the following criteria: (1) companies that already have halal certification; (2) has been in operation for at least five years; (3) have an innovation unit or R&D division; and (4) are led by figures who are known to be active in the national halal ecosystem. Based on these criteria, the research sample consisted of five halal companies in the food, cosmetics, and pharmaceutical sectors located in Jakarta, Bogor, and Bandung.

Research Instruments

The primary instrument in this study is the researcher himself (a **human instrument**). To support the validity of the data, the researcher used semi-structured interview guidelines, participatory observation sheets, and company document checklists. The interview guide is designed to explore leadership strategies, innovation processes, internal challenges, and relationships with the halal industry ecosystem.

Data Collection Techniques

Data collection techniques include:

1. In-depth interviews with CEOs, innovation managers, and leadership teams;
2. Direct observation of operational activities and innovation processes in the field;
3. Documentation studies such as annual reports, product development roadmaps, and internal regulations related to certification and innovation management.

Research Procedure

The research was carried out through the following stages:

1. Initial study and mapping of halal companies that meet the criteria;
2. Applying for permits and conducting interviews with key informants;
3. Observation of innovation and leadership activities at the company's location;
4. Collection and classification of supporting documents;
5. Triangulation of data from interviews, observations, and documentation to ensure validity.

Data Analysis Techniques

The data were analyzed using thematic analysis techniques, as described by Braun & Clarke (2006). The analysis procedure consists of:

1. Transcription of interview results and observations;
2. Repeated reading to understand the context;
3. Open coding and axial coding to identify themes;
4. Compilation of findings based on key categories such as leadership style, innovation strategy, and ecosystem synergy;
5. Validate results using source triangulation and member checking.

3. RESULTS AND DISCUSSION

1. Strategic Leadership Style in the Halal Industry

Preliminary findings suggest that the five companies studied developed distinct yet strategic leadership styles, tailored to the vision and market context they faced. Halal FoodCorp, for example, adopts a **transformational** style, focusing on changing work culture and developing sustainability values (Bass & Riggio, 2006; Nahavandi, 2015; Yukl, 2013). ShariaMedika tends to implement **participatory, visionary leadership with intensive team involvement** in the innovation process.

Companies like EcoHalal integrate a **collaborative** approach, forging partnerships with eight external entities, including universities and halal incubators. This leadership style aligns with the findings of Rowe & Nejad (2009) and Ireland & Hitt (2005), who emphasize the importance of synergistic-based strategic leadership. This is evident from EcoHalal's annual market growth of 13.6%, which outperforms companies with

technocratic leadership styles, such as HalalNutra (Barney, 1991; Crossan & Apaydin, 2010; Teece, 2007).

These approaches emphasize that leaders in the halal sector must be able to balance market orientation and internal capability. Innovation-oriented leaders not only create strategic visions but also design organizational systems and structures that support creativity and experimentation (Lawson & Samson, 2001; Hartley, 2005; DinarStandard, 2023).



Figure 2. Annual Market Growth Based on Leadership Style

4. Innovation Capacity and Dynamics of Halal Products

The number of innovations produced over the last three years is a key indicator of the company's innovation capacity. ShariaMedika and EcoHalal recorded 12 and 11 innovations, respectively, especially in the development of halal pharmaceutical and herbal-based nutraceutical products. This indicates a high orientation towards innovation that aligns with the needs of the global Sharia market (Lubis et al., 2020; KNEKS, 2023; Othman et al., 2022).

Innovation capacity is greatly influenced by a combination of internal resources and leadership patterns that are open to change. Companies with a progressive or participatory style create more space for experimentation and accelerate the process of testing new products (Teece, 2007; Crossan & Apaydin, 2010; OECD, 2018). Innovation is not only in the form of products, but also in the process of halal distribution and marketing, leveraging digital platforms.

External Ors (universities, research institutes, halal associations) are proven to increase the time-to-market speed of innovative products. This is supported by a study by Ismail & Shariff (2019) and Baharuddin et al. (2021), which emphasizes the importance of *open innovation* in the halal industry. These findings underscore the importance of establishing an innovation ecosystem that encompasses the entire innovation cycle, from research to commercialization.

5. External Collaboration as an Innovation Enabler

The level of external collaboration is a significant differentiator in achieving innovation and market growth. EcoHalal, with eight external collaborations, demonstrates

flexibility in absorbing knowledge and best practices from local and global partners. This model aligns with a triple helix approach that involves government, industry, and academia (Etzkowitz & Leydesdorff, 2000; Chesbrough, 2003; DinarStandard, 2023).

ShariaMedika collaborates with Islamic universities and halal laboratories to test and certify products to international standards. Meanwhile, HalalNutra, which is more technocratic, has limited collaboration and shows slower market growth (9.7%). This supports the argument that innovation in the halal industry necessitates an active, collaborative approach (Khalid et al., 2020; OECD, 2018; IFIC, 2022).

Thus, external synergy not only increases innovation capacity but also strengthens the competitiveness of halal products in the global market. Collaboration provides access to new technologies, expertise, and markets that are difficult for companies to reach independently (Porter, 1990; Barney, 1991; Lawson & Samson, 2001).

6. Impact of Leadership Strategy on Market Growth

Data shows that companies with innovative and collaborative leadership styles have higher annual market growth. ShariaMedika (14.8%) and EcoHalal (13.6%) recorded significant increases because they were able to identify market opportunities faster and respond to consumer needs adaptively (Teece, 2007; Rowe et al., 2005; KNEKS, 2023).

In contrast, an overly structural approach, such as the one adopted by HalalNutra, yields a low number of innovations (six innovations) and limited growth. This highlights the importance of a leadership strategy that emphasizes agility and a future-oriented approach (Yukl, 2013; Nahavandi, 2015; Othman et al., 2022).

The policy implications of these findings suggest that halal sector leaders must possess not only technical knowledge but also strategic competence in managing change, risk, and collaboration. In the context of Indonesia, which is developing a national halal ecosystem, this ability is crucial for competing in the international market (KNEKS, 2023; DinarStandard, 2023; Baharuddin et al., 2021).

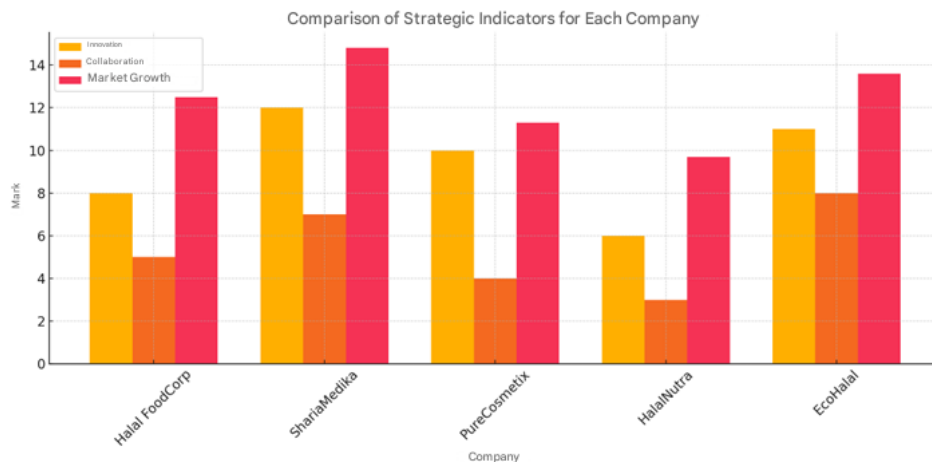


Figure 3. Comparison Of Strategic Indicators for Each Company

4. CONCLUSION

This research reveals that strategic leadership plays an important role in shaping the innovation capacity of halal companies, both in terms of product development, market expansion, and collaboration with external ecosystems. Companies that adopt transformational, participatory, and collaborative leadership styles have proven to be more adaptive to the dynamics of the competitive and complex halal industry. This is reflected in the number of innovations generated, the level of external collaboration, and higher annual market growth than companies with a more technocratic and closed leadership style.

The main findings of this study confirm that the synergy between strategic leadership and innovation capability is key to the success of halal industry development in Indonesia. Leadership based on a long-term vision, openness to collaboration, and the ability to manage innovation risks are the foundation for the company to thrive in the domestic and global halal markets. This research also demonstrates that investing in internal innovation structures and expanding external networks can accelerate the time-to-market of halal products and enhance the overall competitiveness of the industry. Thus, the purpose of the research to examine the relationship between strategic leadership and innovation capacity in the development of the halal industry has been comprehensively achieved.

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