

Halal Orientation Strategy to The Company's Financial Performance: A Study on the Halal Industry Considering Indonesian Culture

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Abstract

This study examines the influence of the halal orientation strategy on the financial performance of companies, especially MSMEs based on the halal culture in Indonesia as a direct variable and a moderating variable. MSMEs were chosen as the research object due to their large proportions in Indonesia. This study is a quantitative research using primary data collected through a survey. The survey was carried out on MSME owners in Joglosemar (Jogja, Solo, and Semarang) and the surrounding areas. The data was processed using SEM (Structural Equation Model) PLS (Partial Least Square) to find out the relationship between the variables used in the model. Based on the test results, halal culture has a positive and significant relationship to financial performance as a direct variable, but it has no relationship as a moderating variable. Another variable that shows a positive and significant relationship is employee engagement. This is one of the first studies examining the relationship between halal orientation strategies and company financial performance. The findings can encourage MSMEs to implement a halal orientation strategy as part of improving the company's financial performance by establishing a halal culture and increasing employee engagement. It is also one of the first studies in Indonesia that examine the halal orientation strategy with a focus on MSMEs comprehensively.

Keywords: *company's financial performance, halal culture, halal orientation strategy.*

INTRODUCTION

In 2019, Muslim consumption of halal food amounted to \$1.17 trillion, an increase of 3.1% from the previous year with a projection to reach \$1.38 trillion in 2024. This figure has adapted the Covid-19 variable into the estimates made, assuming a decrease of 0.2%. In Indonesia, spending on halal food reached \$144 billion, ranking 4 after Malaysia, Singapore, and the UAE (DinarStandard, 2020).

Halal products are regulated in Law Number 33 of 2014 concerning Halal Product Guarantee, some of which have been adjusted through Law Number 11 of 2020 concerning Job

Creation. The law has regulated parties and mechanisms related to halal products. Article 4 of Law 33/2014 stipulates that products entering, circulating, and traded in Indonesia must be halal certified with facility for micro and small industry players to be halal certified based on a statement by business actors as the standards set by the Halal Product Guarantee Agency (BPJPH). This law implies that the Indonesian government is fully committed to the development of the halal industry and allows micro and small business actors to adapt to the applicable regulations.

Halal is a term used to refer to something permissible (Qaradawi, 2013). In the context of food, Muslims are only allowed to consume halal food as a religious commandment. Meanwhile, *tayyib* is a term used related to the safety of food, in terms of cleanliness, nutrition, and production chain, that must be ensured (Rohana & Jusoff, 2009). Halal and *tayyib* complement each other to ensure that everything consumed by Muslims is good for health and permissible by the religion.

The halalness of a food product can be easily lost if the food is contaminated during delivery or sales (Pahim et al., 2012). Thus, a connecting step is needed to fill every gap that allows contamination to occur in each product from production to distribution. On a micro level, the actors of the halal industry are required to implement operational strategies to meet halal compliance and integrate them into their supply chains. This spurs the importance of implementing Halal Orientation Strategy (HOS), which is defined by Zailani et al., (2015) as a strategic operations strategy to help business actors to meet the applicable halal compliance standards. HOS can help business actors meet halal compliance, and they can also improve the company's financial performance (Zailani et al., 2017).

The choice of food to be consumed is influenced by religious observance, which becomes part of a culture in society. Halal has a broad meaning, including in a social concept in which this teaching can encourage Muslims to use goods/services that have advantages in all things (Alsheran, 2010). Reflecting on British Muslims who have a collective culture, apart from being observant, consuming halal food is part of their orientation and collective identity (Jamal et al., 2015). This indicates that culture has an important role in the formation of a collective identity as well as individual religious observance in a group. This is in line with the Theory of Reasoned Action (TRA) and Theory of Planned Behavior (TPB), in which subjective norms as a behavior shaper is influenced by positive and negative views collectively/socially (Ajzen & Fishbein, 1980).

In contrast to social culture, organizational culture is the key for a company to implement the expected strategy or orientation (Zailani et al., 2015). The company's financial performance is influenced by its resources and capabilities, as well as the ability to share certain values/cultures into its organization (Ali et al., 2016). A company has individuals who are part of not only the company's organization but also a community group with a certain collective orientation. Halal is part of the collective orientation of Muslims in society. Whether it can influence the company's orientation is an important question to be studied more deeply. It is expected that this study can add to the list of relatively rare research on the company's halal orientation towards the company's finance, considering the moderating effect.

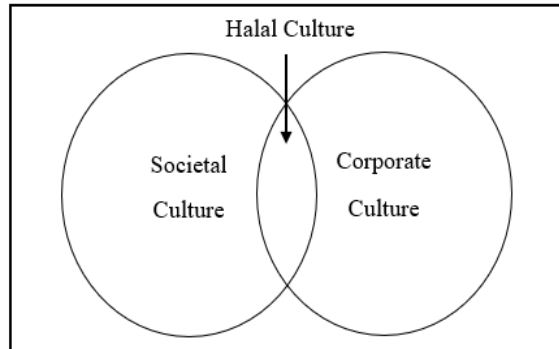
Tabel 1
Previous Research

| Topic | Title | Research and year | Journal | Finding and Conclusion |
|------------------------------------|--|--------------------------|--|--|
| | Consumer Purchasing Behavior of Halal Cosmetics: a study on generations X and Y | (Adiba, 2019) | Journal of Islamic Monetary Economics and Finance | This study used the respondents from East Java, especially Surabaya, Sidoarjo, and Gresik. It was found that halal knowledge and religiosity had a significant effect on consumption behavior by mediating attitudes. |
| Consumption and marketing behavior | The Role of Halal Awareness, Halal Certification, and Marketing Components in Determining Halal Purchase Intention among Non-Muslims in Malaysia: a structural equation modeling | (Aziz & Chok, 2013) | Journal of International Food and Agribusiness Marketing | This study identified the relationship between halal awareness, halal certification, food quality, marketing, and branding to purchase halal products in non-Muslim communities in Malaysia. The findings indicate that halal awareness, halal certification, marketing promotion, and branding are positively related to the intention to purchase halal products, but food quality has a negative relationship. |
| | Indonesian Millennials Halal Food Purchasing: merely a habit? | (Amalia et al., 2020) | British Food Journal | This study sought to find out the determinants of the behavior of purchasing halal food in Indonesian millennials. The findings in this study indicate that purchase intentions and habits independently influence purchasing behavior. |
| Tourism | Halal Tourism: Concepts, challenges and future. | (Battour & Ismail, 2016) | Tourism Management Perspective | Halal tourism can be interpreted briefly as every object and activity in a halal tourist destination that must comply with Islamic principles. The main thing to develop halal tourism is to expand the availability of halal food. It should also be noted that that Muslim-friendly accommodation must be available, at least separately from lodging that provides alcoholic food and beverages, so tourists feel safe to stay. |
| | Halal Tourism in Indonesia: Potential and prospects | (Jaelani, 2017) | International Review of Management and Marketing | This study confirms that halal tourism is a tourism industry that contributes to Indonesia's economic growth even though the global economy is experiencing a slowdown. This study used a phenomenological approach with the conclusion that halal tourism can be part of national tourism to position Indonesia as the center of the world's halal tourism in the future. |

| Topic | Title | Research and year | Journal | Finding and Conclusion |
|--------------|--|-----------------------|--|---|
| | Current Trends on Halal Tourism: Cases on selected Asian countries | (Samori et al., 2016) | Tourism management perspectives | Halal tourism is a phenomenon in which many countries are competing to provide facilities, products, and infrastructure that meet the needs of Muslims. This study used a qualitative approach with library research. This study used 2 cases, namely Malaysia balancing multi-racial, cultural, and non-conservative Muslims. Japan developing halal tourism in non-Muslim countries. This study confirms that, in halal tourism, how business actors can present tourist destinations to meet the needs of Muslims for their religion. Besides, there should be strict rules for women not to travel alone without their mahram. |
| | Principles in halal supply chain management | (Tieman et al., 2012) | Journal of Islamic Marketing | This study made a model of principles in the halal supply chain through extensive related literature studies, large discussion groups, and various focuses to identify and ensure logistics processes on transportation, storage, and terminal operations. The results of the study synthesize that the halal supply chain has at least 7 elements, halal policy, supply chain objectives, logistics control, supply chain resources, supply chain business processes, supply chain network structure, and halal supply chain performance. |
| Chain Supply | Defining Halal Supply Chain Management | (Khan et al., 2018) | Supply Chain Forum: an International Journal | This study made a comprehensive definition of halal supply chain management. The industry players are encouraged to make benchmarks and/or standardization of halal to compete with other similar industries to increase the application of the halal supply chain. |
| | Halal Supply Chain a Critical Success Factors: A literature review | Talib et al., 2015 | Journal of Islamic Marketing | This study found that the key factors that determine the success of the halal supply chain are government support, transportation planning, collaborative relationships, halal certification, and halal traceability. |

Studies related to halal culture in Indonesia mostly discuss the relationship between culture and halal tourism (see: (Jaelani, 2017); (Winarti, 2017); (Firdausi et al., 2017), but few have studied the relationship between halal culture and company performance. Halal culture is an inseparable part of individuals as part of society and an organization, a company.

Figure 1
Position of Halal Culture

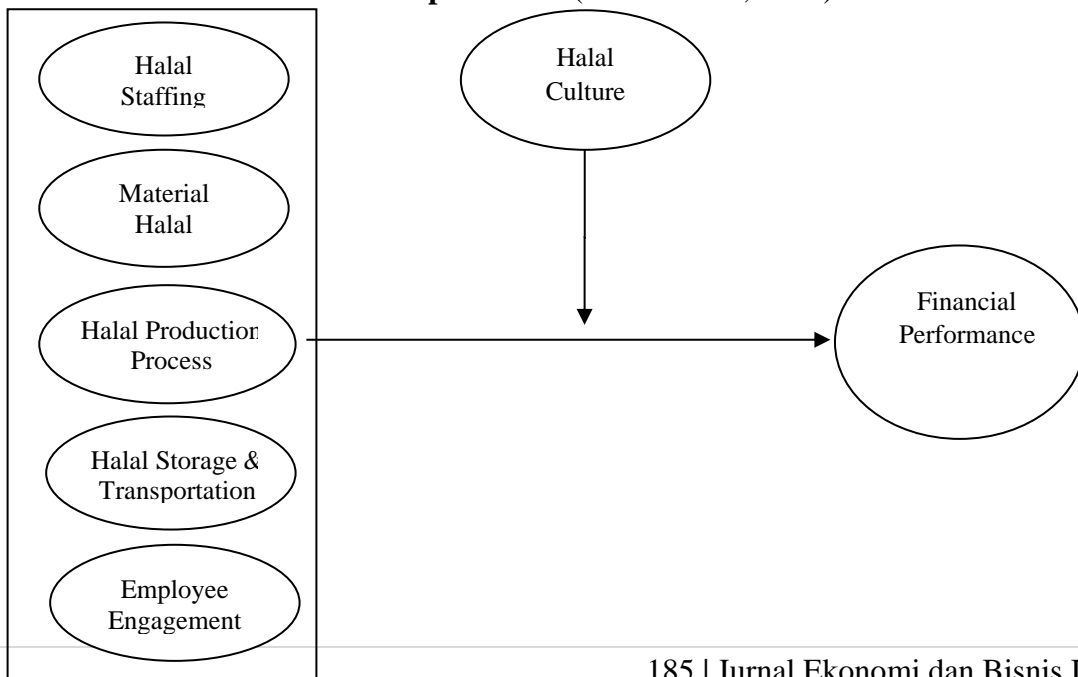


Thus, the culture created in the company to a certain degree will be influenced by the culture that exists in the community. Research related to halal orientation and a company's financial performance was conducted by (Zailani et al., 2020) considering halal culture as a moderating variable. It was found that halal materials, storage, and transportation have a positive effect on financial performance, and the halal culture variable moderates the relationship between the production process and the financial performance of companies in Malaysia. As there are very few studies that focus on examining halal orientation and company performance, this study examines this issue by using halal culture in Indonesia.

Research Model

Referring to the research conducted by (Zailani et al., 2020), the halal orientation strategy has 4 main components, namely halal staffing, halal materials, halal production process, and halal storage and transportation. This research adopts the predetermined conceptual framework as follows.

Figure 3
Research Model Adapted from (Zailani et al., 2020)



This study used 3 main variables, halal orientation strategy, halal culture, and financial performance. As a moderating variable between financial performance and halal orientation strategy, halal culture is expected to produce observations of the position of halal culture between the halal orientation strategy and financial performance.

LITERATURE STUDY

Based on this description, the following related literature studies are explored.

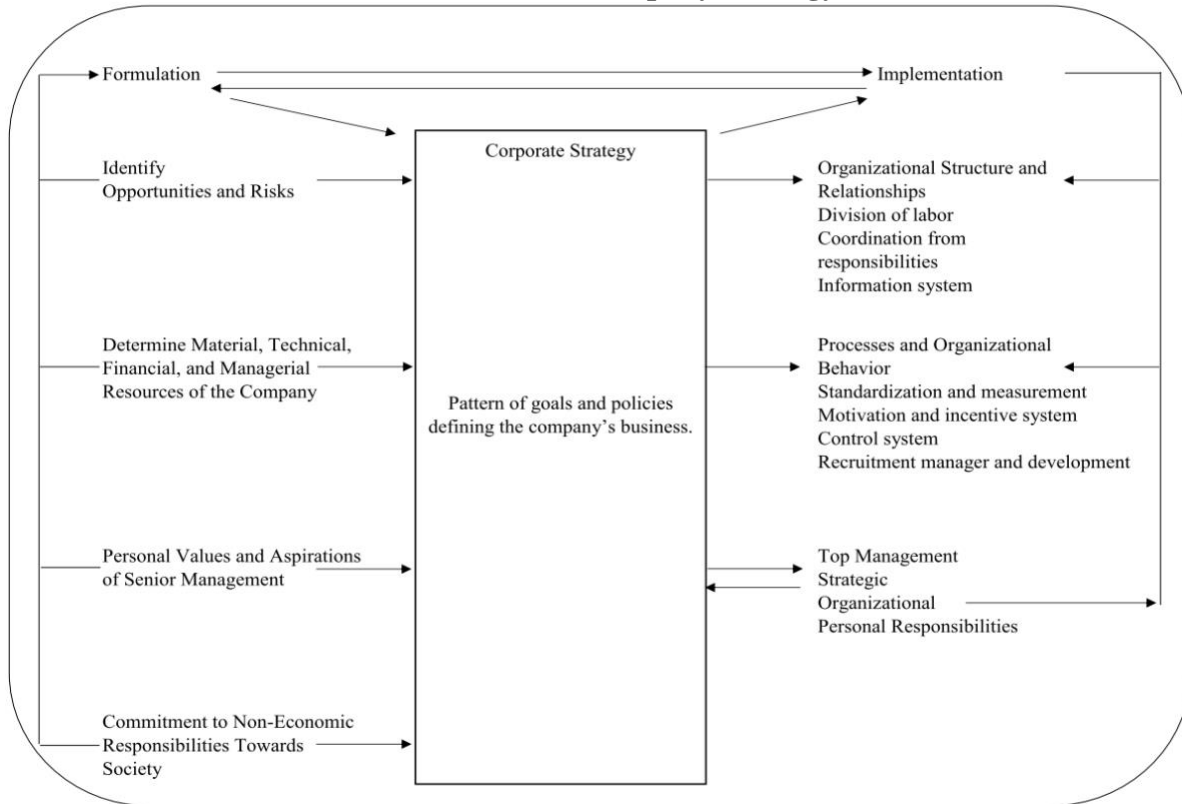
Resource-Based View

Resource-Based View (RBV) theory has 2 (two) main components, namely resources and profitability. Resources can be defined as all tangible and intangible assets semi-permanently bound to the company, for example, brands, knowledge, workforce skills, sales networks, efficient procedures, and so on (Wernerfelt, 1984). Based on this definition, halal knowledge which is downstream of the halal orientation will be part of the resources of the company. If a halal company has been able to apply a halal orientation to every stakeholder in the company, this will increase the company's resources. Based on the argument of RBV, companies that can use a halal orientation will have a competitive advantage and can compete with others that do not have the same competitive advantage. In contrast to other forms of resources, halal resources will be difficult to imitate because they are part of the culture built by a company (Zailani et al., 2020); thus, the commitment to build a halal orientation in the long term will keep companies competitive in meeting their halal needs now and in the future.

Halal Orientation Strategy (HOS)

Zailani et al., (2015) defined the halal orientation strategy (HOS) as a strategic operation strategy that can help firms to comply with halal requirements. By helping them to focus on important resources and capabilities, HOS may enhance the financial performance of these halal firms. Strategy refers to a plan that combines various elements, such as company policies, goals, and actions, to ensure the effective and appropriate allocation of existing resources in an organization (Quin, 1988). The following chart explains the corporate strategy.

Figure 4
Formulation of Company Strategy



In terms of strategy formulation, the company will determine its material, techniques, finance, and resources. If it is halal-oriented, every material to be processed must meet the established halal standards. In terms of personal values and aspirations of senior managers, personal values and aspirations can come from communal values or orientations that exist in society. When an individual has a strategic role in the company, it will affect the corporate strategy to be built, which is halal orientation. In the formation of corporate strategy, companies also consciously have a non-economic role in the community. Values that exist in the environment where the company operates must be considered, for example, meeting the needs of halal products for residents. Halal companies must ensure that their workforce understands halal requirements and meets halal standards in every process within the company (Zailani et al., 2020) so that every product from a series of production processes meets halal standards. Referring to the corporate strategy formulated by Evered (1983), the halal orientation strategy is defined as the company's orientation strategy in determining the corporate strategy by always considering the halal aspect of every goal, policy, and process. If the halal orientation is applied to every series of processes, the product will also meet the halal standards set.

Financial Performance

Financial performance should be the main concept of calculating the company's performance because, after all, the main goal of the company's organization is to generate profit (Chen & Paulraj, 2004). Based on this, it is important to link the communal religious value, halalness, with the company's financial performance to find out the relationship between the two.

Can the company implement halal orientation if it makes the company's finances unhealthy? There is always a question of whether the hall perception of a company will indeed provide added value to each profitable product. Therefore, the company's financial performance is measured based on profitability and market share growth (Zailani et al., 2020). There is a positive or negative relationship between halal orientation and financial performance. On the one hand, there is added value of halal products, but it costs more to ensure that each product is produced through a series of processes confirmed to be halal. It is hoped that this study can produce a comprehensive review in showing the relationship between halal orientation and financial performance to ensure halal industry players implement a halal orientation strategy if it has a positive impact. If it turns out that empirical testing gives negative results, industry players and policymakers can provide various alternatives and incentives for halal companies.

Halal Culture

Halal culture in a company s inseparable from the organizational culture. Organizational culture is a pattern of belief or value that is believed by the members of an organization/company (Trice & Beyer, 1993); Pothukuchi et al., 2002). Based on this view, halal culture can be defined as part of organizational culture which refers to the awareness and practice of halal employees in an organization/company (Frederick, 1995). The better the halal culture in an organization/company is, the better the implementation of the halal orientation strategy will be (Zailani et al., 2020). The better halal culture in an organization/company is inseparable from the internalization of halal values. The internalization of good halal values indicates that there are clear directions regarding every process in the company. Thus, it will affect the effectiveness and overall performance of the company.

METHOD

This study is quantitative research with the primary data derived from questionnaires. This study was proved by the Structural Equation Model-Partial Least Square (SEM-PLS). This technique was chosen to meet the suitability of exploratory research by Hair et al. (2011) that allows construction and test new models in a study.

Structured questionnaires were used as the main source of primary data collection. A 10-point Likert scale was used as a measurement scale, except for certain options such as personal, demographic, and respondent data. Data on halal companies was obtained from the website of The Assessment Institute for Foods, Drugs, and Cosmetics, the Indonesian Council of Ulama (AIDC ICU/LP POM MUI). Companies were selected based on the size of small and medium businesses with a workforce of 5 to 100 people. To narrow the population, only companies engaged in the halal food industry sector were used as the samples so that the samples obtained were more specific.

The survey was carried out in 2 stages, namely pre- and post-preparation of the questionnaire. Pre-preparation is the preparation questionnaire before being distributed on a small-scale and statistical testing. This was done to obtain possible errors in the preparation of the questionnaire and other technical matters that might occur during the data collection process. Post-preparation is the period when the questionnaire is ready to be distributed to a large number of

respondents with previous improvements made during pre-preparation. The sampling was done by considering the proportion between small and medium companies.

Variable Operational Definition:

| Variable | Definition |
|--|---|
| Halal Staffing (HS) | Understanding of the workforce regarding the applied halal standard |
| Halal Materials (HM) | The supplier and the quality of each material used |
| Halal Production Process (HPP) | Company production chain |
| Halal Storage and Transportation (HSP) | Product storage and delivery process |
| Halal Employee Engagement (HEE) | Positive attitudes of employees related to halal orientation |
| Halal Culture (HC) | The views of managers and/or company owners regarding halal awareness and practices |
| Halal Financial Performance (HEP) | The views of senior managers and/or company owners regarding financial performance by implementing a halal orientation strategy |

Testing was done using special software, SmartPLS 3.0. This software can test the relationship between variables to be analyzed either partially or simultaneously. The output of the software was reviewed and compiled by adjusting the predetermined hypotheses.

RESULTS AND DISCUSSION

Result

A total of 304 MSME samples from 13 regencies/cities were involved in the test model. Based on the years of operation, 60.68% of MSMEs have been running for less than 3 years. 93.09% of MSMEs have not got official halal certification issued by the government (BPJPH), 89.47% still use private funding, and 70.39% are engaged in food and beverage production.

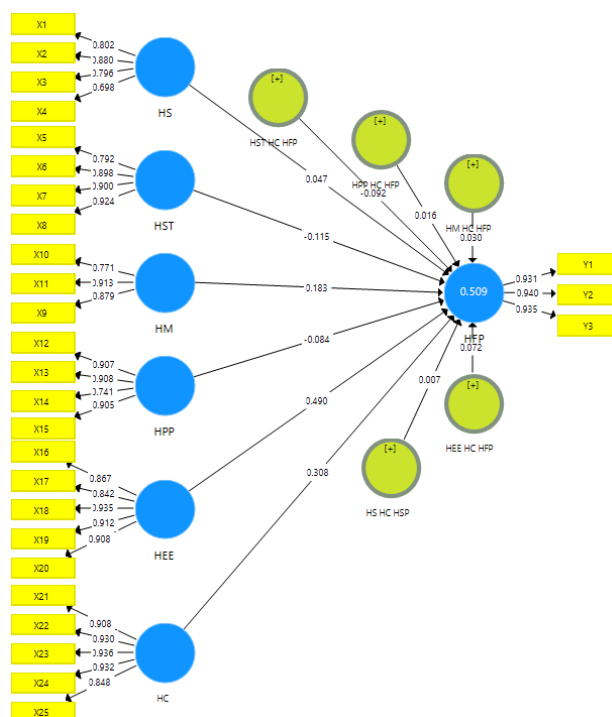
Table 2.
Respondent Demographics

| Variable | Description | Frequency | % |
|---------------------------|----------------------|-----------|-------|
| Location | Bantul | 24 | 7.89 |
| | Boyolali Regency | 32 | 10.53 |
| | Gunung Kidul Regency | 7 | 2.30 |
| | Karanganyar Regency | 14 | 4.61 |
| | Klaten Regency | 7 | 2.30 |
| | Semarang Regency | 11 | 3.62 |
| | Sleman Regency | 18 | 5.92 |
| | Sukoharjo Regency | 24 | 7.89 |
| | Wonogiri Regency | 16 | 5.26 |
| | Salatiga Regency | 32 | 10.53 |
| | Semarang City | 36 | 11.04 |
| | Surakarta City | 36 | 11.04 |
| | Yogyakarta City | 36 | 11.04 |
| Years of Operation | < 3 Years | 185 | 60.86 |
| | 3–5 Years | 62 | 20.39 |
| | 6–10 Years | 27 | 8.88 |

| | | | |
|---------------------------------------|---------------------------------|-----|-------|
| | > 11 Years | 30 | 9.87 |
| Number of Years | < 1 Year | 118 | 38.82 |
| | 1–5 Years | 138 | 45.39 |
| | 6–10 Years | 23 | 7.57 |
| Implementing Halal Orientation | > 11 Years | 25 | 8.22 |
| | Official Halal Certification | | |
| | Yes | 21 | 6.91 |
| | No | 283 | 93.09 |
| Total Assets | < 50 Million | 266 | 87.50 |
| | 50–500 Million | 35 | 11.51 |
| | 501–10 Billion | 3 | 0.99 |
| Sources of funding | Bank | 26 | 8.55 |
| | Non-bank financial institutions | 3 | 0.99 |
| | Government | 3 | 0.99 |
| | Self-funded | 272 | 89.47 |
| Product | Food and/or beverages | 214 | 70.39 |
| | Regional specialty products | 12 | 3.95 |
| | Restaurant | 78 | 25.66 |

Note: n = 304

Figure 5.
PLS-SEM Results



Model Measurement

The validity and reliability testing was carried out using the reflective construct testing model as shown in Table 2. Specifically, we measured the internal consistency reliability through

the value of composite reliability (CR) and Cronbach's Alpha (CA). All constructs had a value > 0.7, so they had met the required criteria (Hair et al., 2019). For the convergent validity, outer loading and average variance extracted (AVE) values were used. All items had outer loading values > 0.70 and AVE > 0.50, so they had met the required threshold (Hair et al., 2019). We also tested the discriminant validity using the Fornell-Larcker criteria as shown in Table 3 where there is no intercorrelation in the model.

Table 3.
Model Measurement

| Variables | Indicator | Convergent Validity | | Internal Consistency Reliability | |
|--|--|---------------------|--------|----------------------------------|-----------------------|
| | | Factor | AVE | Cronbach's Alpha | Composite Reliability |
| | | > 0.70 | > 0.50 | 0.70-0.90 | > 0.70 |
| <i>HEE*HC*HFP</i> | | 3.348 | 1.000 | 1.000 | 1.000 |
| <i>HM*HC*HFP</i> | | 3.238 | 1.000 | 1.000 | 1.000 |
| <i>HPP*HC*HFP</i> | | 3.250 | 1.000 | 1.000 | 1.000 |
| <i>HS*HC*HFP</i> | | 3.127 | 1.000 | 1.000 | 1.000 |
| <i>HST*HC*HFP</i> | | 3.377 | 1.000 | 1.000 | 1.000 |
| Halal Staffing (HS) | | | 0.634 | 0.806 | 0.873 |
| X1 | Every worker gets special training in processing halal products | 0.802 | | | |
| X2 | Every worker understands the procedure in handling halal products | 0.880 | | | |
| X3 | Every worker understands Islamic rules regarding halal products | 0.820 | | | |
| Halal Storage and Transportation (HST) | | | 0.774 | 0.902 | 0.932 |
| X5 | My company ensures that every means of transportation used meets halal standards | 0.792 | | | |
| X6 | My company ensures that the storage area used meets halal standards | 0.898 | | | |
| X7 | The storage area is ensured to be clean and free from anything impure and <i>haram</i> | 0.900 | | | |
| X8 | Every goods moving process is ensured that it is not contaminated with something <i>haram</i> and impure | 0.924 | | | |
| Halal Material (HM) | | | 0.734 | 0.818 | 0.892 |
| X9 | Every material used is ensured to meet halal and <i>tayyib</i> standards | 0.879 | | | |
| X10 | Every ingredient used is ensured to be clean and fresh | 0.771 | | | |
| X11 | Every material used is obtained from suppliers who also pay attention to the halalness | 0.913 | | | |
| Halal Production Process (HPP) | | | 0.754 | 0.889 | 0.924 |

| | | | | |
|--|--|-------|-------|-------|
| X12 | Every tool is ensured to be clean and free from impurities | 0.907 | | |
| X13 | The cleanliness of the production area is maintained according to halal standards | 0.908 | | |
| X14 | Our company is very concerned about every tool or material that may cause contamination of the product | 0.741 | | |
| X15 | The stages of production are in accordance with halal standards | 0.905 | | |
| Halal Employee Engagement (HEE) | | | 0.798 | 0.936 |
| X16 | Every worker is aware of halalness | 0.867 | | 0.952 |
| X17 | Every worker is enthusiastic about issues related to product halalness | 0.842 | | |
| X18 | Every employee is happy with the halal standards imposed by the company | 0.935 | | |
| X19 | Every worker is proud of the halal standards applied by the company | 0.912 | | |
| X20 | Every worker feels that they are part of the halal product process | 0.908 | | |
| Halal Culture (HC) | | | 0.830 | 0.949 |
| X21 | Managers/supervisors view halal as a competitive advantage | 0.908 | | 0.961 |
| X22 | Managers/supervisors ensure that every employee views halal as very important | 0.930 | | |
| X23 | Manager/supervisors create a halal culture for every worker | 0.936 | | |
| X24 | Manager/supervisors dedicate their efforts to creating a halal work environment | 0.932 | | |
| X25 | Managers/supervisors ensure that every worker is aware of halal issues | 0.848 | | |
| <i>Halal Financial Performance (HFP)</i> | | | 0.875 | 0.929 |
| Y1 | There is an increase in profit after the implementation of halal orientation | 0.931 | | 0.955 |
| Y2 | There is an increase in investment returns after the implementation of halal orientation | 0.940 | | |
| Y3 | There is an increase in sales returns after the implementation of halal orientation | 0.935 | | |

Note: Only variables that pass the test are entered

** Moderating Variable*

Table 4.
Fornell-Larcker Criteria (Discriminant Validity)

| | HC | HEE | HEE HC HFP | HFP | HM | HM HC HFP | HPP | HPP HC HFP | HS | HS HC HSP | HST | HST HC HFP |
|---------------------------|-------|--------|------------------|--------|-------|-----------------|-------|------------------|-------|-----------------|-------|------------------|
| HC | 0.911 | | | | | | | | | | | |
| HEE | 0.862 | 0.893 | | | | | | | | | | |
| HEE HC HFP | - | -0.711 | 1.000 | | | | | | | | | |
| HFP | 0.662 | 0.686 | - | 0.935 | | | | | | | | |
| HM | 0.710 | 0.757 | - | 0.581 | 0.857 | | | | | | | |
| HM HC HFP | - | -0.573 | 0.815 | -0.398 | - | 1.000 | | | | | | |
| HPP | 0.752 | 0.832 | - | 0.593 | 0.874 | -0.654 | 0.868 | | | | | |
| HPP HC HFP | - | -0.630 | 0.877 | -0.430 | - | 0.966 | - | 1.000 | | | | |
| HS | 0.717 | 0.695 | - | 0.547 | 0.606 | -0.515 | 0.651 | -0.576 | 0.846 | | | |
| HS HC HSP | - | -0.635 | 0.939 | -0.437 | - | 0.840 | - | 0.905 | - | 1.000 | | |
| HST | 0.776 | 0.792 | - | 0.588 | 0.811 | -0.640 | 0.841 | -0.686 | 0.718 | -0.664 | 0.880 | |
| HST HC HFP | - | -0.625 | 0.881 | -0.444 | - | 0.917 | - | 0.962 | - | 0.941 | - | 1.000 |
| | 0.648 | | | | 0.614 | | 0.660 | | 0.619 | | 0.734 | |

Hypothesis Test

The results of the hypothesis test are shown in Table 4 divided into 2 models, namely main and moderating. In the main model, halal culture (HC) and halal employee engagement (HEE) are proven to have a positive and significant effect on halal financial performance (HFP) with P-values of 0.007 and 0.000, respectively. These results indicate that halal culture in Indonesia and its employee engagement in halal orientation can have a positive effect on the company's financial performance. In the moderating model, halal culture (HC) is not proven to have an effect as a moderating variable but is proven as a direct variable on halal financial performance (HFP). In general, the results of testing the moderating model support the findings of previous research that halal culture (HC) is not proven to be a moderating variable.

Table 5.
Hypothesis Test

| | Standard Deviation | T Statistics | P-value | Results |
|-------------------------|--------------------|--------------|---------|----------|
| <i>Main Model</i> | | | | |
| HC -> HFP | 0.111 | 2.708 | 0.007 | Accepted |
| HEE -> HFP | 0.132 | 3.657 | 0.000 | Accepted |
| HM -> HFP | 0.120 | 1.492 | 0.136 | Rejected |
| HPP -> HFP | 0.154 | 0.567 | 0.570 | Rejected |
| HS -> HFP | 0.082 | 0.998 | 0.318 | Rejected |
| HST -> HFP | 0.105 | 1.120 | 0.263 | Rejected |
| <i>Moderating Model</i> | | | | |
| HEE HC -> HFP | 0.087 | 0.739 | 0.460 | Rejected |
| HM HC -> HFP | 0.092 | 0.315 | 0.752 | Rejected |
| HPP HC -> HFP | 0.126 | 0.116 | 0.908 | Rejected |
| HS HC -> HFP | 0.074 | 0.295 | 0.768 | Rejected |
| HST HC -> HFP | 0.085 | 1.105 | 0.269 | Rejected |

Model Prediction and Accuracy

Table 5 shows the prediction and accuracy results of the model using the PLS predict procedure with 10 for folds and 10 for repetitions. The results of the analysis show that the RMSE value in PLS is consistently lower than the LM value. Q2 predict value > 0.25 which means it has a medium predictive level (Hair et al., 2019). The model that was built has an R² value of 0.492, so it has a degree of analysis at a low to medium level (Hair et al., 2019).

Table 6.
Prediction and Accuracy

| Latent Variables Code | Indicator | Q ² Predict | RMSE | | R ² Adjusted |
|-----------------------|-----------|------------------------|---------|-------|-------------------------|
| | | | PLS-SEM | LM | |
| <i>HFP</i> | Y1 | 0.443 | 0.648 | 0.692 | 0.492 |
| | Y2 | 0.383 | 0.690 | 0.724 | |
| | Y3 | 0.398 | 0.681 | 0.701 | |

Discussion

This study focuses on how to apply halal orientation to the company's financial performance with a sample of MSMEs in Indonesia. Based on the results of the direct test and test with moderation, it was found that halal culture was not proven to have an effect as a moderating variable, but it had an effect as a direct variable on the company's financial performance. These results support previous findings that halal culture is not proven to have a moderating effect on financial performance (Zailani et al., 2020). Halal culture that is formed in a company is the result

of a complex process of promoting halal values to form a culture. This proves that halal culture improves the efficiency and performance of the company so that it has a positive impact on the company's financial performance. Another variable that is significant in financial performance is employee engagement. the higher employee engagement towards halal orientation encourages efficiency and improves company performance which in turn has a positive impact on the company's financial performance.

The results of the analysis show that the predictive power of the variables used in the model is at a low to medium level. This can a positive thing that other variables can still influence the company's financial performance, in the context of halal orientation.

CONCLUSION

We have effectively demonstrated that a halal orientation can positively influence the financial performance of the company; however, substantial employee engagement is essential for the successful implementation of this orientation. Organizations must cultivate a halal culture to enhance both efficiency and financial outcomes. It is important to highlight that halal culture emerges from a succession of processes that foster a halal-oriented perspective. Consequently, the culture surrounding halal practices and the engagement of employees are essential components of halal orientation, as evidenced by the significant findings from the test results. This research is constrained by the limitations inherent in the survey conducted on MSMEs within the Joglo Semar region, encompassing Jogjakarta, Solo, and Semarang. This opens up additional avenues for surveys in various domains in forthcoming research endeavors.

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