



Determinants of Operational Performance in Halal Culinary Businesses

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ABSTRACT

The growth of the halal industry at the local level shows significant dynamics; however, studies examining the determinants of operational performance in halal culinary businesses based on local wisdom remain limited. This research offers an integration of five variables social capital, halal certification ownership, innovation capability, digital transformation, and business location into a single theoretical model grounded in the Resource-Based View (RBV) to explain the operational performance of halal culinary enterprises in Ponorogo Regency. The study aims to analyze the influence of each variable on operational performance. The method employed is a mixed-methods approach with an explanatory sequential design, beginning with a qualitative phase involving in depth interviews with five business owners, analyzed using NVivo 14. The subsequent quantitative phase was conducted using SEM-PLS on 105 respondents. The findings indicate that halal certification ownership, innovation capability, and business location have a positive and significant effect on operational performance. Meanwhile, social capital and digital transformation show positive but insignificant effects. These results emphasize that halal legitimacy, innovative capability, and locational accessibility function as strategic resources capable of enhancing efficiency and operational competitiveness. In contrast, social capital and digitalization have not provided optimal contributions due to their unstructured utilization. The implications of the study highlight the need to strengthen innovation, accelerate halal certification processes, and provide policy support and digital infrastructure to improve the competitiveness of halal culinary businesses at the regional level.

Introduction

Business actors are required to produce products that are not only of high quality and

competitive but also compliant with safety, health, and sustainability standards (Pujiono et al., 2018). In this context, the growing awareness among Muslim consumers regarding halal consumption has become a

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catalyst for the global expansion of the halal industry. This awareness is driven not only by religious values but also by the perception that halal products are associated with superior quality, hygiene, and safety compared to conventional products. With the global Muslim population estimated at approximately 1.8 billion people, representing about 25 percent of the world's total population (Alfajriyani et al., 2024), demand for halal food and services continues to increase in both Muslim-majority and non-Muslim countries (Adinugraha et al., 2019). Countries such as New Zealand have emerged as leading exporters of halal meat, while South Korea has successfully developed Muslim-friendly tourism destinations ((Afendi et al., 2024). These trends indicate that halal principles have evolved from being merely religious norms into globally recognized quality standards, with significant implications for competitiveness in the food and beverage industry.

Similar developments are also evident in global halal food consumption. According to the *State of the Global Islamic Economy* (SGIE) report, Muslim expenditure on food increased from US\$1.28 trillion in 2021 to US\$1.40 trillion in 2022, representing a growth of 9.6 percent (SGIE, 2023). This upward trend is projected to continue, with expenditures expected to reach approximately US\$2.4 trillion by 2024 (KNEKS, 2024). At the global level, Indonesia occupies a strategic position within the halal industry, ranking second in halal food, third in modest fashion, seventh in Islamic finance, and fifth in pharmaceuticals and cosmetics (SGIE, 2023). The value of halal product consumption in Indonesia reached US\$184 billion, positioning the country as the world's largest consumer in this sector

(KNEKS, 2024). These developments underscore that halal has evolved beyond a religious concept to become a key pillar of the global economy. In response, the *Indonesian Sharia Economy Masterplan* (MEKSI) 2019-2024 identifies the strengthening of the halal market as a central driver of national economic growth (Fuadi et al., 2022).

In the local context, Ponorogo Regency exhibits characteristics that support the development of a halal business ecosystem. According to data from Statistics Indonesia (BPS, 2024), approximately 99.4 percent of Ponorogo's population—equivalent to around 970.1 thousand people—identifies as Muslim. This demographic composition indicates substantial potential for the expansion of the halal sector, particularly in the culinary industry. The high level of religiosity among the local community shapes strong preferences for halal products, which are perceived not only as a religious obligation but also as indicators of quality and consumer trust. This growing awareness encourages business actors to obtain halal certification and to maintain product quality in order to remain competitive in the market. Moreover, the sustainable growth of the halal industry in Ponorogo requires cross-sector collaboration among communities, business actors, and supporting institutions to strengthen the regional halal ecosystem. (Mubarok & Imam, 2020). Notably, a number of non-Muslim business actors have also begun to engage in the production of halal products, driven by the substantial market potential of the halal sector. (Pujiatutti et al, 2022).

From an economic perspective, the number of business establishments in Ponorogo Regency has exhibited notable dynamics. In 2019, there were 31,328 registered business units, which

increased to 39,650 units in 2022, before declining again to 31,720 units in 2023 (KOMINFO, 2024). However, this fluctuation was not accompanied by a significant improvement in regional gross domestic product (RGDP) per capita (Aulia, 2021). The COVID-19 pandemic exerted substantial pressure on trading activities and employment absorption, although the local economy showed signs of recovery in 2022 before experiencing a slowdown in the following year (BPS, 2024). According to Sugiharti et al. (2023), a decline in the number of business establishments can reduce employment absorption and slow regional economic growth. Therefore, strengthening human resources (HR) has become a critical factor in sustaining business growth (Anggriani & Kistyanto, 2021; Garengo et al., 2022). This is particularly evident in the halal culinary sector, where human resource capacity plays a key role in maintaining the sustainability of the local economy.

One of the primary factors determining business growth is the quality of human resources. Competent labor is regarded as a strategic asset for achieving competitive advantage (Garengo et al., 2022). Effective human resources encompass both owners and employees who are capable of adapting to changes in the business environment, managing social networks, leveraging technology, and developing products that align with market needs. Accordingly, business performance is not determined solely by the scale of operations but also by the ability of business actors to optimally manage both internal and external (Sianipar et al., 2024).

These phenomena indicate that understanding the performance of halal culinary businesses cannot rely solely on

external factors such as market conditions and public policies; rather, it also requires an analysis of how the resources owned by business actors are strategically managed. At this point, the Resource-Based View (RBV) provides a relevant theoretical foundation. RBV posits that sustainable competitive advantage arises when firms possess and effectively manage resources that are valuable, rare, inimitable, and non-substitutable. (Barney, 1991). This framework provides a systematic perspective for interpreting how various resources—both tangible and intangible—can be translated into superior operational performance.

From an RBV perspective, the variables examined in this study can be understood as strategic resources. Social capital represents an intangible resource reflected in networks of trust, shared norms, and relationships among business actors. Strong social capital does not develop instantaneously and cannot be easily replicated by competitors, thereby fulfilling the VRIN criteria. Through extensive social networks, business actors can access information, support, and customer markets, which ultimately enhance operational performance (Akintimehin et al., 2019; Mislihah & Silva, 2022; Pereira & Bamel, 2021).

Halal certification can be categorized as a strategic resource that signals quality and compliance with global standards. This certification not only enhances consumer trust but also serves as a form of institutional legitimacy that differentiates certified businesses from competitors that have not yet obtained such certification. (Alfarizi, 2023). The process of obtaining halal certification, which requires compliance with specific standards, makes it difficult to replicate

quickly, thereby offering the potential for sustainable competitive advantage. Prior studies have demonstrated that halal certification is positively associated with business performance across financial, marketing, and operational dimensions (Amer, 2023; Rahim et al., 2023; Rajendran et al., 2024; Santosa et al., 2022).

Furthermore, innovation capability reflects the capacity of business actors to develop new products, processes, or strategies that are aligned with consumer needs. Within the RBV framework, innovation capability can be viewed as a dynamic capability that enables firms to respond to environmental changes while simultaneously creating new value (Andersén, 2021). Innovative firms tend to be more adaptive and better able to maintain the relevance of their products in competitive markets. A growing body of empirical evidence confirms the positive impact of innovation capability on business performance (Aisjah et al., 2023; Christa et al., 2020; Le et al., 2023; Matekenya & Moyo, 2022; Purwati et al., 2022)

On the other hand, digital transformation reflects the utilization of technology in business activities, ranging from marketing and financial record-keeping to customer service. From an RBV perspective, digital technologies become strategic resources only when they are effectively integrated into business processes and supported by the human capabilities required to operate them. Digital transformation can enhance operational efficiency, expand market reach, and foster more intensive interaction with customers (Heredia et al., 2022; Marchiori et al., 2022; Salisu & Bakar, 2019; Teng et al., 2022). However, several studies suggest that the adoption of technology without adequate

organizational readiness may instead exert a negative effect on business performance (Agustia et al., 2022; Usai et al., 2021), indicating that contextual factors and firm capacity play a critical role.

Business location also plays a strategic role within the RBV framework. A location that is close to consumers, easily accessible, and situated in an environment that supports economic activities can generate advantages that are not easily replicated by competitors (Nwokocha, 2022; Sunyoto & Mulyono, 2022). Location influences the ease of accessing raw materials, product distribution. Ringo & Elias (2024) demonstrate that business location has a significant effect on restaurant performance, although other studies suggest that location is not the sole determinant of performance (Hermanto, 2011)

Based on the foregoing discussion, business performance can be understood as the outcome of firms' ability to manage various strategic resources, including social capital, halal certification, innovation capability, digital transformation, and business location. Although prior studies have examined business performance and these factors—such as Alfarizi (2023), Komariah et al. (2022), Santosa et al. (2022), Talib et al. (2017),—most of this literature: (1) investigates only one or two variables in isolation, (2) focuses on sectors other than halal culinary businesses, or (3) does not explicitly employ RBV as a conceptual framework to explain the mechanisms through which resources influence performance.

Accordingly, a significant research gap remains, namely the absence of an integrative study that systematically examines how social

capital, halal certification, innovation capability, digital transformation, and business location jointly contribute to the operational performance of halal culinary businesses from an RBV perspective, particularly in regions with Muslim-majority populations such as Ponorogo Regency. This study seeks to address this gap by developing a model that links these five strategic resources to the operational performance of halal culinary enterprises in Ponorogo. In doing so, the study is expected to provide theoretical contributions to the extension of RBV within the context of the halal economy, while also offering practical insights for strengthening the competitiveness of local business actors.

Literature Review

Halal Culinary

The concept of halal culinary extends beyond the mere absence of prohibited (*ḥarām*) elements to encompass the principle of *halal tayyiban*, which emphasizes quality, safety, hygiene, and wholesomeness in consumption. This principle requires business actors to maintain integrity throughout the entire production process—from ingredient selection and processing to distribution and final presentation—in accordance with both Sharia principles and modern health standards (Aslan, 2023.) The application of *tayyib* principles includes animal welfare, food safety, sanitation, and environmental responsibility, all of which contribute to strengthening operational quality (Wiyono et al., 2022).

In Indonesia, halal regulation is formally institutionalized through Law No. 33 of 2014 on Halal Product Assurance, complemented by fatwas issued by the Indonesian Council of Ulama (MUI), which serve as the primary

references for halal standards. This strong regulatory framework positions halal certification as a formal instrument for managing production processes in a standardized and systematic manner. In the context of Ponorogo Regency—widely recognized as a *kota santri* (Islamic educational hub) and home to distinctive culinary products such as *sate Ponorogo* and *dawet Jabung*—compliance with halal standards constitutes a strategic element in building consumer trust and reinforcing local culinary identity.

A growing body of empirical research indicates that the implementation of halal standards enhances process compliance, reduces contamination risks, and strengthens business reputation, thereby exerting a positive influence on operational performance (Atsiriyah & Fitriyanti, 2023; Harahap & Saragih, 2023). From an RBV perspective, a firm's capability to manage production processes in accordance with halal standards can be categorized as a strategic resource that is valuable (by improving quality and consumer trust), rare (as not all MSMEs are capable of meeting certification requirements), inimitable (due to the need for internal control systems and institutional compliance), and non-substitutable (particularly within Muslim consumer markets). Consequently, halal culinary practices constitute a source of strategic advantage that can enhance the operational performance of culinary businesses in Ponorogo.

Within the specific context of Ponorogo Regency, the relevance of halal culinary practices is particularly pronounced. The region is renowned for its traditional food products—such as *sate Ponorogo*, *jenang mirah*, and *dawet Jabung*—which are predominantly

produced by local MSMEs. The uniqueness of Ponorogo's culinary heritage lies not only in its distinctive flavors but also in its traditional processing methods, many of which inherently align with halal and *tayyib* principles. Nevertheless, not all business actors have obtained formal halal certification. Therefore, halal certification emerges as a critical factor in enhancing consumer confidence while simultaneously strengthening the competitiveness of local culinary products in broader markets. In this regard, halal culinary practices in Ponorogo can be understood as high-value strategic resources from an RBV perspective, as they embody trust, reputation, and product authenticity that are difficult for other regions to replicate.

Local Wisdom

Local wisdom refers to the values, practices, and perspectives that evolve within a community based on its cultural foundations (Susanto et al., 2022). These values are formed through continuous interactions between society and its social and natural environments, thereby shaping ways of life, business ethics, and consumption patterns (Abas et al., 2022). In the context of Ponorogo Regency, local wisdom is reflected in culinary traditions, the strong identity of a *santri* (Islamic-oriented) community, and a pronounced preference for halal food and production methods aligned with Islamic teachings. This socio-cultural context shapes local consumer preferences for halal cuisine and influences the operational patterns and strategic orientations of culinary businesses.

Local wisdom in Ponorogo is also manifested through a culture of *gotong royong* (mutual cooperation) and strong social networks among culinary business actors. These

practices are evident in trader communities, informal business gatherings (*arisan usaha*), and cooperative relationships among vendors in culinary tourism areas (Lubis et al., 2025). Such values reinforce social bonds and mutual trust, which represent tangible expressions of social capital within the RBV framework (Habibie et al., 2025). Accordingly, local wisdom in Ponorogo functions not merely as a cultural attribute but also as a form of social resource that is valuable, rare, and difficult to imitate, thereby contributing directly to the enhancement of operational performance in halal culinary businesses.

Empirical studies further indicate that local wisdom contributes to product differentiation and strengthens consumer loyalty, ultimately leading to improved business performance (Lubis et al., 2025). From an RBV perspective, local wisdom constitutes an inimitable **resource**, as it is deeply embedded in local culture and cannot be easily replicated by competitors from outside the region. Consequently, Ponorogo's local wisdom reinforces business competitiveness and supports improvements in operational performance through value-based product differentiation rooted in local identity

Resource-Based View (RBV) Theory

RBV explains that sustainable competitive advantage is derived from a firm's ability to manage internal resources that exhibit VRIN characteristics—valuable, rare, inimitable, and non-substitutable (Barney, 1991). This theory emphasizes that business performance is not solely shaped by external factors, but is largely determined by the quality of resources owned by the firm and how effectively they are managed and deployed (Kisin & Setyahuni, 2024).

In this study, social capital, halal certification, innovation capability, digital transformation, and business location are conceptualized as strategic resources with the potential to generate competitive advantage. Halal certification, for instance, can be classified as a valuable and non-substitutable resource due to its role in ensuring compliance and consumer trust in Muslim markets. Social capital represents an inimitable resource embedded in trust-based networks and social relationships. Innovation capability constitutes a valuable and rare resource that enables firms to adapt and create market-relevant offerings. Digital transformation functions as a valuable and inimitable resource when effectively integrated into business processes, while business location serves as a valuable and non-substitutable resource by influencing accessibility, distribution efficiency, and customer interaction. Accordingly, RBV provides a robust theoretical foundation for explaining how each of these strategic resources contributes to the operational performance of halal culinary businesses in Ponorogo Regency.

Operational Performance

Operational performance refers to a firm's ability to efficiently and effectively manage its operational activities to achieve desired outputs in terms of quality, cost, delivery, and flexibility. In the context of small and medium-sized enterprises (SMEs), operational performance is often reflected in indicators such as production efficiency, product quality consistency, timeliness of service, cost control, and responsiveness to customer demand (Slack et al., 2019). Strong operational performance enables firms to deliver value to customers while maintaining sustainable business operations. Operational performance

reflects a firm's ability to utilize its resources effectively to achieve efficiency, productivity, and profitability (Komariah et al., 2022). Strong operational performance indicates that a firm is capable of generating optimal output with consistent quality, timely service delivery, and effective asset management (Firmansyah & Damayanti, 2021).

From an RBV perspective, operational performance is viewed as the outcome of how well firms deploy and integrate their strategic resources and capabilities. Firms that possess valuable, rare, inimitable, and non-substitutable resources are better positioned to design and execute operational processes that competitors find difficult to replicate. Consequently, superior operational performance does not emerge solely from scale or market position, but from the effective orchestration of internal resources such as human capital, social capital, technology, and organizational routines (Barney, 1991; Grant, 1996).

In halal culinary businesses, operational performance extends beyond conventional efficiency measures to include compliance with halal standards, food safety, hygiene, and consistency in halal practices throughout the production and service processes. The ability to maintain halal integrity while ensuring product quality and service reliability is critical in building consumer trust and sustaining market competitiveness. Previous studies indicate that halal compliance, when embedded into daily operations, contributes positively to operational performance by reducing process risks, enhancing reputation, and improving customer satisfaction (Atsiriyah & Fitriyanti, 2023; Harahap & Saragih, 2023).

In the context of Ponorogo Regency, operational performance in halal culinary enterprises is influenced by the firm's capacity to leverage strategic resources such as social capital, halal certification, innovation capability, digital transformation, and business location. The effective management of these resources enables business actors to optimize production processes, improve service delivery, and adapt to changing consumer preferences. Accordingly, operational performance serves as a critical outcome variable that reflects how successfully halal culinary businesses transform their internal resources into sustainable competitive advantage within a local socio-cultural and institutional setting.

Previous studies have demonstrated that operational performance is influenced by the quality of internal management, innovation capability, technology utilization, and the quality of product assurance mechanisms such as halal certification (Dionysus & Arifin, 2020; Muliana & Mansyur, 2024). Accordingly, operational performance represents an appropriate indicator for evaluating the success of halal culinary businesses in Ponorogo, particularly within the MSME sector, which relies on relatively simple production processes while being required to comply with halal standards and local consumer preferences.

Social Capital

Social capital refers to networks of relationships, trust, and shared norms that facilitate collaboration and coordination among individuals or groups (Woolcock, 1999). Social capital plays a crucial role in fostering cooperation, accelerating information flows, and strengthening

customer trust in business entities (Nurohmah et al., 2021). Empirical evidence indicates that social capital has a positive effect on MSME performance by facilitating access to information, enhancing mutual support among business actors, and strengthening ties with local communities (Atmaja et al., 2020). Within the RBV framework, social capital functions as a valuable strategic resource that enhances social cohesion, improves information exchange, and builds trust among economic actors (Usman et al., 2024).. These mechanisms contribute to smoother operational activities, expanded market access, and ultimately improved performance of halal culinary businesses.

Moreover, social capital constitutes an inimitable resource, as it is formed through long-term relationships and socially embedded interactions that are not easily replicated by competitors. In Ponorogo—widely recognized for its strong culture of *guyub* (communal solidarity) and religiosity—robust social capital can support improvements in the operational performance of halal culinary enterprises through enhanced coordination in production, marketing, and raw material procurement.

Halal Certification Ownership

Halal certification represents a form of formal legitimacy that ensures a product has complied with halal standards based on audits conducted by the Halal Product Assurance Agency (BPJPH) and fatwas issued by the Indonesian Council of Ulama (MUI) (Harahap & Saragih, 2023). This certification provides assurance and certainty for consumers, making it particularly important for culinary business actors (Rafiuddin et al., 2024). According to MUI halal fatwas, halal

certification constitutes an official recognition of a product's halal status granted through a standardized verification process under the halal product assurance system (Harahap & Saragih, 2023).

A number of empirical studies indicate that halal certification enhances consumer trust, expands market segmentation, and improves production processes through the strict standards that must be fulfilled (Atsiriyah & Fitriyanti, 2023). From an RBV perspective, halal certification can be classified as a **valuable** resource, as it strengthens business reputation and operational quality, and as a **non-substitutable** resource, given the absence of alternative mechanisms capable of fulfilling the specific requirements of Muslim consumers. In the context of Ponorogo Regency, ownership of halal certification constitutes a strategic factor in strengthening the competitiveness of local culinary businesses that are closely embedded within Islamic cultural values.

Innovation Capability

Innovation capability reflects a firm's capacity to develop new products, improve production processes, and respond effectively to changes in consumer preferences (Mendoza-Silva, 2021). In the context of halal culinary businesses, product innovation may take the form of recipe modifications, improvements in packaging quality, or the development of menu offerings that align with evolving market preferences (Indriyani & Kurnia, 2022). Within the RBV framework, innovation is viewed as a dynamic capability that enables firms to manage internal resources while simultaneously responding to external environmental changes (Prakasa et al., 2022). This innovative capability contributes to

greater operational efficiency and enhances the competitiveness of halal culinary products in both local and national markets.

Prior studies have demonstrated that innovation has a positive effect on the operational performance of MSMEs through improvements in efficiency and product attractiveness (Prakasa et al., 2022). From an RBV perspective, innovation fulfills the criteria of being valuable and rare, particularly when halal culinary businesses in Ponorogo are able to create unique differentiation rooted in local culinary identity. Accordingly, innovation capability emerges as a critical determinant in improving the operational performance of halal culinary enterprises.

Digital Transformation

Digital transformation refers to the utilization of digital technologies to enhance operational efficiency, marketing activities, and customer service delivery (Sui et al., 2024). Technologies such as online ordering platforms, social media, and digital payment systems provide competitive advantages that are difficult to replicate, as their effective implementation involves tacit knowledge embedded in organizational routines and human capabilities (Sony et al., 2023). A growing body of empirical evidence indicates that digitalization enables MSMEs to expand market reach, improve supply chain efficiency, and accelerate service delivery, thereby exerting a direct and positive impact on operational performance (Shehadeh et al., 2023). From an RBV perspective, digital transformation constitutes a valuable and inimitable strategic resource, serving as a critical source of competitive advantage for halal culinary businesses in Ponorogo as they navigate an increasingly digital and

competitive business environment.

Business Location

Business location represents a critical strategic factor that influences market access, operational costs, and sales potential. Within the RBV framework, a strategic location constitutes a tangible resource that determines a firm's access to consumers, raw materials, and distribution channels (Sumar'in et al., 2024). The selection of an appropriate location therefore plays a decisive role in enhancing operational effectiveness and improving the performance of halal culinary businesses.

Previous studies indicate that easily accessible locations contribute to higher sales volumes and greater operational stability (Rahmawati, 2023). From an RBV perspective, business location can be classified as a **valuable** and **non-substitutable** resource, as its strategic advantages cannot be fully replaced by alternative marketing strategies. For halal culinary enterprises in Ponorogo, proximity to cultural tourism areas, city centers, or Islamic boarding school (*pesantren*) zones may serve as a key determinant in strengthening operational performance.

Method, Data, and Analysis

This study draws upon the Resource-Based View (RBV) to develop a theoretical model that explains the relationships among the research variables. The study adopts a field research approach using a **mixed methods research design**, which integrates both qualitative and quantitative methods within a single investigation. According to Creswell and Clark, mixed methods research is a procedure that combines data collection, analysis, and integration of quantitative and

qualitative approaches to provide a more comprehensive understanding of research problems and questions. This approach enables researchers to identify limitations and offer clearer explanations of the underlying phenomena under investigation (Pane et al., 2021).

The research employs an exploratory sequential design, in which the qualitative phase is conducted first to explore the phenomenon, followed by a quantitative phase to empirically test the initial findings. In the initial qualitative stage, in-depth interviews were conducted with five halal culinary business actors selected through purposive sampling based on criteria including business longevity, product authenticity, and compliance with halal standards. Findings from this qualitative phase were used to develop measurement indicators and to enhance the relevance and robustness of the quantitative research instrument.

In the subsequent quantitative stage, purposive sampling was again employed, as the study required respondents who met specific criteria aligned with the research objectives. Similar research designs have been applied in prior studies examining operational performance Azizah et al., (2024) and halal food purchase intention Purwanto et al. (2020) supporting the methodological appropriateness of this approach.

The population of the study comprises 9,066 business actors operating in the trade sector in Ponorogo Regency (BPS, 2023). The sampling process utilized purposive sampling, defined as a technique in which respondents are selected based on their relevance and suitability to the research objectives rather than random selection (Sugiyono, 2013). This approach

ensures that the collected data are drawn from respondents with sufficient experience and contextual knowledge related to halal culinary business operations.

The respondents in this study were selected using purposive sampling based on specific criteria to ensure relevance to the research objectives. The culinary businesses included in the study had been operating continuously for more than ten years and represented local culinary enterprises. Each business either possessed or was in the process of obtaining a Business Identification Number (NIB), a Home Industry Food Permit (PIRT), or halal certification. In cases where halal certification had not yet been obtained, the businesses were required to produce food or beverages that are permissible under Islamic law, in accordance with applicable regulations, including the DSN-MUI Fatwa No. 4 of 2003 on halal standardization. Furthermore, the selected businesses complied with halal product standardization requirements as outlined in halal certification guidelines. Employees involved in the study had worked in the halal culinary businesses for a minimum of three years, ensuring adequate experience and operational understanding. Additionally, the culinary businesses demonstrated distinctive characteristics or offered authentic dishes that

Table 1.

Operational Definitions

Variable Name	Measurement Items	Sources
Operational Business Performance	<ul style="list-style-type: none"> a. Product quality b. Cost c. Productivity d. Flexibility. e. Delivery time 	Adem & Virdi (2020); Firmansyah & Damayanti (2021); Ganbold et al. (2021); Kamble et al. (2020); Migdadi (2022)
Social Capital	<ul style="list-style-type: none"> a. Relational dimension b. Structural dimension c. Cognitive dimension 	Fanani & Fitrayati (2021); Khoirrini & Kartika (2016); Nuryanto et al. (2020); Sudja'i et al. (2022); Tjahjono (2017)

reflected local cultural or regional identity.

The determination of the sample size refers to the rule of thumb proposed by Hair et al. (2017) which suggests using 5-10 times the number of indicators. Accordingly, the minimum required sample size ranges from 105 to 210 respondents. This approach is applied because the variables in this study cannot be measured directly and therefore require indicators as measurement proxies (Puspita et al., 2024). In line with this, Rudini & Azmi (2023) argue that the number of respondents in a sample should be adjusted to the total number of indicator items included in the questionnaire.

Out of the 116 respondents successfully collected, 105 respondents met the data adequacy criteria and were thus considered valid samples for the SEM-PLS analysis. This number satisfies the minimum sample requirement to ensure the reliability and robustness of model estimation. The table below presents the measurement items for each variable, consisting of operational business performance as the independent variable, while social capital, halal certification ownership, innovation capability, digital transformation, and business location are treated as the dependent variables.

Variable Name	Measurement Items	Sources
Halal Certification Ownership	a. Value added b. Symbol of safety c. Assurance	Septiani & Ridlwan (2020); Widjantyo & Sitohang (2022)
Innovation Capability	a. Product innovation b. Process innovation c. Marketing innovation	AlTaweel & Al-Hawary (2021); Fan et al. (2021); Mendoza-Silva (2021); Migdadi (2022)
Digital Transformation	a. Services b. Strategy c. Customer approach	Shehadeh et al. (2023)
Business Location	a. Pedestrian traffic b. Accessibility c. Number of competitors d. Availability of parking space	Hao et al. (2021); Leuven et al. (2023); Nong & Ha (2021); Sumar'in et al. (2024); Wagistina et al. (2022)

In line with the mixed-methods approach, this study employs interview instruments involving several respondents whose businesses have demonstrated sustainability and growth. This approach is intended to minimize potential bias arising from questionnaire data. Accordingly, interviews serve as a validation mechanism to identify points of convergence and enhance the credibility of the collected data. As previously stated, this study adopts a mixed-methods approach using an exploratory sequential design. In the first phase, qualitative data were analyzed using NVivo 14 through several systematic steps: importing interview transcripts, conducting open coding to generate initial codes, applying axial coding to cluster codes into meaningful categories,

Table 2.

Respondent Demographics

Description	Category	N	%
Gender	Female	61	58%
	Male	44	42%
Age	< 25 years	12	11%
	25-34 years	48	46%

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and performing selective coding to develop core themes. The final stage involved the use of a project map as a visualization tool to facilitate idea exploration and illustrate relationships among data. Subsequently, the quantitative phase was analyzed using SmartPLS 4. This analysis involved the evaluation of the outer model, including convergent validity, discriminant validity, and reliability assessments, as well as the evaluation of the inner model, which encompassed path significance testing through bootstrapping, assessment of R-square values, f-square effect sizes, and Q-square values to determine the model's explanatory power and predictive relevance.

Description	Category	N	%
	35-44 years	30	28%
	45-54 years	15	14%
	> 55 years	-	-
	Elementary School	-	-
	Junior High School	16	15%
Highest Education Level	Senior High School	73	69%
	Diploma	2	2%
	Bachelor's Degree	14	13%
Position in Business	Business owner	5	5%
	Employee	100	95%
	< 1 year	-	-
	1-3 years	-	-
Years of Business Operation	4-6 years	-	-
	7-10 years	1	20%
	> 10 years	4	80%
	< 3 years	9	9%
Length of Employment	3-9 years	28	28%
	> 10 years	63	63%
	1-3 persons	-	-
Number of Employees	4-6 persons	1	2%
	7-10 persons	1	2%
	> 10 persons	3	6%
	Restaurant	-	-
Type of Culinary Business	Food stall	28	27%
	Beverage stall	5	4%
	Snack food business	72	68%
	Sate Ayam H. Tukri Sobikun	21	20%
	Jenang Mirah	31	29%
Business Unit	Jenang Teguh Rahardjo	41	39%
	Dawet Jabung Bu Sumini	5	5%
	Ayam Lodho Jowo Padepokan Bu Sri	7	6%
	Micro	-	-
Business Scale	Small	93	88%
	Medium	12	11%
Business Location	Urban	62	59%

Description	Category	N	%
Motivation to Establish a Halal Culinary Business	Suburban	36	34%
	Rural	7	7%
	Religious belief	2	40%
	Growing halal market potential	1	20%
Monthly Business Income	Customer demand	2	40%
	< IDR 5 million	1	20%
	IDR 5-10 million	1	20%
	IDR 10-20 million	-	-
Access to Halal Certification	IDR 20-50 million	1	20%
	> IDR 50 million	2	40%
	Already certified	3	60%
	In application process	-	-
Participation in Training Programs	Not yet certified	2	40%
	Participated	2	2%
	Not participated	103	98%

The respondents were predominantly female (58%), while male respondents accounted for 42%. In terms of age distribution, most respondents were between 25 and 34 years old (46%), followed by those aged 35-44 years (28%) and 45-54 years (14%). Regarding educational attainment, the majority had completed senior high school (69%), while smaller proportions held a junior high school certificate (15%), a bachelor's degree (13%), or a diploma (2%). Most respondents were employees within the business (95%), with only a small proportion identified as business owners (5%). The length of employment indicates relatively experienced respondents, as 63% had worked for more than ten years. The majority of businesses were classified as small-scale enterprises (88%) and were primarily located in urban areas (59%). Concerning business characteristics, snack food enterprises dominated the sample (68%), followed by food stalls (27%). With respect to halal-related aspects, religious belief and

customer demand emerged as the main motivations for establishing halal culinary businesses. However, only 60% of the observed business units had obtained halal certification, while participation in formal training programs remained very limited (2%).

Result and Discussion

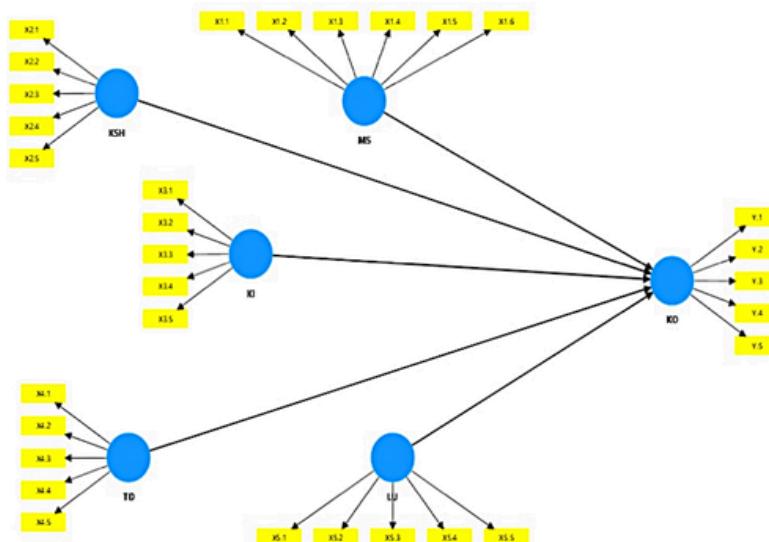
This study successfully conducted in-depth interviews with five key informants to obtain qualitative insights and to provide strong empirical support for the subsequent quantitative analysis. The first stage of the qualitative research employed NVivo software, beginning with open coding. Interview data were collected through face-to-face (offline) interviews and subsequently transcribed using word-processing software (e.g., Microsoft Word 2013). During this stage, raw interview data were examined to identify initial concepts and meaningful units of analysis. The second stage involved axial coding, which focused on

reclassifying and reorganizing the coded data into more structured categories. This process aimed to develop a coherent conceptual framework and to identify relationships among emerging concepts relevant to the research questions. Data were systematically filtered to retain information that was both relevant and significant for addressing the underlying research objectives. At this stage, analytical nodes were developed based on the predefined research hypotheses.

The next stage, selective coding, involved identifying and integrating the core categories or main themes that emerged from the open and axial coding processes. These themes were then connected to the interview findings and visualized through conceptual models to represent the investigated phenomena. Finally, the Project Maps feature in NVivo was utilized to visually illustrate the interactions among data, categories, and themes. This

visualization facilitated a clearer understanding of the structure and progression of the qualitative findings. Overall, the qualitative analysis enabled the study to address the research problems by synthesizing interview responses that shared similar meanings, which are subsequently discussed in the discussion section. In the quantitative phase, a total of 116 questionnaires were collected, of which 105 responses met the data quality and eligibility criteria. The validated data were then analyzed using Structural Equation Modeling (SEM) with SmartPLS 4. The first step in the quantitative analysis involved specifying the research model by defining the relationships between latent variables and their corresponding indicators. Each construct was represented by its measurement indicators, which were illustrated through directional paths connecting latent variables and observed indicators.

Figure.1
Iner Model



To ensure that the indicators and latent variables were appropriate for subsequent analysis, a comprehensive evaluation of the measurement model was conducted prior to hypothesis testing. This step was essential to confirm that the constructs were valid and reliable before examining the interactions among latent variables in the structural model.

Given that the study employed reflective measurement indicators, construct validity and reliability were assessed holistically through convergent validity, discriminant validity, and reliability tests. Convergent validity was evaluated using factor loadings, which represent the correlation between observed indicators and their respective latent constructs. A factor loading threshold of 0.70 or higher was applied, indicating that the indicators adequately represented their underlying constructs. In addition to factor loadings, convergent validity was further supported by the Average Variance Extracted (AVE). An AVE value greater than 0.50 was required, signifying that more than half of the variance in the indicators was explained by the latent construct.

Discriminant validity was assessed to ensure that each construct was empirically distinct and measured unique theoretical concepts. This was examined by analyzing cross-loading

values, whereby each indicator was required to load higher on its associated construct than on other constructs, with loading values exceeding 0.70. To further strengthen the assessment of discriminant validity, the Heterotrait-Monotrait (HTMT) ratio was also considered, with values below 0.85 indicating satisfactory discriminant validity.

Reliability testing was conducted using both Cronbach's Alpha and Composite Reliability (CR). Values exceeding 0.70 for both measures indicated adequate internal consistency and reliability of the measurement instruments. Following the validation of the measurement model, the structural model was evaluated to test the proposed hypotheses and to analyze the predictive relationships among latent variables. Path coefficients were estimated using a bootstrapping procedure to assess their statistical significance. The explanatory power of the model was evaluated using R-square (R^2) values, while effect sizes were assessed using f-square (f^2). Furthermore, predictive relevance was examined using the Stone-Geisser Q-square (Q^2) value, where values greater than zero indicated that the model possessed adequate predictive capability (Ghozali & Latan, 2015; Hair et al., 2017). The results of the validity analysis are presented in Table 3 below.

Table 1.
Discriminant validity test

Variable	Item	Factor Loading	Cross Loading	AVE
Operational Business Performance	Y1	0.766	0.766	0.669
	Y2	0.813	0.813	
	Y4	0.848	0.848	
	Y5	0.842	0.842	
Social Capital	X1.1	0.853	0.853	0.717
	X1.2	0.865	0.865	

Variable	Item	Factor Loading	Cross Loading	AVE
Halal Certification Ownership	X1.3	0.855	0.855	
	X1.4	0.813	0.813	
	X2.2	0.887	0.887	0.702
Innovation Capability	X2.4	0.814	0.814	
	X2.5	0.810	0.810	
Digital Transformation	X3.1	0.760	0.760	0.644
	X3.2	0.816	0.816	
	X3.3	0.853	0.853	
	X3.4	0.831	0.831	
	X3.5	0.749	0.749	
Business Location	X4.1	0.910	0.910	0.773
	X4.2	0.846	0.846	
	X4.4	0.881	0.881	
Business Location	X5.1	0.854	0.854	0.675
	X5.2	0.806	0.806	
	X5.3	0.755	0.755	
	X5.4	0.868	0.868	

Next, reliability testing was conducted to ensure that the measurement instruments demonstrated adequate accuracy, consistency, and precision in measuring the latent constructs. Composite Reliability (CR) and Cronbach's Alpha were employed to assess construct reliability, as recommended by Ghozali and Latan (2015). Composite Reliability (CR) serves as an index of the

internal consistency and reliability of the measurement instrument. A CR value exceeding 0.70 indicates a high level of reliability. Similarly, a construct is considered reliable if its Cronbach's Alpha value is greater than 0.70, reflecting satisfactory internal consistency (Ghozali & Latan, 2015). The results of the reliability tests are presented in Table 4 below.

Table 2.
Reliability test

Nama Variabel	Cronbach Alpha	Rho_A	Composite Reability
Operational Business Performance	0.834	0.837	0.890
Social Capital	0.869	0.872	0.910
Halal Certification Ownership	0.787	0.789	0.876
Innovation Capability	0.861	0.869	0.900
Digital Transformation	0.853	0.860	0.911

Business Location	0.839	0.841	0.892
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Sumber: Data diolah, 2025

Referring to Tables 3 and 4, all constructs in this study have met the established criteria. This indicates that all measurement indicators and research variables are both valid and reliable. The next step involved hypothesis testing. In this study, hypothesis testing was conducted to examine the assumptions or propositions derived from theoretical frameworks and prior empirical evidence. This process aimed to determine the relationships

and effects among the observed variables. The original sample estimate (O) was used to assess the direction of the relationships between variables. In addition, the t-statistic (T) and p-value were employed to evaluate the statistical significance of the relationships. Values approaching +1 indicate a positive relationship, whereas values approaching -1 indicate a negative relationship. The figure below illustrates the results of the hypothesis testing analysis.

Figure 1.
 Outer Model

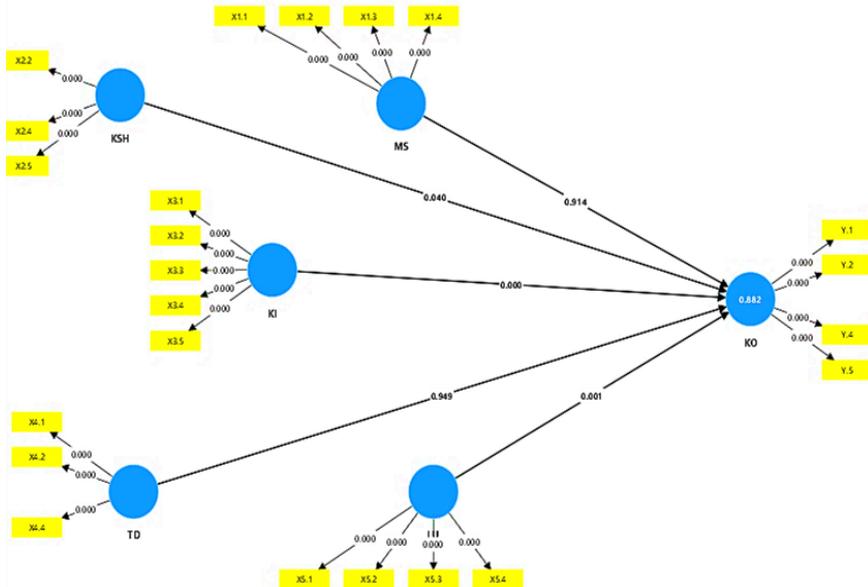


Table 3.
 Structural Model Results

	O	T statistics	P
MS > KO	0.007	0.108	0.914
KSH > KO	0.185	2.054	0.040
KI > KO	0.375	4.101	0.000
TD > KO	0.004	0.063	0.949

LU > KO 0.412 3.465 0.001

Table 5 presents the relationship between social capital and operational performance, with an original sample coefficient (O) of 0.007, a p-value of 0.914 (> 0.05), and a t-statistic of 0.108. Therefore, the hypothesis is

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stated as follows:

H1: Social capital has a positive but insignificant effect on operational performance.

Table 5 also indicates that the relationship between halal certification ownership and operational performance has an original sample coefficient (O) of 0.185, a p-value of 0.040 (< 0.05), and a t-statistic of 2.054. Thus, the hypothesis is stated as follows:
H2: Halal certification ownership has a positive and significant effect on operational performance.

Furthermore, Table 5 reveals that the relationship between innovation capability and operational performance shows an original sample coefficient (O) of 0.375, a t-statistic of 4.101, and a p-value of 0.000 (< 0.05). Accordingly, the hypothesis is stated as follows:

H3: Innovation capability has a positive and significant effect on operational performance.

Table 5 also explains that the relationship between digital transformation and operational performance has an original sample coefficient (O) of 0.004, a t-statistic of 0.063, and a p-value of 0.949 (> 0.05). Therefore, the hypothesis is stated as follows:
H4: Digital transformation has a positive but insignificant effect on operational performance.

Finally, Table 5 demonstrates that the relationship between business location and operational performance has an original sample coefficient (O) of 0.412, a t-statistic of 3.465, and a p-value of 0.001 (< 0.05). Thus, the hypothesis is stated as follows:
H5: Business location has a positive and significant effect on operational performance.

Discussion

Social Capital and Operational Performance

The qualitative findings indicate that social capital provides benefits for business actors; however, its utilization has not been optimal, resulting in no significant improvement in operational performance. Several interview excerpts illustrate this condition. The first respondent emphasized that the business community serves as a platform for sharing information related to raw material sourcing, production techniques, and entrepreneurial experiences. Nevertheless, the infrequent nature of community meetings and time constraints limit the extent to which these benefits translate into daily operational activities.

Meanwhile, the second respondent indicated that relationships with suppliers have generally been well established; however, ineffective communication and mismatches in inventory quantities often hinder production continuity. Issues such as delivery delays, insufficient stock availability, and a lack of timely information from suppliers prevent the business from meeting customer demand optimally. The following excerpts from the interviews further illustrate these findings.

"Yes, the existence of this community is indeed beneficial for the development of my business. For instance, it allows me to seek information on where to obtain raw materials, identify suppliers offering more affordable prices with good quality, and learn appropriate techniques for cooking jenang, among other aspects. However, community activities are not conducted on a regular basis, such as halal bihalal gatherings that take place only once a year. In addition, I have missed two to three meetings due*

to time constraints and scheduling conflicts with other activities.”* (R 1)

“I always maintain good relationships with poultry farmers and raw material suppliers to ensure that I receive healthy, fresh, appropriately aged, and well-sized chickens. However, coordination conducted solely through telephone communication does not always run smoothly. At times, farmers face constraints such as insufficient chicken stock and fail to inform me promptly, and I only become aware of the issue upon delivery. When the number of chickens I receive is lower than required, I am unable to meet customer demand. For instance, on regular days I require a minimum of 50 chickens, while on weekends (Saturday or Sunday) I need approximately 100 to 150 chickens. When stock is insufficient, I am forced to close earlier than usual.” (R 2)

The quantitative regression analysis further supports these qualitative insights. The results show that social capital has a positive but statistically insignificant effect on operational performance ($p = 0.914 > 0.05$). This finding suggests that, statistically, social capital has not yet functioned as a key driver of efficiency, production capacity, or operational smoothness among halal culinary businesses in Ponorogo. The convergence of qualitative interview data and quantitative results demonstrates consistency: social capital exists and offers potential benefits, but it has not been systematically optimized to generate direct operational outcomes. Consequently, H1 is rejected.

From a theoretical perspective, these findings align with the Resource-Based View (RBV), which posits that only resources that are valuable, rare, inimitable, and effectively organized can generate sustainable

competitive advantage. In this context, social capital, although present, has not been strategically managed or integrated into operational processes, thereby limiting its ability to enhance operational performance. This suggests that social capital must be institutionalized through structured coordination mechanisms, regular interactions, and effective communication systems to transform it from a latent resource into a performance-enhancing capability (Barney, 1991). Social capital, which encompasses business networks, business communities, and social norms, constitutes a strategic resource that is difficult for competitors to fully imitate. Social capital supports firms in acquiring knowledge, fostering cooperation, and building relationships with customers and suppliers. However, when social capital is not optimally utilized, its role fails to provide rapid access to information, raw materials, or effective production strategies.

This finding is supported by Ha (2021), who argues that social capital—comprising structural and relational dimensions—has a positive but insignificant relationship with operational performance. The relational dimension of social capital is often associated with trust and reliability among parties. Nevertheless, in the construction sector, relationships tend to be more transactional rather than collaborative. Similarly, from a structural perspective, the utilization of social capital does not directly enhance operational performance. Structural relationships are primarily established between business actors and government institutions, without adequate consideration of internal structural ties, such as relationships between business owners and employees. Consequently, social

ties limited to government institutions alone are insufficient to improve operational performance.

The findings of this study are consistent with those of Purwati et al. (2021), who found that social capital has a positive but insignificant effect on the business performance of culinary MSMEs in Pekanbaru. This insignificance indicates that social capital does not necessarily guarantee immediate improvements in profitability within the culinary and hospitality sectors. In line with the findings of Acquah et al. (2024), the results reveal that the relational dimension of social capital does not have a significant effect on firm performance. The process of creating a friendly and cooperative environment among business partners does not directly lead to improved firm performance. This is because the benefits derived from building relational social capital are insufficient to drive firm profitability as a primary performance indicator; instead, other mechanisms may exert a more direct influence.

Similarly, Junusi & Mubarok (2020) reported that social capital does not have a significant effect on the resilience capacity of Muslim entrepreneurs. These findings suggest that Muslim entrepreneurs need to strengthen their capabilities in building effective relationships, including sales and distribution networks, collaboration with government institutions, banks and financial institutions, trade associations, and fellow retail traders. Conceptually, social capital is believed to enhance entrepreneurial resilience; however, without strategic management and integration, its potential impact may not be fully realized.

Based on the integration of qualitative and

quantitative data, the insignificance of social capital in influencing operational performance can be attributed to several interrelated factors. The frequency of interactions within business communities is relatively low, resulting in inconsistent information exchange that fails to generate a direct impact on day-to-day operational activities. In addition, relationships between business actors and suppliers remain unstable; ineffective communication frequently leads to delays or mismatches in raw material supply, which ultimately disrupt production processes. Moreover, the social networks possessed by business actors tend to be generic and are not strategically oriented toward improving operational efficiency, such as reducing operating costs or accelerating the flow of goods.

Many business owners also rely predominantly on individual capabilities rather than systematically leveraging their networks, causing social capital to remain weakly integrated into operational decision-making processes. These findings indicate that the existing social capital lacks the necessary quality, intensity, and structural configuration to function as a strategic resource capable of exerting a significant influence on the operational performance of halal culinary businesses in Ponorogo.

Halal Certification Ownership and Operational Performance

The interview findings indicate that halal certification ownership has a tangible impact on business operations. Respondents stated that halal certification serves as a strong differentiating factor from competitors and enhances customer trust in product quality and safety. One business owner described

halal certification as a “secret weapon” that makes their products more attractive to consumers. Another respondent explained that the presence of halal certification ensures that all raw materials used have undergone inspection in accordance with Sharia standards, thereby providing consumers with a sense of security.

In addition, other respondents revealed that halal certification contributes to an increase in the number of customers and encourages customer loyalty, as consumers tend to repurchase products that offer guarantees of halal compliance and product safety. The following excerpts from the interviews further illustrate the role of halal certification ownership.

“This halal certification has become a ‘secret weapon’ that differentiates my product from competitors.”(R 2 & 3)

“With halal certification, I ensure that my products comply with established standards, so customers do not need to worry about whether the raw materials used have been inspected and verified as safe and compliant with Sharia regulations or about the production process itself.” (R4 & 1)

“Halal certification has contributed to higher sales compared to other satay vendors who do not possess such certification, as it increases the likelihood of attracting customers. Moreover, customers tend to exhibit stronger loyalty, with many of them returning for repeat purchases.”(R 5)

The quantitative statistical analysis indicates that halal certification ownership has a positive and significant effect on operational

performance, with a significance value of 0.040 (< 0.05). This finding suggests that businesses possessing halal certification tend to exhibit more efficient production processes, more stable demand, and higher levels of sales and operational capacity compared to businesses that have not obtained certification. These quantitative results reinforce the qualitative findings discussed earlier, demonstrating that halal certification contributes meaningfully to the improvement of operational performance among halal culinary businesses in Ponorogo. Accordingly, halal certification ownership is confirmed to have a significant effect on operational performance, and H2 is accepted.

From a theoretical perspective, this finding is consistent with the Resource-Based View (RBV), which posits that competitive advantage arises from resources that are valuable, rare, difficult to imitate, and non-substitutable. In this context, halal certification functions as a strategic intangible resource that enhances firms’ operational capabilities and strengthens their competitive positioning within the halal culinary market (Barney, 1991). Within the framework of the Resource-Based View (RBV), halal certification ownership constitutes a valuable resource because it enables firms to meet the needs of Muslim consumers, enhance customer trust, and expand market segments. Businesses that possess halal certification are categorized as enterprises that comply with high operational and quality standards. This indicates that such firms are capable of obtaining and maintaining halal certification as a competitive advantage over their competitors.

Moreover, the process of acquiring halal certification is highly detailed and rigorous,

making it difficult for many business actors to imitate. As a result, halal certification enhances a firm's uniqueness and attractiveness in the marketplace, thereby strengthening its ability to attract and retain customers.

This argument is supported by Amer (2023), who reports a positive and significant relationship between halal certification ownership and operational performance. Halal certification serves as a firm's competitive advantage and an intangible asset that contributes to business sustainability compared to non-certified firms. Furthermore, halal certification enhances customer trust and expands market reach for local products, both in domestic and export markets. Firms holding halal certification are assured to maintain high product quality by adhering to halal standards and food safety regulations, which in turn leads to improvements in operational efficiency and production capacity. Thus, halal certification plays a critical role in strengthening firms' operational performance.

Similarly, Giyanti et al. (2021) found that halal certification ownership has a significant effect on the operational performance of small and medium-sized enterprises (SMEs). The impact is reflected in improvements across multiple performance indicators, including production volume, production capacity, product quality, sales, net profit, number of customers, customer loyalty, and market share. In line with these findings, Talib et al. (2017) demonstrated a significant influence of halal certification on firms' operational performance, emphasizing that halal certification functions as an internal operational standard that enhances productivity. Moreover, firms possessing halal

certification gain opportunities to participate in international markets with large Muslim populations, thereby increasing customer bases and ultimately improving operational performance.

The integration of qualitative and quantitative findings in this study highlights several key mechanisms through which halal certification ownership significantly influences operational performance. First, halal certification enhances consumer trust, resulting in more stable demand and enabling firms to plan production capacity more effectively. Second, halal certification ensures that raw materials and production processes comply with established standards, leading to greater consistency in product quality and reducing the risk of defects or consumer rejection. Third, halal certification expands market coverage, including access to consumer segments that are particularly sensitive to halal-related issues. Fourth, customer loyalty increases as consumers feel secure and confident in certified products, thereby raising purchase frequency. Collectively, these effects contribute directly to higher production output and improved operational efficiency.

Innovation Capability and Operational Performance

The qualitative interview findings indicate that business actors have implemented several forms of innovation that have a tangible impact on operational efficiency. One business owner explained that production processes which previously relied on traditional stoves and manual labor have now been replaced by machinery, covering stages from ingredient mixing, cooking, and stirring to packaging. This transformation has generated substantial efficiency gains in terms

of both time and labor, while also producing more consistent product quality.

In addition to process innovation, business actors have adopted marketing innovations by leveraging social media platforms such as Instagram, Facebook, and TikTok. This strategy enables more effective promotion without requiring substantial advertising expenditures. By simply uploading product photos or videos, businesses are able to reach a wider consumer base more rapidly. The following interview excerpts illustrate the implementation of innovation in production processes and marketing activities.

"Previously, the production process relied on large pots placed on traditional stoves and manual stirring by human labor. Currently, this approach has been replaced entirely by the use of machinery, covering all stages from ingredient mixing, cooking, and stirring to the packaging process." (R 6)

"Our marketing activities rely on social media platforms such as Instagram, Facebook, and TikTok. This approach allows us to promote products effectively without incurring high advertising costs, simply by posting photos or videos." (R7)

The quantitative analysis demonstrates that innovation capability has a positive and significant effect on operational performance, with a significance value of 0.000 (< 0.05). This finding indicates that the higher the level of innovation capability possessed by business actors, the better the resulting operational performance, reflected in increased productivity, improved product quality, greater time efficiency, and higher demand levels. These quantitative results reinforce the earlier qualitative findings, confirming that innovation constitutes a critical factor that

directly contributes to improvements in operational performance. Accordingly, H3 is accepted.

This result is supported by the Resource-Based View (RBV), which posits that resources characterized as valuable, rare, difficult to imitate, and non-substitutable (VRIN) serve as sources of sustained competitive advantage (Barney, 1991). Innovation capability—encompassing process, product, and marketing innovation—functions as a valuable and rare resource, as it enables firms to create products with added value and clear differentiation from competitors. The innovations implemented by business actors ultimately contribute to reductions in operational costs and improvements in product quality. Moreover, as innovation capability represents an internal firm resource, it enhances the firm's ability to sustain competitive advantage over the long term.

Consistent with the findings of Iranmanesh et al. (2021), innovation capability has a positive and significant effect on the operational performance of manufacturing firms. Innovation capability enables firms to respond more effectively to changes in the business environment, develop superior products, and optimize new market opportunities, thereby directly enhancing operational performance. Similarly, Arshad & Mahmood (2023) reported that product innovation capability exerts a positive and significant influence on operational performance. Firms' ability to innovate allows them to develop products that align with customer preferences, leading to higher customer satisfaction. Moreover, innovation capability functions as a source of competitive advantage by enabling firms to differentiate themselves from competitors, resulting in more innovative products.

In line with these findings Saunila (2014) revealed a positive relationship between innovation capability and operational performance. Firms possessing strong innovation capability are better able to generate new ideas and optimize new products or services, leading to higher product quality, shorter production cycles, and more efficient utilization of resources.

These results are further supported by Kafetzopoulos & Psomas (2015) who found that innovation capability positively influences operational performance. Innovation capability, particularly in the form of product innovation, contributes to minimizing defects and waste, reducing costs, and accelerating production processes, thereby enabling firms to better adapt to customer needs and improve operational effectiveness. Similarly AlTaweel & Al-Hawary (2021) demonstrated that innovation capability has a positive and significant impact on organizational performance. Innovation capability refers to the transformation of ideas into new processes or products and represents a dynamic capability that leverages new knowledge to respond to environmental changes by focusing on existing resources and processes. Firms with strong innovation capability are therefore better positioned to respond swiftly to environmental changes, enhancing organizational performance through the timely introduction of new products. Furthermore, Borah et al. (2022) menyatakan adanya hubungan positif signifikan antara kemampuan inovasi f ound a significant positive relationship between innovation capability and SME performance, highlighting innovation capability as a valuable and difficult-to-imitate resource that provides competitive advantage and improves firm

performance.

Collectively, these findings indicate that innovation capability exerts a significant effect on operational performance through several key mechanisms. First, process innovations such as production automation reduce reliance on manual labor, shorten working time, and enhance product quality consistency, enabling firms to increase production capacity while minimizing operational errors. Second, marketing innovation through social media reduces promotional costs, expands consumer reach, and accelerates information dissemination, resulting in more stable demand growth. Third, innovation enables firms to adapt to changing consumer preferences, maintain competitiveness, and maximize operational effectiveness.

Digital Transformation and Operational Performance

The interview findings indicate that business actors demonstrate an interest in adopting digital transformation; however, its implementation remains suboptimal. One business owner stated that they have not been able to independently provide online delivery services due to limited knowledge of application management and the absence of dedicated management to handle digital operations. In addition, business actors recognize that the use of digital applications requires specific technical skills as well as additional financial resources to employ competent human resources.

These findings suggest that although digitalization has the potential to expand market reach, business actors continue to face significant barriers, including insufficient technical capabilities, limited training

opportunities, and constraints in human resources. Consequently, forms of digital transformation that are expected to support operational performance have not yet been optimally implemented. The following interview excerpts illustrate why digital transformation has an insignificant effect on operational performance.

"We have not yet been able to provide online delivery services independently. In my view, this would require a dedicated management team to be on standby and handle the application, which in turn necessitates additional costs or budget allocation. Another limitation relates to a lack of technical knowledge; therefore, specialized management with relevant expertise is required." (R8)

Consistent with the qualitative findings, the quantitative analysis reveals that digital transformation has a positive but insignificant effect on operational performance, with a significance value of 0.949 (> 0.05). This result indicates that although the direction of the effect is positive, the low level of digital adoption and the limited readiness of business actors prevent digital transformation from making a meaningful contribution to improvements in productivity, time efficiency, or the smoothness of operational processes. The convergence of qualitative and quantitative evidence confirms that digital transformation cannot yet be regarded as a key determinant of operational performance among halal culinary businesses in Ponorogo. Accordingly, H4 is rejected.

From the perspective of the Resource-Based View (RBV), digital transformation represents a form of technology classified as a physical resource (Barney, 1991). Technology can serve

as a source of competitive advantage when it enhances efficiency, improves operational quality, and is difficult for competitors to imitate. However, for technology to function as a VRIN resource, it must be supported by internal capabilities, including technical knowledge, employee training, and an appropriate managerial structure.

In the context of this study, business actors lack sufficient human resource readiness and do not possess specific strategies for technology adoption. As a result, digital transformation does not yet fulfill the VRIN criteria and therefore has not been able to generate a significant operational advantage.

The findings of this study are supported by previous research conducted by Susanti et al. (2023), which reported that digital transformation has a positive but insignificant relationship with firm performance. Their study emphasized that merely downloading digital applications is insufficient to improve performance; firms must also possess the capability to operate and further develop technology in order to achieve meaningful digital change. Moreover, digital transformation was not identified as a primary driver of performance improvement. Similarly, Teng et al. (2022) found that digital transformation does not have a significant effect on financial performance. This insignificance is largely attributed to the relatively high costs associated with digital transformation initiatives, as well as firms' difficulties in recruiting employees with adequate digital competencies. As a result, digital transformation does not necessarily translate into performance gains.

Together, these studies suggest that the insignificant effect of digital transformation

can be explained by several key factors. First, business actors face knowledge barriers that prevent them from operating digital applications effectively, limiting the potential of technology to accelerate service delivery, expand market reach, or enhance efficiency. Second, digital transformation requires specialized human resources with technical expertise, which many small businesses are unable to afford due to financial constraints. Third, digital investment costs are perceived as relatively high and disproportionate to the benefits obtained, particularly for small enterprises with limited cash flow. Fourth, managerial unpreparedness makes it difficult for business actors to design and implement effective digital strategies, resulting in underutilized technologies that fail to generate tangible operational improvements.

Business Location and Operational Performance

The interview findings reveal that business location has a direct influence on operational efficiency. Business actors reported that locations situated in busy areas and along main roads facilitate the delivery of raw materials. The first respondent explained that raw materials can be obtained more quickly due to close proximity, without requiring additional transportation costs, allowing production to commence promptly, particularly when sudden orders arise.

Similarly, the second respondent stated that operating along a two-way main road makes it easier for delivery trucks to locate the business premises, thereby shortening delivery time and avoiding complex or inefficient routes. These qualitative findings indicate that a strategic business location contributes to smoother distribution processes, more stable supply

chains, reduced transportation costs, and shorter production lead times, all of which are critical indicators of operational performance. The following interview excerpts further demonstrate that business location significantly influences operational performance.

“The business location supports the smooth distribution of raw materials, as no transportation costs are required. Because raw materials can be obtained without long-distance travel, production can be carried out immediately, particularly when sudden orders arise.” (R9)

“The raw materials required for our products, such as flour, sugar, and coconut, can be delivered easily and quickly due to our location along a main two-way road. As a result, delivery trucks do not need to search for the location or make detours, which would otherwise prolong delivery times.” (R10)

The quantitative analysis indicates that business location has a positive and significant effect on operational performance, with a significance value of 0.001 (< 0.05). This finding suggests that the more strategic a business location is, the better its operational performance, particularly in terms of production efficiency, customer volume, and sales levels. The integration of qualitative and quantitative results demonstrates consistent evidence that an appropriate business location makes a tangible contribution to enhancing productivity and ensuring smoother operational processes among halal culinary businesses in Ponorogo. Accordingly, H5 is accepted.

From the perspective of the Resource-Based View (RBV), business location falls within the

category of physical resources that can generate competitive advantage when they satisfy the VRIN criteria. A strategic location is valuable because it provides easier access to raw materials and customers. Certain locations are also rare, as not all business actors are able to secure sites with similar strategic advantages. Moreover, location is difficult to imitate due to its geographic nature and uniqueness to each firm. Finally, a strategic business location is not easily substitutable by other resources, reinforcing its role as a source of sustained competitive advantage.

These findings are supported by Ringo & Elias (2024), who reported that business location has a significant effect on restaurant performance. Restaurants located in areas with high visibility and easy accessibility tend to attract a larger number of customers. A strategic location increases customer traffic, which ultimately contributes to superior performance. Moreover, a favorable location can function as an effective marketing tool by enhancing brand exposure and customer awareness.

Similarly, Khusaini et al. (2022) found that business location contributes positively and significantly to the performance of small and medium-sized enterprises (SMEs). A location that is easily accessible to consumers plays a crucial role in determining firm performance. Location selection represents a strategic decision to position a business in an area that is reachable from multiple directions, situated within a safe environment, and close to essential resources.

Conclusion

The findings of this study indicate that social

capital has a positive but insignificant effect on operational performance, suggesting that social relationships among business actors remain largely informal and insufficiently organized, thereby limiting their contribution to operational improvement. In contrast, halal certification ownership and innovation capability are found to have positive and significant effects on operational performance. Halal certification strengthens consumer trust, enhances business reputation, and improves competitive positioning. Meanwhile, innovation capability in products, processes, and marketing enables business actors to adapt to dynamic market conditions and continuously evolving consumer preferences. Digital transformation exhibits a positive but insignificant effect on operational performance, primarily due to limited technology utilization by business actors, both in terms of digital capabilities and supporting infrastructure. Conversely, business location demonstrates a positive and significant effect, underscoring the critical role of strategic location in determining consumer accessibility, distribution efficiency, and operational cost effectiveness, all of which directly influence business performance.

This study has several limitations. First, the use of cross-sectional quantitative data does not capture changes in business behavior and performance dynamics over time. Second, the scope of variables is limited and does not include other potentially relevant factors such as digital literacy, market orientation, or the role of government support in the development of halal culinary businesses. From a theoretical perspective, this study enriches the understanding of factors influencing operational performance within the context of locally rooted halal culinary

enterprises. From a practical standpoint, the findings provide valuable insights for business actors to strengthen innovation capability and halal certification compliance. Furthermore, the results offer important implications for local governments, highlighting the need to design digital capacity-building programs and foster more structured social networks to enhance the competitiveness of the halal culinary sector in Ponorogo.

Reccomendation

Halal culinary business actors in Ponorogo Regency need to optimize social capital by developing more structured networks and strengthening communication with suppliers, employees, and customers. The renewal of halal certification should be conducted regularly, as it not only ensures compliance with Sharia standards but also serves as a strategic business tool that enhances consumer trust and expands market reach. Business actors are also encouraged to strengthen their innovation capabilities in products, processes, and marketing, while gradually adopting digital transformation to improve operational efficiency and business reach. In selecting business locations, entrepreneurs should consider consumer convenience, including cleanliness, parking availability, and supporting facilities such as toilets and prayer rooms (*musholla*). Local governments are expected to provide digital transformation training, halal certification assistance, as well as infrastructure support and improved access to strategic business locations for entrepreneurs. Future research is recommended to expand the scope of analysis and incorporate additional variables such as managerial factors, regulatory frameworks, or local cultural influences to achieve a more

comprehensive understanding of the operational performance of halal culinary businesses.

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