

## Social Dynamics of Halal Certification Adoption: Evidence from Indonesian SMEs

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### ABSTRACT

This study aims to examine how small and medium enterprises (SMEs) adopt halal certification in Indonesia by emphasizing the role of social dynamics in policy implementation. Design methodology approach. This study employs a qualitative approach using in-depth interviews and thematic analysis. Findings. The findings reveal that informal mechanisms, including word-of-mouth communication, social networks, and community interactions, play a more significant role than formal policy socialization conducted by Badan Penyelenggara Jaminan Produk Halal (BPJPH). Research limitations/implications. This study is limited to a qualitative context but provides analytical insights applicable to similar developing countries. Practical implications. Policymakers should leverage community-based approaches and informal networks to enhance policy effectiveness. Originality/value. This study extends policy implementation theory by demonstrating that policy processes are socially embedded rather than purely administrative.

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## **INTRODUCTION**

The global halal market has experienced rapid growth over the past decade, with Muslim consumer spending on halal food and lifestyle sectors estimated to exceed USD 2 trillion and projected to continue expanding significantly in the coming years (DinarStandard, 2023; Thomson Reuters, 2018). This growth reflects not only increasing demand from Muslim populations but also broader recognition of halal as a marker of quality, safety, and ethical compliance (Wilson, 2014; Ali et al., 2021). As a result, halal certification has become a critical policy instrument in many countries seeking to strengthen their participation in the global halal economy (Khan et al., 2022).

In Indonesia the country with the largest Muslim population in the world halal certification is institutionalized through Badan Penyelenggara Jaminan Produk Halal (BPJPH) as part of a broader regulatory framework aimed at ensuring product compliance and enhancing consumer trust (Ahyani et al., 2021). For small and medium enterprises (SMEs), halal certification is not only a legal requirement but also a strategic necessity to remain competitive in an increasingly integrated market (Ali et al., 2021; Rahman et al., 2020).

However, despite the strong institutional framework and growing market demand, the adoption of halal certification among SMEs remains uneven and relatively limited. This creates a critical paradox: while the global halal market is expanding rapidly, the very actors expected to benefit from it SMEs face persistent barriers to participation. Existing studies have largely attributed this gap to formal factors such as regulatory complexity, limited resources, and lack of awareness (Ali et al., 2021; Khan et al., 2022; Howlett, 2019).

Yet, these explanations reveal an important limitation. They assume that policy implementation operates primarily through formal administrative mechanisms, thereby overlooking how policies actually function in everyday practice. In reality, SMEs do not operate in isolation within bureaucratic systems; rather, they are embedded within social environments where decisions are shaped by interpersonal communication, networks, and community norms (Putnam, 2000; Klijn and Koppenjan, 2016). These social interactions influence not only how information is received but also how it is interpreted and translated into action.

In such contexts, the effectiveness of policy implementation cannot be fully understood without considering the role of informal social dynamics. Information about halal certification is often disseminated through peer-to-peer communication rather than official channels, while decisions to adopt certification are frequently influenced by observations of other businesses within the same network (Rogers, 2003; Cheung and Thadani, 2012). This suggests that policy implementation is not a linear process driven solely by institutional design, but a relational process mediated by trust, social influence, and shared experiences (Peters, 2015).

This raises a fundamental question: why do formal policy mechanisms fail to effectively translate into widespread adoption among SMEs, despite strong institutional support and growing market incentives? More importantly, what role do informal social processes play in bridging or widening this gap between policy design and implementation?

Addressing these questions requires a shift from conventional top-down perspectives toward a more socially grounded understanding of policy processes. Unlike existing studies that emphasize regulatory structures and institutional capacity, this study argues that policy implementation is primarily driven by informal social dynamics, including word-of-mouth communication, social networks, and community influence (Arndt, 1967; Putnam, 2000; Rogers, 2003).

This study therefore conceptualizes policy implementation as a socially embedded process, where outcomes are co-produced through the interaction between formal institutions and informal social structures, offering a more realistic and context-sensitive explanation of policy implementation in SME contexts.

## **LITERATURE REVIEW**

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## **METHODOLOGY**

This study adopts a qualitative research design to explore the social dynamics underlying the adoption of halal certification among small and medium enterprises (SMEs). A qualitative approach is particularly appropriate for this study, as it enables an in-depth understanding of how policy implementation is experienced, interpreted, and enacted within real-world social contexts (Creswell, 2014).

Data were collected through semi-structured, in-depth interviews with SME actors who have experience with halal certification processes. The selection of informants was conducted using purposive sampling to ensure that participants possessed relevant knowledge and direct experience related to the research topic. This approach allows for the collection of rich, context-specific data that captures the complexity of social interactions influencing policy adoption.

The data analysis followed a rigorous qualitative procedure based on thematic analysis (Braun and Clarke, 2006). The process involved several stages: (1) transcription of interview data, (2) open coding to identify initial patterns, (3) categorization of codes into broader themes, and (4) interpretative analysis to develop theoretical insights. This iterative and reflexive process ensured analytical consistency and depth in interpreting the findings.

To enhance the credibility and trustworthiness of the analysis, the study applied key qualitative validation strategies, including data triangulation, iterative coding, and careful interpretation of participant narratives. These procedures help minimize researcher bias and strengthen the reliability of the findings.

This study focuses on analytical generalization, meaning that the findings are intended to contribute to theory development rather than statistical generalization (Creswell, 2014). As such, the insights generated are theoretically transferable to similar contexts, particularly in developing countries where informal social structures play a significant role in shaping policy implementation.

## **RESEARCH RESULT AND DISCUSSION**

### ***Informal Communication vs Formal Policy Communication***

The findings indicate that informal communication plays a more dominant role than formal policy dissemination in shaping SME understanding of halal certification. Many participants reported that their initial awareness of halal certification did not originate from official government channels but rather from interpersonal interactions within their social environment.

*“Awalnya saya tahu dari teman, bukan dari sosialisasi pemerintah. Dia bilang sekarang usaha harus punya sertifikat halal.”* (Informan 1)

This statement reveals a critical gap between formal policy communication strategies and the actual pathways through which information is received and internalized by SMEs. The reliance on peer-to-peer communication suggests that trust-based relationships function as the primary conduit for information exchange, while institutional channels are perceived as less accessible or less relevant. From an interpretive perspective, this indicates that SMEs do not passively receive policy messages but actively filter and validate information through their social networks. The credibility of information is therefore not determined by its institutional source, but by the level of trust embedded in the relationship between the sender and the receiver.

This finding challenges the assumption within classical policy implementation theory that communication is effectively transmitted through formal bureaucratic channels (Edward, 1980). In practice, the communication process is neither linear nor fully controlled by policy actors. Instead, it is socially mediated, dynamic, and contingent upon relational trust. From a theoretical standpoint, this aligns with word-of-mouth theory (Arndt, 1967), which emphasizes that informal communication is perceived as more credible and persuasive than institutional messaging. It also exposes a key limitation in the Shannon-Weaver communication model, which conceptualizes communication

as a linear transmission process and does not adequately account for the role of social context, interpretation, and trust in shaping how messages are received.

### ***Social Networks as Drivers of Policy Adoption***

The study further reveals that SME decisions to adopt halal certification are strongly influenced by their social networks. Rather than being driven by purely rational or individual considerations, adoption emerges as a socially embedded process shaped by interactions, observations, and collective experiences within peer groups.

*“Kalau lihat teman-teman sudah banyak yang buat, saya jadi ikut juga. Takut ketinggalan dan pelanggan pindah ke mereka.”* (Informan 2)

This statement reflects a dual dynamic of social imitation and perceived competitive pressure, where SMEs align their decisions not only to conform to emerging norms but also to avoid potential economic disadvantage. The fear of being “left behind” indicates that adoption is influenced by relational positioning within a network rather than by formal policy awareness alone.

From an analytical perspective, this suggests that decision-making among SMEs is not strictly based on cost-benefit calculations, but is instead shaped by social validation mechanisms. SMEs tend to interpret the actions of their peers as signals of legitimacy and viability, thereby reducing uncertainty associated with policy adoption.

This finding is consistent with diffusion of innovation theory (Rogers, 2003), which emphasizes that adoption is influenced by social systems and communication networks. However, the empirical evidence in this study suggests that diffusion is not merely a gradual spread of innovation, but is accelerated by peer pressure and normative expectations within tightly connected networks.

Furthermore, this finding reinforces the concept of social capital (Putnam, 2000), where trust and network ties facilitate not only the flow of information but also the formation of shared norms that guide behavior. In this context, social networks function as both informational and normative structures, shaping how SMEs perceive and respond to policy initiatives.

### ***The Role of Halal Assistants as Street-Level Actors***

Another key finding is the central role of halal assistants in facilitating the certification process. These actors function as intermediaries who translate abstract policy provisions into concrete, actionable steps that SMEs can understand and implement.

*“Kalau tidak ada pendamping, saya tidak tahu cara daftar. Mereka yang bantu dari awal sampai selesai.”* (Informan 1)

This statement highlights a critical dependency of SMEs on intermediary actors, suggesting that policy accessibility is not inherently embedded within the institutional design, but is instead constructed through human interaction. In this context, halal assistants do not merely support implementation – they effectively enable the policy to function in practice.

From an analytical perspective, this finding indicates that policy implementation is heavily mediated by actors operating at the frontline level, rather than being determined solely by formal structures and procedures. The complexity of administrative requirements and digital systems creates barriers that SMEs are unable to navigate independently, thereby increasing reliance on these intermediaries.

This finding strongly supports the concept of street-level bureaucracy, as developed by Michael Lipsky (2010), which argues that frontline actors exercise discretion and play a decisive role in shaping policy outcomes. However, this study extends the concept by showing that these actors are not only implementers but also translators and enablers of policy meaning, bridging the gap between formal regulations and practical realities.

Furthermore, halal assistants contribute to reducing both informational and procedural uncertainty. By guiding SMEs through the certification process, they lower perceived risk and increase confidence in policy adoption. This suggests that their role is not only technical but also relational, as they build trust and facilitate engagement between SMEs and the regulatory system.

### ***Consumer Pressure and Market-Driven Compliance***

The findings also reveal that consumer demand plays a significant role in encouraging SMEs to adopt halal certification. External pressure from customers creates a strong and immediate incentive for compliance, often operating more effectively than formal regulatory enforcement.

*“Sekarang pembeli sering tanya halal atau tidak. Kalau tidak punya sertifikat, mereka ragu beli.”* (Informan 2)

This statement illustrates how market expectations translate into behavioral pressure for SMEs, where consumer inquiries act as a form of informal enforcement mechanism. Rather than responding primarily to legal obligations, SMEs are compelled to comply due to the risk of losing customer trust and market share. From an analytical perspective, this suggests that policy implementation is not solely driven by regulatory authority but is also reinforced by market-based legitimacy. Consumer demand effectively transforms halal certification from a bureaucratic requirement into a competitive necessity, thereby accelerating adoption beyond what formal mechanisms alone could achieve.

This finding aligns with the Theory of Planned Behavior, as developed by Icek Ajzen (1991), particularly the concept of subjective norms, where perceived social expectations influence individual decision-making. In this case, SMEs internalize consumer expectations as a normative pressure that shapes their compliance behavior. However, the findings extend this theory by demonstrating that subjective norms are not only socially constructed but also economically embedded. Consumer pressure operates at the intersection of social influence and market logic, creating a dual incentive structure that combines reputational considerations with financial consequences.

### ***Structural Barriers and Institutional Limitations***

Despite the importance of social dynamics in facilitating policy adoption, structural barriers remain a significant constraint for SMEs. Participants consistently reported difficulties related to administrative complexity, procedural requirements, and technical aspects of the certification process.

*“Prosesnya agak sulit, terutama waktu isi data. Kalau tidak dibantu, saya tidak bisa lanjut.”* (Informan 1)

This statement highlights that the challenges faced by SMEs are not merely informational but are deeply embedded in the design of the policy itself. The complexity of administrative procedures particularly in digital systems and documentation requirements creates entry barriers that limit independent participation. As a result, SMEs become highly dependent on external assistance, reinforcing the gap between policy accessibility and policy intent.

From an analytical perspective, this finding suggests that formal policy mechanisms are not fully effective in supporting SMEs, particularly those with limited administrative capacity. While informal social dynamics such as networks and intermediary actors can facilitate navigation through the system, they cannot fully compensate for underlying structural weaknesses. This indicates that the success of policy implementation depends not only on social mediation but also on the usability and inclusiveness of institutional design.

This partially supports classical policy implementation theory, particularly the framework proposed by George C. Edward III (1980), which emphasizes the importance of resources and bureaucratic structure. However, the findings also reveal a critical limitation: even when policy structures exist, their effectiveness is contingent upon their accessibility and alignment with the capabilities of target actors.

In this context, structural complexity functions as a form of institutional friction, slowing down or even discouraging policy adoption. This friction is particularly problematic for SMEs, which often lack the technical skills and administrative resources required to navigate complex systems.

### ***Synthesis: Toward a Socially Embedded Policy Implementation Model***

Taken together, these findings suggest that policy implementation is not merely an administrative process governed by formal rules and institutional structures, but rather a socially embedded phenomenon shaped by interactions, relationships, and contextual dynamics. Informal mechanisms such as interpersonal communication, social networks, and community influence emerge as central drivers that mediate how policies are understood, interpreted, and ultimately adopted by SMEs.

*“Kalau tidak ada teman atau pendamping, mungkin saya tidak akan ikut sertifikasi.”* (Informan 2)

This statement encapsulates the core insight of the study: policy adoption is not primarily driven by formal institutional design, but by the presence of social relationships that provide guidance, validation, and support. It highlights the extent to which SMEs rely on relational structures to navigate policy complexity, reinforcing the argument that implementation is inherently a social process rather than a purely administrative one.

From a theoretical perspective, these findings extend classical policy implementation theory by integrating insights from social capital and diffusion of innovation. While traditional models emphasize structural variables such as communication, resources, and bureaucracy, this study demonstrates that these factors are insufficient without considering the social context in which policy operates. Trust-based networks (Putnam, 2000) and social diffusion mechanisms (Rogers, 2003) play a decisive role in shaping both the speed and direction of policy adoption.

Moreover, the findings suggest that policy outcomes are co-produced through the interaction between formal institutions and informal social structures. Formal mechanisms provide the regulatory framework, but it is the informal dynamics that activate, translate, and legitimize policy in practice. This interplay indicates that effective policy implementation requires not only institutional capacity but also social embeddedness.

## **CONCLUSIONS AND RECOMMENDATIONS**

This study demonstrates that the adoption of halal certification among small and medium enterprises (SMEs) cannot be adequately explained by formal policy mechanisms alone. While institutional factors such as regulatory frameworks, communication strategies, and administrative structures remain important, they do not fully capture how policy operates in practice. Instead, the findings reveal that policy implementation is fundamentally shaped by informal social dynamics, including word-of-mouth communication, social networks, community influence, and intermediary actors.

By highlighting the dominance of these informal mechanisms, this study provides a more realistic and context-sensitive understanding of policy implementation, particularly in developing country settings. SMEs are not passive recipients of policy directives; rather, they actively interpret and respond to policy through socially embedded processes, where trust, relationships, and shared experiences play a decisive role.

From a theoretical perspective, this study extends classical policy implementation theory by integrating insights from social capital and diffusion of innovation, demonstrating that policy outcomes are co-produced through the interaction between formal institutions and informal social structures. In doing so, it challenges the dominance of top-down administrative models and advances a socially embedded perspective of policy implementation.

From a practical standpoint, the findings suggest that policymakers particularly institutions such as Badan Penyelenggara Jaminan Produk Halal (BPJPH) should move beyond conventional communication strategies and adopt more socially oriented approaches. Leveraging community networks, strengthening the role of halal assistants, and simplifying procedural requirements are essential to improving policy effectiveness and increasing SME participation.

### **ADVANCED RESEARCH**

This study is not without limitations. As a qualitative investigation based on a limited number of informants, the findings are not intended for statistical generalization. However, they offer analytical insights that are transferable to similar contexts where informal social structures play a significant role in shaping policy outcomes. Future research may expand this study by incorporating larger samples, comparative cross-country analyses, or mixed-method approaches to further validate and extend the findings.

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