

## Determinants of Halal Business Practices in Muslim Minority Countries: Evidence from Finland

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**Abstract:** Halal business practices are developing in majority-Muslim countries and within companies in Muslim minority countries such as Finland. It consistently shows an interest in developing the halal industry, as evidenced by the development of companies that practice halal business in these countries. This study examines the factors influencing halal company practices while offering halal goods or services in Finland, a nation with a large Muslim population. The surveys were given online and offline to Finnish businesses that have achieved halal certification as a data collection strategy. PLS-SEM, or partial least square-structural equation modeling, was used to analyze data from 32 replies. This study found that halal values and the spirit of innovation encourage Finnish companies to enter the halal business. In addition, companies' halal business practices in Finland are strongly influenced by the interaction between internal and external driving factors. Businesses in nations where Muslims make up the minority can be encouraged to engage in halal commerce in several ways. Individuals who are aware of halal's advantages, are drawn to innovation, are under external pressure to conduct halal business and have internal circumstances that allow them to view the halal business phenomena as a chance to advance their nation's commercial interests.

**Keywords:** halal business, innovation, Muslim minority, PLS-SEM, trade

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## 1. Introduction

The halal business sector has proven to be a profitable market, with spending of US\$ 1.4 trillion by 2 billion Muslims focused on the food and beverage industry and not other industrial sectors, based on data from the State of the Global Islamic Economy Report (SGIER) in 2023. Its performance was relatively stable even during the COVID-19 pandemic, while many business sectors experienced a significant decline in revenue. The demand for halal products is very high, especially from countries such as Indonesia, Egypt, Bangladesh, Nigeria, and Iran, which are among the top 5 halal food consumer markets, because halal products are a daily basic need for Muslims. In addition, many Muslim-majority countries that are members of the Organization of Islamic Cooperation (OIC) cannot meet the need for halal products in large quantities and still import from non-OIC countries, especially from countries that are members of the BRICS, for example, China, India, Brazil, and Russia (Ohgata, 2023). Based on data from the State of the Global Islamic Economy Report in 2023, halal products imported by OIC range from food, medicine, cosmetics, and fashion; their value is expected to increase to \$265.1 billion in 2023. With the increasing number of halal products imported from non-OIC countries (Sari et al., 2023), namely China (\$31.8 billion), India (\$26.4 billion), Brazil (\$20.9 billion), USA (\$20.8 billion).

Every imported product must demonstrate that it is naturally halal or at least meets halal requirements. That needs to be done because most Muslim customers doubt the legality of products made by vendors who are not Muslim. Service providers who are not Muslim may not know or understand halal rules (Wannasupchue et al., 2023). That raises doubts. Because of that, service providers are not very committed to obtaining halal certification (Uluyol, 2008). In addition, halal certification is considered a complicated and expensive process (Islam et al., 2023). Zailani et al. (2019) explained that one of the problems often faced by non-Muslims is that halal certification is not cost-efficient, even though the main goal is to make more money. In addition, the needs of non-Muslim consumers and Muslim consumers often compete, even though they are in conflict (Muhammad et al., 2020). These challenges may make non-Muslim service providers reconsider becoming halal companies (Hall et al., 2023).

The fact that the halal market still relies heavily on imported products from non-OIC countries can provide large business opportunities for product providers in non-OIC countries. Non-OIC countries are producer countries (exporters), while most OIC countries are consumers (importers). That is in line with data released by the State of the Global Islamic Economy Report in 2023, where five OIC countries are the highest importers of halal products, namely UAE (\$33.2 billion), Saudi Arabia (\$31.7 billion), Türkiye (\$31.5 billion), Indonesia (\$30.3 billion), and Malaysia (\$29 billion). The halal logo is required for products imported from non-OIC countries to be marketed in OIC countries, but many service providers still believe that halal certification is uneconomical (Turaeva & Brose, 2020). Thus, it is necessary to encourage more providers to obtain halal certification by considering incentives from providers who have previously had halal certification, especially from non-OICs. However, recent studies of the halal research stream that address service providers' perspectives largely focus on the challenges in meeting halal requirements, which puts the debate on the drivers of halal certification at the edge (Zailani et al., 2019). Therefore, this research will examine the driving factors for service providers with halal certification in non-OIC countries.

This research will focus on halal business practices in companies in Finland as the research object. Finland is a non-OIC country located in the Scandinavian region or a collection of countries located in the northern European region (Yeasmin & Tkach, 2022). Consistently shows interest in developing the halal industry well (Kadi, 2023). Islam in Finland is a very minority religion. According to Finland's official census in 2022, there are 22,261 Muslims in the country. Islam entered Finland in 1870-1920. At that time, Muslim immigrants from Türkiye who worked as traders and soldiers arrived in Finland in the 19th century. They brought their families to settle in Finland. In a short time, these immigrants then created a community in 1925. The community was called the Finnish Islamic Association. However, this community only accepts Tatar Muslims, and the number has reached 1,000 Tatars (Al-Sharmani & Mustasaari, 2022). When the wave of Muslim-majority immigrants entering Finland increased, they together built a new community. There is also a better community, namely The Federation of Islamic Organizations in Finland (Yeasmin & Tkach, 2022).

Halal certification in Finland is issued by one of two bodies, the Halal Food Council of Europe (HFCE) and the Muslim Religious Union of Poland (MRU), that describes the procedure via which a good or service is approved by Islamic law to be consumed by Muslims as halal. To verify that the product conforms with Islamic law, the halal certification process in Finland typically includes a thorough inspection of the manufacturing or processing facilities and an analysis of the materials used

in the product. Additionally, an evaluation of a business's supply chain and ethical standards may be part of the certification process. The procedure for obtaining halal certification in Finland through HFCE and MRU is as follows: Initial assessment; Application; Audits and inspections; Testing; Certification decision; Issuance of certificates; Annual renewal. Based on World Integrated Trade Solution data for 2021, Finland has partners with 141 food import countries to meet the needs of its people. The five countries that are most dominant in food imports to Finland are Germany (16.89%), Sweden (15.17%), Netherlands (8.65%), France (5.59%) and Italy (5.54%). Meanwhile, data on halal products imported to Finland must be made clear. However, three OIC member countries are Finland's import partners with the highest percentage, namely Morocco (4.33%), Indonesia (4%), and Türkiye (1.38%).

Research on halal business practices is very rarely carried out by other researchers, especially in Muslim minority countries in the European region. Throughout the researchers' investigation, research on halal business practices was conducted by Amalia et al. (2023) on companies in Taiwan. The research results showed that companies in Taiwan practice halal business because they have halal values and innovation orientation. In addition, the interaction between internal and external driving factors also plays a perfect role in shaping the company's halal business practices. Then, Ab Talib and Ai Chin (2018) conducted previous research on halal business practices, Zailani et al. (2015). Internal and external factors influencing a business's decision to engage in halal business practices include halal food standards, logistics, and orientation strategies.

In contrast to previous research, research on halal business practices is the first to be conducted in Northern Europe or Scandinavian countries in this research, namely Finland, which is a non-OIC country. This research aims to analyze the factors that influence halal business practices in companies in Finland, using the independent variables of internal and external drivers, perceived halal value, and innovation orientation. Meanwhile, the dependent variable is halal business practices in companies in Finland. Therefore, this research's findings will help thoroughly explain the factors determining halal business practices for businesses in Muslim minority countries such as Finland. Based on the objectives of this research, there will be theoretical and practical contributions. Theoretically, this study will help us understand the factors influencing halal business practices in non-OIC countries. Additionally, this study will provide clear guidelines for non-OIC countries to develop their halal industry by adding more halal-certified service providers.

## 2. Materials and Methods

This research uses a quantitative survey method to test the proposed hypothesis. Indicators from previous research were adapted to a five-point Likert scale questionnaire. These indicators include twelve indicators for internal driving constructs (Amalia et al., 2023; Zailani et al., 2019), twelve indicators for external driving constructs (Ab Talib & Ai Chin, 2018; Amalia et al., 2023), eight indicators for the innovation orientation construct (Valero-Amaro et al., 2021), eight indicators for the perceived halal value construct (Ab Talib et al., 2017; Bonne et al., 2007; Husaeni & Zakiah, 2022), and four indicators for the construct of halal business practices (Amalia et al., 2023).

In this study, 44 indicators were employed to symbolize the five latent components. This research targets companies whose products or services are listed on Certvalue. Certvalue is one of Finland's best halal consultants for halal certification. There are 148 companies registered with Certvalue in Finland. In this research, questionnaires were given to company representatives. These namely individuals have better strategic knowledge within the company, such as owners or individuals who hold top positions in company management. Data was collected through exhibitions or religious events offline and via email via convenience sampling from 18 July 2023 to 20 December 2023. This research involved 32 companies, with 21.62% of respondents. Although the sample is small, analysis with PLS-SEM (partial least squares structural equation modeling) is still acceptable. That is because, even though the sample is small and the data is abnormal, PLS-SEM is the right choice (Chin et al., 2008; Hair et al., 2017). Furthermore, Chin (2000) stated that in PLS-SEM, the minimum sample size used is 30-100 sample sizes. Meanwhile, in this study, the number of samples was 32 companies.

## 3. Results and Discussion

### 3.1. Descriptive Statistics Results

This research obtained 32 responses from target companies. The analysis of the characteristics of the research sample shown in Table 1 shows that 37.5% of respondents who participated in this research were multinational companies, and 62.5% were local companies. In addition, research findings show that the business sector of respondent companies consists of companies in the food sector at 40.63%,

beverages at 31.25%, cosmetics at 9.37%, pharmaceutical and medical equipment at 12.5%, and hospitality at 6.25%. Meanwhile, company size consists of micro at 31.25%, small-medium at 46.88%, and large companies at 21.86%.

Table 1. Profile of Company Respondents

Criteria	Category	Frequency	Percentage (%)
The Type of Company	Multinational	12	37.5
	Local	20	62.5
Business Sector	Food	13	40.63
	Drink	10	31.25
	Cosmetics	3	9.37
	Pharmaceutical and Medical	4	12.5
	Equipment Hotel	2	6.25
Company Size	Micro	10	31.25
	Small-Medium	15	46.88
	Big	7	21.87

### 3.2. Construct and Convergent Validity

Construct validity (CV) is the degree to which the findings of a measurement align with the theory applied during test design. CV can be evaluated using discriminant and convergent validity. For loading, a significant cutoff value of 0.5 is suggested. Construct validity is confirmed by the fact that all the study's items assessing a given construct had loadings greater than 0.5 on that construct. To evaluate convergent validity, factor loadings, composite reliability, and mean variance were extracted; a recommended value of 0.5 was used for all metrics (Hair et al., 2017).

The composite reliability score in Table 2 shows the degree to which the construct indicators disclose the latent construct, ranging from 0.814 to 0.876. The variance that an indicator captures about measurement error is measured by the average variance extracted, or AVE, which ranges from 0.518 to 0.562. These three signs confirm convergent validity.

Table 2. Measurement Model Assessment

Model Constructs	Measurement Items	Loadings	Composite Reliability (CR)	AVE
Internal Drivers	ID 1	0.792	0.872	0.528
	ID 2	0.788		
	ID 3	0.818		
	ID 6	0.825		
	ID 8	0.864		
	ID 10	0.782		
	ID 11	0.795		
	ID 12	0.768		
External Drivers	ED 1	0.796	0.844	0.518
	ED 3	0.775		
	ED 5	0.882		
	ED 6	0.838		
	ED 7	0.788		
	ED 8	0.768		
	ED 9	0.826		
	ED 11	0.856		
Innovation Orientation	IO 1	0.820	0.876	0.542
	IO 3	0.830		
	IO 4	0.828		
	IO 5	0.792		
	IO 7	0.785		
	IO 8	0.838		
Perceived Halal Value	PHV 1	0.782	0.850	0.524
	PHV 2	0.826		
	PHV 3	0.810		
	PHV 4	0.770		
	PHV 5	0.786		
	PHV 6	0.872		

Model Constructs	Measurement Items	Loadings	Composite Reliability (CR)	AVE
Halal Business Practices	HBP 1	0.822	0.814	0.562
	HBP 2	0.744		
	HBP 3	0.840		
	HBP 4	0.812		

Criteria: Composite reliability > 0.708 (Hair et al., 2017), AVE > 0.5 (Hair et al., 2017)

### 3.3. Discriminant Validity

Discriminant validity reflects the degree to which the items distinguish between constructs. Table 3 displays the outcome of the Heterotrait-Monotrait (HTMT) test. The HTMT values for every construct are less than 0.9, as Chin (2010) recommended, suggesting no issues with discriminant validity were discovered. In conclusion, every test for validity and reliability has been verified, suggesting that the measurement model used in this investigation is reliable and suitable for estimating the parameters in the model structure.

Table 3. Heterotrait-Monotrait (HTMT) Criterion

Variable	Internal Drivers	External Drivers	Innovation Orientation	Perceived Halal Value	Halal Business Practices
Internal Drivers	0.788				
External Drivers	0.742	0.722			
Innovation Orientation	0.802	0.746	0.730		
Perceived Halal Value	0.770	0.782	0.782	0.828	
Halal Business Practices	0.764	0.768	0.765	0.814	0.808

### 3.4. Structural Model Evaluation

The hypothesis was then tested, and the significance and strength of the association were determined by measuring the path coefficients between the constructs. The value of the path coefficient is between -1 and +1. The higher the correlation between the two constructs, the closer the value is to +1. A connection is considered negative when closer to -1 (Hair et al., 2017). The following are the findings of the internal analysis:

Table 4. Output Path Coefficient

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation	T Statistics ( O/STDEV )	P-Values
Internal Drivers -> Halal Business Practices	0.324	0.732	0.123	6.540	0.000
External Drivers -> Halal Business Practices	0.310	0.815	0.112	5.528	0.000
Innovation Orientation -> Halal Business Practices	0.288	0.816	0.132	5.020	0.000
Perceived Halal Value -> Halal Business Practices	0.300	0.804	0.190	5.138	0.000

The Output Path Coefficient, as shown in Table 4, is to see the size of the direct influence of each independent variable (exogenous) on the dependent variable (endogenous). This research's first hypothesis (H1) is that internal driving variables influence halal business practices in Finland. The parameter coefficient for the internal drivers variable on halal business practices is 0.324, which means internal drivers positively influence halal business practices. Alternatively, the better the internal driver value, the more halal business practices will improve. One unit increase in internal driver access will increase halal business practices by 32.4%. Based on the path coefficient calculation, the t-statistics value is 6.540; the p-value is 0.000 < 0.05, so H1 is accepted, meaning the direct influence of internal drivers on halal business practices is meaningful or statistically significant.

This research's second hypothesis (H2) is that external driving variables influence halal business practices in Finland. The parameter coefficient for the external drivers variable on halal business practices is 0.310, which means there is a positive influence between external drivers on halal business practices. The better the value of external drivers, the more halal business practices will improve. One

unit increase in external drivers will increase halal business practices by 31%. Based on the path coefficient calculation, the calculated t-value is 5.528; the p-value is  $0.000 < 0.05$ , so H2 is accepted. That means the direct influence of external drivers on halal business practices is meaningful or statistically significant.

This research's third hypothesis (H3) is that the innovation orientation variable influences halal business practices in Finland. The parameter coefficient for the innovation orientation variable towards halal business practices is 0.288, which means there is a positive influence between innovation orientation and halal business practices. The better the innovation orientation value, the more halal business practices will improve. One unit increase in innovation orientation will increase halal business practices by 28.8%. Based on the path coefficient calculation, the calculated t-value is 5.020; the p-value is  $0.000 < 0.05$ , so H3 is accepted. That means the direct influence of innovation orientation on halal business practices is meaningful or statistically significant.

This research's fourth hypothesis (H4) is that the perceived halal value variable influences halal business practices in Finland. The parameter coefficient for the perceived halal value variable on halal business practices is 0.300, which means there is a positive influence between the perceived halal value on halal business practices. The better the perceived halal value, the more halal business practices will improve. An increase in one unit of perceived halal value will increase halal business practices by 30%. Based on the path coefficient calculation, the calculated t-value is 5.138; the p-value is  $0.000 < 0.05$ , so H4 is accepted, which means the direct influence of perceived halal value on halal business practices is meaningful or statistically significant.

Output Another test of the model is carried out by looking at the R-squared value. The degree to which an exogenous construct may explain an endogenous construct can be determined using the coefficient of determination ( $R^2$ ). The coefficient of determination ( $R^2$ ) value is anticipated to fall between 0 and 1. The model's strength, moderateness, and weakness are indicated by the  $R^2$  values of 0.75, 0.50, and 0.25 (Akter & Hani, 2011). Chin provides criteria for  $R^2$  values of 0.67, 0.33, and 0.19 as strong, medium, and weak (Chin, 2010).

Table 5. R-Square

Variable	R Square	R Square Adjusted
Halal Business Practices	0.765	0.745

The R Square, as shown in Table 5, has a value of 0.765 with an adjusted r square value of 0.745. Thus, it can be explained that the variables internal drivers, external drivers, innovation orientation, and perceived halal value simultaneously influence halal business practices by 0.765 or 76.5%. Because R Square is  $76.5\% > 75\%$ , the influence of the variables internal drivers, external drivers, innovation orientation, and perceived halal value, which simultaneously influence halal business practices, is high.

Based on Tables 4 and 5, this study shows that the company's internal and external driving factors, orientation towards innovation, and understanding of halal values can influence a company's decision to practice halal business. Internal-external driving factors, identified by (Ab Talib & Ai Chin, 2018; Amalia et al., 2023; Zailani et al., 2015), are the main structure. This study supports previous research that found internal-external factors influence halal business practices in companies in Finland.

Customers continue to question the halal validity of imported halal items, even though the majority of halal product suppliers to Muslim consumers are found in Muslim minority nations. That could be because Muslim-majority nations have seen less development of the Islamic faith, resulting in service providers being less committed to halal principles. Producers must obtain halal certification from a body to gain customers' trust. However, many people still consider certification an expensive process because it is complicated and expensive (Meylinda & Matondang, 2023; Rahmah et al., 2023). Additionally, they believe that halal businesses may limit their ability to serve non-Muslim customers, which often goes against the demands of Muslim customers (Konety et al., 2021; Turaeva & Brose, 2020). Consequently, this research explores the factors that encourage the establishment of halal businesses in Finland, a Muslim minority country, to encourage other companies to adopt halal business practices.

Companies in Muslim minority countries have challenges meeting the requirements for obtaining halal certification. According to this phenomenon, apart from internal factors, companies must be encouraged to develop halal business practices by considering the resource-based perspective (RBV), a business management tool used to determine the strategic resources available to a company. These internal issues cause differences in internal configuration between companies (Kero & Bogale, 2023). By having strategic resources (tangible and intangible), RBV helps businesses maintain their

competitive advantage. Unique resources enable a company to maintain its advantage (Butt et al., 2017). Previous studies by Ab Talib & Cin (2018), Amalia et al. (2023), and Zailani (2015) have studied the importance of internal drivers for halal companies in several Muslim-majority countries to carry out halal business practices. Ab Talib & Ai Chin (2018) and He & Estébanez (2023) use organizational commitment, operational improvements, and marketing functions to describe a company's internal drivers. Meanwhile, Amalia et al. (2023) and Zailani (2015) consider the company's reputation, social responsibility, anticipated revenue, level of entrepreneurship, and halal integrity. However, as our study demonstrates, these internal factors have less bearing on halal innovation in businesses that are comparable in nations where Muslims make up the majority. As a result, this study favors including additional internal factors that foster innovation in a company, particularly halal businesses in nations where Muslims make up a minority, as done by Amalia et al. (2023).

According to institutional theory, certain problems or opportunities from the external environment encourage companies to innovate. That is because businesses can adapt to current circumstances in various ways to survive (Saleh & Al-Nimer, 2022). This theory divides external forces into coercive, normative, and mimetic: 1) The regulatory processes of authorities have coercive consequences that motivate organizations to adhere to pertinent regulations. For instance, a nation's policy mandates that its businesses export their halal goods to other OIC nations; 2) Normative factors compel businesses to adhere to professional standards. Islamic rules, for instance, must be followed by any company that uses halal business methods to ensure the product is halal Suleman et al. (2021). One way to reassure Muslim customers is to obtain halal certification, regardless of whether the supplier comes from a country with a Muslim majority or minority; 3) Mimetic power is the practice of imitating the finest practices of other prosperous businesses. Because Muslim consumers want halal products, well-known international firms like Unilever, L'Oréal, Nestle, and H&M are more interested in halal products based on data from the State of the Global Islamic Economy Report (SGIER) in 2023. This multinational company creates a trend in the halal market, attracting the attention of other companies. Therefore, this research also considers pressure from the government, markets, and competition to explain the external factors that lead businesses to engage in halal business practices. External causes include the Finnish government's backing of halal businesses, the trend of halal product provision across numerous industries, and rising consumer awareness of halal. These outside forces are coupled with internal factors that incentivize businesses to sell halal products. This research focuses on the internal structures of firms that encourage innovation since they view halal as a potential innovation implemented by enterprises in nations with a Muslim minority. The primary conclusions indicate that businesses can quickly adopt halal business practices if they hire enough skilled workers and foster strong cross-functional cooperation in product creation. That also supports previous studies (Ab Talib et al., 2017; Zailani et al., 2019) that describe important resources for innovation.

The possibility that a company accepts and supports new ideas or actions is called innovation orientation (Valero-Amaro et al., 2021). In addition, according to Aditya and Kaswar (2022), innovation orientation involves deep cultural elements and produces long-term thinking for companies that want to continue encouraging innovation. Innovation can also produce existing products with better (improved) quality because innovation does not always mean creating completely new products (Alhamami et al., 2023). Companies can apply new concepts or behaviors in halal business practices because Islamic teachings are generally less developed in Muslim minority countries. These findings also support research by Salindal (2019). According to him, It is necessary to be innovative in many areas of business when conducting halal business, which is consistent with the principle that new ideas should be welcomed. As a result, companies that prioritize innovation and have well-designed internal structures that emphasize excellent human resources and the strategic value of creating recycled goods are more likely to engage in halal business. Furthermore, effective corporate policies prioritizing qualified personnel and the business's commitment to product development can be a valuable asset for fostering an innovative culture.

Most changes will be required to implement new behaviors across the organization. Because they have to adjust to new behavior, employees are often uncomfortable. Companies starting a halal business must meet halal certification requirements, which are very different from previous practices, especially for companies that do not understand Islam. Additionally, halal certification may be expensive (Wannasupchue, 2023). To overcome this problem, companies must conduct an in-depth halal assessment before starting halal business practices. They must realize that the perceived value of halal shows that halal business practices are sometimes much better than old practices (Elasrag, 2016). That shows a desire to adopt halal businesses because the benefits exceed current practices. It has already

been found that halal value perceptions influence halal business operations by Butt et al. (2017), Mohd Nawawi et al. (2020), and Lubis et al. (2022). Companies will be more inclined to adopt halal practices when they see the value of halal as more important than the risks of diversifying into halal products. That may be because the perceived value of halal consists of a specific evaluation of how halal practices can be implemented. Innovation orientation is thought to have a weaker correlation with halal business practices than halal values. Many consumers know halal products' superior quality, safety, and health, which can offer halal enterprises opportunities for personal growth (Dawam et al., 2023; Sthapit et al., 2023). Apart from that, as shown by Salindal (2019) and Zailani (2019), companies can also improve their financial performance.

#### 4. Conclusion

This research found that internal-external driving factors, innovation orientation, and perceived halal value can influence the halal business behavior of companies in Finland. Nonetheless, given that circumstances and perceptions of halal principles may vary between Muslim-majority and minority nations, this study acknowledges halal commerce as a means for businesses to innovate to obtain a more substantial competitive advantage. This strategy is supported by the company's understanding of halal principles, which include greater financial performance and self-improvement. The connection between halal practices and innovation emphasis gives businesses fresh concepts for innovating through halal products. Finnish companies have it ingrained in their work culture to be innovative, with internal arrangements encouraging innovation.

Although this study explicitly addresses the Finnish context, the results apply to many countries with minority Muslim populations. Companies may face more significant challenges than Muslim-majority countries when getting government support, especially in policy and education. Businesses with access, capabilities, and innovative tendencies should be advised to expand their halal practices. Therefore, based on the results, the profile will increase the opportunity and readiness to adopt halal business practices. The limitations of this study should guide future research. While the current sample size is sufficient, more investigation should produce more accurate findings. Furthermore, by performing a multigroup analysis, the sample size might be expanded to encompass a more balanced domestic and foreign Muslim market.

#### CRedit Authorship Contribution Statement

**Uus Ahmad Husaeni:** Conceptualization, Writing – Original Draft, Formal Analysis, Resources, Writing – Review & Editing. **Mohammed Ashfaq Ayoob:** Data Curation, Investigation, Methodology, Project Administration.

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