

# Institutional and Individual Drivers of Halal Practice among Asnaf Entrepreneurs: The Mediating Effect of Capacity-Building Programs

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## Abstract

This study investigates the institutional and individual factors influencing halal practices among asnaf entrepreneurs in Malaysia, with a particular focus on the mediating role of capacity-building programs. Grounded in institutional theory, the research examines how normative pressure, resource constraints, zakat institutional support, and entrepreneur awareness impact halal practice. Data was collected from 128 asnaf entrepreneurs through a structured survey and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that normative pressure, resource constraints, zakat institutional support, and awareness significantly influence halal practices. Furthermore, access to capacity-building programs mediates the relationship between zakat institutional support and halal practice, highlighting the critical role of training and development initiatives. This study extends institutional theory within the context of faith-based micro-entrepreneurship and underscores the need for integrated financial and non-financial support mechanisms to enhance halal practice among asnaf entrepreneurs. The results offer theoretical insights and practical implications for policymakers, zakat institutions, and development agencies working to empower asnaf entrepreneurs in the halal economy.

**Keywords:** Asnaf, Zakat, Halal Practice, Managing Zakat Institution

## Introduction

The halal industry has emerged as a significant economic driver globally, with increasing demand for products and services that comply with Islamic principles. In Malaysia and other Muslim-majority regions, the integration of asnaf into entrepreneurial activities is a key strategy for poverty alleviation and economic empowerment (Rahman et al., 2016). Business funding programs supported by zakat institutions aim to transform asnaf into self-sustaining entrepreneurs. However, achieving halal compliance in these ventures ensuring that products, processes, and operations align with Islamic standards presents unique challenges

(Basarud-din et al., 2019). These barriers can hinder the success of asnaf businesses, limiting their ability to compete in the halal market and achieve sustainable growth.

Halal practice in the context of asnaf business refers to the adherence to Islamic principles and guidelines in the operation and funding of businesses aimed at assisting the asnaf within the framework of Shariah (Salindal, 2019). This practice ensures that business activities are conducted in a manner that aligns with ethical standards, avoiding forbidden elements such as *riba*, gambling, and unlawful products or services. Halal practice is crucial in asnaf business, as it not only provides a means of income and empowerment for those in need but also ensures that the funding and operations of such ventures are in harmony with Islamic values. Adhering to halal practices in these businesses fosters both social responsibility and financial sustainability within the asnaf community.

Despite the rapid development of Malaysia's halal industry and the availability of zakat-based support mechanisms, a significant gap persists in ensuring that asnaf entrepreneurs among the most economically vulnerable groups can effectively align their business practices with halal standards. These entrepreneurs often operate with minimal formal training, limited access to halal certification resources, and fragmented institutional support, placing them at a systemic disadvantage within the halal economy. This disjunction between the regulatory ideals of halal compliance and the lived realities of the asnaf creates an urgent need to explore the underlying institutional and personal drivers that either enable or hinder halal practice.

This study is driven by a desire to understand and respond to this challenge. Specifically, it is motivated by the question of how institutional pressures and individual-level factors interact to influence halal compliance among grassroots entrepreneurs. As halal certification is not merely a religious obligation but also a gateway to economic legitimacy and consumer trust, addressing this issue holds profound implications for poverty alleviation, ethical business conduct, and inclusive economic development in Muslim-majority societies.

In response, this study makes several key contributions. First, it advances institutional theory by applying it to a faith-based, low-resource entrepreneurial context, offering new perspectives on how coercive, normative, and cognitive pressures manifest among marginalized actors. Second, it introduces capacity-building programs as a critical mediating factor that explains how institutional support translates into practical halal compliance an area previously underexplored in the literature. Third, the study contributes empirical evidence to inform policy design and zakat administration, suggesting that financial aid alone is insufficient without parallel investments in education, training, and entrepreneurial development. Collectively, these contributions not only extend theoretical understanding but also offer actionable insights for building a more inclusive and effective halal economic ecosystem.

### **Research Problem**

A critical research problem concerning halal practice among asnaf entrepreneurs in the Malaysian context lies in the persistent disconnect between the regulatory frameworks of halal certification and the socio-economic realities faced by asnaf entrepreneurs those classified under zakat eligibility due to poverty or hardship. Despite Malaysia's robust halal

ecosystem, asnaf entrepreneurs often lack the financial resources, institutional knowledge, and technical capacity required to meet stringent halal certification standards (Syakirah et al., 2024; Muhammad, 2016). This discrepancy not only limits their access to larger halal markets but also undermines national efforts to uplift this vulnerable group through entrepreneurship (Rani et al., 2022). The issue is compounded by limited targeted support from relevant agencies, inconsistent enforcement of standards, and insufficient integration of halal compliance training within asnaf-focused development programs. As such, there is a pressing need to investigate how structural, educational, and economic barriers intersect to hinder practice, and to explore context-specific, scalable solutions that align halal regulation with the developmental needs of asnaf entrepreneurs. Hence, the objective of this research is to identify and evaluate the institutional and individual-related barriers faced by asnaf entrepreneurs that limit their business growth and sustainability.

### **Significance of the Study**

This study is significant as it sheds light on the specific obstacles faced by a asnaf entrepreneur in aligning their businesses with halal standards, which are crucial for credibility and market acceptance in a predominantly Muslim country. Understanding these barriers ranging from normative pressure, resource constraint, zakat institutional support, awareness to design targeted interventions that empower asnaf entrepreneurs to achieve compliance. This, in turn, promotes economic inclusion, enhances the sustainability of their businesses, and strengthens the overall integrity of the halal ecosystem in Malaysia.

### **Literature Review**

#### *Halal Compliance in Business*

A growing body of literature highlights the increasing importance of halal compliance in business, particularly in Muslim-majority countries. According to Dahiya et al. (2025), halal compliance extends beyond food products to encompass logistics, finance, cosmetics, and pharmaceuticals, reflecting a comprehensive lifestyle approach. The authors emphasize that halal integrity must be maintained throughout the supply chain, not just in the final product. This holistic view is echoed by Quoquab et al. (2020), who argues that consistent halal assurance enhances consumer trust and brand loyalty. Both studies underscore the role of consumer perception in driving demand for halal-compliant goods and services, positioning halal compliance as a strategic business advantage rather than merely a religious obligation. However, while some studies focus on the benefits of halal certification, others explore the challenges businesses face in achieving compliance. Saima and Firdaus (2024) note that small business often struggle with the high costs, complex documentation, and lack of awareness associated with halal certification processes. In contrast, larger corporations with better resources tend to navigate these requirements more easily. This disparity points to a structural imbalance that could undermine inclusive growth in the halal industry. While Kamarulzaman et al. (2022) highlight technological innovations such as halal traceability systems as potential solutions, Rasyidah et al., (2025) argue that without proper government support and training, such tools may remain inaccessible to smaller players.

Critically examining these perspectives reveals a gap between policy and practice in halal compliance. Although scholars like Sakti (2023) advocate for a standardized global halal system to minimize ambiguity and fraud, local interpretations of halal regulations continue to vary significantly, posing practices challenges for multinational businesses. This disconnects

calls for a more integrated approach that combines regulatory reform, technological support, and capacity-building initiatives. By connecting these diverse strands of research, it becomes evident that achieving effective halal practice requires not only robust certification frameworks but also targeted support for under-resourced entrepreneurs and harmonization of standards across jurisdictions.

### *Institutional theory*

Institutional theory, which examines how institutional environments influence organizational behavior, offers a valuable lens through which to analyse barriers to halal practice among asnaf entrepreneurs in Malaysia. According to Alexander (2012), institutions consist of regulative, normative, and cultural-cognitive elements that shape the practices of individuals and organizations. In the context of halal practice, these elements manifest through government regulations, religious norms, and societal expectations. For asnaf entrepreneurs, these institutional pressures can present both enabling and constraining forces. The theory helps to explain how these entrepreneurs respond to external pressures, such as regulatory bodies and religious authorities, in their pursuit of halal certification.

A number of studies have applied institutional theory to halal business practices, highlighting the role of coercive, normative, and mimetic pressures in driving compliance. For instance, Xie et al. (2021) describe how coercive pressures, such as government mandates, push firms to conform to institutional expectations. In the Malaysian halal context, Jakim's certification requirements represent such coercive pressures. Rafiki (2014) note that while large firms adapt more easily due to resources and institutional alignment, asnaf entrepreneurs often lack the structural and financial capacity to comply, resulting in low participation in formal halal systems. Mimetic pressures such as imitating successful businesses and normative pressures from religious or community leaders also influence compliance behaviors, but the strength and impact of these pressures vary significantly across socio-economic groups.

Contrasting perspectives reveal limitations in institutional theory when applied to grassroots or informal entrepreneurship. While institutional theory assumes a certain level of organizational awareness and capacity, asnaf entrepreneurs often operate with minimal formal training or infrastructure. Honig and Samuelsson (2021) argue that institutional pressures may be perceived more as barriers than motivators by these entrepreneurs, especially when support mechanisms are lacking. This critique highlights a disconnect between institutional expectations and ground realities, where structural inequalities limit the ability of marginalized entrepreneurs to respond effectively. Moreover, while institutional theory often focuses on conformity, it does not adequately address resistance or non-compliance, which is common among asnaf entrepreneurs who may choose to remain informal or unregistered due to bureaucratic complexities.

Despite these limitations, institutional theory remains useful when integrated with other frameworks. For example, combining it with resource-based theory (Acedo et al., 2006) can offer a more holistic view of how institutional pressures interact with internal constraints such as limited capital, human resources, and technical knowledge. Studies like those by Leitao and Capucho (2021) propose that a hybrid approach can better capture the nuanced experiences of asnaf entrepreneurs, who are not only influenced by institutional demands

but also constrained by their socio-economic position. This intersection highlights the importance of capacity-building programs, institutional flexibility, and culturally tailored interventions that align regulatory standards with the lived realities of low-income Muslim entrepreneurs.

In conclusion, applying institutional theory to the issue of halal practices among asnaf entrepreneurs in Malaysia reveals both its explanatory power and its limitations. It effectively captures how external pressures shape business behavior, yet it often overlooks the adaptive strategies and informal practices that emerge in response to institutional barriers. To bridge this gap, scholars and policymakers should adopt an integrated theoretical approach that considers both institutional environments and entrepreneurial agency. By doing so, more inclusive and practical solutions can be developed to support asnaf entrepreneurs in achieving halal practice, ultimately fostering equity and sustainability within Malaysia's halal ecosystem.

### *Hypothesis development*

#### Normative pressure and halal practice

What motivates asnaf entrepreneurs in Malaysia to consistently engage in halal business practices? Preliminary research suggests that social norms and community expectations significantly shape entrepreneurial behavior, especially in culturally and religiously sensitive contexts (Meek et al., 2010). In this study, the independent variable is normative pressure referring to the influence exerted by peers, religious authorities, and society to conform to accepted standard. Meanwhile the dependent variable is the adoption of halal practices in business operations. Normative pressure can stem from both formal sources (e.g., Islamic bodies, government regulations) and informal social networks (e.g., family, religious community). If asnaf entrepreneurs perceive strong normative pressure from their community to comply with halal standards, then they are more likely to integrate and uphold halal practices in their businesses.

Previous studies, by Abdul Razak (2018), Raquib and Khan (2019) and Muhamad et al. (2017) have shown that religious-based norms and communal expectations play a significant role in shaping ethical and halal-related decisions among Muslim entrepreneurs in Malaysia. These findings support the hypothesis that normative pressure can act as a powerful motivator for asnaf entrepreneurs, a group already embedded in religious and socio-economic support systems. Therefore, this study hypothesizes that if normative pressure increases, then the likelihood of adopting halal practices among asnaf entrepreneurs will also increase. This hypothesis is built on a strong foundation of socio-religious dynamics and is essential for understanding how behavioral drivers can influence compliance with halal standards in asnaf entrepreneur. Based on above discussion, the following research hypothesis is established:

H1. Normative pressure is positively related to halal practice among asnaf entrepreneur  
Resource constraint and halal practices

To what extent do resource constraints affect the ability of asnaf entrepreneurs in Malaysia to implement halal business practices? Preliminary research indicates that limited financial capital, lack of access to halal certification resources, and insufficient training or infrastructure can significantly hinder the adoption of halal standards among micro and small enterprises

(Haleem et al., 2020; Khan et al., 2019; Prabowo et al., 2015). In this study, resource constraint is defined as the shortage of financial, human, and informational resources. If asnaf entrepreneurs face greater resource constraints, then they are less likely to consistently adopt or maintain halal practices in their business operations.

Previous research by Saima and Firdaus (2024) and Ardiantono et al. (2024) supports this hypothesis, showing that small and medium enterprises (SMEs) with limited access to halal-related support struggle to meet halal compliance requirements. This challenge is often amplified among asnaf entrepreneurs, who already operate under economic hardship and limited institutional support. Therefore, this study hypothesizes that if resource constraints increase, then the likelihood of adopting halal practices among asnaf entrepreneurs will decrease. By exploring this relationship, the study aims to highlight critical barriers that need to be addressed to support sustainable and Shariah-compliant entrepreneurship among Malaysia's economically disadvantaged Muslim communities. Thus, the research hypothesis is:

H2: Resource constraint is positively related to halal practice among asnaf entrepreneur.  
Zakat institutional support and halal practice

In addressing the persistent economic disparity faced by asnaf entrepreneurs in Malaysia, this research aims to examine the relationship between zakat institutional support and the practice of halal principles in business operations. Despite the availability of zakat funds and institutional programs designed to empower asnaf entrepreneurs, there remains a question of how effectively this support translates into the implementation of comprehensive halal practices. Preliminary research indicates that while financial aid and training from zakat institutions are available, the extent to which they influence ethical and halal business conduct among asnaf remains unclear (Joremi et al., 2023). To explore this, the study defines zakat institutional support as the structured financial aid, training, and advisory services provided by zakat institutions.

Previous studies support this proposition. For instance, research by Meerangani et al. (2023) suggests that zakat aid has a positive impact on entrepreneurial performance, but the integration of religious compliance such as halal practices was only implicitly assumed, not measured. Furthermore, a study by Zakiy et al. (2023) highlights that effective institutional support plays a critical role in aligning business operations with Islamic values. Therefore, it is reasonable and timely to hypothesize that structured and sustained zakat institutional support contributes directly to enhancing halal business conduct among asnaf entrepreneurs. This study scrutinizes the proposed hypothesis to fill the existing gap in understanding how institutional religious aid not only supports income generation but also reinforces Islamic ethical compliance in the entrepreneurial journey. Hence, the research hypothesis is:

H3: Zakat institutional support is positively related to halal practice among asnaf entrepreneur.

#### *Asnaf entrepreneur awareness and halal practice*

One of the pressing challenges facing asnaf entrepreneurs in Malaysia is the inconsistent application of halal practices within their business operations, despite operating in a predominantly Muslim society. Preliminary research indicates that several asnaf entrepreneurs struggle with a limited understanding of halal standards, including processes,

supply chain integrity, and compliance with Shariah-compliant principles (Rani et al., 2022). The independent variable in this study is the asnaf entrepreneurs' capacity or awareness about halal.

Previous studies have emphasized that entrepreneurs with greater knowledge of halal requirements are significantly more likely to maintain halal integrity throughout their value chain (e.g., Abd. Rahman et al., 2019; Basarud-din et al., 2019). These findings suggest a strong correlation between awareness and implementation. However, in the context of asnaf entrepreneurs who may have limited access to training and formal education, the level of halal awareness might not automatically translate into proper practice. This study aims to scrutinize the extent to which awareness influences action, and whether enhancing knowledge alone is sufficient to ensure compliance. A clearer understanding of this relationship will help policymakers and zakat institutions develop more targeted capacity-building programs for sustainable, Shariah-compliant entrepreneurship among asnaf communities. Thus, the hypothesis is:

H4: Asnaf entrepreneur awareness is positively related to halal practice among asnaf entrepreneur.

#### *Access to capacity-building program*

One of the significant challenges confronting asnaf entrepreneurs in Malaysia is their difficulty in consistently maintaining sustainable and standardized halal practices, which are essential for gaining wider market access and establishing consumer confidence. Despite receiving zakat assistance, many asnaf entrepreneurs struggle to align their operations with halal standards due to a lack of knowledge, training, and ongoing institutional support. Preliminary research indicates that while zakat institutions provide financial aid, their role in developmental support especially through structured training and capacity building, it's remains underexplored (Ikawati & Rahman, 2022; Rachman, et al., 2023). Framed as a conditional hypothesis, if zakat institutional support is effectively delivered, then halal practices among asnaf entrepreneurs will improve, particularly when access to capacity building programs is available. This hypothesis reflects a growing emphasis in literature on developmental zakat and human capital enhancement within Islamic economics.

Past studies by scholars such as Shiyuti et al. (2021), Halim et al. (2012) and Bahri et al. (2021) have shown that financial support alone is insufficient to uplift asnaf entrepreneurs without complementary non-financial interventions like business training and halal compliance workshops. Therefore, this study hypothesizes that zakat institutional support has a positive effect on halal practices, and this relationship is mediated by access to capacity building programs. By scrutinizing this hypothesis, the research contributes to a deeper understanding of how zakat institutions can play a transformative role not just in poverty alleviation but in empowering asnaf to comply with ethical business standards and thrive in the halal economy.

H5: Access to capacity-building program mediates the relationship between zakat institutional support and halal practices.

After formulating the hypothesis, this study establishes the research framework to guide the investigation process. The framework outlines the key variables, their relationships,

and the underlying theories supporting the study. It serves as the structural basis for data collection, analysis, and interpretation.

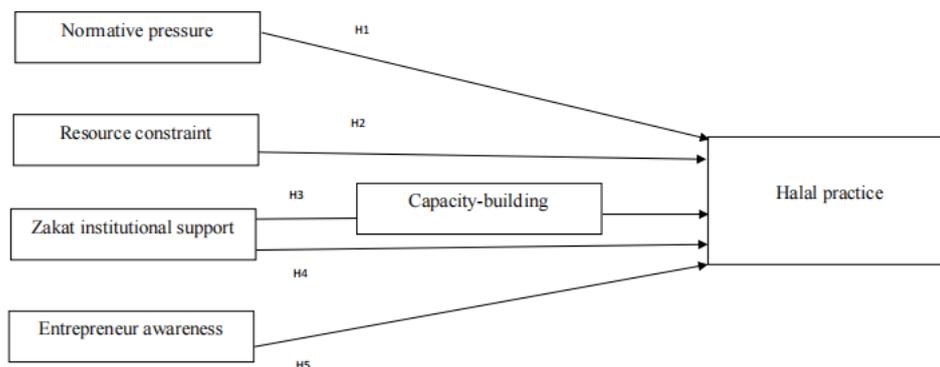


Figure 1: Research framework

## Research Method

### *Procedure*

I have contacted the Zakat Institution and obtained a list of asnaf entrepreneurs. I informed the asnaf entrepreneurs about their voluntary participation and assured them of the confidentiality and privacy of their information. I secured their formal agreement in writing. To determine the appropriate sample size, G-Power 3.1 was utilized (Ryan, 2020). Based on Cohen's (1992) guidelines, a preferred statistical power of 0.90 and a medium effect size of 0.15 were specified, resulting in a minimum required sample size of 128 participants. In this study, a purposive sampling approach was employed to ensure representation across various sectors, thereby capturing a broader cross-section of the target population (Campbell et al., 2020).

A pilot study was conducted with 30 asnaf entrepreneurs who had received zakat business capital. The results showed that all constructs achieved Cronbach's Alpha values above the acceptable threshold of 0.70, demonstrating adequate reliability (McNeish, 2018). Following that, a minor adjustment was made to the instrument. The finalized questionnaire was administered between January to April 2025. Since the participants were readily available in person, a paper-based survey was employed, and completed responses were collected directly from the respondents. As a result of face-to-face engagement, all 128 distributed questionnaires were successfully completed and returned, yielding a 100% response rate.

### *Instruments*

All respondents were Malay speakers. To ensure accurate translation and alignment with the research objectives and constructs, two scholars proficient in both English and Malay were appointed. One scholar translated all measurement items from English to Malay, while the other reviewed the translation, resolved any discrepancies, and finalized the questionnaire. The study employed a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

The measures of normative pressures were adapted from studies in the halal management literature. More specifically, the scales adapted from Jan et al. (2012). The example is: "Halal approach has been widely adopted by our customers currently". Then

Thong's (2001) three items about resource constraint scale such as "understanding of halal management in comparison to other small companies" were adopted. This study assessed zakat institutional support through seven items adapted from Kazumi and Kawai (2017). The sample items are: "In my country, any asnaf entrepreneur who needs assistance from a zakat institution program for a new business can find what she/he needs". For asnaf entrepreneur awareness, four item scale (Basri & Kurniawati, 2019) were used. The questions asked asnaf entrepreneur to rate regarding their halal belief. Here are sample items "The belief that what is consumed/produced contains halal ingredients". This study selected the three items from Rahman et al. (2011) about halal practice and the sample of item: "Adopting halal practices improves my business image". Finally, five items of access to capacity-building program were selected from Keitany and Chepkwony (2023). The example of item: "There are capacity building programs on halal management to empower asnaf entrepreneur to participate".

## **Results**

### *Demographic profile*

A total of 128 asnaf entrepreneurs participated in this study. The demographic distribution in Table 1 provides essential context for understanding the barriers to halal practices experienced by this group. Out of 128 respondents, 90 were male (70.31%) and 38 were female (29.69%). This shows a clear male dominance among asnaf entrepreneurs in the sample, which may reflect broader trends in entrepreneurship within this segment of the population. The majority of respondents were within the 31–40 age group (42.19%), followed by the 41–50 age group (32.03%). This suggests that most asnaf entrepreneurs are in their economically productive years. Only 7 respondents (5.47%) were above 50, and no participants were below 20, indicating low youth involvement in entrepreneurship within this group. In terms of business experience, most respondents have been operating for a significant period. 61 respondents (47.66%) have been in business between 4–6 years, and 45 respondents (35.16%) have been in business for more than 6 years. Only 2 respondents (1.56%) had less than 1 year of experience, indicating a relatively established entrepreneur base. The demographic profile indicates that the asnaf entrepreneur population in this study is predominantly by male, between the ages of 31 to 50 and had an experienced, with more than 60% having over 4 years in business. This background is important as it influences their awareness, understanding, and potential barriers in implementing halal practices.

Table 1

*Respondent profile*

Item	Frequency	Percentage
<i>Gender</i>		
Male	90	70.31%
Female	38	29.69%
<i>Age</i>		
Below 20	20	0%
21-30	26	20.31%
31-40	54	42.19%
41-50	41	32.03%
Above 50	7	5.47%
<i>Years in Business</i>		
Less than 1 year	2	1.56%
1-3 years	20	15.63%
4-6 years	61	47.66%
Above 6years	45	35.16%

*Measurement model*

Partial Least Squares Structural Equation Modeling (PLS-SEM) version 3.2.8 was selected because it is particularly well-suited for exploratory research involving complex models and constructs that are not normally distributed. Unlike traditional covariance-based SEM, PLS-SEM does not require multivariate normality and performs well with smaller sample sizes, making it appropriate for this study's dataset of 128 respondents. Additionally, PLS-SEM strengthens the reliability of the findings by allowing simultaneous analysis of measurement and structural models, ensuring robust assessments of internal consistency, convergent validity, and discriminant validity (Hair et al. (2018).

The Composite Reliability (CR) values for all measured variables ranged between 0.877 and 0.948, indicating strong internal consistency among the items used to assess each construct (Kline, 2010). In terms of convergent validity, the Average Variance Extracted (AVE) values fell within the range of 0.622 to 0.833, suggesting that a significant proportion of variance in the observed variables is captured by their respective latent constructs (Hair et al., 2018). Additionally, the results supported discriminant validity through HTMT, as all inter-construct correlation values remained below the 0.85 threshold, meeting recommended standards (Kline, 2010). Lastly, the Variance Inflation Factor (VIF) scores for normative pressure, resource constraints, institutional support, and asnaf entrepreneur awareness were all under 3, indicating that multicollinearity is not a concern in this dataset (Hair et al., 2018).

To assess potential common method variance (CMV), this study followed the approach outlined by Podsakoff et al. (2012). Using Harman's single-factor test (1967), all relevant items were included in an exploratory factor analysis (EFA), which revealed the presence of six distinct factors with eigenvalues exceeding 1. The first factor explained just 25% of the overall variance. The results from our analysis provided solid evidence supporting the construct validity of the measures used, indicating no significant issues related to reliability or common method variance (CMV) in this research.

Table 2

*Heterotrait-Monotrait ratio of correlations (HTMT)*

	Normative pressure	Resource constraint	Zakat institutional support	Entrepreneur awareness	Capacity building	Halal practice
Normative pressure						
Resource constraint	0.302					
Zakat Institutional Support	0.411	0.528				
Entrepreneur awareness	0.237	0.280	0.367			
Capacity building	0.352	0.299	0.462	0.544	0.667	
Halal practice	0.296	0.303	0.254	0.422	0.398	0

*Structural model*

To examine the mediation effects, this study applied the bootstrapping technique with 5,000 resamples, utilizing bias-corrected confidence intervals at the 95% confidence level, following the procedures recommended by Preacher and Hayes (2008). The findings of the analysis are displayed in Table 3. The hypothesis 1 showed a significant effect ( $\beta = 0.323$ ,  $t = 7.340$ ,  $p = 0.000$ ), which proposed a positive relationship between normative pressure and halal practice. In a similar manner, hypothesis 2 was strongly supported, as evidenced by ( $\beta = 0.312$ ,  $t = 6.783$ ,  $p = 0.000$ ) indicating a significant positive relationship between resource constraint and halal practice. Hypothesis 3 is likewise validated, revealing a positive association between zakat institutional support and halal practice with a ( $\beta = 0.454$ ,  $t = 8.255$ ,  $p = 0.000$ ) thereby reinforcing the proposed relationship. Hypothesis 4 exhibits a statistically significant positive correlation, as evidenced by a ( $\beta = 0.277$ ,  $t = 7.289$ ,  $p = 0.000$ ). This suggests a high level of statistical significance, strongly supporting the proposed hypothesis within the framework of the analysis. Finally, the results presented in Table 3 (hypothesis 5) reveal a statistically significant mediation effect involving access to capacity building program, with a ( $\beta = 0.311$ ,  $t = 4.507$ ,  $p = 0.000$ ), indicating a high level of significance. These findings posit that zakat institutional support indirectly influences halal practices through the mediating role of access to capacity building program.

Table 3

*Hypothesis testing*

	Relationship	Std. Beta	Std. Error	t-value	p-value	Decision	R <sup>2</sup>	Q <sup>2</sup>
H1	NP→HP	0.323	0.044	7.340	0.000	Supported	0.678	0.251
H2	RC→HP	0.312	0.046	6.783	0.000	Supported		
H3	ZS→HP	0.454	0.055	8.255	0.000	Supported		
H4	EA→HP	0.277	0.038	7.289	0.000	Supported		
H5	ZS→CB→HP	0.311	0.069	4.507	0.000	Supported		

The model demonstrates a high degree of explanatory power, as indicated by the R<sup>2</sup> value of 0.678. This means that approximately 67.8% of the variance in halal practice can be explained by the combined influence of normative pressure, resource constraints, zakat institutions support and entrepreneur awareness. Such a high R<sup>2</sup> value signifies a strong model fit and validates the relevance of these predictors in understanding halal practices.

Moreover, the Q<sup>2</sup> value of 0.251 confirms the model's predictive relevance, indicating that it possesses sufficient accuracy when applied to data outside the current sample. This further strengthens the model's practical utility in real-world applications. The findings highlight the multifaceted nature of halal practices, which are shaped not only by institutional but also by individual factors.

### Discussion

The findings of this study highlight the critical role of normative pressure in influencing halal practices. The significant and positive relationship observed suggests that external expectations, societal norms, and peer influences can drive organizations to align with halal standards. This outcome aligns with institutional theory, which emphasizes how social norms and expectations shape organizational behaviour. It also underscores the importance of cultural and ethical environments in shaping business practices, especially in religiously sensitive sectors like halal industries.

Resource constraints also emerged as a significant factor influencing halal practice. This indicates that even in the face of limited resources, firms are motivated to comply with halal standards, possibly due to the perceived long-term benefits such as increased market access and customer trust. The findings suggest that organizations may prioritize halal compliance despite resource limitations, treating it as a strategic necessity rather than a discretionary initiative. This outcome reinforces the need for support mechanisms that can alleviate the burden on resource-constrained firms while encouraging adherence to halal standards.

The study also provides robust evidence supporting the positive influence of zakat institutional support on halal practices. Zakat institutions, through their financial and advisory roles, appear to offer crucial backing that facilitates organizational compliance with halal requirements. This finding reflects the potential for religious financial institutions to play a more active developmental role in supporting ethical business practices. Moreover, it highlights the interplay between religious obligations and operational effectiveness,

particularly in regions where zakat is institutionalized and integrated into broader economic systems.

Another key insight from the analysis is the role of access to capacity-building programs. The results suggest that when organizations are given the opportunity to enhance their skills and knowledge, particularly through structured programs, their ability to implement halal practices improves significantly. This not only confirms the effectiveness of educational and training initiatives but also points to the importance of policy-level interventions that provide continuous learning opportunities. Such capacity-building efforts can be instrumental in bridging the knowledge gap and empowering businesses to meet halal standards more effectively.

Finally, the mediation analysis reveals that access to capacity-building programs serves as a critical pathway through which zakat institutional support influences halal practices. This mediated relationship suggests that the support provided by zakat institutions is more impactful when coupled with structured opportunities for learning and development. It demonstrates how institutional support must go beyond financial aid and extend into knowledge dissemination and capability enhancement. This has important implications for policymakers and zakat administrators, indicating that a comprehensive support framework encompassing both resources and training is essential for fostering compliance with halal standards.

### **Theoretical Implication**

This study extends institutional theory into the domain of faith-based micro-entrepreneurship by demonstrating how the three institutional pillars such as regulative, normative, and cultural-cognitive interact in shaping halal practices among asnaf entrepreneurs. While previous studies have predominantly examined these pillars in formal organizational settings (Alexander, 2012; Hopkins & Spillane, 2015), this study findings reveal that even in semi-formal, low-resource environments, such as those influenced by zakat institutions, these pressures remain salient. This expands the scope of institutional theory to include marginalized entrepreneurial groups operating within Islamic welfare ecosystems, suggesting that formalization is not a prerequisite for institutional influence.

Normative pressure and halal practice illustrates the central role of religious norms in guiding entrepreneurial behavior. In communities where identity is closely linked to Islamic values, the desire for social and spiritual legitimacy can outweigh formal regulatory requirements (King, 2007). This implies that normative mechanisms shaped by shared values, peer expectations, and religious teachings can act as powerful motivators for compliance, often rivalling or exceeding coercive pressures. Theoretical models of institutional influence should thus give greater emphasis to moral authority in value-driven contexts.

The positive influence of constraints on halal practice challenges traditional resource-based views that associate compliance with resource abundance. Contrary to expectations that standards like halal require slack resources (Haleem et al., 2020; Khan et al., 2019), the data suggest that constrained asnaf entrepreneurs may prioritize halal adherence precisely because it provides credibility, legitimacy, and market differentiation. This finding invites a revision of existing theoretical assumptions, suggesting that resource scarcity can act as a

catalyst for selective investment in religiously mandated practices, reframing compliance as a strategic, not merely resourced-based, choice.

The observed effect of zakat institutional support on halal practice underscores the multifaceted role that Islamic welfare institutions play. Unlike typical regulatory bodies, zakat institutions blend financial, advisory, and religious guidance, operating as hybrid carriers of institutional influence (Meerangani, 2023; Zakiy et al., 2023). This reconceptualization positions zakat bodies not just as funding sources, but as faith-embedded infrastructures that enable religiously aligned entrepreneurship. Institutional theory may thus benefit from incorporating these hybrid actors, particularly in faith-sensitive, bottom-of-the-pyramid environments.

The mediating role of capacity-building programs highlights learning and capability development as key mechanisms through which institutional support translates into compliance. This finding aligns with capability-based views (Ikawati & Rahman, 2022; Bahri et al., 2021), suggesting that training and education are essential in converting external resources into internal halal practices. It also reinforces the idea that financial support alone is insufficient without corresponding investments in entrepreneurial learning. Institutional theorists should, therefore, attend more closely to intermediary mechanisms like education and training that enable the internalization of normative and regulative pressures.

### **Managerial Implications**

The findings of this study have significant managerial implications, particularly for institutions responsible for supporting asnaf entrepreneurs such as zakat authorities, Islamic development agencies, and entrepreneurship centres. Recognizing the influence of institutional drivers such as regulatory support, financial assistance, and religious governance can guide these bodies in formulating structured policies that promote adherence to halal practices. Managers in these institutions must ensure that policies are aligned with Shariah principles while also being practically implementable, thus encouraging widespread halal compliance among asnaf micro-entrepreneurs (Zain & Zakaria, 2022). Zahiri & Sahal, 2025).

On an individual level, the research highlights the importance of personal motivation, religious commitment, and halal awareness in driving ethical business conduct. This implies that managerial efforts in entrepreneurial development must go beyond technical skills and include programs that enhance personal values and ethical awareness (Rangkuti, 2023). Managers and program designers should embed modules on Islamic business ethics, halal certification processes, and value-based leadership into training curricula. This approach fosters a stronger internal drive among asnaf entrepreneurs to adhere to halal standards, even in the absence of strict external monitoring.

Moreover, the study underscores the mediating role of capacity-building programs in translating institutional and individual drivers into actual halal practices. This suggests that managerial investment in well-designed, context-specific training programs can significantly improve the practical application of halal principles. Managers should focus on continuous learning opportunities, mentorship, and hands-on training to enhance the entrepreneurs' capacity. These programs should be adaptive and responsive to the evolving needs of asnaf

entrepreneurs, ensuring sustainable growth within the halal economy framework (Raimi et al., 2025).

### **Limitations and Future Research**

This study, while offering meaningful insights into the halal practices of asnaf entrepreneurs, is not without limitations. First, the use of a purposive sampling technique, although suitable for exploratory research, may limit the generalizability of the findings to the broader population of asnaf entrepreneurs across Malaysia. The sample of 128 respondents, while adequate for PLS-SEM analysis (Hair et al., 2017), may not fully represent the diversity of experiences, particularly from rural or underrepresented regions. Moreover, the cross-sectional design restricts the ability to capture changes in halal practice adoption over time or in response to evolving institutional support. Consequently, the dynamic nature of entrepreneurial development and institutional engagement may be insufficiently reflected in this study (Podsakoff et al., 2012).

Another limitation lies in the exclusive reliance on self-reported data collected through structured questionnaires. This introduces the potential for social desirability bias, especially on sensitive topics like religious compliance and zakat usage (McNeish, 2018). While Harman's single-factor test suggested minimal common method variance, more rigorous techniques such as marker variables could further strengthen the reliability of the results. Additionally, although the constructs demonstrated high internal consistency and validity (Kline, 2010), the study did not include qualitative insights that could deepen the understanding of contextual nuances, such as informal halal practices or personal motivations behind non-compliance. These aspects are crucial in settings where formal structures may not fully align with grassroots realities (Honig & Samuelsson, 2021).

Future research could adopt a mixed-methods approach to enhance the depth and breadth of findings. Incorporating qualitative interviews or focus groups would provide richer, more nuanced insights into how asnaf entrepreneurs perceive and navigate institutional, financial, and normative pressures related to halal compliance. Longitudinal studies tracking entrepreneurs over time could better capture the impact of capacity-building programs and evolving institutional support mechanisms. Moreover, comparative studies between urban and rural asnaf populations or between different Malaysian states could reveal geographic disparities in access to zakat support and halal training (Rani et al., 2022; Meerangani, 2023). Future studies should also examine the influence of digital literacy and halal tech innovations, which are gaining traction but remain understudied among low-income Muslim entrepreneurs (Kamarulzaman et al., 2022).

The current study applied institutional theory effectively but recognized its limitations when dealing with informal or resource-constrained entrepreneurs. Future research could extend the theoretical scope by integrating other relevant frameworks, such as the resource-based view (Acedo et al., 2006) or socio-cognitive theory, to better explain individual-level motivation and behavioral adaptations. Investigating resistance to halal certification, or how informal practices substitute for formal compliance, could provide critical insights into the resilience strategies employed by marginalized entrepreneurs (Leitao & Capucho, 2021). Additionally, research could explore the role of religious identity, peer mentorship, and social capital in mediating the relationship between institutional structures and entrepreneurial

agency. Such extensions would enrich the scholarly understanding of halal entrepreneurship in low-income communities and guide more inclusive policy design.

### **Conclusion**

Based on the comprehensive findings of this study, it is evident that both institutional and individual factors significantly influence halal practice among asnaf entrepreneurs. The results strongly support the idea that normative pressures, resource constraints, institutional support, and individual awareness all play pivotal roles in shaping halal practice. The study affirms the relevance of institutional theory in understanding the behavioral dynamics of asnaf entrepreneurs while also highlighting its limitations in fully capturing grassroots realities. Most notably, the research confirms that zakat institutional support alone is insufficient unless it is complemented by access to capacity-building programs. This mediated relationship underscores the importance of a holistic support system that includes financial aid, knowledge enhancement, and consistent training to foster ethical and sustainable entrepreneurial practices.

In conclusion, the findings carry substantial implications for both theory and practice. Theoretically, they suggest that a hybrid approach combining institutional theory with human capital and resource-based perspectives provides a more comprehensive understanding of halal compliance challenges. Practically, the study advocates for zakat institutions and policymakers to integrate capacity-building initiatives into their support structures to ensure that assistance leads not only to economic empowerment but also to the adoption of halal practices. Such interventions can help close the compliance gap, enhance the credibility of asnaf businesses, and strengthen the overall integrity of Malaysia's halal ecosystem. Ultimately, this research contributes to the discourse on inclusive economic development by illustrating how targeted support can transform vulnerable entrepreneurs into compliant and competitive players in the halal economy.

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