

## IMPACT OF HALAL STANDARDS ON LOGISTIC EMPLOYEE PERFORMANCE

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**Abstract:** Halal market size was predicted to grow to 3.2 Trillion dollars in 2024. Many countries, including Indonesia, have a strategic plan for this huge market opportunity. The Indonesian government asked organisations that produce Halal products to adopt Halal Standards is compulsory. Still, there are many internal factors that organisations need to consider to begin the implementation. One of these factors is related to the diverse workplace and the performance of an employee. This research aims to understand and analyse the effect of Halal Standards and performance management on employee performance with work motivation as an intervening variable and Islamic work ethic as moderator. The data collection was captured by distributing a questionnaire to Third Party Logistic Halal certified floor staff employees in two centres of Halal Supply Chain in Indonesia located in West and East Java. These Halal centres are diverse religious workplaces. The sample determination is done through Random Sampling, and the analysis technique uses Partial Least Square (PLS). The results showed that Halal Standards, work motivation and performance management have a significant impact on Employees Performance. Work motivation mediated Halal Standards and performance management on employee performance, but Islamic work ethic is not a moderator between work motivation and employee performance. The results are also interesting because, even though Halal Standards are Islamic rule, there is no significant issue to adopt it on 3PL with a diverse religious workplace.

### 1 Introduction

Halal is an Islamic rule that needs to be followed by a 1.9 billion Muslim world population. Halal means permitted. All Halal products and services will be allowed for Muslims to consume. The halal market has grown significantly in the last decade. The global Halal industry is estimated to be worth around USD 3.2 Trillion in the next two years. It grows annually around 20 percent or about USD 560 billion a year. It will be a great opportunity for the organisation to serve this market. Islamic work ethic will be related with Halal because the implementation of Islamic rule or standards should be for the whole process in the organisation, including ethical work. It is called Kaffah, the Arabic word for whole or totally, to describe Islamic practice in each activity [1]. On the other side, a modern organisation that adopt diversity gains many benefits, such as performance improvement and competitive advantages [2].

Halal status is not only because of using Halal raw material but also during production and logistic process, the product is free from Non-Halal items contamination,

and it means that status of a product can be changed from Halal to Non-Halal (Haram) if the logistic process does not comply with Halal Standards. There are many differences between Halal logistics and conventional logistics. It means that when conventional 3PL decided to implement Halal Standards, they need to change some business processes and also allocate a budget for employee Halal training [3], need proper training to avoid the struggle of operation [4], the cost is higher than conventional logistics [5]. Still, the market opportunity is also very big, not only for the Muslim population who willing to consume Halal products related to religious believe, but also Non-Muslim who are interested in consuming Halal products for various reasons, such as quality [6], food safety [7], Hygiene and cleanliness [6], environmental friendly [7] and animal welfare [8].

It also needs to consider that a diverse workforce may have an issue with religious needs. [9] argued that religion may become a future diversity issue in the company. Besides the diverse workplace, as an organisation, 3PL Halal logistics also need to consider internal factors, such

as employee motivation and performance management. Work motivation will be critical to evaluate because Halal Standards need employee involvement [10]. Also, due to the high-risk responsibility to comply with tight standards, like Halal and responsibility to achieve performance as a service company, it may impact emotional exhaustion [11]. [12] informed that implementation of Halal Standards makes employees unable to work optimally, but other researchers found that standards have a positive impact on employee productivity and job outcomes. [13] stated that Halal Standards of food could improve job outcomes in sharia hotels.

Based on the above review, we have below research question:

1. Does Halal Standard and performance management have a significant and positive impact on employee performance in the 3PL religion diversity workplace?
2. How is the effect of work motivation on the performance of an employee in 3PL religion diverse workplace?
3. What is the role of Islamic work ethic in the employee's work motivation in a 3PL religion diverse workplace?

## 2 Literature review

### 2.1 Halal Standards

Halal Standards may be various in different countries, but basically, it will need to follow the Holy Quran and Hadith of the Prophet Muhammad. The Indonesian government issued a law and regulation of Halal No 33 of 2014 that stated of compulsory all Halal products must have Halal Certification, except for Non-Halal products. Effective September 2019, this regulation started to be applied to a food product. The scope of regulatory Halal Standards in Indonesia consists of eleven criteria [14], including (a) Halal Policy (b) Halal Management (c) Training and education (d) Halal Raw Material (e) Halal Product (f) Halal Production Facilities (g) Written Critical Activities (h) Tracking Capability (i) Handling Non-Halal Items (j) Internal Audit and (k) Management feedback.

There is limited previous research for the topic of Halal Standards impact on employee performance, but much prior research about other types of standards had been done to evaluate its impact on performance, such as [15] found that business process standardisation improved process time, cost-saving and quality. [16] found a positive impact of 5S standardisation on employee and organisation performance. [17] found that green standardisation impacts performance. Based on those previous research, we can find many positive effects of standardisation on performance.

### 2.2 Performance Management

3PL Halal logistic, as a service company, has an agreed target performance contract with the customer. They will

become a part of the whole customer process of the product lifecycle from manufacturing to end customers. Performance management includes training, performance appraisal, recognition, salary or benefit and performance dialogue or management feedback. Performance management goal to ensure the organisation can achieve its objective. For 3PL, it means to meet the logistic contract performance. There are many reasons why 3PL Halal certified need performance management, for example, to manage proper training, ensure accuracy and objective performance measurement and minimised turnover ratio. Halal logistics need a specific skill that should be trained properly. According to [18], Halal training faced many issues, such as various different types of training programs and a lack of structured training programs. The high turnover rate also creates issues and challenges for the organisation. It means that the organisation should allocate costs for training a new hire. Organisation also needs to provide objective, fair and transference performance appraisal to motivate employees, therefore managing performance management is crucial for employee performance, according to [19] human resources effected significantly to productivity performance. The human factor aspect is crucial to consider in the design of logistic and production systems [20,21].

### 2.3 Motivation

One of the main duties of a manager is to motivate his employees. Unmotivated employees will have lower productivity and below the target of performance. Herzberg's theory is the best method to predict job satisfaction [22]. Herzberg proposed the Two-factor Theory of Motivation, the motive factor that creates employee satisfaction and the hygiene factors that may create job dissatisfaction [23]. In 3PL Halal logistics, there are many hygiene factors that need to be managed properly by the manager, such as company Halal policy and working conditional, which is different from conventional logistics, but there are also motive factors, like the work itself, responsibility and growth. The employee in this business will work to produce Halal products that can be categorised as high quality, clean, and safe [24] will make employees proud and also an opportunity for growth that they can advance their careers with valuable Halal skills and knowledge.

Previous research topic in motivation on employee performance proved that motivation in the form of rewards has a positive effect on performance [25], positive affect on employee productivity [26] and motivation also reduce turnover intention [27].

### 2.4 Islamic Work Ethic

Ali developed the Islamic Work Ethic scale and tested it on 150 Arab students for reliability and validity [28]. These measures have been used by many researchers, such as [29], who used it to analyse the relationship between computer work ethic and job satisfaction, [30] for

organisational culture and work environment, [31] for innovation capability and [32] for its impact on job outcome. [33] found that Islamic work ethic moderated job satisfaction on accountant performance.

**2.5 Employee Performance**

Logistic activities, especially for floor staff, consist of motion and timely activities. Taylor introduced the time and motion measured method to calculate performance [34]. Using this method, employee performance will be calculated by comparing the target time to do a task with the actual time an employee can achieve. This time and motion method is now common practice in many largest companies [35].

As a service provider, 3PL Halal logistic needs to ensure each employee work based on Halal Standards, it means that performance below or above the target should be investigated for possible issue in quality and safety. If staff is working by following the procedure, then the target should be similar to others who also follow the same procedure. Bell Curve or forced ranking is the method for performance measurement that can show performance based on the normal distribution curve [36]. Ideally, most employees will be in the middle of the normal distribution curve.

Based on the above discussion, we proposed below hypothesis:

- H1: Halal Standards affected positive and significantly on employee performance
- H2: Performance Management affected positive and significantly on employee performance
- H3: Work Motivation effected positive and significantly on employee performance
- H4: Work Motivation mediated Halal Standards on employee performance
- H5: Work Motivation mediated performance management on employee performance
- H6: Islamic Work Ethic moderated work motivation on employee performance

**3 Methodology**

**3.1 Samples**

Sample of this research was collected from 163-floor staff employees of 3PL Halal certified logistics in two centres of industrial area in Jababeka, Cikarang, West Java, Indonesia and Rungkut, Surabaya, East Java Indonesia. These organisations are diverse workplaces in religion, gender and race:

**3.2 Method of Analysis**

Analysis of the data used in this research was inferential statistical analysis, namely Partial Least Square Structural Equation Model, referred to as PLS-SEM. This analysis was operated through the Partial Least Square (PLS) software, version 3.3.3 of Smart-PLS. Figure 1 below is a research framework with Hypotheses in each path.

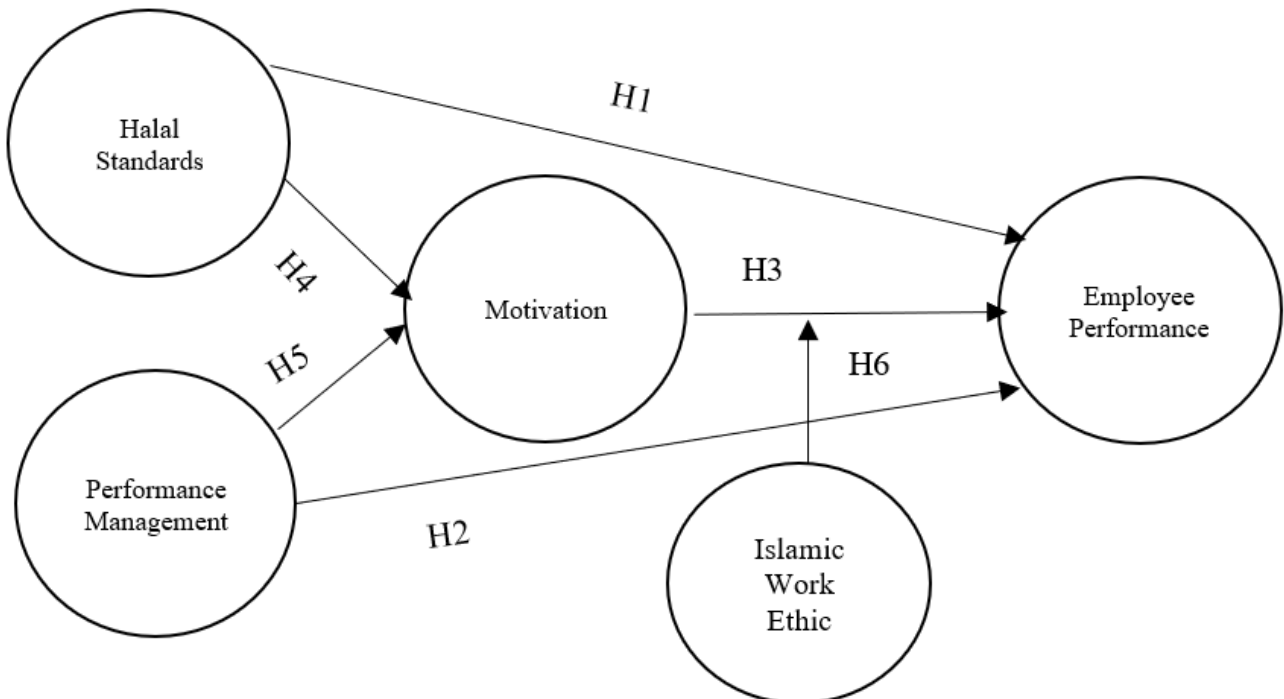


Figure 1 Research Framework [authors]

Partial Least Square-Structural Equation Modelling (PLS-SEM) has been increasingly used by many business researchers to the explained variance of the dependent construct [39]. Data was tested with outer and inner model testing to ensure the quality of data before being processed for hypotheses testing. The outer model tests are validity and reliability test. Average variance Extracted or AVE was used for convergent validity testing that can be achieved if all variable in the model is significant statistically. The equation of AVE as below

$$\sum \kappa^2 / n \tag{1}$$

where  $K$  is the loading factor for each item and  $n$  is the number of items in the model.

Reliability testing was using Cronbach's Alpha and Composite reliability values. The aim of this reliability testing is to ensure that items are consistent to measure across time. Below is the Cronbach Alpha equation

$$\alpha = (k \times c^-) / v^- + (k-1) c^- \tag{2}$$

where  $k$  is the number of scale items,  $c^-$  is average covariances between all items, and  $v^-$  is average each items variance

## 4 Result and discussion

### 4.1 Validity Test

According to [37], the indicator is valid if the loading factor is 0.70 or higher. Validity testing for the model uses minimum Average Variance Extracted (AVE) with an accepted value is 0.5 [38,39]. Testing using the convergent validity of the measurement model with a reflective indicator is assessed based on the correlation between the item score/component score with the construct score calculated by SEM-PLS. [39] argues that an indicator can be said to have good validity if the loading factor value is greater than 0.70, while the loading factor of 0.50 to 0.60 can be considered sufficient. The validity test calculations showed in the following Table 1. Based on the value in Table 1, all variables have an AVE value of >0.5. The result has met the criteria of convergent validity so that all indicators are valid and can be used for further analysis.

Table 1 Result of Validity Testing

No	Variable	Average Variance Extracted (AVE)
1	Islamic Work Ethic	0.784
2	Employee Performance	0.640
3	Performance Management	0.758
4	Work Motivation	0.548
5	Halal Standards	0.563

Source: authors computation

### 4.2 Reliability Test

Reliability testing uses Cronbach alpha and Composite reliability. [39] argued that Cronbach alpha value should be above 0.7, composite reliability value should be 0.6 until 0.7 [39]. Table 2 below shows Cronbach's alpha and composite reliability, all variables in both parameters have values above 0.7. Thus we can conclude that all variables are reliable.

Table 2 Result of Reliability Testing

No	Variable	Cronbach's Alpha	Composite Reliability
1	Islamic Work Ethic	0.986	0.986
2	Employee Performance	0.720	0.842
3	Performance Management	0.920	0.940
4	Work Motivation	0.924	0.935
5	Halal Standards	0.934	0.943

Source: authors computation

### 4.3 Data analysis results: direct effect testing and indirect/mediation effects testing

Reliability testing uses Cronbach alpha and Composite reliability. [39] argued that Cronbach alpha value should be above 0.7. According to [39] composite reliability value should be 0.6 until 0.7. Table 2 below shows Cronbach's alpha and composite reliability. All variables in both parameters have values above 0.7. Thus we can conclude that all variables are reliable.

Table 3. Below is the result of direct effect testing, where IWE is Islamic Work Ethic, PM is Performance Management, HS is Halal Standards, MV is Work Motivation, and EP is Employee Performance.

Table 4. Below is the result of indirect effect testing for mediating the impact of motivation in the relationship between performance management and Halal Standards with employee performance.



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*Table 3 Result of Direct Effect Testing*

	Original Sample (O)	Sample Mean (M)	Standard Deviation	T Statistics	P Values
IWE -> EP	-0.094	-0.101	0.099	0.949	0.343
PM -> EP	0.298	0.306	0.096	3.112	0.002
PM -> MV	0.179	0.178	0.071	2.531	0.012
MV -> EP	0.489	0.483	0.085	5.760	0.000
Moderating Effect 1 -> EP	0.045	0.046	0.056	0.797	0.426
HS -> EP	0.192	0.198	0.097	1.975	0.049
HS -> MV	0.539	0.546	0.065	8.233	0.000

Source: authors computation

*Table 4 Result of Indirect Effect*

	Original Sample (O)	Sample Mean (M)	Standard Deviation	T Statistics	P Values
PM -> MV -> EP	0.087	0.087	0.038	2.289	0.023
HS -> MV -> EP	0.263	0.263	0.053	5.002	0.000

Source: authors computation

Based on the value of path coefficient and *T* statistics, the effect is significant if the path coefficient is more than 0.1 and *T* statistics is more than 1.96 with a *p* value less than 0.05 [40]. Hypotheses H1 was accepted, Halal Standards has a positive and significant effect on Employee Performance of 3PL Halal Certified Logistic. It means that organisations can gain better employee performance with Halal Standards implementation. This result is similar to other studies that analyse employee performance improvement after implementation of quality, OHSC and 5S standards [16,41,42]. However, this study contributes to the currently limited literature about Halal Standards impact on employee performance. It also can be concluded that Halal Standards are similar to other standards in terms of reducing the complexity of working, variation and result in deviation.

Hypotheses H2 was accepted, Performance Management has a positive and significant effect on employee performance. It means that an organisation needs performance management to support employees for better performance. All functions of performance management, such as training, performance appraisal, recognition, and salary and management feedback, will be needed to manage employee performance. This result is similar to other previous research from [43,44].

Hypotheses H3 was accepted. Work Motivation has a positive and significant effect on employee performance. It means that employees need the motivation to improve their working performance. Motive factors, particularly the work itself, increase the motivation of employees to do their best in their job. Doing an honoured job to provide Halal product make employee proud. On the other side, a well manages working condition as the impact of

standardisation also improve employee motivation. This result is similar to previous research, for example, research from [46] that found salary increase, overtime allowance and pay holiday are motivational tools for employees in manufacturing. This result also is aligned with previous research for Herzberg two motivation factors that motive factors can increase job satisfaction.

Hypotheses H4 and H5 were accepted. Work motivation is also an intervening variable for Halal Standards and performance management on employee performance. This finding is aligned with many previous types of research about work motivation as the intervening variable for various variables on the performance and productivity of employees [47].

Hypotheses H5 was not accepted. Islamic work ethic does not moderate motivation on employee performance. This result is different from the previous study from [33] who analyse Islamic work ethic as a moderator of job satisfaction on employee performance. The difference in these findings is likely due to the differences in job characteristics of respondents. In this study, the participants are blue collar employees who need to follow job procedures and supervisors' instructions. The previous study's participants are accountants, white-collar employees that have different job characteristics.

## 5 Conclusions

Based on data analysis, several conclusion of this study as follow below:

1. Halal Standards has a significant and positive impact on employee performance, and the original sample value is 0.192, confirmed that the path is positive. It

means that the adoption of standards and consistency to comply with criteria can improve the performance of the employee.

2. Performance Management has a significant and positive impact on employee performance. The original sample value is 0.298, the confirmed path is positive. This means that proper performance management implementation, including accuracy, transference and objectivity of performance appraisal, will help the employee to perform better.
3. Work Motivation has a significant and positive impact on employee performance. The original sample value is 0.489, the confirmed path is positive, and the value is more than the original sample of Halal Standards and performance management. This result concluded motivation is crucial for a leader to improve the performance of the employee, particularly in the working environment that runs a tight standard, like Halal. The leader can facilitate improvement in motive factors and managed hygiene factors to ensure employees are always in high motivation.
4. Work Motivation mediated Halal Standards on employee performance. Based on the indirect effect result, T Statistic is 5.002. It means that Halal Standards adoption increase the motivation of the employee and its impact on better performance. Complying with all standard criteria increases staff work motivation, for example, regular internal audits and production facilities. The implementation of this standard makes the working environment always clean, manageable and tidy because organisations need to maintain a working environment with no waste to ensure the product is free from contamination of non-halal material. This clean, tidy and well-managed working environment also reduces the hygiene factor in motivation theory which is a factor that can decrease employee morale.
5. Work Motivation mediated Performance Management on employee performance. Based on the indirect effect result, T Statistic is 2.289. It means that proper performance management impacts work motivation and makes an employee perform better in their job. Performance management, including training and accuracy in performance measurement, will increase employee motivation. Proper training will increase employee skill in Halal logistics, and accuracy of performance measurement will drive the motivation of employees because they know that their performance will be calculated fairly and objective.
6. Islamic work ethic is not a moderator between work motivation and employee performance. Based on the T statistic value indirect effect is below 1.96, which confirms that not significant. This result is different from other studies, most likely because the population of this study is blue-collar employees, while the previous study is mostly white-collar staff. Islamic work ethic should be scale based on job characteristics.

Compared with the previous study, one indicator that has a gap is the creativity scale, which is not a dominant factor for employees who need to follow standards carefully, like Halal Standards. Employee's creativity might have risk if they did their job in a different way with the criteria of the standard. Therefore consistency to follow the work procedure is crucial for this kind of business.

7. This study also confirms that there is no significant issue for a diverse religious organisation to implement Halal Standards. The organisation is still able to perform better. Therefore organisation does not need to change the diversity of its staff.

Based on the conclusion above, the suggestion that the author can make is that third-party logistics should consider implementing Halal Standards because there is a huge market opportunity for this market. Internally company also gain benefits from the improvement of employee performance.

## 6 Implication

Some practical and theoretical implications for this study as below

1. Halal Standards adoption has multiple advantages, but to gain the benefit of this standard adoption, organisations need to ensure all related parties in the organisation follow the standard criteria properly.
2. The organisation should implement information technology as a tool to ensure the proper implementation of performance management. Performance appraisal as part of performance management needs to be accurate, transference and objective to help the employee to perform better.
3. Intrinsic motivation is crucial to keep the employee in high motivation. In order to maintain that intrinsic motivation, leaders should understand how to motivate employees. This study affirmed that employees are proud to work in an organisation that provides Halal products to customers. Therefore leaders should use this motive factor to improve the working spirit of the employee.
4. It is suggested to implement Islamic Work Ethics based on the job characteristic.

## 7 Limitation

Similar to others, this study also has a limitation, particularly the object of this research is 3PL Halal Certified logistics only. It will be interesting to study also other logistics types, for example, in-house logistics, so we will have the comprehensive result for the impact of Halal Standards on logistic employee performance.

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**Review process**

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