

## Developing Islamic Ethical Institutionalization Capability in Halal Logistics: An Integrative Framework for Sustainable Halal Supply Chains

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### Abstract

The rapid expansion of the global halal economy has intensified the need for logistics systems that uphold both operational efficiency and ethical integrity. Despite growing academic attention, most halal logistics research remains compliance-oriented, emphasizing certification and segregation rather than the institutionalization of Islamic ethical values. This paper develops and advances the construct of Islamic Ethical Institutionalization Capability (IEIC)—a dynamic capability that transforms Islamic moral intent into enduring systems of governance and technological reinforcement. Drawing on Institutional Theory (Scott, 2008) and Maqasid al-Shariah (Dusuki & Abdullah, 2007), the model integrates three interactive mechanisms: ethical internalization, ethical governance, and technological reinforcement. Together, these mechanisms enable organizations to convert ethical conviction into structured, traceable, and adaptive institutional processes. The framework explains how IEIC produces both institutional legitimacy—through social and regulatory acceptance—and spiritual legitimacy—through divine accountability. By framing ethics as an organizational capability that can be developed and renewed (Teece, 2007), IEIC applies dynamic capabilities theory to ethical management, contributing to the Islamic management literature through a process-oriented approach to understanding ethical resilience. The paper also identifies specific conditions necessary for IEIC to succeed, including organizational maturity, cultural integration, and technological infrastructure. Additionally, it presents testable propositions

that connect ethical values, governance structures, and technological transparency to sustainable halal supply chain performance. The study concludes that maintaining halal integrity over time requires internal organizational commitment to Islamic ethics rather than reliance on external oversight. As such, IEIC offers both a theoretical framework and practical guidance for developing halal logistics into a self-sustaining ethical system that integrates religious principles, governance mechanisms, and technology to achieve lasting ethical legitimacy.

**Keywords:** Islamic Ethical Institutionalization Capability, Halal Logistics, Maqasid al-Shariah, Institutional Theory, Spiritual Legitimacy

### **Introduction**

The halal economy has experienced rapid global expansion over the past decade and is projected to exceed US\$3 trillion by 2025, spanning sectors such as food, pharmaceuticals, cosmetics, finance, and logistics (DinarStandard, 2024). As halal trade becomes increasingly internationalized, logistics systems have emerged as a critical component in ensuring that halal integrity is preserved throughout the supply chain. Halal logistics involves the management of transportation, storage, and handling processes in ways that prevent contamination and maintain compliance with Islamic principles. However, the growing complexity of global supply networks, the involvement of multiple third-party logistics providers, and the increasing reliance on digital technologies have introduced new governance and traceability challenges for halal supply chains. Maintaining halal integrity has thus become not only a regulatory necessity but a moral and reputational imperative for firms seeking legitimacy in both Muslim and non-Muslim markets (Syed et al., 2022; Zailani et al., 2017). Recent studies indicate that technological innovations such as blockchain, Internet of Things (IoT), and digital traceability systems can improve transparency and monitoring across logistics networks (Harsanto, 2024; Hassam et al., 2025; Shahrudin et al., 2025). Despite these developments, maintaining halal integrity across complex global logistics systems remains a persistent challenge, highlighting the need for integrative frameworks that combine ethical governance, institutional structures, and technological capabilities.

Over the past decade, halal logistics scholarship has largely approached compliance as a procedural function, focusing on certification requirements, physical segregation, and documentation processes across supply chains (Ab Talib & Hamid, 2014; Tieman, 2021). These studies have contributed significantly to the operational understanding of halal logistics and have helped establish industry guidelines for ensuring halal assurance. Nevertheless, much of the existing research frames halal assurance primarily as a regulatory or technical exercise rather than as an ethical organizational system. Empirical studies have documented continuing challenges related to certification inconsistencies, limited supply-chain transparency, and coordination difficulties across international halal logistics networks (Rahman et al., 2023; Syed et al., 2022). Recent reviews of halal supply chain research also emphasize the need for more integrative frameworks that connect ethical governance, institutional capability, and sustainability in halal logistics systems (Kurniawati, 2023). Ethical breaches, certification scandals, and digital manipulation cases have highlighted that procedural compliance alone cannot guarantee enduring trust or legitimacy (Ali et al., 2021). Collectively, these findings suggest that procedural compliance mechanisms alone may not be sufficient to guarantee long-term halal integrity or sustain stakeholder trust.

The limitations of compliance-based approaches reveal a deeper conceptual problem: the gap between formal regulatory adherence and genuine ethical commitment. Organizations may obtain halal certification in the short term yet lack the institutional capacity to sustain ethical integrity when confronted with operational complexity, market pressures, or technological change. This situation reflects what institutional scholars describe as decoupling, where formal policies and certifications exist symbolically but are not fully embedded in everyday organizational practices (Meyer & Rowan, 1977). Within halal logistics systems, such decoupling may lead firms to satisfy certification requirements while failing to internalize the ethical principles underlying Shariah-compliant business conduct (Ali et al., 2021). As a result, while current halal logistics frameworks provide important operational guidance, they offer limited theoretical insight into how Islamic ethical values can be embedded as enduring organizational capabilities that sustain integrity across complex supply chains.

This limitation points to a critical research gap within both halal logistics and Islamic management scholarship. Although Islamic ethical values such as amanah (trust), adl (justice), and ihsan (excellence) are widely recognized as foundational principles guiding Islamic economic behaviour (Beekun & Badawi, 2005; Ali & Al-Owaihah, 2008), existing studies rarely examine how these values can be systematically institutionalized within organizational governance structures and technological infrastructures. In other words, while Islamic management literature emphasizes ethical ideals, logistics research has largely concentrated on operational compliance mechanisms, resulting in a disconnect between ethical philosophy and institutional practice. Addressing this gap requires a theoretical framework capable of explaining how Islamic ethical principles can be translated into governance systems, organizational routines, and technological mechanisms that sustain halal integrity across complex supply chains.

To address this gap, the present study introduces the concept of Islamic Ethical Institutionalization Capability (IEIC). IEIC is defined as an organization's dynamic ability to internalize Islamic ethical values, institutionalize them through governance structures, and reinforce them through technological systems in order to sustain both institutional and spiritual legitimacy. Unlike existing halal governance or ethical compliance frameworks that primarily focus on regulatory adherence, IEIC conceptualizes ethical integrity as an institutional capability that evolves through the interaction of ethical internalization, governance mechanisms, and technological reinforcement. Drawing on Institutional Theory (Scott, 2008) and the framework of Maqasid al-Shariah (Dusuki & Abdullah, 2007), the study proposes an integrative model explaining how Islamic ethical principles evolve from moral values into durable institutional practices. By conceptualizing ethics as a dynamic organizational capability (Teece, 2007), the study shifts the analytical focus from procedural compliance toward ethical institutionalization. In doing so, it provides a conceptual framework explaining how halal logistics organizations can integrate faith-based values, governance mechanisms, and technological transparency to achieve sustainable halal supply-chain performance.

Beyond the context of halal logistics, this study also contributes to broader debates within contemporary social science concerning the institutionalization of ethics in organizational systems. Scholars in management and organizational studies increasingly question whether formal compliance mechanisms alone are sufficient to ensure ethical conduct in complex

global industries. Research on corporate governance, sustainability, and ethical supply chains highlights the limitations of rule-based compliance frameworks that fail to embed ethical values within organizational culture and decision-making processes (Ali et al., 2021; Rahman et al., 2023). Within this context, there is growing recognition that ethical conduct must be supported not only by regulatory structures but also by internalized values, governance mechanisms, and transparent technological systems. By conceptualizing Islamic Ethical Institutionalization Capability (IEIC) as a dynamic organizational capability, this study extends these debates into the context of faith-based business systems. It demonstrates how religious ethical principles can be translated into institutional processes that shape organizational behaviour, governance practices, and technological accountability within global supply chains, thereby contributing to emerging discussions on ethical institutionalization, faith-based governance, and moral legitimacy in contemporary organizational theory.

### Theoretical Background

#### *The Ethics–Compliance Tension in Halal Logistics*

Previous research on halal logistics has mainly focused on maintaining physical separation and following Shariah procedures—including certification standards, halal warehousing, and supply-chain audits (Ab Talib & Hamid, 2014; Zailani et al., 2017; Tieman, 2021). These studies built the basic framework for halal assurance systems, especially in operational settings. However, this compliance-focused approach often treats halal logistics as simply following rules rather than practicing ethical principles. It maintains the formal requirements of Shariah but frequently overlooks the ethical awareness that underlies these requirements (Ali et al., 2021).

Recent studies have warned that procedural conformity, without moral internalization, risks generating *symbolic compliance*—where certification replaces genuine accountability (Rahman et al., 2023). This phenomenon reflects what Institutional Theory describes as decoupling: the gap between espoused ethical policies and enacted organizational behavior (Meyer & Rowan, 1977). In halal logistics, such decoupling may lead firms to satisfy audit requirements but neglect the ethical reasoning behind them. Consequently, while compliance mechanisms standardize halal operations, they do not automatically cultivate an enduring ethical culture.

This study identifies the gap between ethics and compliance as a fundamental conceptual problem. It argues that to maintain halal integrity over time, organizations must shift from fixed procedural systems to dynamic ethical institutionalization—a process in which ethical principles become integrated into governance, decision-making, and daily operations. This shift requires a stronger theoretical understanding of how ethics are not only applied but also internalized and built into organizational practices as a core capability.

#### *The Faith–Function Tension: Operationalizing Islamic Ethical Values*

Islamic Ethical Values (IEV) such as *amanah* (trust), *adl* (justice), *ihsan* (excellence), and *maslahah* (public welfare) represent the moral foundations of Islamic economic behavior (Beekun & Badawi, 2005; Ali & Al-Owaihyan, 2008). While these values are well established in the literature, their **translation into organizational practice** remains problematic. Prior works often treat IEV as abstract ideals or individual virtues, not as system-level capabilities (Ali et

al., 2021). As a result, faith-based ethics are celebrated rhetorically but rarely embedded institutionally.

*Maqasid al-Shariah* offers a teleological framework that aligns spiritual objectives with organizational purpose (Dusuki & Abdullah, 2007). It articulates five universal aims—protection of faith (*din*), life (*nafs*), intellect (*aql*), lineage (*nasl*), and property (*mal*). When applied to logistics, these principles imply that firms must not only avoid harm (e.g., contamination) but actively pursue social welfare, fairness, and stewardship. Yet, as studies by Talib and Hamid (2021) and Syed et al. (2022) reveal, most halal logistics models remain functionally driven, prioritizing operational efficiency over spiritual intent.

This tension between faith and function underscores a theoretical blind spot: while Islamic management emphasizes moral purpose, logistics scholarship emphasizes process optimization. The two paradigms rarely intersect meaningfully. This study bridges that divide by proposing *Islamic Ethical Institutionalization Capability (IEIC)* — a construct that operationalizes Islamic values as institutional processes rather than moral abstractions. IEIC explains how faith-based principles evolve into organizational systems that are repeatable, measurable, and adaptive under changing environmental and technological pressures.

#### *The Technology–Trust Tension: Ethical Assurance in a Digital Era*

Digital transformation is changing halal logistics through technologies such as blockchain traceability, IoT monitoring systems, and AI-based certification platforms (Omar et al., 2018; Rahman et al., 2023). These technologies can improve transparency and efficiency. However, their rapid implementation also creates ethical challenges related to data integrity, privacy, and algorithmic bias. An increasing concern is that while technology may strengthen compliance, it could weaken moral accountability if automated systems replace human ethical judgment (Ali et al., 2021).

This emerging *technology–trust* tension highlights a critical paradox: can digital systems truly institutionalize trust, or do they only simulate it? From an Islamic ethics perspective, trust (*amanah*) is not merely procedural but spiritual — a moral obligation before God, not just a contractual assurance (Beekun & Badawi, 2005). Current digital traceability frameworks, though technologically advanced, lack embedded ethical intent. They measure conformity but not sincerity. Consequently, a halal supply chain may appear transparent while remaining ethically superficial.

Institutional Theory suggests that legitimacy is sustained not through technology alone, but through shared belief systems and normative alignment (Scott, 2008). Thus, technology must reinforce, not replace, ethical consciousness. The IEIC framework conceptualized in this paper integrates technology as a *reinforcement mechanism* within ethical institutionalization, ensuring that digital tools serve as instruments of transparency and accountability rather than as substitutes for moral agency. This integration ensures that the trust generated through technology remains rooted in *Shariah*-compliant intentions and ethical stewardship.

#### *Synthesis and Conceptual Gap*

The intersection of these three tensions — *ethics vs. compliance*, *faith vs. function*, and *technology vs. trust* — reveals a persistent theoretical void in halal logistics scholarship.

Existing studies excel in describing what firms should *do* to remain halal-compliant but rarely explain *how* ethical integrity can be sustained across time, crises, and technological disruptions. The lack of a unifying capability-based theory limits the field's ability to address moral resilience, adaptive governance, and dynamic ethical learning.

This study responds to that gap by developing the construct of Islamic Ethical Institutionalization Capability (IEIC) — an integrative framework that unites Islamic ethical principles, institutional governance, and technological reinforcement into a single capability system. IEIC explains how organizations can move from episodic compliance to continuous ethical institutionalization, producing both institutional legitimacy (social and regulatory acceptance) and spiritual legitimacy (divine accountability). It redefines halal logistics as a moral-institutional enterprise — one that learns, adapts, and renews its ethical foundation in pursuit of sustainable halal integrity.

### **Theoretical Integration and Model Development**

#### *Integrating Institutional Theory and Maqasid al-Shariah*

Institutional Theory and *Maqasid al-Shariah* provide complementary lenses for understanding how Islamic ethics become embedded within organizational systems. Institutional Theory (Scott, 2008) explains how organizations seek legitimacy by aligning with regulative, normative, and cultural-cognitive structures. However, its classical form is largely descriptive—it explains *how* institutionalization occurs, but not *why* organizations pursue moral outcomes. *Maqasid al-Shariah*, in contrast, provides the teleological logic: it articulates *why* institutions should uphold faith (*din*), justice (*adl*), welfare (*maslahah*), and stewardship (*khalifah*).

Combining these frameworks creates a dual approach that addresses both compliance and ethical conviction. Institutional Theory ensures alignment with societal norms and structures, while *Maqasid al-Shariah* ensures alignment with Islamic principles and divine purpose. This combination adds a fourth institutional dimension to Scott's three-pillar model of regulative, normative, and cognitive institutions—the spiritual dimension, which represents taqwa (God-consciousness and accountability). In halal logistics, this spiritual dimension redefines legitimacy beyond social acceptance to include spiritual legitimacy: the commitment to halal integrity for both worldly success and divine approval. This theoretical synthesis lays the foundation for Islamic Ethical Institutionalization Capability (IEIC) — a capability through which ethical values evolve into enduring institutional systems.

#### *Conceptualizing Islamic Ethical Institutionalization Capability (IEIC)*

Islamic Ethical Institutionalization Capability (IEIC) is defined as *an organization's dynamic ability to internalize Islamic ethical values, institutionalize them through governance mechanisms, and reinforce them through technological systems to sustain both institutional and spiritual legitimacy.*

Unlike prior constructs such as *Islamic Ethical Capability* (Ali et al., 2008; Ali et al., 2021) or *Halal Governance Capability* (Tieman, 2021), IEIC represents a processual and integrative capability—it unites moral intent, institutional systems, and technological reinforcement within a continuous feedback loop. This makes it distinct in three ways:

1. **It is dynamic** – IEIC evolves as organizations learn, adapt, and renew ethical systems in response to internal and external pressures.
2. **It is multi-level** – it operates at individual (ethical internalization), organizational (governance), and ecosystem (technological transparency) levels.
3. **It is teleological** – it links organizational performance to *Maqasid al-Shariah* outcomes, achieving spiritual legitimacy through sustained ethical excellence.

Thus, IEIC extends the dynamic capabilities perspective (Teece, 2007) into the moral domain, demonstrating that ethics can be cultivated, strengthened, and reconfigured like other strategic competencies.

#### *Mechanisms of Ethical Institutionalization*

The IEIC model operates through three interconnected and iterative mechanisms:

1. **Ethical Internalization** – Organizations embed core Islamic values such as *amanah*, *adl*, and *ihsan* in their culture, leadership, and HR systems. Internalization transforms moral ideals into shared cognitive schemas, motivating ethical decision-making even under market pressure (Beekun & Badawi, 2005). This mechanism aligns with the normative and cognitive pillars of Institutional Theory, as shared ethics evolve into taken-for-granted organizational norms.
2. **Ethical Institutionalization** – Values are codified into structures: Shariah-compliant policies, ethical governance charters, audit systems, and leadership accountability frameworks. Institutionalization converts intent into durable systems that survive leadership turnover or market fluctuations. It also reflects the *adl* principle — justice formalized through consistent standards and fair processes (Rahman et al., 2023).
3. **Technological Reinforcement** – Technology functions as the enabler that sustains trust. Blockchain, IoT, and digital traceability systems ensure halal integrity is verifiable, transparent, and tamper-resistant (Omar et al., 2018; Syed et al., 2022). This mechanism strengthens *amanah* by ensuring the trustworthy transmission of halal status across supply-chain actors. Technology also introduces reflexive feedback loops — data analytics reveal ethical performance gaps, enabling continuous improvement and organizational learning.

These mechanisms interact dynamically. Ethical internalization inspires governance systems; governance is digitized through technology; and technological transparency reinforces moral conviction. This cyclical reinforcement ensures that halal logistics evolves as a living ethical institution rather than a static compliance structure.

#### *Boundary Conditions and Contextual Contingencies*

While IEIC is theoretically generalizable, its effectiveness depends on contextual factors. It thrives under conditions of institutional maturity, where regulatory bodies, certification systems, and ethical norms are well established — such as in Malaysia, Indonesia, or the UAE. In less formalized contexts, where governance institutions are weak or fragmented, IEIC may depend more heavily on individual leadership ethics and community trust.

Technological infrastructure also moderates IEIC performance. In digitally advanced ecosystems, ethical reinforcement through traceability and analytics strengthens transparency; in low-tech environments, symbolic compliance risks increase. Cultural context further shapes ethical internalization: societies with collectivist orientations may institutionalize values more easily than those driven by individualistic norms.

Hence, IEC should not be viewed as a universal formula but as a contingent capability — one shaped by governance strength, digital readiness, and cultural embeddedness. This recognition of boundary conditions makes the theory context-sensitive and empirically testable across diverse Islamic and non-Islamic markets.

#### *Theoretical Propositions*

**Proposition 1 (P1):** *The internalization of Islamic Ethical Values (IEV) positively influences the development of Ethical Governance Systems in halal logistics organizations.*

Ethical values provide the moral rationale that motivates governance design. When *amanah* (trust) and *adl* (justice) are deeply internalized, they guide leaders to formalize ethical conduct through codes, audits, and training (Ali & Al-Owaidan, 2008). This alignment ensures that moral intent is transformed into consistent structural practice.

**Proposition 2 (P2):** *Ethical governance mediates the relationship between Islamic Ethical Values and Sustainable Halal Supply-Chain Performance.*

Governance systems translate ethics into measurable organizational behavior. Without institutional mechanisms, values remain symbolic. Robust ethical governance ensures long-term sustainability by aligning moral conduct with performance outcomes (Rahman et al., 2023).

**Proposition 3 (P3):** *Technological Reinforcement moderates the relationship between Ethical Governance and Sustainability such that higher technological transparency strengthens this relationship.*

Technology functions as an amplifier: it validates governance through traceability and accountability. When digital systems monitor compliance, stakeholders perceive greater legitimacy, thereby enhancing both performance and trust (Omar et al., 2018).

**Proposition 4 (P4):** *The interaction among Ethical Internalization, Governance, and Technological Reinforcement constitutes Islamic Ethical Institutionalization Capability (IEIC), which leads to both institutional and spiritual legitimacy.*

This integrative capability ensures continuity between moral conviction, organizational systems, and digital accountability. Over time, the feedback among these mechanisms creates a self-reinforcing cycle of ethical learning, producing sustained legitimacy in both worldly and spiritual dimensions (Dusuki & Abdullah, 2007).

#### *Theoretical Contributions*

The Islamic Ethical Institutionalization Capability (IEIC) model advances theoretical understanding in several important ways. Firstly, it extends the scope of Institutional Theory by introducing the concept of *spiritual legitimacy* — a dimension that links divine accountability (*taqwa*) with organizational legitimacy. Whereas traditional Institutional Theory emphasizes compliance with social norms, regulatory frameworks, and cognitive schemas to maintain legitimacy (Scott, 2008), IEIC broadens this view by recognizing a transcendental layer of accountability. In the context of halal logistics, this means legitimacy is no longer derived solely from external certification or social conformity, but also from internalized faith-driven responsibility to uphold the sanctity of halal principles. By embedding spiritual consciousness into institutional behavior, the model redefines legitimacy as both social and sacred, adding moral depth to institutional analysis.

Secondly, the model enriches the application of **Maqasid al-Shariah** in management theory by demonstrating how ethical objectives can be operationalized through dynamic, repeatable organizational systems. While previous works often treat *Maqasid al-Shariah* as a moral compass or evaluative framework, IEIC translates these principles into institutional mechanisms that govern decision-making, leadership, and performance. This operationalization bridges the gap between ethical philosophy and managerial practice, showing how Islamic objectives such as justice (*adl*), trustworthiness (*amanah*), and social welfare (*maslahah*) can be embedded within governance and technological infrastructures. In doing so, IEIC transforms the *Maqasid* from abstract ethical ideals into actionable institutional routines that sustain both moral and operational integrity.

Thirdly, the framework introduces **ethics as a dynamic capability**, shifting the moral discussion from static principles toward adaptive processes of ethical renewal. Drawing from the dynamic capabilities perspective (Teece, 2007), IEIC positions ethical behavior as a resource that can be developed, refined, and reconfigured in response to changing institutional environments. Rather than viewing ethics as a fixed attribute or one-time compliance effort, the model conceptualizes it as an evolving organizational competence - one that strengthens through learning, reflection, and digital reinforcement. This dynamic interpretation situates Islamic ethics within mainstream capability theory, thereby linking spirituality with contemporary strategic management discourse.

Finally, the IEIC framework provides a crucial **bridge between ethics and technology** by reframing digital systems as enablers of moral transparency rather than substitutes for ethical judgment. As halal logistics becomes increasingly digitalized through blockchain, IoT, and AI-driven monitoring, the risk of reducing ethics to data compliance grows. The model counters this risk by demonstrating that technology, when governed by Islamic ethical intent, can serve as a tool for accountability and moral amplification. Through this integration, IEIC introduces a new paradigm of *ethical digitalization* - one that unites technological innovation with faith-based responsibility to ensure that transparency is accompanied by sincerity.

Collectively, these theoretical contributions establish IEIC as both a conceptual innovation and a practical framework for transforming halal logistics into a **continuously evolving moral institution**. It moves beyond existing models of compliance and governance to present a holistic theory of ethical institutionalization - one that harmonizes spiritual purpose, organizational structure, and technological capability to achieve enduring halal integrity.

## Conceptual Framework

### *Overview of the IEIC Model*

The proposed Islamic Ethical Institutionalization Capability (IEIC) framework explains how halal logistics organizations turn Islamic ethical intentions into lasting systems of ethical performance. The framework combines three connected elements - ethical internalization, ethical governance, and technological reinforcement - which together determine an organization's ability to maintain both institutional and spiritual legitimacy. Based on Institutional Theory (Scott, 2008), Maqasid al-Shariah (Dusuki & Abdullah, 2007), and the Dynamic Capabilities perspective (Teece, 2007), the framework shows how ethical principles become self-sustaining institutional practices that respond to changes in regulations, culture, and technology.

In essence, the IEC model proposes that halal logistics organizations achieve sustainable legitimacy not merely through procedural compliance, but through **continuous ethical renewal**. Ethical internalization ensures that *Shariah*-based values such as *amanah* (trust), *adl* (justice), and *ihsan* (excellence) are deeply embedded in organizational culture (Ali & Al-Owaihan, 2008). Ethical governance then institutionalizes these values through structured mechanisms—codes of conduct, audit systems, leadership accountability, and decision-making protocols (Rahman et al., 2023). Finally, technological reinforcement strengthens transparency and traceability, ensuring that moral integrity is both verifiable and visible across the supply chain (Omar et al., 2018; Syed et al., 2022). The dynamic interaction among these mechanisms constitutes IEC, which continuously adapts to new challenges while preserving the spiritual intent of halal operations.

#### *Framework Structure and Relationships*

At the heart of the IEC framework lies a **causal and cyclical process** that links ethical intent to organizational legitimacy. The process begins with **Ethical Internalization**, where Islamic values are cognitively and emotionally embedded among employees and leaders. This stage reflects the *normative* and *cognitive* pillars of Institutional Theory, ensuring that ethical conduct becomes an internalized belief rather than an externally imposed rule (Meyer & Rowan, 1977; Beekun & Badawi, 2005). Empirical studies show that when employees internalize ethical standards aligned with *Maqasid al-Shariah*, they are more likely to make consistent moral decisions even under institutional pressure (Ali et al., 2021).

Next, **Ethical Governance** converts internalized values into **formal systems and structures**. It involves developing *Shariah*-compliant policies, transparent decision-making processes, and multi-level accountability frameworks. This stage operationalizes the *adl* (justice) and *maslahah* (public good) principles, ensuring that organizational rules mirror Islamic ethical objectives (Dusuki & Abdullah, 2007). Strong governance serves as a mediator that translates ethical awareness into measurable organizational outcomes (Rahman et al., 2023). The third mechanism, **Technological Reinforcement**, moderates and strengthens the effectiveness of ethical governance. Through digital tools such as blockchain, IoT sensors, and cloud-based halal verification platforms, organizations can verify compliance, enhance traceability, and detect ethical lapses in real time (Omar et al., 2018; Rahman et al., 2023). Technology thus amplifies the organization's moral visibility and credibility while reinforcing *amanah* (trust) and *ihsan* (excellence).

However, as critics note, technology alone cannot guarantee ethical behavior (Ali et al., 2021). The IEC model, therefore, positions technology as a **reinforcement mechanism**—a tool that strengthens moral intent rather than replaces human conscience. Together, these mechanisms form a **feedback-driven capability system**. As organizations engage in continuous ethical reflection, digital monitoring, and policy adaptation, they learn and improve their ethical resilience. This cyclical process produces two synergistic outcomes: **institutional legitimacy** (social, regulatory, and market acceptance) and **spiritual legitimacy** (alignment with divine accountability). Institutional legitimacy ensures operational continuity and stakeholder confidence, while spiritual legitimacy preserves the transcendental purpose of halal logistics—fulfilling obligations to God (*taqwa*) through responsible business conduct (Ali & Al-Owaihan, 2008; Dusuki & Abdullah, 2007).

*Visual Representation of the Framework*

**Figure 1** below conceptually illustrates the relationships among the constructs of the IEIC model.

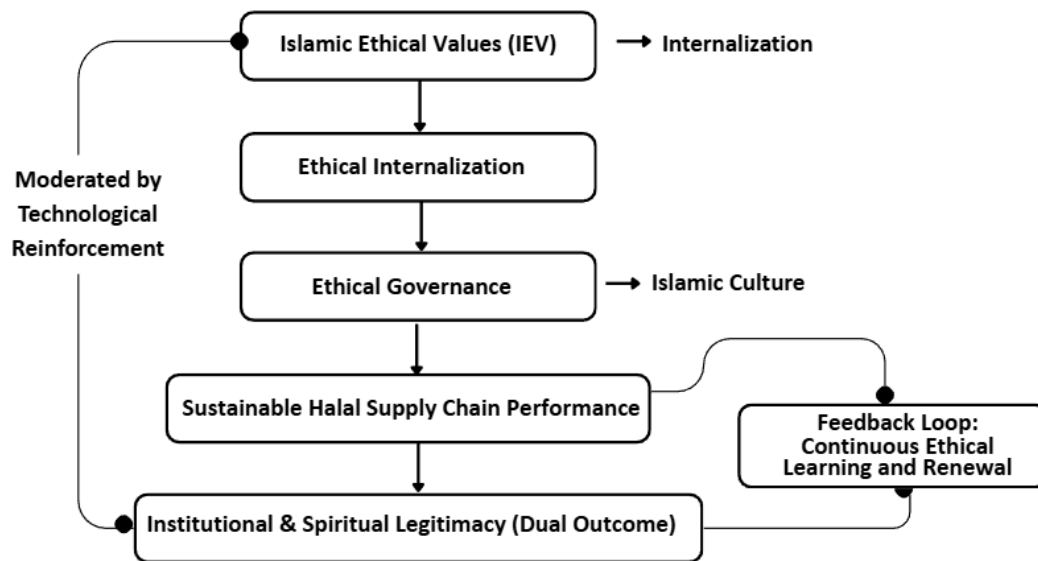


Figure 1. Islamic Ethical Institutionalization Capability (IEIC) Framework  
(Author's conceptual model)

*Framework Logic and Theoretical Integration*

The logic of the IEIC framework is rooted in the dynamic interplay between **internal conviction** and **external accountability**. Ethical internalization drives moral awareness; ethical governance ensures consistent behavior; and technology maintains transparency across complex networks. The combination of these mechanisms enables halal logistics firms to operate as adaptive moral systems, aligning faith-based principles with the demands of global commerce.

Institutional Theory explains the structural dimension of this process—the need for rules, norms, and legitimacy to ensure organizational survival (Scott, 2008). *Maqasid al-Shariah* provides the normative orientation, ensuring that these structures remain faithful to Islamic purposes of welfare, justice, and integrity (Dusuki & Abdullah, 2007). The Dynamic Capabilities view (Teece, 2007) adds the adaptive element, positioning ethics as a renewable resource that evolves through learning and feedback. Together, these perspectives make IEIC a **multi-theoretical construct**: it is normative (driven by values), institutional (structured by systems), and dynamic (sustained by learning).

Importantly, the **feedback loop** distinguishes IEIC from earlier compliance-based models. When ethical breaches, market crises, or audit failures occur, the organization revisits its ethical foundations, updates governance standards, and recalibrates technological protocols. This reflexive cycle transforms halal logistics from a static certification system into a **living ethical institution**—one capable of moral self-correction and long-term resilience (Ali et al., 2021; Rahman et al., 2023).

Thus, the IEC framework not only integrates faith, governance, and technology but also redefines the pursuit of halal integrity as an ongoing institutional journey toward both worldly sustainability and spiritual accountability.

### Theoretical and Practical Implications

#### *Theoretical Implications*

The development of Islamic Ethical Institutionalization Capability (IEIC) advances theory by reframing how ethics, institutions, and dynamic capabilities interact within the halal logistics domain. From a theoretical standpoint, IEIC challenges the conventional separation between *Institutional Theory* and *Ethical Theory*. Traditional institutional scholarship often treats legitimacy as a social construct grounded in conformity to external expectations (Scott, 2008). However, by integrating the concept of *spiritual legitimacy* derived from *Maqasid al-Shariah*, the IEIC framework introduces an inward-looking dimension of accountability—one that transcends social validation and aligns organizational conduct with divine intent (*taqwa*) (Dusuki & Abdullah, 2007). This reconceptualization extends Institutional Theory beyond secular boundaries, offering a pluralistic understanding of legitimacy in faith-oriented contexts.

In addition, the IEIC framework contributes to the dynamic capabilities' literature by conceptualizing ethics as a renewable organizational resource. Dynamic capabilities theory posits that firms sustain competitiveness through the ability to integrate, build, and reconfigure resources in response to environmental changes (Teece, 2007). By positioning ethical integrity as a reconfigurable capability rather than a static value system, IEIC demonstrates that moral resilience can be strategically cultivated through learning, feedback, and digital reinforcement (Ali et al., 2021). This introduces a moral dimension to dynamic capabilities theory, where adaptation is guided not only by efficiency but by ethical coherence with *Shariah* principles.

Moreover, the model enhances the theoretical application of *Maqasid al-Shariah* in management science by operationalizing it within a systemic capability framework. Previous works often emphasize *Maqasid* as philosophical guidance or evaluative criteria (Beekun & Badawi, 2005), but IEIC transforms these objectives—justice (*adl*), trust (*amanah*), and public welfare (*maslahah*)—into institutional processes and performance indicators. This progression moves Islamic management research toward greater empirical and conceptual precision, bridging the gap between faith-based moral aspirations and observable organizational behaviour (Rahman et al., 2023).

Finally, the integration of technology into ethical institutionalization offers a new perspective on digital transformation. Prior studies have tended to isolate technology as a compliance enabler or efficiency driver (Omar et al., 2018; Syed et al., 2022). IEIC reframes technology as a *moral amplifier*—a structural element that verifies, records, and communicates ethical intent across the supply chain. This intersection between digitalization and faith-based ethics establishes an emerging subfield of “digital moral governance,” expanding both ethical and institutional theory to address transparency, algorithmic trust, and AI accountability within Islamic business systems.

**Practical Implications**

The IEIC framework also carries substantial implications for managers, policymakers, and educators seeking to strengthen halal logistics governance. For managers, the model emphasizes that halal assurance should not end with certification; it must evolve into a capability-based system that continuously integrates ethical intent, institutional structure, and technological transparency (Rahman et al., 2023). Practically, this means embedding *amanah* and *adl* in recruitment, performance appraisal, and supply-chain partnerships. Firms can design ethical dashboards linking governance metrics (audit scores, incident reports) with spiritual performance indicators (trust, community welfare) to track their ethical maturity over time (Ali et al., 2021). In global markets, cultivating IEIC enhances brand credibility by signalling that halal operations embody sincerity (*ikhlas*), not merely procedural conformity.

For policymakers and halal certification authorities, IEIC provides a blueprint for integrated ethical governance. Instead of enforcing static compliance checklists, regulators can develop performance-based ethical audits that evaluate institutional learning, technological adoption, and governance responsiveness. Countries like Malaysia and Indonesia, which already possess mature halal ecosystems, could incorporate IEIC principles into national halal governance standards to ensure consistent quality, trust, and cross-border recognition (Syed et al., 2022). Embedding these criteria would shift certification regimes from rule enforcement toward ethical capability-building, aligning policy with the *Maqasid al-Shariah's* goal of holistic societal welfare.

For educational institutions, IEIC highlights the need to reimagine ethics education in business and logistics curricula. Current pedagogies often emphasize compliance and regulation without cultivating the reflective and spiritual competencies needed to institutionalize ethics. Incorporating IEIC into training modules can help future professionals perceive Islamic ethics not as constraints but as strategic enablers of sustainability and innovation (Beekun & Badawi, 2005). This pedagogical shift would prepare graduates to lead organizations that treat ethical integrity as both a spiritual duty and a source of competitive differentiation.

In summary, IEIC provides a practical pathway for organizations and regulators to align their operations with both institutional efficiency and spiritual authenticity. It reframes halal logistics from a system of external control to one of internal ethical empowerment, ensuring that the pursuit of halal integrity remains dynamic, accountable, and faithful to Islamic moral purpose.

**Future Research Directions**

The conceptualization of Islamic Ethical Institutionalization Capability (IEIC) opens several promising avenues for future research in halal logistics, Islamic management, and organizational ethics. Because this framework integrates values, governance, and technology within a single capability system, it provides a fertile foundation for both theory testing and theory extension through empirical inquiry.

*Empirical Validation and Scale Development*

Future research should begin by developing and validating a measurement scale for IEIC. While constructs such as *Islamic Work Ethic* (Ali & Al-Owaidan, 2008) and *Halal Governance Capability* (Tieman, 2020) offer useful starting points, they primarily capture individual or

procedural aspects of ethics rather than institutional capability. Researchers can operationalize IEIC through reflective indicators that measure (a) Ethical Internalization, (b) Ethical Governance, and (c) Technological Reinforcement. Using confirmatory Factor Analysis (CFA) or Structural Equation Modelling (SEM), future studies can empirically assess the relationships proposed in this paper (P1–P4), thereby testing the robustness of the conceptual framework. Such work would also help identify the relative influence of each mechanism on sustainable halal supply-chain performance and legitimacy outcomes.

#### *Boundary Conditions and Contextual Testing*

Theoretical generalizability of IEIC can be examined through cross-country comparative research. The model predicts that IEIC functions differently under varying institutional and technological contexts (Rahman et al., 2023). For example, in mature halal ecosystems like Malaysia or the UAE, institutional governance may dominate, whereas in emerging markets with weaker regulatory systems, ethical internalization and community-based trust may play a stronger role. Mixed-method designs combining quantitative surveys with qualitative case studies can capture these contextual nuances. Comparative analysis can reveal how socio-cultural variables—such as collectivism, religiosity, and governance maturity—moderate the effectiveness of IEIC mechanisms (Syed et al., 2022). This would advance cross-cultural institutional theory by identifying how faith-based ethics adapt within different governance environments.

#### *Longitudinal and Process-Oriented Studies*

Given that IEIC is conceived as a dynamic capability, future studies should explore how it evolves over time. Longitudinal research can trace how organizations institutionalize ethical practices through cycles of crisis, adaptation, and renewal. For instance, after halal certification scandals or supply-chain disruptions, how do firms rebuild trust and reconfigure their ethical systems? Process-tracing methods or grounded-theory approaches could uncover the learning mechanisms that sustain ethical resilience. Such studies would deepen understanding of how moral capability develops iteratively, reinforcing the *dynamic* nature of IEIC (Teece, 2007; Ali et al., 2021).

#### *Technological Integration and Digital Ethics*

Another promising direction lies in the intersection of digital transformation and Islamic ethics. With the rise of blockchain, artificial intelligence (AI), and Internet of Things (IoT) applications in logistics, there is an urgent need to examine how digital tools influence moral agency, decision-making, and accountability. Researchers can explore how technology mediates ethical behaviour—does it amplify transparency (*amanah*) or inadvertently promote algorithmic complacency? Empirical work using experimental or simulation-based designs could test how various digital tools affect trust perception and compliance behaviour within halal supply chains (Omar et al., 2018; Rahman et al., 2023). Integrating digital ethics with IEIC would also contribute to broader discussions on algorithmic governance and faith-based artificial intelligence ethics.

#### *Integration with Broader Organizational Theories*

Finally, IEIC provides an opportunity to connect Islamic management theory with mainstream organizational frameworks. Future research could examine how IEIC interacts with concepts such as stakeholder salience, moral intensity, or corporate sustainability. Multi-theoretical

modelling can test whether IEIC mediates or moderates the link between ethical leadership and organizational performance, or whether it predicts stakeholder trust more effectively than traditional compliance-based metrics (Beekun & Badawi, 2005; Scott, 2008). This cross-theoretical synthesis would allow Islamic business ethics to contribute to global management discourse rather than exist as a parallel stream.

#### *Methodological and Practical Outlook*

From a methodological standpoint, researchers are encouraged to adopt mixed, multi-level, and participatory designs. Quantitative studies could establish generalizability, while qualitative explorations—such as Delphi studies, ethnographic observation, or critical incident analysis—could unpack the social dynamics of ethical institutionalization. Scholars may also collaborate with halal certification authorities or logistics firms to co-create participatory research that measures ethical maturity using IEIC-based diagnostic tools. Such applied research could guide both academic theory building and real-world governance reform.

In sum, the IEIC framework offers a versatile foundation for a new generation of research that unites Islamic ethics, institutional theory, and digital capability. By empirically validating, contextualizing, and extending this framework, future scholars can advance understanding of how organizations translate faith into enduring systems of ethical performance—bridging the gap between compliance and conviction in the halal economy.

#### **Conclusion**

This paper has advanced a new theoretical perspective on halal logistics by introducing the construct of Islamic Ethical Institutionalization Capability (IEIC)—a dynamic capability that transforms Islamic ethical intent into sustainable systems of governance and technological reinforcement. Building on Institutional Theory (Scott, 2008) and *Maqasid al-Shariah* (Dusuki & Abdullah, 2007), the study demonstrated how organizations can move beyond procedural compliance toward continuous ethical renewal. The integration of these frameworks creates a dual logic of legitimacy—institutional legitimacy, derived from social and regulatory alignment, and spiritual legitimacy, grounded in divine accountability (*taqwa*). This duality reframes the halal supply chain not merely as a system of material assurance but as a moral institution guided by transcendent purpose.

The IEIC framework contributes to management theory by positioning ethics as an adaptive organizational capability rather than a static moral obligation. In contrast to existing halal logistics models that emphasize physical segregation or certification procedures (Ab Talib & Hamid, 2014; Tieman, 2020), IEIC explains how ethical conviction, governance, and technology interact dynamically to create self-sustaining systems of integrity. By operationalizing *Maqasid al-Shariah* principles such as *amanah* (trust), *adl* (justice), and *maslahah* (public welfare) into measurable governance and digital processes, the model bridges the gap between faith-based ideals and institutional practice. This shift from compliance to capability transforms Islamic ethics into a renewable source of organizational legitimacy and strategic resilience (Ali et al., 2021).

Practically, IEIC offers a roadmap for halal logistics organizations to embed spirituality, transparency, and accountability into their daily operations. It encourages managers and

policymakers to cultivate ethics not as a certification requirement but as a core competency that enhances trust and competitiveness (Rahman et al., 2023). Technological reinforcement—through blockchain, IoT, and AI-based systems—ensures that moral intent is traceable, measurable, and credible across supply-chain partners (Omar et al., 2018). When combined, these mechanisms allow halal enterprises to sustain legitimacy even under market pressure, regulatory scrutiny, or digital transformation challenges.

In conclusion, this conceptual paper reconceptualizes halal logistics as a dynamic ethical system in which religious principles, regulatory frameworks, and technological innovation work together to maintain ethical standards. When organizations integrate Islamic ethical values into their core institutional practices, they can achieve both operational efficiency and religious authenticity—creating alignment between business performance and religious principles. The Islamic Ethical Institutionalization Capability represents more than a management framework; it marks a fundamental shift in how organizations embed and practice ethical values within the global economy. From this perspective, halal logistics extends beyond mere regulatory compliance to become a sustained expression of Shariah-based governance—an ethically resilient system grounded in religious accountability.

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