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The Effect of Commitment and Knowledge on Operational Performance with Halal Standard Implementation as a Mediator in Food MSME Industries

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Abstract

The increasing world Muslim population has caused the need for halal products to increase. One industry with rapid development in the halal market is the halal food and beverage industry. This study examines the effect of commitment and knowledge on operational performance by implementing halal certificates as mediation in small food and beverage industry small businesses. Questionnaires were distributed to 120 halal-certified packaged food and beverage small businesses in Sidoarjo Regency, East Java Province, Indonesia. Structured questionnaires were used to collect primary data. Then, partial Least Squares were used to test the proposed hypotheses. The results showed that the commitment variable was significantly related to the operational performance variable, with a count of 2.796, and the knowledge variable was significantly related to operational performance, with a count of 2.417. The halal certificate implementation variable mediates the influence of the commitment variable on operational performance, with a count of 4.095, and the halal certificate implementation variable mediates the influence of knowledge on operational performance, with a count value of 4.079.

1. Introduction

Performance is described as the achievement of an organization's goals through effective strategies and techniques. The operational performance of a company is depicted by the series of processes involved in producing goods and services within a specified timeframe and predetermined targets set by the company (Sugiharto et al., 2001). Operational performance is closely related to the utilization of resources by business entities, as resources serve as tools to attain profitability and

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strategic objectives. According to Suryani & FoEh (2018), performance measurement can be carried out by assessing the efficiency of resource management within a company. Performance measurement is crucial for all organizations, including small and medium-sized enterprises (SMEs), as it is needed not only to determine the extent to which SMEs can achieve their targets and objectives but also to provide corrective measures for future strategy improvements (Suprapto et al., 2009). Good levels of operational performance in SMEs are considered crucial for their success in surviving in an increasingly competitive business environment (Komaludin & Wahid, 2017). Furthermore, the achievement of performance indicators in SMEs serves as an indication of their efficiency in utilizing available resources.

In developing countries like Indonesia, Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the country's economic development. MSMEs contribute significantly to the overall business landscape in Indonesia, accounting for 60.5% of the gross domestic product (GDP) and employing 96.9% of the national workforce (Katadata.co.id, 2021b). Therefore, MSMEs are considered the most crucial sector in the Indonesian economy (Jaswadi et al., 2015). The simple and flexible organizational structure of MSMEs, coupled with low business risks, has led to an increase in the number of MSMEs over the years. However, despite their tremendous potential, MSMEs also face significant challenges in their business development. Tempo.co (2019) reported that out of the total number of MSMEs, 99% experienced stagnation or even ceased operations due to poor financial management, weak operational control, difficulties in identifying the right target market, and errors in assessing competitors. According to (Rahmaniyah et al., 2017), the barriers faced by MSMEs in sustaining their businesses include limited access to capital, marketing challenges, and a low level of managerial understanding, including operational issues. The low level of managerial understanding among MSMEs hampers the decision-making and planning processes, which in turn affects the overall performance of MSMEs, including financial and operational performance.

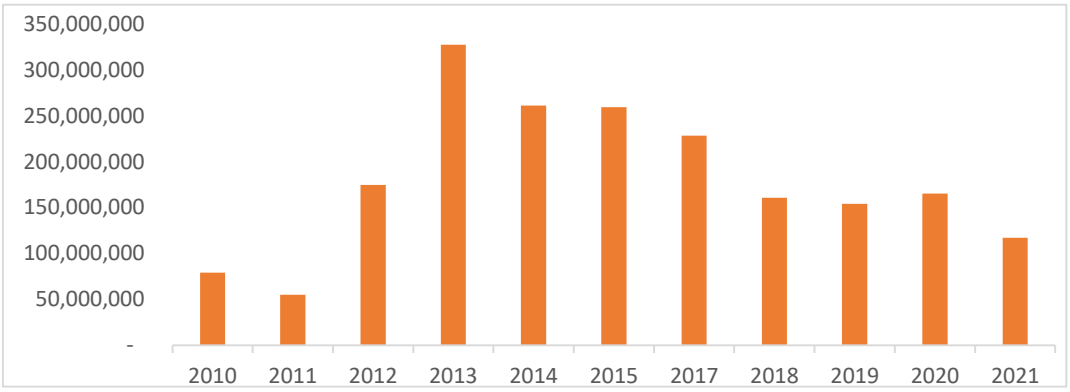


Figure 1 Data Output Values of Indonesia SMES industries period 2010 – 2021
Source: Badan Pusat Statistik (processed data, 2023)

The data on the value of output generated by MSMEs in Indonesia from 2010 to 2021 shows a significant increase in certain years, such as 2012 and 2013, but also a sharp decline in other years, including 2011, 2015, and 2021. Based on this data, it can be observed that MSMEs in Indonesia undergo dynamic changes in terms of output value. The value of output, as described by the Central

Statistics Agency, represents the value of goods and services produced through industrial activities. This dynamic value of output can be influenced by various factors, both external to MSMEs such as government policies and the economic situation, and internal to MSMEs such as managerial skills, product quality, and operational efficiency. The ability of MSMEs to effectively manage their businesses can improve product quality and optimize operational processes, which in turn contribute to an increase in the value of output.

Operational performance is not only dependent on the successful management of tangible resources but also intangible resources (Obeidat et al., 2017). The perspective of the resource-based view (RBV) influences the improvement of operational performance in companies by continuously developing processes and resources (Slack & Brandon-Jones, 2018). Efforts to improve quality in order to stimulate the operational performance of MSMEs can be achieved through the implementation of Total Quality Management (TQM). TQM is a structured set of activities used to achieve the quality goals of a company (Sugiharto et al., 2001). TQM focuses not only on product quality but also on the quality of human resources within the organization (Noorliza & Asaari, 2006). The concept of the quality management model proposed by Sadeq (1996), explains that quality management attributes have five categories, including commitment and knowledge.

Intangible resources, in the RBV perspective, are considered key factors in the success of a company's performance. This is because companies will be more focused on the internal environment, enabling them to create strategic actions (Abusweilem & Abualous, 2019). Commitment from owners or top management, therefore, is seen as an action that reflects the quality and policies required by the company (Yusuf et al., 2007). Companies need to prioritize the commitment of top management to improve operational performance (Leksono et al., 2020). On the other hand, commitment alone does not guarantee better business performance because some successful companies have low levels of commitment but excel in other factors such as marketing strategy and product innovation (Porter & Nohria, 2018).

Another indicator of operational performance success is the knowledge possessed by top management or business owners. Knowledge is the utilization of information and data in a comprehensive manner, complemented by skills, competencies, ideas, and intuition (Kianto et al., 2018). Contrary to popular belief, a study by Omodior and Nwachukwu (2018), found that knowledge does not have a significant impact on business performance. This may be attributed to the broad nature of knowledge, necessitating further identification of the specific types of knowledge needed by each company that align with its own goals.

In the food and beverage industry, quality, particularly the halal quality of products, is a crucial aspect that needs to be considered. The projected increase in the global Muslim population by 2030 has led to a growing interest in the concept of halal by various stakeholders. In the quality control cycle, the goal of companies is to meet consumer needs. The rising Muslim population has increased the demand for halal products. In 2019, the expenditure on halal products and services worldwide reached US$2.02 trillion across six industry sectors (State of the Global Islamic Economy Report, 2020). One rapidly developing industry is the halal food industry. The rapid growth of the halal food industry can be seen in the global consumer spending in 2019, which amounted to US$1.13 trillion, increasing by 3.1% in 2020 to US$1.17 trillion. These data demonstrate that halal food has become a lifestyle and is widely accepted by society, making it a consumer requirement that must be fulfilled by producers. Halal certification has become a universal phenomenon appreciated by various countries (Nawai et al., 2007).

Previous studies have demonstrated the relationship between food safety certifications and improved business performance, both operationally and financially. For instance, research has shown that ISO certification, which ensures good documentation procedures in food production, can enhance operational performance (D. P. Kafetzopoulos & Gotzamani, 2014). Studies have also indicated that halal certification, which adheres to standards such as HACCP, GMP, or ISO 22000, provides a competitive advantage in business performance (Demirci et al., 2016; Kohilavani et al., 2013; Nawi & Nasir, 2014; Talib et al., 2015). Companies that have obtained halal certification and implemented halal assurance systems are believed to have better business performance. Several studies have found a significant and positive correlation between the implementation of halal assurance systems and organizational performance (Ab Talib et al., 2017; Aldista et al., 2018; Muhamed et al., 2019; Rafiki & Wahab, 2013; Salindal, 2019), including both financial performance (Ab Talib et al., 2017; Muhamed et al., 2019) and non-financial performance (Ab Talib et al., 2017; Salindal, 2019). Halal certification, like other food safety certifications, represents a structured and documented food quality system (Giyanti et al., 2021) that can enhance operational performance (Ab Talib et al., 2017).

This study examines the influence of commitment and knowledge on operational performance in small-scale packaged food and beverage industries in Sidoarjo Regency, East Java, considering several factors. Firstly, due to the development of the Halal Industrial Zone (KIH), the Safe and Lock Halal Industrial Park in Sidoarjo, which is an effort to promote the development of the Islamic economy and finance in Indonesia. Secondly, KIH Safe and Lock Sidoarjo is the first halal industrial zone in East Java and the first in Indonesia specifically operated for SMEs, including small-scale businesses. Thirdly, in large-scale companies, the organization and departmental structure are usually well-established, and the company's representation is typically handled by specific staff such as public relations or communication personnel who are not the decision-makers (Jusmaliani, 2014). Thus, in this context, small-scale businesses are considered to provide a better understanding of the level of commitment and knowledge of the business owners. Fourthly, small-scale businesses are chosen to provide better representation since they comprise the largest segment within the SME category. By selecting small-scale businesses as the research sample, it is expected to represent the diversity of the overall SME population.

2. Literature Review

Operational Performance

Company performance is a reflection of the level of achievement of activities in reaching a goal, which includes profitability, return on investment, competitive position, technological advantage, productivity, employee relationships, public responsibility, and employee development (Pearce & Robinson, 2008). According to Moehariono (2014), operational performance is the performance related to the effectiveness of utilizing every resource used by the company. Performance is seen as the result of how effectively these resources are used to generate profits or achieve the goals of operational management (Ab Talib et al., 2017). Intangible resources, in the RBV perspective, are considered as key factors for the success of a company's performance. This is because the company focuses more on the internal environment, enabling the creation of strategic actions (Abusweilem & Abualous, 2019). Operational performance is measured not only by the quality of products or services produced but also by the company's human resources. High-quality company resources are expected

to generate high-quality products (Risnawati, 2021). The concept of quality management model proposed by Sadeq (1996) explains the following attributes of quality management:

1. Commitment to managing the company professionally.
2. Knowledge and skills in running a business.
3. Integrity in the form of honesty and sincerity in work.
4. Planning in establishing effective methods to achieve company goals and targets.
5. Changes are made continuously to adapt to the work environment.

Commitment

The research conducted by Feng et al. (2007), showed that the dimension of commitment is one of the elements in the ISO 9001 quality certification implementation model that plays a crucial role in determining operational performance. The commitment of top management or business owners influences the implementation of practices throughout the business processes. The findings of this study confirmed that commitment is a prerequisite for achieving desired operational and financial business performance. Consumer demands, the commitment of business owners in mandating halal certification, and dedication to maintaining strong quality assurance have a positive relationship with organizational performance (Ab Talib & Ai Chin, 2018). The research by (Ab Talib et al. (2015), found that managerial commitment is fundamental to implementing halal principles, which subsequently enhances motivation, particularly in efforts to meet and maintain halal certification status. According to the research by Ab Talib et al. (2017), Giyanti et al. (2021) Othman et al. (2016) and Supian et al. (2018), there is an influence of organizational commitment on operational performance of companies, with commitment in this context referring to the implementation of halal certification. Based on the above explanations, the first hypothesis for this study can be developed as follows:
H1: There is a positive relationship between management commitment and operational performance

Knowledge

Knowledge refers to the utilization of information and data accompanied by commitment, competence, and ideas (Kianto et al., 2018). Knowledge itself is considered important as it leads to the prosperity and survival of organizations (Byukusenge & Munene, 2017). Kafetzopoulos et al. (2013) suggest that elements such as organizational characteristics and human resources, akin to organizational knowledge, need to be considered, particularly in determining the effective implementation of quality certification. The perspective of Isa et al. (2012), states that knowledge-based assets are more crucial for organizations than assets obtained financially and physically in the 21st century. Entrepreneurs with high levels of knowledge about halal encompass knowledge of methods and means to meet processing, preparation, and nutritional support to enhance operational performance (Rahman et al., 2011). Lastly, the research by Othman et al. (2017), also demonstrates the influence of knowledge on operational performance. Furthermore, knowledge holds a crucial position in a company's operations. Thus, the second hypothesis proposed in this study is:
H2: There is a positive relationship between knowledge and operational performance

Implementation of Halal Certification

Halal certification is a Food Safety Management System (FSMS) intended to produce safe food and to demonstrate how food safety has been established and implemented. Halal certification is a structured and documented food quality system, similar to ISO certification for food quality standards. Well-documented procedures can not only result in more effective work instructions but also manage all factors related to the food manufacturing process, leading to improved operational performance (Kafetzopoulos & Gotzamani, 2014). Commitment is considered a crucial factor for the implementation of halal standards (Ab Talib, Ab Hamid, et al., 2015; Ahmad et al., 2017; Din & Daud, 2014). In other food quality standards such as HACCP and ISO 9001, employee and organizational attributes are important factors influencing the effectiveness of quality standards (Fotopoulos & Psomas, 2009; Kafetzopoulos & Gotzamani, 2014). Ab Talib and Ai Chin (2018), found a significant positive relationship between commitment and the implementation of halal food standards or halal certification among certified halal food producers. With commitment, an organization can uphold the integrity of halal, which is a form of halal certification. Therefore, the following hypothesis is formulated:

H3: Implementation of Halal Certification Mediates the Effect of Commitment on Operational Performance

Knowledge and halal assurance practices should be applied in conjunction with management practices through organizational commitment. Human resources in the form of knowledge are one of the main driving factors in the implementation of food certification. Halal certification, which represents Islamic food certification, has a primary factor that must be implemented, which is knowledge (Tangaraja et al., 2015). Othman et al. (2016), stated that there is a connection between knowledge and halal certification. Companies implement Halal certification as a means to compete with rival companies based on adhering to local business norms. Ab Talib et al. (2015), also conveyed that knowledge has a positive influence on the implementation of halal certification in food companies, which ultimately affects their operational performance. Othman et al. (2017), demonstrated a positive relationship between knowledge, attitudes, sensitivity to halal certification, and organizational performance. Therefore, the final hypothesis for this study is formulated as follows;

H4: Implementation of Halal Certification Mediates the Effect of Knowledge on Operational Performance

3. Research and Methodology

Participants and Data Collection

The sampling method used in this study is non-probability sampling. Non-probability sampling is a sampling design where elements in the population do not have an equal chance of being selected as sample units (Sekaran & Bougie, 2013). In this research, the researcher used purposive sampling technique, which is a restricted design for specific individuals who can provide the required information because they are the ones who possess the information or meet the criteria set by the research. The considerations for sampling are as follows:

1. The respondents are small business owners.
2. The Small businesses have annual sales ranging from Rp300,000,000 to Rp2,500,000,000.
3. The businesses are still active.
4. The businesses produce packaged food and beverages.
5. The businesses have a valid halal certification.

The analysis method used in this study is Structural Equation Modeling (SEM) based on Partial Least Squares (PLS) using the software SmartPLS version 3.2.8. All the indicators used to measure the variables in this study were adopted from previous research. The indicators for the commitment variable were adopted from Supian et al., (2018) and consisted of 3 indicators. The knowledge variable was measured using 3 indicators adopted from the research of Arzubiaga et al. (2021), Migdadi (2020), Wee & Chua (2013). The variable of halal certification implementation was measured using 5 indicators adopted from Ab Talib et al. (2017) and adjusted to the regulations of the Indonesian government. The operational performance variable was measured using 4 indicators adopted from the research of Ab Talib et al. (2017).

4. Results and Discussions

In the data processing, the Partial Least Squares (PLS) method based on Structural Equation Modeling (SEM) is used. In the PLS method, one of the stages involves evaluating the inner model or structural model to assess the hypothesis testing results.

Table 1
Hypothesis Testing Results

hypothesis	Relations Between Variables	Path Coefficient	t-statistics	p-values	Results	
H1	Commitment→Operational Performance	0.204	2,796	0.005	Significant	Accepted
H2	Knowledge→Operational Performance	0.176	2,417	0.016	Significant	Accepted
H3	Commitment→Halal Certificate Implementation→Operational Performance	0.248	4,095	0.000	Significant	Accepted
H4	Knowledge→Halal Certificate Implementation→Operational Performance	0.251	4,079	0.000	Significant	Accepted

Source: Primary data processed (2023)

Based on table 2, the variable Commitment has a significant influence on the variable Operational Performance with a path coefficient of 0.204 and a p-value of 0.005 (below the critical value of 0.05). Therefore, hypothesis 1 is accepted. The variable Knowledge has a significant influence on the variable Operational Performance with a path coefficient of 0.176 and a p-value of 0.016 (below the critical value of 0.05), so hypothesis 2 is accepted. The variable Halal Certificate Implementation significantly mediates the relationship between the variable Commitment and Operational

Performance with a path coefficient of 0.248 and a p-value of 0.000 (below the critical value of 0.05). Therefore, hypothesis 3 is accepted. Similarly, the variable Halal Certificate Implementation significantly mediates the relationship between the variable Knowledge and Operational Performance with a path coefficient of 0.251 and a p-value of 0.000 (below the critical value of 0.05), so hypothesis 4 is accepted.

Commitment to Operational Performance (H1)

The research findings indicate that commitment has a significant impact on operational performance, suggesting that commitment plays a meaningful role in improving operational performance in small food and beverage businesses. In this study, commitment is measured by several indicators adopted from previous research, namely Desire, Promise, and Agreement from (Supian et al., 2018). This result aligns with the data on the Muslim population in Indonesia, which accounts for 86.7% of the total population in Indonesia (Katadata.co.id, 2021a). Hence, small business owners are committed to implementing halal certification based on market demand and social responsibility regarding the importance of halal food and beverage products. The commitment to implementing halal systems in the production process is seen as a form of social responsibility. According to Ramlan & Nahrowi (2014), commitment in halal certification represents business ethics or social responsibility. Halal certification offers benefits such as increasing consumer trust, capturing market share, and improving product marketability. External market pressure prompts small food and beverage businesses to have a commitment to implementing halal systems, ultimately enhancing their operational performance.

The findings of this study support the Resource-Based View (RBV) theory by (Barney, 1986), which explains that management leveraging its resources can optimize operational performance. The RBV focuses on internal resources of the company but also considers the internal and external environment, i.e., what is demanded and what the company offers. Studies conducted by and Elias (2009), show that the commitment dimension, as one element in the ISO 9001 quality certification model, plays a crucial role in determining operational performance. Furthermore, Martin (2016), states that quality certification has a significant impact on operational performance and ultimately improves organizational performance. According to the research conducted by Ab Talib et al. (2017), Giyanti et al. (2021), Supian et al. (2018), there is a relationship between organizational commitment and operational performance, with commitment being related to the implementation of halal certification.

Knowledge of Operational Performance (H2)

Knowledge, defined as the utilization of information and data accompanied by commitment, competence, and ideas Kianto et al. (2018), plays a significant and positive role in operational performance. The research findings reveal that knowledge has a meaningful impact on improving operational performance. The better the knowledge of small food and beverage businesses regarding halal requirements and the implementation of halal certification, the higher their operational performance. In this study, knowledge is based on indicators such as knowledge creation, knowledge sharing, and knowledge application, which are adapted from the research of (Arzubiaga et al. (2021), Migdadi, (2020) Wee & Chua, (2013).

This study supports the Resource-Based View (RBV) theory, which states that companies can achieve growth by leveraging a combination of their resources (Penrose, 1959). Knowledge is considered an intangible asset possessed by a company and is a crucial component for creating competitive advantages and improving company performance. The presence of knowledge within an organization is essential for effective quality implementation (Kafetzopoulos et al., 2013). In the 21st century, knowledge-based assets or resources are deemed more important than financially acquired assets in enhancing operational performance (Isa et al., 2012). This study is in line with the research conducted by Othman et al. (2017) and Rahman et al. (2011), which demonstrate the influence of knowledge on operational performance.

Halal Certificate Implementation mediates the effect of Commitment on Operational Performance (H3)

The results of this study indicate that commitment has a very important impact on operational performance. However, the mediating impact of the implementation of halal certificates is known to be partial mediation, thus it can be interpreted that the implementation of halal certificates can bridge the influence of commitment to operational performance, but even so, without the implementation of halal, commitment will be able to improve operational performance. This shows the commitment of small food and beverage businesses to have a positive impact on operational performance, then the implementation of halal has a role in improving the operational performance of small businesses. With the implementation of a halal certificate, it will increase the possibility that the company's operational performance will get better.

The findings of this study support the theory of Resource-Based View, which states that a resource-based strategy integrates three key elements: selecting strategies that can exploit assets, including intangible assets; ensuring optimal utilization of company resources; and leveraging all available tangible and intangible resources. Commitment, as an intangible asset of the company, should be optimally utilized through the implementation of halal certification, which represents organizational capabilities. Organizational capabilities, in turn, are a part of the RBV theory. Organizational capabilities refer to the ability of small food and beverage businesses to combine assets, people, and processes to transform inputs into products. Combining these assets, people, and processes effectively will result in good operational performance.

The findings of this study are consistent with the research conducted by Ab Talib & Ai Chin (2018), which found a positive and significant relationship between commitment and the implementation of halal food standards or halal certification among halal-certified food producers. The presence of commitment within an organization helps maintain the integrity of halal practices, which is reflected in the halal certification. Furthermore, Ab Talib et al. (2017), affirmed that the implementation of halal certification has a positive impact on operational performance. Salindal, (2019) also argued that the implementation of halal certification leads to innovative performance as one type of operational performance.

Halal Certificate Implementation mediates the influence of Knowledge on Operational Performance (H4)

This research shows that there is a direct influence of knowledge on operational performance, as tested by including halal certification implementation as a mediator, which yields the result of indirect influence of knowledge on operational performance through the mediation of halal certification implementation. This indicates that knowledge significantly impacts operational

performance with the presence of halal certification implementation. In this study, halal certification implementation acts as a partial mediator. This means that the independent variable, which is knowledge, can directly affect the dependent variable, which is operational performance, without involving the mediator variable, which is halal certification implementation.

The findings of this research support the Resource-Based View (RBV) theory, where the basic assumption is that all resources integrate into a unified entity, thereby strengthening the production process. Resources in this context refer to knowledge, and value refers to the implementation of halal certification. The fundamental principle of RBV theory focuses on the influence of company resources towards competitive advantage, which manifests as good operational performance (Barney, 1991). These findings align with the study by (Katuk et al., 2021), which states that good knowledge of halal has an impact on halal certification, ultimately influencing food operators' performance. Furthermore, this research is consistent with the studies by Giyanti & Indriastiningsih (2019) and Othman et al. (2017), which also indicate that small and medium-sized enterprises (SMEs) with good knowledge of halal agree that halal certification is beneficial for their businesses and enhances operational performance.

4. Conclusion

Based on the research findings and discussion regarding the influence of commitment and knowledge on operational performance through the mediation of halal certification implementation in small food and beverage businesses, it can be concluded that commitment and knowledge can enhance operational performance. This indicates that strong commitment and competent knowledge are factors that support small food and beverage businesses in improving their operational performance. Furthermore, halal certification implementation has a mediating effect on the relationship between commitment and knowledge with operational performance. This shows that halal certification implementation can bridge the relationship between commitment and knowledge with operational performance, but even without halal certification implementation, commitment and knowledge can still influence operational performance.

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