

# Shariah Compliant International Entrepreneurship: A Study of Islamic Finance in Europe

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**Abstract**— Islam is the second largest religion in the world. Muslims are the target of most of the homeland and foreign businesses in their market. Islamic finance is also an international solution to promote the entrepreneurship. The objective of this paper is to explore the international entrepreneurship from Islamic view. This study argues shariah-compliant entrepreneurship in international context. For doing so, we explore entrepreneurship in Islam, offer potential opportunities for conducting Islamic-oriented business and investigate the performance European countries in Islamic finance and entrepreneurship.

**Keywords**-component; International Entrepreneurship; Islamic Finance; Shariah; Entrepreneurship; Internationalization

## I. INTRODUCTION

International entrepreneurship is a multi-perspective discipline which discusses internationalization and entrepreneurship and incorporates judgmental decision-making about the coordination of rare resources through international borders [1]. It involves ideas shifting, discoveries and connections in order to facilitate change [2]. In recent years, international entrepreneurship has been studied throughout scholar literature by multiplicity approaches [3]–[9]. Research about international entrepreneurship has centered in the last decade to concentrate inborn globals or international new ventures to well-established companies [2]. As a research line, international entrepreneurship assimilates a number of business areas including accounting, marketing, management, finance, and economics [10]. However, in the dynamic environment of internationalization, it is necessary for emerging ventures and managers/ entrepreneurs to stand against the intensive global competition. In such condition, if they are willing to thrive alongside international firms, they are required to learn about global business and internationalization. The most successful firms are probably to be ones that perfectly identify the international opportunities and develop their qualities in order to respond them in the shortest possible time.

In this while, the dynamic international business environment is increasingly giving importance to culture and religion in developing a business relationship [11]. A religion that has a positive approach towards work and productivity is more likely able to facilitate the creation of effective business entities and the advancement of a favorable entrepreneurship

environment [12]. Therefore, in order to conduct a business in an Islam-oriented place/ people, as one of the most following religions in the world, it is necessary to comply with the culture and regulation of Shariah (Islamic law) [13].

This paper performs the strategic and market analysis for the entrepreneurial activities within Islamic territories of with Muslims. We initially outstrip the concept of international entrepreneurship, and then reveal Islamic perspectives of entrepreneurship. Finally, we explore of the Islamic finance opportunities in Europe in which we analyze the economic sectors for conducting a successful business.

## II. INTERNATIONAL ENTREPRENEURSHIP

In recent years, the transnational market has been involved with a rising trend in internationalization among firms [14]. International Entrepreneurship is an interdisciplinary line of research that placed at the intersection of entrepreneurship theory and internationalization theory [15]. However, the primary literature on international entrepreneurship was connected to as the Uppsala internationalization process [16] which represented that enterprises internationalize on a step by step process by exporting in order to strengthen their business activities [17]. Nevertheless, the Uppsala or stages model of internationalization demonstrated not as relevant as previously considered due to some firms entering foreign markets in a fast and prompt process [17]. As a significant theoretical development, Oviatt & McDougall discussed the limitation of this topic and developed the prior theory of internationalization-related to as the Uppsala view by representing that some firms internationalize quickly [18]. This meant that the previous research on the stages model and also internationalization theory that argued firms go abroad to exploit their internally developed knowledge no longer applied to all enterprises [19]. However, depending on the type of organization the internationalization process can begin early in their evolution (global born or international new ventures) whilst others internationalize after a while to react the market trends [20].

## III. ENTREPRENEURSHIP IN ISLAM

Islam, as the second-largest religion in the world [21], is defined in the Holy Qur'an as the capitulation to the will of God who is Islam is called Allah [22]. Islam is

originated from the God's last messenger, the prophet Muhammad (PBUH) [23].

Islam has a positive insight on the extrinsic aspects of work [24]. The Islamic work ethic clearly declares that it is an obligation to effectively participate in economic activities [25]. Therefore, work, in Islam, is the source of livelihood and independence and the means prosperity to obtain a satisfactory life [24]. Moreover, Qur'an discusses the Islamic ethics in favor of legitimate profit and free trade till it does not exploit others [23]. More precisely, Islam countenances prosperity due to the proper employment of the resources given by Allah [24]. This kind of resources is considered as crucial to providing for basic physical and survival needs as well as an agglomeration of capital [26]. Thus, it is obvious that Muslim employees are likely to look for extrinsic values of work such as the ones are compliant with Islamic thoughts. We, therefore, envisage that Muslim employees will also positively consider the extrinsic perspectives of their work as for 'Muslims, economic life is thus believed as a means to a spiritual end, where prosperity means the living of a virtuous life' [26].

The Islamic thoughts also represent a positive interaction between intrinsic values of work and Islam [24]. As an Islamic adherent, people are most likely to positively inquire the intrinsic aspects of work (e.g., having a productive job), as 'work is considered as means of self-fulfillment, self-respect, personal growth, and satisfaction [25]. Therefore, the Islamic ethic of work promotes adherents to positively see the intrinsic perspectives of work. As mentioned before, intrinsic perspectives concern to being open to change and the trace of creativity and initiative at work. The ethic Islamic work vividly confirms productive work as a significant resource of accomplishment [27], [28].

Islam speaks about on co-operation, generosity, and benevolence to discuss the concept of entrepreneurship [24]. For this reason, Islam really promotes unilateral contract, '*uqud al-tabarruat*, or such as loan, *al-Qard*, so as to expand collaboration and instill a sense of brotherhood amongst Muslims [24]. In the meantime, exploitation, monopoly, fraud or usurious transactions are extremely prohibited in Islam. In the other hand, each entrepreneur ought to avoid the evil such as being honest, fair, and accurate in every transaction and always preserve the good deeds [29].

Islamic finance is as old as Islam and its roots go back to almost 1500 years ago, and its practices have been really used throughout those years across the Muslim world [30]. In another perspective, the role of Islam in entrepreneurship is based on the interlinkage between the textual sources and contextual setting [31]. The primary sources are the Quran and Sunnah. For Muslims, the Quran contains the words of God in 114 Surahs (chapters) with over 6,000 Ayahs gradually revealed over a period of 23 years around 600 AD [32]. The Sunnah is the deeds, sayings, and silent or tacit approval of the prophet Muhammad (PBUH) [32]. Secondary sources and practices are *Ijma'* (Consensus) and *Qiyas* (Analogy). *Ijma'* is the unanimous agreement among a certain group of people like religious scholars or the entire Muslim community depending

on the Madhhab that is the specific school of jurisprudence [31]. *Qiyas* is a form of analogical reasoning, somewhat contested among scholars. For some scholars, there exist potentially certain tertiary sources such as the value of the public good [32].

#### IV. ISLAMIC SECTORS ECONOMY

Based on DinarStandard reports [33], the global Muslim population expenditure on Islamic economy identified sectors (besides finance) are:

##### A. Food Market

According to Mauro et al [34], global Muslim spending on Food and Beverages (F&B) has increased 10.8% to reach \$1,292 billion in 2013. This takes the potential core Halal Food market to be 17.7% of the global expenditure in 2013 compared to 16.6% the year before. This expenditure is expected to grow to a \$2,537 billion market by 2019 and will account for 21.2% of the global expenditure. Top countries with Muslim consumer food consumption are Indonesia (\$190 billion), Turkey (\$168 billion), Pakistan (\$108 billion) and Iran (\$97 billion) based on 2013 data. Meanwhile, Malaysia, UAE, and Australia lead the Halal Food Indicator that focuses on the health of the Halal Food ecosystem a country has relative to its size. A special focus report on Halal Food Logistics estimates logistic costs for the potential global Halal Food market to be \$151 billion in 2013.

"Islamic finance and capital are ready to pull Europe - and Italy, in particular - out of the crisis," according to participants at the World Halal Food Council (WHFC) in Rome [35]. Halal products are a global market worth 13 trillion euros per year, growing 15% annually and reaching two billion Muslims, event organizers said [36].

##### B. Clothing and Fashion Market

Global Muslim consumer spending on clothing and footwear has increased 11.9% to reach \$266 billion in 2013. This makes the Muslim clothing market to be 11.9% of the global expenditure and is expected to reach \$488 billion by 2019. Top countries with Muslim consumers clothing consumption based on 2013 data) are Turkey (\$39.3 billion), United Arab Emirates (\$22.5 billion), Indonesia (\$18.8 billion), and Iran (\$17.1 billion). Meanwhile, UAE, China, and Italy lead the Modest Fashion Indicator that focuses on the health of the modest fashion ecosystem a country has relative to its size. Given the importance of digital platforms to this space, a special Muslim Fashion E-Commerce focus report looks at these modest fashion segment developments and hotspots across the globe. DinarStandard estimates put Muslim consumers' e-commerce expenditure at \$4.8 billion in 2013.

Globally, Muslims spent \$266 billion on clothing and footwear in 2013. That's more than the total fashion spending of Japan and Italy combined, according to a recent report from Thomson Reuters. The report also notes that that figure is expected to balloon to \$484 billion by 2019 [37]. Travel Market

Global Muslim spending on travel (outbound) has increased 7.7% to reach \$140 billion in 2013 (excluding Hajj and Umrah). This is 11.6% of the global expenditure and is expected to reach \$238 billion by 2019. Top source countries of Muslim tourists based on 2013 expenditure were Saudi Arabia (\$17.8 billion), Iran (\$14.3 billion), United Arab Emirates (\$11.2 billion), Qatar (\$ 7.8 billion), Kuwait (\$7.7 billion), and Indonesia (\$7.5 billion). Meanwhile, Malaysia, UAE, and Singapore lead the Halal Travel Indicator that focuses on the health of the family-friendly/Halal Travel ecosystem a country has relative to its size. A special focus report, Hajj and Umrah Travel, estimates there were a total 5.7 million Hajj and Umrah pilgrims (not including domestic) with a total expenditure on Hajj and Umrah at \$16.2 billion (including air travel) in 2013.

WHAD (Halal World Development), the Italian halal certification body, presented during Arabian Travel Mart, the first Italian project for bringing in Muslim tourists to Italy. The Muslim Travel Index 2014 shows Italy as the second tourist destination in the wish list for Saudi tourists, the third for Malaysians and the fifth for the UAE. The potential for Italian tourism is evaluated by the same index in several billion euros [38]

#### C. Media and Recreation Market

Global Muslim spending on recreation and culture has grown 7.3% to reach \$185 billion in 2013. This represents 5.2% of the global expenditure and is expected to reach \$301 billion by 2019. Top countries with Muslim consumers' recreation consumption (based on 2013 data) are Turkey (\$30.3 billion), Indonesia (\$9.4 billion), United States (\$9.1 billion), Iran (\$9 billion), and France (\$8.4 billion.) Meanwhile, Singapore, UAE, and the United Kingdom lead the Halal Media and Recreation indicator that focuses on the health of the family-friendly/ Halal media and recreation ecosystem a country has relative to its size. A special focus report, Islam-Themed Broadcast Media, highlights the Ramadan-drama series (Musalsalat) and various broadcast channel developments are driven by much higher (9.9%) projected TV advertising growth for OIC countries between years 2013-18 than the global average of 5.5% for the same time period.

#### D. Pharmaceuticals and Cosmetics Market

Global Muslim consumer spending on pharmaceuticals has increased 2.1% to reach \$72 billion in 2013. This makes the Muslim pharmaceuticals market to be 6.6% of the global expenditure and is expected to reach \$103 billion by 2019. Top countries with Muslim pharmaceuticals consumers are Turkey (\$8.9 billion), Saudi Arabia (\$5.9 billion), Indonesia (\$4.9 billion), and Iran (\$3.7 billion.) Global Muslim spending on cosmetics increased 1% to reach \$46 billion in 2013. This spending is 6.78% of the global sector expenditure and is expected to reach \$73 billion by 2019. Top countries with Muslim cosmetics consumers are United Arab Emirates (\$4.9 billion), Turkey (\$4.4 billion), India (\$3.5 billion), and Russia (\$3.4 billion) based on 2013 estimates. Malaysia, Egypt and Singapore lead a combined Halal Pharmaceuticals and

Cosmetics Indicator that focuses on the health of the Halal pharmaceutical and cosmetics ecosystem a country has relative to its size.

#### E. Real Estate Market

Islamic finance has used real estate as an investable, tangible asset class on which to base its financial structures. In fact, real estate has been a primary focus of the Islamic finance industry since the 1990s. The focus has tended to be in particular on prime or trophy assets: for example, hotels or large office headquarter buildings. However, since 2010 Islamic funds and Islamic banks providing mezzanine finance have multiplied and investments, which began in the residential housing sector, quickly moved to the commercial real estate and commercial property investments now play a large role in this sector throughout the world.

The Islamic funds represent about 4% of the Islamic financial industry but are observing a rapid growth. Of these funds, 39% of assets are invested in equity instruments, 15% in commodities, 12% in fixed income instruments, about 10% in real estate and 9% in money market instruments. Italy has already seen a significant flow of investment in real estate (hotels, commercial and residential properties and trophy assets in general) coming from Muslim countries and Qatar in particular) and it expected that, also due to the substantial re-pricing of Italian assets, this flow might even increase in the near future.

### V. KEY OPPORTUNITIES ISLAMIC SECTORS

Based on the analysis of various Islamic economy sector activities, global sector trends, and industry player inputs, the following have emerged as the most prominent opportunities within individual Islamic economy sectors.

#### A. Halal Food

Key areas of opportunities include investment opportunities across the Halal Food value chain; Halal Food SMEs seeking Islamic financing for working capital, trade financing, and expansion needs; M&A opportunities; organic and pure/ wholesome (Tayyab) new products; Halal ingredients; building global or regional brands that deliver on halal integrity.

#### B. Islamic Finance

Key areas of opportunities include: convergence of Islamic Finance/ capital with Halal Food and lifestyle sectors; Socially Responsible Investment (SRI) funds as well as wider impact investment and social entrepreneurship financing; Hajj/Umrah savings and funds; expansion markets of Tunisia, Azerbaijan, India, Morocco, and Indonesia; infrastructure spending across large OIC markets; crowdfunding and SME financing.

#### C. Halal Travel

Key areas of opportunities include Family-friendly and business travel cross-over appeal to Muslim-friendly services; luxury Muslim market segment; Halal travel as a commercial

real-estate investment opportunity; Hajj funds; Halal-themed packages; Muslim heritage gifts/souvenirs; e-commerce, mobile, social media marketing platforms.

#### D. Modest Fashion

Key areas of opportunities include digital/e-commerce platform; expansion of online startup brands with retail outlets, physical stores, franchising, and distribution partnerships; Western Muslim markets as the largest segment; better target marketing platforms; OIC-based exporters; cross-sell to other faith-based, modest-conscious consumers, with global brand positioning.

#### E. Media and Recreation

Key areas of opportunities include broadening the genre; gaming; marketing partnerships with other Halal lifestyle sectors; western Muslim markets; digital media content; integrating technology/new media, social media (Google Glass for apps, Oculus for virtual/ augmented reality); develop globally branded Halal media and celebrities or regional icons.

#### F. Pharmaceuticals and Cosmetics

Key areas of opportunities include Western Muslim markets; Halal vaccines -especially for Hajj/ Umrh; ingredients manufacturing; OIC-based manufacturers should own this opportunity; partner with major retailers and overcome political stigma over Halal brands.

### VI. ISLAMIC FINANCE IN EUROPEAN COUNTRIES

The overall magnitude of Islamic finance is still limited in Europe, with there being some notable difference between countries; a point clearly demonstrated by the country reports presented below.

#### A. France

According to Mauro et al [34], The enhancement of Islamic finance in France is linked to the great support from the French authorities, who have created a proper environment for such kind of finance in this nation. The EUROPLACE as the organization that encourages the role of the city as a financial center established the Islamic Finance Commission in December 2007. Since then, the French financial markets regulator, the Autorité des Marchés Financiers (AMF), has granted two positions allowing Sukuk listings and Shariah-compliant investment funds. As such, the Bourse de Paris (Paris stock exchange) has built a Sukuk segment, and four tax regulations (regarding the Ijarah, Murabahah, Sukuk, and Istisna) have been published that confirm a parity of tax treatment with conventional financial products.

In the last decade, the regulatory authorities of France have taken a number of steps to promote Islamic finance. The first initiative, which involved significant tax and regulatory changes aimed at boosting Islamic finance in France, was announced in July 2008. More specifically, these changes were related to the admission to listing of Sukuk on a French

regulated market, the tax treatment of Islamic financial transactions and, to a lesser extent, reforms of the Fiducie (French trust). Under these variations, compensation paid by Sukuk issuers is, for tax purposes, treated just like the interest on a traditional bond offering and is deductible from taxable income. In addition, the compensation paid to non-resident Sukuk investors is exempt from withholding tax in France, regardless of whether an offering is governed by French law or the laws of another country.

In July 2010, the French government made certain amendments to its laws in order to facilitate Sukuk issuances. The amendments removed double stamp duty, the payment of a capital gains tax on property and streamlined the regulations governing estate agents. In June 2011, France witnessed the introduction of the first Islamic deposit scheme operated via the Islamic window of an existing conventional bank. Following this successful launch, an Islamic home finance product, a 10-year Murabahah contract, was introduced. This was met with strong demand due to the fact that home financing has been a key expectation of French retail clients. Currently, there are plans to launch a similar Shariah-compliant deposit scheme aimed at small and medium-sized enterprises. The French tax authorities are also planning to issue additional guidelines dealing with other Islamic finance concepts, including Musharakah and Mudarabah, in the near future.

There are presently six Shariah-compliant funds in France with total assets under management of USD 147.2 million, which is split relatively evenly between money market (47%) and equity (53%) assets.

#### B. Germany

According to Mauro et al [34], Germany was the first European country to absorb funds from Islamic markets when, in 2004, the Sukuk bond (as an Islamic bond) the federal state of Saxony-Anhalt issued. The paper absorbed a strong request and was completely authorized, with remaining 40% to of the issue going to investors in Europe, especially ones in Germany and France, and the remaining 60% investors in Bahrain and the UAE. The €100 million Ijarah Sukuk (Islamic sale-and-leaseback debt instrument) was fully redeemed in 2009 [34].

In 2009, BaFin, Germany's Federal Financial Supervisory Authority, approved the foreign institution's request to perform banking operations within the country in accordance with Islamic principles. However, without a full banking license, the range of offerings remained limited. A follow-up conference on Islamic finance was organized by BaFin in May 2012, which had a special focus on Shariah-compliant capital market products (Islamic funds, Sukuk, and asset-backed securities).

The German market has also witnessed the offering of a new Shariah-compliant investment product that is benchmarked to the WestLB Islamic Deutschland Index. This is comprised of shares of ten German firms whose business activities are conducted in line with the Shariah.

In 2015, a fully-fledged Islamic retail bank, the Frankfurt-based KT Bank AG, owned by Kuveyt Turk, the largest

Islamic banking institution in Turkey was established and has opened its affiliates in Mannheim and Berlin.

### C. Italy

Italy is one of the most rapidly developing markets in Europe. A number of initiatives have been taken by Italian authorities to study the issues related to an expanded presence of Islamic finance. The *Banca d'Italia*, for example, has hosted a number of conferences on the subject. ABI, the Italian Banking Association, is currently coordinating a working group related to the issuance of a corporate or sovereign Sukuk.

Meanwhile, SIMEST (a financial institution supporting the development and promotion of Italian enterprises abroad) is working on the possibility of launching a “Mediterranean Partnership Fund”, part of which would be Shariah-compliant. This initiative, dedicated to promoting small and medium-sized enterprises in the MENA region through equity or semi-equity instruments, may involve the Union of Arab Banks, several Arab governments, and Islamic multilateral development banks – hence the proposal to introduce a Shariah-compliant component to this fund.

Furthermore, in December last year the president of the Finance Commission of the House of Parliament, Maurizio Bernardo, has appointed a group of experts to draft a bill of law to facilitate from a tax point of view recourse to Islamic finance contracts and techniques avoiding that the same are penalised in respect to conventional products, whilst on the capital market side an Italian law firm is currently working on the adaptation of the conventional products provided by the existing mini-bond legislation to include Islamic contracts and has hired Shariah advisors to develop and certify a Shariah-compliant product.

### D. United Kingdom

The United Kingdom has one of the most advanced Islamic financial markets in the western world and is quickly becoming a key destination for foreign Shariah-compliant institutions. The country is center to the West's first fully-fledged Shariah-compliant retail bank and currently, has five real Islamic banks. London, is a significant financial center, with great international organizations. In addition, the biggest Middle East originated traditional banks are active in London. In the 1980s, when the London Metal Exchange provided Shariah-compliant overnight deposit facilities based on the Murabahah principle Islamic financing activities started in the UK [34].

In 2005, the Sanctuary Building Sukuk was launched; the first corporate Sukuk in Europe and the first from the UK. Based on the same structure, the second corporate Sukuk was issued by International Innovative Technologies (IIT) Ltd in 2010 [34].

The Bank of England and the Financial Services Authority (FSA), the two banking regulators, have been open to the development of Islamic finance in the UK. The Islamic finance sector operates under a single piece of legislation that applies to all sectors, namely the Financial Services and Markets Act

2000. Hence, there is a level playing field for Islamic and conventional financial products, allowing the market to cater to the needs of ethnic minority consumers.

The UK government is enabling a fiscal and regulatory framework for Islamic finance includes the following [34]:

- the abolishment of capital gains tax and stamp duty (land tax) for Sukuk issuances and Shariah-compliant home mortgages;
- the reform of arrangements for bond issues so that returns and income payments are treated in a similar manner to interest;
- FSA initiatives to ensure that the regulatory treatment of Islamic finance is consistent with its statutory objectives and principles.

In 2014 Britain became the first country outside the Islamic world to issue sovereign Sukuk with its GBP 200 million issue maturing on 2019.

### E. Luxembourg

Luxembourg is considered as one of the greatest financial markets in Europe; based on the incentives, competitive pricing, and availability to European clients. Luxembourg has become the first European economy to list a Sukuk since 2012, there has been a total of 16 Sukuk listed on the exchange.

Now, Luxembourg is strongly being encouraged by its government to absorb more investments from Islamic territories like oil-rich nations and emerging rich countries. It turned to the first European jurisdiction to be compliant with UCITS IV at the December 2010, and as a significant residency for conventional as well as Islamic investments, it had a first-mover advantage.

In December 1982, the country established the Islamic life insurance operator. Luxembourg has a great traditional life assurance industry, although inspired by international business. Nevertheless, considering the small homeland Muslim residence in Luxembourg, any Islamic insurance operator's strategy was likely to be an international policy for their government.

Luxembourg is the center of the second largest investment fund organizations in the world after the United States. As concerns Islamic finance with USD 1 billion Islamic AuM, they are hugely equity funds domiciled in Luxembourg, promoted and managed by international investment organizations. Luxembourg, currently, is the leading non-Muslim country for Shariah-compliant investments.

In Sukuk, the Luxembourg Securitization Law, 22 March 2004, built an efficient and flexible framework for securitization vehicles. Since then, Luxembourg implemented a number of Shariah-compliant Sukuk structures. In 2009, the position of Luxembourg in Islamic finance was overwhelmingly promoted with the admission of its Central Bank as the first European Central Bank joined the IFSB.

Moreover, that year a major German bank launched a trading platform, al-Miyar, in Luxembourg to ease the issuance of Islamic securities.

Other EU members, following Luxembourg, have been looking to do the same procedure to absorb foreign funds. The favorable legal framework combined with the UCITS qualification allows Islamic funds domiciled in Luxembourg to be a successful tool for investors from Gulf willing to access the EU market.

In 2014 Luxembourg issued the first 5-year term € 200 Million Euro-denominated sovereign Sukuk.

## I. CONCLUSION

The function of religion on international entrepreneurship is getting completely prevalent in the post-secular societies. The ongoing promotion of Islamic financing, banks, and markets through the world, enhance the development of Islamic entrepreneurship [39]. Islam has frequently seen entrepreneurship the most productive source of prosperity. The criterion of business and providing the opportunity of employment is regarded as a form of giving or spending in the way of The Almighty Allah [31]. In this regard, conducting a business with Muslims or within Islamic territories requires respecting the culture and regulation of Islam.

However, to make a business successful in which at least one of the beneficiaries are Islam-oriented, it is urgent to understand the Islamic regulation (Shariah) and culture. In the paper, we opened views on the entrepreneurship in Islam, focusing on the Islamic finance activities. More precisely, the potential sector for Islamic finance is introduced. Finally, the most recent activities in Islamic finance in the most Islamic-interacting European countries are represented.

This paper has suffered from the lack of scientific literature regarding the export control and compliance in the international business field. Future lines of research can explore the different perspectives of the export control system and its applications for facilitating international entrepreneurship among different nations.

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