

# The Moderating Role of Halal Culture Linking Halal Orientation Strategies with the Firm's Financial Performance: A Study of Halal Food Firms in Thailand

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## Abstract

Though the halal orientation strategy (HOS) has a critical role to play for preserving the halal status of products. However, there is a lack of halal orientation strategy literature affecting halal companies' financial performance (FP). As a result, the primary objective of all firms is to optimize profits, this study explores the effect of HOS on the FP and the moderator of halal culture (HC) in halal food companies (HFC) in Thailand. Data from 164 halal food companies in Thailand were obtained and analyzed using the PLS-SEM technique. Studies have shown that halal production has a negative impact, while transformation, halal storage and halal materials have a positive effect on FP. Furthermore, halal culture moderates the link among production and FP of a company. The findings will allow HFC executives to improve their FP by financing in HOP, hence paying more attentions to the halal community. Therefore, it assists policymakers recognize the value of the revision of halal certification criteria. This study also helps to increase awareness of the HOP relationship to the FP of HFC.

**Keywords:** Financial Performance, Halal Production, Halal Food, Operation Management, Halal Orientation Strategy

## Introduction

It is instructed in the Quran for Muslims specifically to eat only halal food. Likewise, people eat only food that is compatible with their religious values. The word Halal is referred as permissible or lawful. Additionally, Muslims eat halal in accordance with their religious values and food choices. As a consequence, "Tayyab or holiness" of food with regard to its packaging, cleanliness, quality and health should be guaranteed (Kamaruddin & Jusoff, 2009). In addition to sanctity, halal also ensures the safety of food product. The net value of sector of halal food worth 1,292 billion US\$ by 2013, and by the end of the decade this amount would increase to US\$ 2537 billion (Thomson, 2014). In view of the increasing global demand for halal food, a number of food companies around the world are joining the halal market. Previous studies, on the other hand showed the existing criteria of Halal Certification (HC) is not price efficient (Talib, Zailani, & Zainuddin, 2010). The halal market is growing, and moreover, companies can enter this market by fulfilling such halal requirements (Soltanian, Zailani, Iranmanesh, & Aziz, 2016). There is also a doubtful impact on businesses FP of the introduction of halal practices. In other words, the availability of halal products on larger markets, the halal industry

has become attractive and competitive market. However, as it is not a cost-effective or easy process to receive HC, it may increase the price of halal goods, which therefore has a negative impact on demand. Any business main objective is to make profit, the effects of halal practice towards the FP must be investigated. When infected during storage and transport before being sold, food products may easily lose their halal status (Pahim, Jemali, & Mohamad, 2012). Consequently, Halal companies need to build an organizational plan to include halal requirements in their supply chains. The HOS is described as a strategic operating strategy that can assist companies in meeting their Halal needs. HOS would increase the financial output of these halal companies by allowing them to focus on their core skills and capital. Nevertheless, the empiric research on this issue is insufficient. As a result, this research examines empirically the impact of HOS on halal companies FP. OC is an important corporate asset to help implement strategies successfully (Zailani, Subaramaniam, Iranmanesh, & Shaharudin, 2015b).

Moreover, Zheng, Yang, and McLean (2010) also concluded that the culture of the firm is closely linked to the performance of organization and assessed corporate strategic effectiveness. Certain specific corporate cultures may lead to more effective financial performance. Some experts and practitioners suggest that there is a mutual level of cultural belief that defines the impact of the firm's resources and capabilities through financial performance (Ali, Omar, & Bakar, 2016). Despite its significance, there is no work on how the effects of HOS (tools for halal enterprises) on financial performance are moderated by a halal culture (a kind of firm culture). Such factors will also encourage halal management companies to promote halal culture values by acknowledging the possible relevance of HC in business dealings. In addition, the study of halal culture as moderator will extend the literature into a more comprehensive consideration of a link among HOS and FP.

## **Literature Review**

### **Review of Halal Research**

Halal industry research is classified into three major categories. Halal and haram influences in the halal and sharia industries were identified in the first sequence of studies (Elmira, 2016). Second, the study looks from the point of view of the halal industry clients (Kamaruddin, Iberahim, & Shabudin, 2012). Wilson Zailani, Kanapathy, Iranmanesh, and Tieman (2015a) argue that Muslims will become more obsessive about the types of goods and services they receive as knowledge about their religion increases. Additionally, non-Muslims were implicitly attracted to Halal Norm, which emphasizes the exceptional quality of the goods (Rajagopal, Ramanan, Visvanathan, & Satapathy, 2011). Halal products are now generating a wide demand and manufacturers are working hard to obtain (Mahamud, & Suksaskawin, (2020). Halal certification, thereby acquiring a halal logo to ensure that the agreement between their product quality and halal Shariah and regulations is ensured and conveyed to their target consumers. The third set of surveys discusses the issues and difficulties of meeting halal needs in order to achieve a halal logo. The inefficiencies of the HC criterion adversely affected the halal industry (Tieman, 2011). As regards the need for a non-Muslim, in comparison to uncertified goods, the prices of halal-certified goods must be reasonable. As discussed earlier, inquiry by a new Halal authority is not cost-effective and could not easily be carried out (Zailani, Iranmanesh, Aziz, & Kanapathy, 2017). The impact regarding halal practices on the FP of halal organizations can also be questioned. In addition, there is a wide market that includes, in particular, the manufacture of halal products and these companies should be targeted. Moreover, it is costly to fulfill halal demands and therefore make the final price more competitive. HOS is categorized as halal transport and storage, halal production processes, halal personnel and halal materials (Zailani et al., 2015a). Even though such activities can be expensive, many consumers

and buyers are searching for Halal products. Present research focuses on the effect of the four-halal orientation of the financial results of the halal business.

### **Review of HOS**

The strategy is defined as incorporating different elements, such as organizational actions, objectives and policies, in order to ensure the appropriate and effective distribution of organizational resources. Companies plan their personal plans in line with their contingent moves by rivals, expected improvements, weaknesses and competencies. Such policies differentiate the firm from its rivals. In order to thrive, innovative businesses need to create a competitive advantage. The halal competitive edge is considered to be crucial because it is given that tacit strategy and management parameters (Jonathan & Liu, 2010). Developing a specific marketing plan may also provide a strategic advantage for halal industry organizations or firms. Because HOS ensure that food producers obey the Halal values, these firms should sensibly evaluate the long-term choices, that are capable of predicting their own long run organizational excellence. Therefore, halal orientation strategy will not provide guidelines for the implementation of new approaches but will also be used by Halal Food Companies in the quest for useful and innovative business guidelines. According to the report, HOS is graded for storage, handling, preparation and production, halal food and operational planning classification (Iranmanesh, Zailani, Kanapathy, & Tieman, 2015a; Soltanian et al., 2016) with subsequent components: halal transportation and storage, halal material and staffing and halal production process. The involvement of halal orientation strategy will encourage organizations to control and manage its four classifications. In order to ensure that final goods are halal, the materials are a key element in the definition of halal products. All raw materials or ingredients shall be halal and shall not contain any large or small quantities of non-halal content. Food should be grown, prepared and processed with equipment and tools free of all non-halal contaminants. Any food processing cycle involving conveyors and production lines, tubing, preparations and equipment must be clean and free of all non-halal contaminants. Halal goods should be washed properly and thoroughly before transport and storage. Therefore, halal as well as non halal items of food must be kept separate during shipping, storage and distribution in order to prevent contamination (Ab Talib, Hamid, & Zulfakar, 2015). This study examines the impact of halal orientation strategy on halal companies FP.

### **Review of the Firm's Financial Performance**

FP is an important idea of corporate efficiency, since the main purpose of the corporation is to make money for shareholders. FP measures the growth of the market and the corporate productivity. HOS can positively or negatively affect organizational FP. Alternatively, in a separate warehouse the storage of halal goods can enhance production cost and thus decrease FP (Zailani, Iranmanesh, Jafarzadeh, & Foroughi, 2019). However, the company will enter the broad halal market that will increase its FP by introducing halal practices. Taking into account the importance of FP and the lack of clear links between HOS and FP. These associations have been explored in this study.

### **Review of Halal Culture**

Scholars are unanimous in their view that the organizational culture (OC) can be interpreted in terms of models of beliefs, patterns of belief that have been seen in activities and actions and alternative objects produced by the members of the organization (Pothukuchi, Damanpour, Choi, Chen, & Park, 2002). Prior studies have emphasized that OC and market practices are strongly interlinked (Chan, Shaffer, & Snape, 2004). OC is capable of providing its owners with a competitive advantage if managers are able to determine the boundaries of the enterprise in a particular way that restricts the area of expertise or accelerates the operation of the processor at the correct stage. Furthermore, widely shared and firmly held values help managers to decide on the employee's response to certain strategic opportunities by limiting the scope of unwanted outcomes. Its sophistication, specificity and innateness lead OC to

become the organization's primary most complex tools to mimic or replicate. OC raises alternative forms of capital by enhancing the organization's success and fostering competitive advantage. HC is considered to be an OC that determines employees' knowledge of the real issues and the halal practices that the company does (Frederick, 1995). Expansion of HC amongst workers would allow management to introduce HOS efficiently and effectively, thus reducing the overall risk of contamination at the lowest cost. HC provides clear guidance to staff, establishes a centralized working environment for halal practices and challenges, and provides clear feedback on halal organizational performance resources. As a result, it is claimed that HC not only accelerates the company's superior halal performance, but also increases the impact of the company's activities on other resources such as HOS. The association among HC and the organizational FP, as well as the procedures relating to storage, transport and output, must be clarified in order to justify ties between HOS and HC.

### **Hypotheses Development**

**Relationship Between Halal storage and transportation and FP:** If a food product is infected before being sold in storage and transport, its halal status may easily disappear. Halal products should therefore be distinguished from non-halal products during distribution and transport in order to avoid contamination. Prior work has demonstrated that storage and transport of halal products play a critical role in halal goods final cost (Zhengyi, Talib, & Rubin, 2013). Logistics firms are expected to capitalize seriously in their halal status, that can result in high halal transport as well as storage cost for the storage of halal goods by using various equipment and keeping them separate. Nevertheless, it is because of the Muslim desire to widen the halal market and the higher price of halal products. Therefore, the following hypothesis has been developed.

**Hypothesis 1.** Halal transportation and storage activities impact positively towards the FP of the organization.

**Relationship between Halal Production Procedure and FP:** In order to ensure that halal food products comply with Islamic standards, the production process must be monitored. Such goods should be labeled in order to ensure that customers are aware of the goods they purchase are produced in conjunction with the halal manufacturing procedure (Scholtens-Toma et al., 2012) and that food production complies with Islamic requirements. Prior research has shown that the Halal production process plays an important role in meeting Islamic food needs (Talib, Ali, Jamaludin, & Rijal, 2008). Meanwhile, halal activities cause increased cost of production by providing a higher FP by creating a wide market for halal firms. Therefore, the following hypothesis has been developed

**Hypothesis 2.** Halal production procedure impacts positively towards the FP of the organization.

**Relationship between Halal Material and FP:** Resources are the main element in the development of halal food. The "holiness" of the ingredients or raw materials for which the final goods comply with halal standards should be ensured. As mentioned above, companies focusing on the quality of raw materials can achieve higher sales (Grewal, Nordfält, Roggeveen, Olbrich, & Jansen, 2014). As a result, prices for raw materials will have an impact on the cost control and therefore on the FP of halal food companies. The use of halal ingredients gives halal companies the opportunity to approach the halal market extensively. The following theory has been developed from the literature.

**Hypothesis 3.** Halal materials impact positively towards the FP of the organization.

**Relationship between Halal stang and FP:** Halal workers are responsible for the operation of Halal food companies (Slack et al., 2010). Human resources define the expertise, skills, training, training, and knowledge of the employees of the company. Employee knowledge and skills produce higher rents and ensure the good of the company. Several scholars have said that the FP of a company depends on its staff (Kazlauskaitė & Bučiūnienė, 2008). Human capital

is now seen as an integral part of the company's perception that needs effective management in order to have a positive impact on FP. Halal firm employees can contribute through their commitment towards goals, performance, knowledge and low wages in order to improve financial performance. From the literature, the following hypothesis has been established.

**Hypothesis 4.** Halal staffing impacts positively towards the FP of the organization.

**Moderation of the Halal Culture:** OC is one of the main factors in optimizing the FP of organizations and their individual departments. OC has an effect on organizational performance and on the various employees (Abu-Jarad, Yusof, & Nikbin, 2010). The safety of halal goods would be at a higher stage and will be capable of protecting goods from being infected by establishing a 'halal culture' between individuals at the basic level by the delegation of authorities. HC can also inspire workers to effectively apply halal orientation strategy. This demonstrates that HC offers companies incentives in order to secure halal operation and allows companies to better apply halal orientation strategies. Ray, Barney, and Muhanna (2004) have shown by following the company's strategy, the firm can lead significantly to a competitive advantage that ultimately leads to a higher FP. As a result, it was anticipated that HC 's influence on the successful application of halal orientation strategies would contribute to halal companies FP. Bases on the above discussion, these hypotheses have been developed from the literature.

**Hypothesis 5.** HC has a positive moderation impact on halal transportation and storage, halal production procedure, halal materials and halal staffing towards the FP of the organization.

## Research Method

The study followed the quantitative survey by generating a systematic questionnaire, divided into four sections: financial performance, halal culture, halal orientation strategy, personal and firm information. The survey method validity is calculated by the pre-testing prior to data collection. Sampling was carried out via census due to the limited sample size and the low response rate to the mail survey. The survey involved managers, owners and employees concerned with the operation, production and quality control of the target population. A total of 514 valid responses were disseminated and 216 final surveys were analyzed with a 42 percent response rate.

**Table 1** Study Measures

Constructs	No of Items	Scale Range	Adapted From
Financial Performance	4	five-point Likert type	Yusof, Awang, and Iranmanesh (2017)
Halal Culture	5	five-point Likert type	Zailani et al. (2015b)
Halal Orientation Strategy	18	five-point Likert type	Zailani et al. (2015a)

## Research Findings

### Measurement Model

The smart PLS 3.0 by Ringle, Wende, and Becker (2015) was used to test the research model. For data processing, this study used a two-stage approach. The validity and reliability of the reflective variables have been evaluated. The Composite reliability (CR) was precisely measured, which is comparable to Cronbach's alpha. Composite reliability of all variables was greater than 0.7, satisfying the satisfactory level (Hair Jr, Hult, Ringle, & Sarstedt, 2017). The item reliability was considered fair, as each item of every scale was > 0.6. Average variance extracted (AVE) has been assessed for convergent validity. All variables have > 0.5 AVE values, thus reaching the satisfactory level (Fornell & Larcker, 1981).

**Table 2** Convergent Validity of the Measurement Model

<b>Constructs</b>	<b>Items</b>	<b>Loadings</b>	<b>AVE</b>	<b>CR</b>
Financial Performance	FP_1	0.89	0.647	0.88
	FP_2	0.71		
	FP_3	0.75		
	FP_4	0.61		
Halal Culture	HC_1	0.74	0.554	0.87
	HC_2	0.85		
	HC_3	0.66		
	HC_4	0.82		
	HC_5	0.46		
Halal Transportation and Storage	HTS_1	0.84	0.542	0.85
	HTS_2	0.71		
	HTS_3	0.65		
	HTS_4	0.78		
	HTS_5	0.65		
Halal Production Procedure	HPP_1	0.88	0.667	0.84
	HPP_2	0.80		
	HPP_3	0.71		
	HPP_4	0.74		
Halal Material	HM_1	0.82	0.554	0.82
	HM_2	0.62		
	HM_3	0.76		
	HM_4	0.77		
	HM_5	0.74		
Halal Staffing	HS_1	0.82	0.548	0.83
	HS_2	0.72		
	HS_3	0.70		
	HS_4	0.67		

Discriminant validity was measured by utilizing two methods (Iranmanesh, Zailani, Moeinzadeh, & Nikbin, 2017; Weng, Zailani, Iranmanesh, & Hyun, 2017). Firstly, the indicators cross-loading, in which indicator loadings higher than any opposite construct have been investigated (Hair, Sarstedt, Pieper, & Ringle, 2012). Secondly, for each variable, the AVE squared root must surpass the intersection of the alternative variable (Fornell & Larcker, 1981). The discriminant validity of every tests evaluated was confirmed by both analyses.

**Table 3** Discriminant Validity (Fornell and Larcker Criterion)

<b>Constructs</b>	<b>FP</b>	<b>HC</b>	<b>HTS</b>	<b>HPP</b>	<b>HM</b>	<b>HS</b>
FP	0.75					
HC	0.62	0.77				
HTS	0.42	0.55	0.78			
HPP	0.44	0.62	0.67	0.72		
HM	0.47	0.57	0.35	0.56	0.76	
HS	0.31	0.37	-0.38	0.32	0.41	0.81

### Structural Model

PLS bootstrapping with non-parametric has been assessed (Wetzels, Odekerken-Schröder, & Van Oppen, 2009), with the 5,000 resample to analyze the hypotheses of the study. Related to the hypothesis 1, the path was significant within the model. Even though, the effect of the HPP

was significant negative on FP. Likewise, the hypothesis 2 and hypothesis 4 were insignificant. But hypothesis 1 and hypothesis 3 were significant. The moderator effect evaluated through product indicator approach (mean-centered) which has generated the construct interaction (Hair Jr et al., 2017). From the findings, it was clear that the HC interaction with the HPP has been significant positive towards FP ( $\beta$ , 0.185,  $p < 0.05$ ). Hence, hypothesis 5c was significant and positive, but hypothesis 5a, 5b and 5d were insignificant. Findings indicated that the production procedures mostly have no impact towards FP of the halal culture firms but impacts negatively between lower halal culture organization.

**Table 4** Hypothesis Description Direct Relationships

Hypotheses	$\beta$	p-values	Findings
HTS>FP	0.135	0.004	Significant
HPP>EP	0.155*	0.013	Insignificant
HM>FP	-0.220*	0.035	Significant
HS>FP	0.281**	0.073	Insignificant
<b>Effects of Moderation</b>			
HC>FP	0.205*	0.015	Significant
HC*HTS>FP	0.071	0.171	Insignificant
HC*HPP>EP	0.0185*	0.033	Significant
HC*HM>FP	0.017	0.451	Insignificant
HC*HS>FP	0.030	0.370	Insignificant

## Conclusion and Discussion

The focus of this paper was to examine HOS impact on halal food companies FP by treating HC as a moderator. Even though the results have shown that the effects of HM and HTS on the FP are positive but have a negative effect on the HPP. Moreover, HC has a moderation effect only between the halal firm's HPP and FP. In addition, the HS has no association with the FP of halal firms. The reason may be that employees working in the Halal Food Organization receive a minimum wage because the cost of such organizations includes Islamic knowledge. The second explanation may be that the expense and income of the HS are equal. Fotopoulos, Kafetzopoulos, and Gotzamani (2011) have stated that the commitment, skills and knowledge of employees have a critical effect on the implementation of successful halal practices and the fulfillment of halal demands. Islamic training is therefore urgently needed to increase the familiarity of employees with the requirements for the production of halal food. HM has been shown to have a positive impact on the firms' FP. The findings are similar to those of (Nilssen, Bertheussen, & Dreyer, 2015; Swafford, Ghosh, & Murthy, 2006), their study ensures that the consistency and cleanliness of the products or ingredients with respect to the halal concept and the distribution of the products through the authentic halal certificate by suppliers will help halal organizations in achieving higher FP and competitive advantage, as well as supplying the materials through the authentic halal certificate.

The HPP was negatively influenced by the FP. The explanation for this is that Thailand's existing food requirements are not cost-effective. Similarly, the use of different methods for the maintenance of halal goods and the cost of halal food monitoring would increase variable and fixed cost of production. Zailani et al. (2017) noted that halal certification organizations lack the knowledge and experience of halal operations, which result in increased production costs and lower FP through the implementation of unimportant regulations. Halal agencies must realize that the primary goal of all organizations is to maximize income, that unimportant regulations that create difficulties for halal goods manufacturers and reduce the attractiveness of investments in halal production.

The results showed a positive correlation between the inducing halal activities of halal companies in HTS and FP (Jaafar, Endut, Faisol, & Omar, 2011). The aim of Halal companies to outsource their transport and warehousing operations may be a possible cause of the positive effect of HTS on FP. Instead of using standard logistics services, JAKIM is increasing its need for HTS to urge companies to use third party halal logistic service offered by core companies. As JAKIM has a higher requirement. Several halal organizations in Thailand have chosen to provide their personal logistics services; however, the halal needs of such organizations have resulted in the use of halal logistic services by third parties. Prior research has shown that the use of third-party halal logistic services will reduce logistic costs and improve the flexibility and quality of halal companies (Anderson, Coltman, Devinney, & Keating, 2011; Zailani, Jafarzadeh, Iranmanesh, Nikbin, & Selim, 2018).

The findings showed that HC had only a positive moderation association between HPP and FP. This means that HC reduces the negative impact of HPP on FP. It says that, as it will take time to evaluate Halal 's needs, it is necessary for Halal Company managers to work to improve the vigilance of their workers in halal activities, to establish a halal-oriented work atmosphere and to conduct halal activities, which is the standard for all employees. Reason for HC is moderated only in the effect of HPP and not towards HM, HS and HTS because the manufacturers include HM and HTS services which are outsourced to third party halal logistic services firms, their performance is highly dependent on supply staff and halal logistic services.

### **Implications**

The findings showed that HM and HTS had a positive impact on FP. In addition, although staff support halal companies to ensure halal standards, they have no impact on the FP. The findings have been strongly suggested; if the requisite materials are of high quality and halal according to the Halal principles, if JAKIM needs for halal transport are properly met, and even if third-party logistics firms deliver clean and hygienic storage, transport, infrastructure and storage, then firms can have a competitive advantage, or else FP will be increased.

Since HS was the main investigation of JAKIM but had an insignificant effect on FP, sufficient training must be provided to meet Islamic requirements and Halal Food Production, while Halal Food Production must be carried out. Research indicates that, however, HOS is increasing the FP of enterprises. As a result, investors are advised to consider this investment as an exceptional opportunity rather than a worthless expense. In addition, the only HOS variable called HPP was found to have a negative effect on the FP. This means that the implementation of the Halal Concept during the manufacturing process requires an increase in the expense of Halal Food Organisations, which includes the cost of cleanliness in manufacturing areas and the segregation of halal and non-halal products.

Testing HC as moderator discovers that HPP has no relationship with firms where halal activities and halal work are the norms between staff. Which means that HC can compensate for the negative effect of HPP. Since the acquisition of halal certification requires a halal method in the processing of food, managers of halal production companies must focus on HC in order to reduce its negative effect on the FP. However, the adverse effect of incorporating the halal idea into the manufacturing process gives the decision-maker an insight into whether the revision of the current halal certification criteria is relevant. The results showed that FP in halal food production companies had a positive impact on the activities of HM and HTS but had a negative effect on HPP. As far as the researcher is aware, our research focuses first on the impact of the HOS strategies on the FP of halal companies. This work has also been added to the literature by researching the influence of HC as moderator on the association between HOS and FP.

### **Limitations and future studies**

First, we evaluated the effect of HOS on Halal FP but did not include other factors, such as market demand and organizational capital. The results of these variables will therefore be



investigated in future studies. Second, data from Thai companies have been used in this study. The comparison and collection of data from other firms and countries can provide more important results for future studies. Third, this study was cross-sectional, all hypotheses were tested by means of a questionnaire survey. Therefore, the causality of the relationship between the variables used can be limited. Longitudinal research should also be done in order to analyze the relationship in order to achieve more reliable results.

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