

SMEs Halal Compliance in the Implementation of Service Operations Management

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ABSTRACT

Possession of halal certification does not necessarily ensure that SMEs have high halal compliance. Halal compliance is important to ensure the quality of SME products, including their service products. This study analyzes SME halal compliance in the implementation of service operations management. Descriptive and verification methods are used to test the hypothesis using regression. Some SMEs in Indonesia which are in the food and beverage processing industry sector already have halal standard criteria, although some have not yet received halal certification. Other business sectors are not yet halal certified because they still feel it is not urgent. There is an influence between halal compliance and the implementation of service operations management. The service operations management system model refers to effective, efficient and productive fundamentals, which are efforts not to deviate from other than what has been prescribed by Islam.

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1. INTRODUCTION

The rapid growth of the world's Muslim population, which currently has a population of 1.97 billion and will continue to grow [1], has a positive impact on the development of the Islamic economy. Around USD 2.2 trillion is spent by the Muslim population on the consumption of halal products, including processed food and beverages, medicines and vitamins, and other products that support a halal lifestyle. The urgency for companies to have halal certification is also increasing along with the increasing consumption of halal products, especially in companies engaged in the food and beverage, cosmetic and pharmaceutical industries. Spending on halal food is expected

to continue to rise with a compound annual growth rate (CAGR) of 7% in 2022/2023 and 2023/2024 [2].

The concept of halal and halal practice is a consistent and ethical system, so it has been widely accepted by many non-Muslim food industries in various countries [3]. Most of the Muslims who live in Muslim-majority countries are less concerned with halal certification because it is considered that all products consumed are halal. The existence of halal certification has increased the awareness of Muslims [4], especially those living in Muslim-majority countries, about the importance of halal products and services. The halal certificate is also a sign of which products can be consumed by Muslims. As a

result, halal certification is an important step for manufacturers to show consumers that their products and the entire production process comply with Islamic standards and sharia. Many production companies, especially food, are starting to try to apply halal production standards and want to have halal certification. This is an opportunity for business people, both large, medium, and small scale, to capture local and global halal markets as suppliers of consumer food products, non-food products, or suppliers of raw materials for halal production.

The existence of small and medium enterprises (SMEs) is very important in the economy of a country. In the micro function, SMEs have a role as inventors and planners. Meanwhile, when viewed from a macro perspective, SMEs have an important role in the development of a nation [5]–[7], as initiators, drivers, controllers, and drivers of a country's socio-economic development. The role of SMEs in Indonesia is very large contribution in maintaining economic stability and managed to keep the economic conditions from getting worse. It was proven that during the pandemic, Indonesia's economic condition was not as bad as in

developed countries such as America and China. SMEs are one of the pillars of a country's economic foundation.

Indonesia, which is a country with the largest Muslim population, strongly supports the birth of new businesses, especially SMEs to obtain halal certification. The production of halal products, especially halal food products, requires sharia food compliance which emphasizes the cleanliness and safety of the products produced [8], [9]. The increasing number of SMEs involved in the halal industry will fulfill the demand for halal products in Indonesia, especially food, without a doubt. In Islam, using halal products can relieve worry and guilt. Religious obligations have influenced consumers to carefully assess and monitor their food consumption [10]. The existence of violations of halal products raises great concern among Muslim consumers who are also a threat to the company [11]. Indonesia is one of the largest suppliers of halal products (food, fashion, pharmaceuticals, and cosmetics) to Organization of Islamic Cooperation (OIC) countries in 2020, see figure 1.

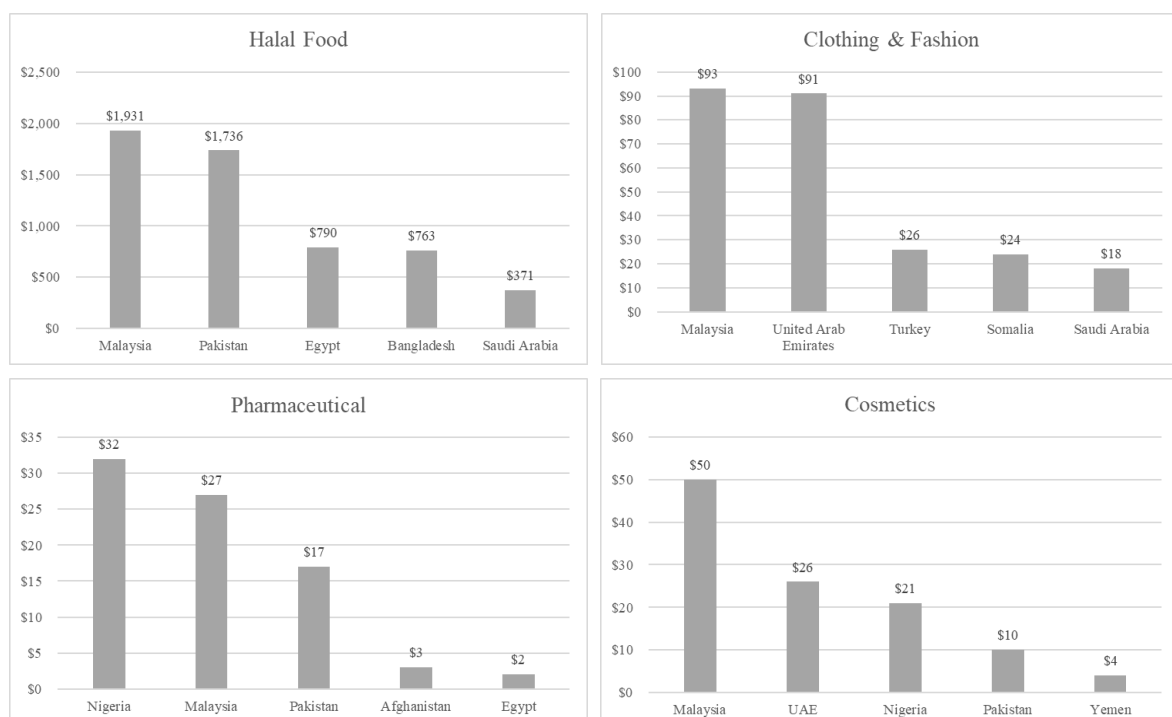


Figure 1. Indonesia's Halal Products Exports Value (2020) US\$ Million from Top OIC Destination

Halal certification is expected to be one of the weapons to revive SMEs in Indonesia, because the halal status of SME products can be a competitive advantage in the international market. Based on Global Islamic Economy data, Indonesia is ranked fifth in 2019-2020 in terms of sharia economic power out of 73 countries in the world [12]. According to statistical data for halal products from LPPOM MUI Indonesia on the website www.halalmui.org, the number of companies certified as halal in 2019 was 13,951 units (69,577 companies if the total is the data for the period 2012 - 2019). Then, the number of halal certificates is 15,495 (80,611 halal certificates if you add up the data for the period 2012 - 2019). Meanwhile, the total number of products is 274,796 products (963,411 products if totaled with data for the period 2012 - 2019). The number of companies that are halal certified (without separating large businesses and micro, small and medium enterprises) from 2012 to 2019 was 69,577 units. Thus only 0.11% of businesses are registered compared to the number of SMEs based on data from the Ministry of Cooperatives and SMEs in 2019 as many as 65 million SMEs.

Halal certification owned by the company is part of the implementation of service excellence in service operations management. Changes in consumer demand and market trends related to halal products have forced companies to adapt quickly by implementing continuous improvement initiatives that involve streamlining processes, communicating, and collaborating with the entire supply chain, and implementing new technologies. Through good service operations management, companies can provide the best experience for consumers. The existence of halal certification which is very important, gives rise to violation activities. Some business owners tend to use fake certification logos to lure customers and most of the industry get certified and use halal logos only to take business opportunities without really understanding and implementing the practice [13].

There have been many studies on halal compliance [13]–[17], but research linking it to

the implementation of service operations management does not yet exist, especially in SMEs. This research will analyze the halal compliance of SMEs both those who have been halal certified and those who have not been halal certified but carry out halal principles, then it will link SMEs halal compliance with the implementation of service operation management.

2. LITERATURE REVIEW

2.1 Halal Certification

Halal is an Arabic term that denotes something that is considered lawful or permitted, usually Halal refers to the food that humans eat, objects that are used, behaviors and actions that are permitted by Allah and commanded to be carried out by the believers of Islam. In contrast, haram, refers to everything from food to human behavior that is unlawful, prohibited, or unacceptable. The concept of halal and haram is not only related to food consumption, but covers all aspects of Muslim life [18], [19]. Halal is becoming a way of life, involving the practice of belief and moral behavior in the daily life of Muslims. Muslims around the world are increasingly familiar with the concept of Islamic economics and its products and instruments, so that the concept of halal certification is growing and is considered important [20]. Halal certification is an official recognition of a product's compliance with halal standards, granted by a designated organization authorized by the government of a certain nation. Halal certification is recognized by both Muslims and non-Muslims due to the belief that halal food products are better in terms of health, hygiene, and safety [3].

The products that play the most role in the halal market are food and beverage products. It is important for food and beverage industry sector companies to enter developing markets globally through halal certification. Obtaining halal

certification is an effective and significant marketing strategy in enhancing the company's reputation and profits, as well as increasing customer trust and loyalty [15], [20]. According to Ghadikolaei (2016), Halal certification is a symbol for Muslim consumers because it is the basis for the belief that the products consumed are guaranteed quality and halal status in accordance with Islamic principles starting from the provision of materials, the production process, to product distribution. Halal certification has also become a trading tool [22], because products with the logo of halal certification are more accepted by consumers both Muslim and non-Muslim [23], so they have a higher commercial value than

products that do not have the logo of halal certification.

In Indonesia, individuals can apply for halal certification through two methods: directly through the Halal Product Guarantee Agency/Badan Penyelenggara Jaminan Produk Halal (BPJPH) or regional Halal Task Forces, or online via the Halal Information System (SI-HALAL). In order to apply for halal certification, small and medium-sized enterprises (SMEs) are required to possess a Business Identification Number/Nomor Induk Berusaha (NIB) and be officially registered with the Investment Coordinating Board/Badan Koordinasi Penanaman Modal (BKPM) Online Single Submission (OSS) system.

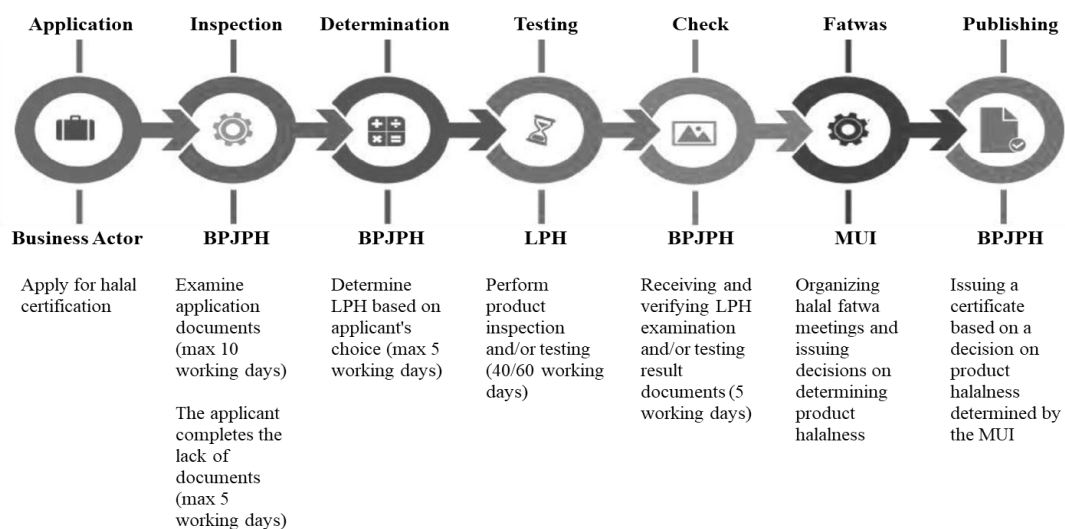


Figure 2. Business Process of Halal Certification and Registration Services

The Indonesian government facilitates the growth of micro, small, and medium enterprises by enacting Law No. 11 of 2020, which focuses on job creation. Government support includes: 1) simplification and acceleration of the certification process; 2) halal certification is borne by the government; and 3) halal certificates based on statements by SMEs Business Actors according to BPJPH halal standards.

2.2 Halal Compliance

In Law Number 33 of 2014 concerning Halal Product Assurance, the meaning of the Halal Product Assurance Law is as an aspect of the halal guarantee of a product that comprehensively includes in policies not just certainty of food halalness from the form of processed food [24]. More than that, judging from the manufacturing process and the raw materials used in processing the product, product processing, packaging, and marketing or product

distribution also need to be examined and examined for the possibility of contamination with materials containing haram.

In Indonesia, it is a need for items to be halal certified in order to be imported, distributed, and traded. That is, when the product being sold is a halal product, then the product must be halal certified. Submission of halal certification for SMEs, especially for the food and beverage processing industry sector, must: 1) Ensure the provision of accurate, transparent, and truthful information; 2) Segregate the facilities, areas, and equipment used for slaughtering, processing, storing, packing, distributing, selling, and presenting halal and non-halal goods; 3) Appoint a halal supervisor; and 4) Notify BPJPH of any modifications in the composition of materials. Small and medium-sized enterprises (SMEs) that have gained halal certification are required to adhere to the following obligations: 1) affix a halal label on items that have been granted halal certifications; 2) ensure the continued compliance with halal standards for products that have received halal certification; and 3) renew the halal certificate upon its expiration.

In general, the benefits of having halal food are guaranteed, not only for Muslims, but also for all

human beings who want goodness. Indonesia, which is predicted to be made the world's halal center, but halal guarantees are still lagging. Even though millions of tourists from various countries, not least of whom are Muslims, are of course looking for hotels, restaurants, halal certified in Indonesia. Ironic indeed, but that is the fact, and it must be fought for until it succeeds, as a human right for most Indonesian citizens, and as an obligation on the creed of every Muslim individual.

2.3 Service Operation Management

Service operations management (SOM) is a series of processes in creating products in the form of services [25], [26], which change shape by creating or adding benefits to a service that will be used to meet human needs [27], and trying to balance costs with revenues to achieve higher operating profits. Amidst the current era of globalization, only a small number of organizations exclusively manufacture either physical items or intangible services. Instead, companies often provide product packages that encompass a blend of both commodities and services. This product bundle (figure 3) encompasses both the aspects of products manufacturing and service delivery.

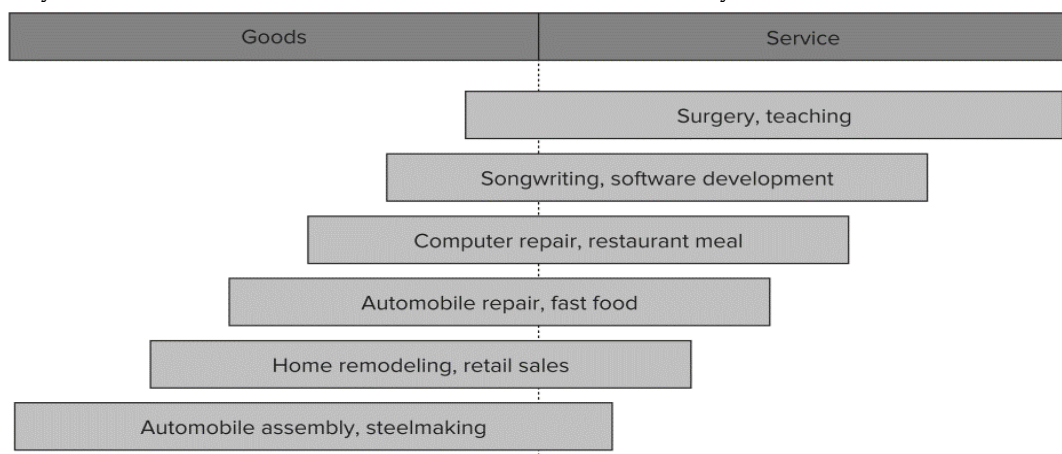


Figure 3. Goods and Services Continuum

Source: author data (2023)

There are several functions contained in SOM (figure 4)

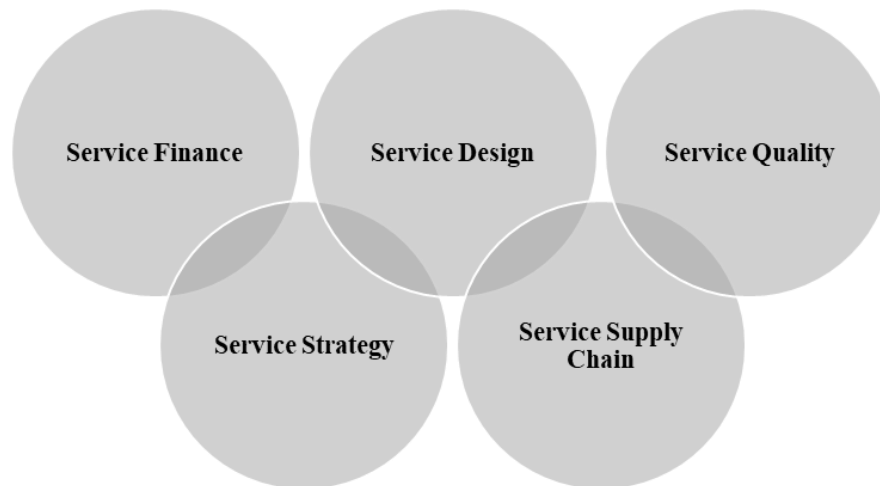


Figure 4. Functions Contained in SOM

Source: author data (2023)

1. Services Finance: Services finance management focuses on maximizing company resources and keeping cash flow stable [28]. Financial management activities in the right SOM will enable the creation of a service that will meet the needs of consumers as a whole.
2. Service Strategy: Service strategy considers how the service company should be structured to realize the service concept [29].
3. Service Design: Service design is the activity of designing a service process according to customer needs [30]. The activity consists of examining all the activities, infrastructure, communication, people, and material components involved in the service to improve the quality of the service and the interaction between the service provider and its customers.
4. Service Supply Chain: Service supply chain management activities focus on managing the network of suppliers, customers and other support units that provide the resources necessary to produce the service, converting the resources into support and core services and then delivering these services to customers [31], [32].
5. Service Quality: The activity of managing service quality is related to ensuring that every service production process in the company can produce services that are delivered according to customer expectations [33], [34].

3. RESEARCH METHOD

This study uses descriptive and verification research methods to test halal compliance with the implementation of service operations management in SMEs. Research in the form of answers or research problem solving, is loaded based on the results of the data testing process which includes the selection, collection, and analysis of data. Figure 5 shows data analysis design from the study.

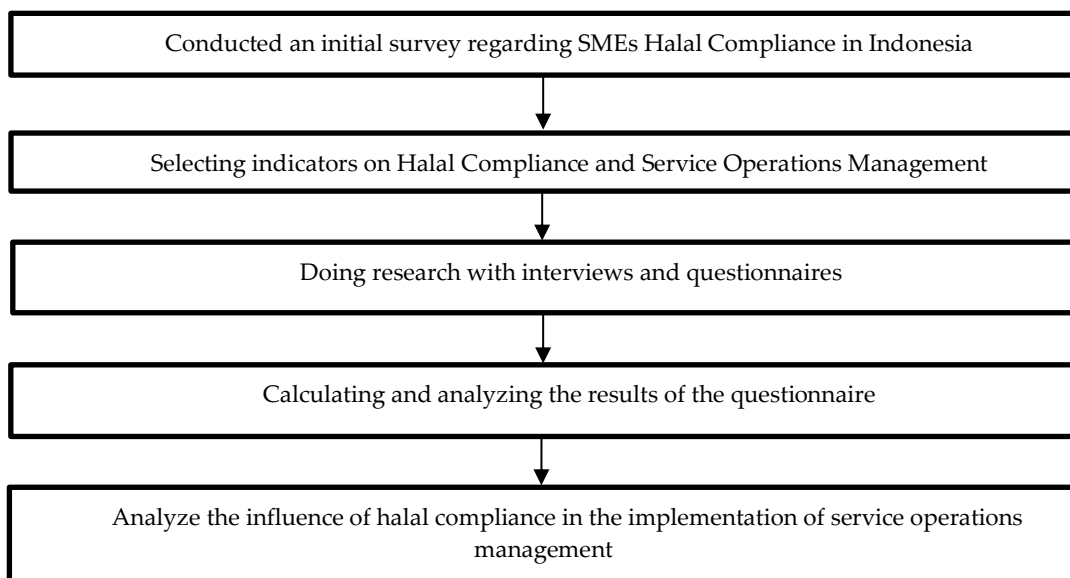


Figure 5. Data Analysis Design

Source: author data (2023)

The number of SMEs population based on data from the Ministry of Cooperatives and SMEs in 2019 was 65 million SMEs, and will continue to grow until 2023. The number of samples taken using the Bernoulli method, so that the sample obtained was 96 respondents, and in the study 4 respondents were added in anticipation of using 100 respondents. Data collection techniques used by the author in this study are literature study and questionnaire.

4. RESULTS AND DISCUSSION

4.1 Results

If all respondents are recapitulated by business sector, the largest number of SMEs that have halal certification and are still valid are the Processing Industry Sector (iron and steel base metal industries, textiles, leather goods, footwear, food, beverages, and tobacco, etc.). Table 1 shows the recapitulation of respondents by business sector.

Table 1. Recapitulation of Respondent's Description

Business Sector	Certification	Total
Processing Industry Sector	Not yet halal certified	12
	Halal certified and still valid	59
Services Sector	Not yet halal certified	5
Trade Sector	Not yet halal certified	12
Livestock and Fisheries Sector	Not yet halal certified	12

Source: author data (2023)

Most respondents are domiciled in Garut as much as 35%. Meanwhile, Bandung is 23%, Jakarta is 16%, Tangerang is 5%, Cirebon is

4%, Sukabumi is 4%, Bekasi is 4%, Sumedang is 3%, Surabaya is 1% and the remaining Semarang is 1% (figure 6).

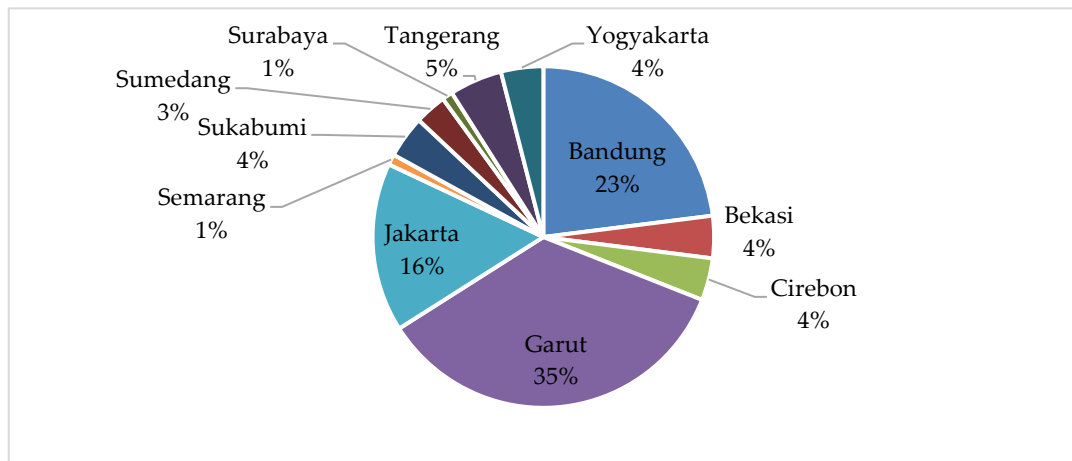


Figure 6. Tabulation of Respondent's Domicile Data

Source: author data (2023)

All of these respondents were asked to assess halal compliance based on the company's actual business activities. Then, they were

also asked to assess the implementation of service operations management from their business. The question attributes used are:

Table 2. Variable Operationalization

Variable	Dimension	Code	Indicator
Halal compliance	Acquisition of halal certification	KH1	The business that is owned already has halal standard criteria
		KH2	The company conducts business according to Islamic principles and laws
		KH3	The company does not carry out illegal and usury product transactions
		KH4	Companies obtain halal labels through legal and accountable methods
	Honesty	KH5	Transparency of product and/or price information (If a food product, include the ingredients contained)
		KH6	Honesty in carrying out the production process according to the Halal Assurance System Manual (guidelines) that has been made based on what has been written in the Halal Assurance System Manual
		KH7	Honesty in carrying out daily halal production operations
		KH8	Honesty includes a valid halal label that was obtained legally
	Consistency	KH9	Consistency in the use and procurement of halal raw materials
		KH10	Consistency in the use and procurement of additional and auxiliary materials that are halal
		KH11	Consistency in the halal production process
		KH12	Consistency in the use of production equipment that complies with halal guidelines
		KH13	Consistency in the use of business names that do not lead to something that is prohibited in Islam
	Design of goods and services	MOJ1	Supplier involvement in designing the halal goods and services produced

Variable	Dimension	Code	Indicator
Service Operations Management		MOJ2	Consumer involvement in designing halal goods and services produced (can be through customer surveys)
		MOJ3	Consistency in designing halal products and services (starting from input, process and output)
	Quality	MOJ4	Quality of employees in serving consumers Islamically
		MOJ5	Fast and good quality service
		MOJ6	Quality of products and services produced by the company
	Process design and capacity	MOJ7	Quality determines the capacity that will be needed in one period
		MOJ8	Quality of the production process complies with halal regulations
	Location	MOJ9	Strategic business/business location and easy to reach
		MOJ10	There is a security system at the business location (CCTV, security guards, security and other security fees)
		MOJ11	The facility or place of business location has good cleanliness
	Layout	MOJ12	Business facilities have an attractive aesthetic
		MOJ13	There is no mix-up between male and female employees in one place (there is a barrier)
	Human resources and job design	MOJ14	Employees (HR management) have extensive knowledge and experience
		MOJ15	Working time according to the Ministry of Manpower and Transmigration directives (8 hours/day normal time, and 2 hours/day maximum overtime)
		MOJ16	Employees are given development through training and/or seminars
	Supply chain management	MOJ17	Materials are obtained from reputable suppliers (halal certified)
		MOJ18	Suppliers always distribute goods according to the time of order
	Inventory	MOJ19	Inventories of materials, semi-finished goods, and finished goods are sufficient for production needs
		MOJ20	Inventory management is always used on target (not redundant)
	Scheduling	MOJ21	Scheduling employee work in accordance with the work contract
		MOJ22	Production scheduling as planned
	Maintenance	MOJ23	Continuous maintenance of machines or equipment
		MOJ24	Repair of machinery and equipment is not only done when there is damage

Source: author data (2023)

Based on the results of processing the questionnaire data using SPSS version 26, the results

showed that all the data processed contained 7 invalid questions. The r calculated value for all attributes is

more than the r table value (0.1966), except for the MOJ3, MOJ4, MOJ6, MOJ10, MOJ12, MOJ13, MOJ20 attributes which are less than r table. This shows that the 7 question points are invalid, so they need to be

excluded from further testing. The results of the reliability test (Table 3) showed reliable results, as seen from the Cronbach's Alpha value which exceeded the value of 0.6 (0.931 > 0.6).

Table 3. Reliability Test Results

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.902	.931	32

Source: author data (2023)

Regression test was conducted to determine the effect of halal compliance with the implementation of service operations management. The hypothesis in this study is:

Ho: There is no influence between halal compliance and the

implementation of service operations management

Ha: There is an influence between halal compliance and the implementation of service operations management

Table 4. Correlations

		KH	MOJ
KH	Pearson Correlation	1	.880**
	Sig. (2-tailed)		.000
	N	100	100
MOJ	Pearson Correlation	.880**	1
	Sig. (2-tailed)	.000	
	N	100	100

** . Correlation is significant at the 0.01 level (2-tailed).

Source: author data (2023)

From the results of simple correlation analysis (r), the correlation coefficient between halal compliance and the implementation of service operations management (r) is 0.880. This shows that there is a strong relationship between halal compliance and the implementation

of service operations management. While the direction of the relationship is positive because the value of r is positive, it means that the higher the halal compliance, the more it improves the implementation of service operations management.

Table 5. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.880 ^a	.774	.772	5.88904

a. Predictors: (Constant), KH

Source: author data (2023)

From the results of Table 5 above, it is known that the value of r (correlation coefficient) is 0.774. This means that the dependent variable (implementation of service operations

management) can be explained by the independent variable (halal compliance) of 77.4% and the rest is explained by other variables outside the research.

Table 6. ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	11645.038	1	11645.038	335.777	.000 ^b
1	Residual	3398.722	98	34.681		
	Total	15043.760	99			

a. Dependent Variable: MOJ

b. Predictors: (Constant), KH

Source: author data (2023)

Based on the results of regression calculations using SPSS version 26, a significance of 0.000 was obtained. Significance value (0.000) < 0.05, then the hypothesis Ho is

rejected, meaning that there is an influence between halal compliance and the implementation of service operations management.

Table 7. Coefficients

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18.217	4.195		4.343	.000
	KH	.935	.051	.880	18.324	.000

a. Dependent Variable: MOJ

Source: author data (2023)

Regression equation:

Implementation of service operations management = 18,217 + 0,935 halal compliance

A constant of 18,217 means that without halal compliance, the implementation of service operations management is 18,217 points. If the halal compliance variable increases (1 point), it will cause an increase (due to a positive sign) of 0.935 in the implementation of service operations management.

4.2 Discussion

Based on the results of completing questionnaires and interviews, respondents, especially in the West Java area, most of whom are in the food and beverage processing industry sector already have halal standard criteria, although some have not yet received halal certification. Respondents who have halal certification or not, stated

that they had run a business according to Islamic principles and law. This statement supports the respondent's answer from the previous statement where the business operations have halal standard criteria.

Respondent SMEs that have halal certification have ensured that in carrying out their business, they only carry out halal business transactions where there are no products and services that are haram and usury. 59% of respondents stated that "companies obtain halal labels through legal and accountable means", while the remaining 41% have not received halal certification. Based on the interview results, SMEs that have been halal certified are in the food and beverage processing industry sector. The service and trade business sector is not yet halal-certified because it still feels that it is not urgent, unlike food and beverages

which must be halal for consumption by Muslims.

Halal compliance is indicated explicitly based on transparency of product and/or price information (if a food product, includes the composition contained), as well as including a valid halal label that was obtained legally. In addition, SMEs must also always act honestly in the production operations of goods and services. In the efforts of SMEs to guarantee the halalness of the final product produced by the company, they must use raw materials and auxiliary materials that are also halal and have been halal certified, and use production equipment that complies with halal guidelines [35].

Linking halal compliance with the implementation of service operations management is very possible. The principles of service operations management are the same as operations management in general, namely the ten basic operations decisions, from designing products to maintaining machines and people. In Islam, carrying out production activities is a command from Allah (QS 28:77) and therefore production activities are seen as worship. Production for a Muslim is the actualization of his existence as the caliph of Allah on earth whose duty is to prosper the earth with his knowledge and deeds. Production activities of both goods and services in the context of realizing *maslahah (maqashid sharia)* namely realizing wealth as *qiyam* (pillars) of life. Production is not solely for profit, but also for the benefit of society in general.

This statement is proven by the results of testing the hypothesis which states that there is an influence between halal compliance and the implementation of service operations management. The service operations management system model refers to effective, efficient, and productive fundamentals, which are efforts not to deviate from other than what has been prescribed by Islam. So, for companies, especially SMEs, halal

certification is a very important aspect to have. Halal certification has a huge impact on Muslim consumers, because in Islam consuming halal food is a must.

Halal compliance regarding the consistency of the use of raw materials and auxiliary materials that are also halal and have been halal certified, is reflected in service operation activities in the form of selecting suppliers who have been halal certified to obtain production materials, as well as involving suppliers in designing the products of halal goods and services produced. This is done to provide the best quality of halal products and services produced by the company. Not only involving suppliers, SMEs are also trying to involve customers in designing halal goods and services that are produced to provide the best quality of their products.

In running a business that has Islamic principles, the services provided must also be good, so the company seeks to improve the quality of its services in order to provide customer satisfaction. Determining the location and layout of SME facilities is also a factor in obtaining halal certification, so that almost all respondents have the most strategic location to run their business and are aware of the importance of cleanliness of business facilities because it is in accordance with Islamic principles, namely cleanliness is part of faith.

In addition to maintaining the quality of their products, SMEs also need to maintain the quality of human resources by providing training, development and increasing knowledge, as well as providing a balance of life for their employees. Companies that have been certified halal are not to focus only on their production and ingredients, but to extend halal issues to the entire supply chain in ensuring that their transportation, storage, and handling processes are compliant with sharia and comply with Islamic law. Halal integrity can be maintained if the product is handled and stored in the right way,

because halal integrity will come from various activities in the supply chain.

Islam views that maintenance is an issue that must be considered so as not to suffer damage, besides that Islam teaches mankind to take care and not damage so that no loss occurs from their actions, because maintenance also affects the results and achievement of organizational goals. Maintenance is carried out according to the level of damage to the product, lack of maintenance will result in a high level of damage experienced, so maintenance is very important to do.

5. CONCLUSION

Halal certification owned by the company is part of the implementation of service excellence in service operations management. Linking halal compliance with the implementation of service operations management is very possible. The principles of service operations management are the same as operations management in general, namely the ten basic operations decisions, from designing products to maintaining machines and people. Changes in consumer demand and market trends related to halal products have forced companies to adapt quickly by implementing continuous improvement initiatives that involve streamlining processes, communicating, and

collaborating with the entire supply chain, and implementing new technologies. Through good service operations management, companies can provide the best experience for consumers. There is an influence between halal compliance and the implementation of service operations management. The service operations management system model refers to effective, efficient, and productive fundamentals, which are efforts not to deviate from other than what has been prescribed by Islam. So, for companies, especially SMEs, halal certification is a very important aspect to have. Halal certification has a huge impact on Muslim consumers, because in Islam consuming halal food is a must.

5.1 Limitation

This study has limitations on respondents who in fact all SMEs come from the island of Java, so that it does not fully reflect the picture of halal compliance in SMEs in Indonesia. In addition, this study only discusses SMEs halal compliance without discussing the risk of violating these halal principles. So, in future research, researchers should ensure that respondents represent all areas in Indonesia to find out the full picture of SMEs halal compliance. Then the research topic was expanded to discuss the risk of violations including efforts to improve the SMEs services quality as an effect of halal compliance.

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