

Beyond Profit Maximization: Testing the Synergy of Shariah Principles and Operational Practices in Halal Industry Sustainability

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Abstract

This study investigates the strategic intersection of Islamic financial sustainability and halal industry operations in Malaysia by evaluating how corporate executives perceive and execute faith-based financial frameworks. Utilizing an exploratory quantitative design alongside psychometric validation, exploratory factor analysis, and hierarchical regression modelling, the research analyses the interactive effects of Shariah compliance and operational practices on long-term sustainability. The findings reveal a distinct execution gap: despite high conceptual alignment with Shariah principles, advanced risk-sharing instruments like profit-sharing partnership remain under-utilized. Crucially, however, hierarchical regression confirms a significant positive interaction effect ($\beta = 0.26$, $p < 0.05$), demonstrating that firms concurrently optimizing both deep Shariah adherence and proactive business practices achieve a 19% financial sustainability premium over linear projections. Rather than internal short-term profit seeking, this synergy is restricted by external institutional bottlenecks, including specialized financial illiteracy, high compliance costs, and a structural scarcity of accessible capital. Ultimately, this study challenges the traditional neoclassical view that ethical or Environmental, Social and Governance (ESG)-aligned governance acts as a regulatory drag on corporate profitability, establishing a framework of structural complementarity instead. Practically, these insights offer a mandate for Islamic financial institutions to innovate risk-sharing products while providing policymakers with actionable pathways to lower compliance friction for small-and-medium enterprises (SMEs), directly supporting the realization of Malaysia's Halal Industry Master Plan 2030 goals.

Keywords: Financial Sustainability, Halal Industry, Islamic Finance, Islamic Study, Operational Practices, Shariah Compliance.

Introduction

The halal sector has expanded rapidly into a significant global market, driven by increasing demand for ethical, high-quality, and Shariah-compliant goods and services. Malaysia has established itself as a leading participant in this market through its regulatory framework, strategic geographical position, and commitment to Islamic principles. The Malaysian halal ecosystem extends beyond food and beverages to pharmaceuticals, cosmetics, finance, hospitality, and logistics, making it an important contributor to national economic development and sustainability. This development has increasingly converged with global sustainability agendas, particularly the Sustainable Development Goals (SDGs) and Environmental, Social, and Governance (ESG) principles. Islamic financial principles such as

justice, stewardship, transparency, public interest, and equitable risk-sharing are broadly consistent with sustainable development objectives (1-3). The halal industry provides an important setting in which Islamic finance can contribute to sustainable economic development. Beyond providing capital, Islamic financial institutions can support innovation, digital transformation, sustainable supply chains, and responsible entrepreneurship. This relationship is reflected in Malaysia's Halal Industry Master Plan 2030, which recognizes stronger integration between Islamic finance and the halal ecosystem as an important mechanism for enhancing the competitiveness and sustainability of halal enterprises. Despite the expanding body of literature tracking both Islamic finance and the halal economy, several critical

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research gaps persist. Extant literature has predominantly focused on Islamic banking performance, consumer purchasing behaviour, halal certification processes, financial inclusion, or sustainable investment strategies as isolated themes. Consequently, there remains a distinct shortage of empirical research evaluating how corporate executives within halal firms perceive the role of Islamic finance in reinforcing long-term financial resilience. Moreover, while contemporary scholarship frequently advocates for a tighter integration of Islamic finance, ESG metrics, sustainable corporate models, and broader halal ecosystem development (4, 5), empirical inquiries centred on managerial viewpoints remain scarce.

Compounding this gap, the practical execution of sustainable Islamic financial practices within the halal industry is hindered by several systemic bottlenecks. These include a fragmented understanding of Islamic financial instruments among business operators, complex compliance and regulatory landscapes, and structural hurdles in securing Shariah-compliant capital. These impediments underscore the urgent need for heightened awareness, targeted education, and closer stakeholder cooperation to accelerate the adoption of sustainable financial models. Against this background, the study seeks to examine corporate executives' understanding of Islamic financial sustainability, assess its current implementation within Malaysian halal firms, and explore executives' expectations regarding its future development. Accordingly, the study addresses how Islamic financial sustainability is understood and implemented by corporate executives and how they perceive its future role in strengthening the sustainability of Malaysia's halal sector. Ultimately, the research aims to provide actionable insights into optimizing financial sustainability to foster ethical and sustainable growth within the halal industry.

Islamic Financial Sustainability

Financial sustainability emphasizes long-term operational resilience, responsible resource management, and the capacity of organizations to respond to changing economic conditions. Islamic finance extends this concept by combining economic viability with ethical, social, and Shariah-based principles. Rather than emphasizing financial returns alone, it promotes equitable

wealth distribution, risk-sharing, responsible investment, and social welfare. Islamic financial sustainability is guided by Shariah principles that prohibit interest, excessive uncertainty and gambling. These prohibitions promote transparent, fair, and asset-backed financial transactions (6, 7). Islamic finance also encourages risk-sharing arrangements such as profit-sharing partnership which distribute financial risks and returns between participating parties rather than concentrating them on borrowers (8, 9). Consequently, Islamic finance combines financial activity with ethical responsibility and social justice (10, 11).

Social inclusivity represents another important dimension. Islamic mechanisms such as obligatory almsgiving and charitable endowments facilitate wealth redistribution and mobilize resources for community development, including education, healthcare, and other public benefits. Islamic finance also supports environmental responsibility by encouraging investments that contribute to social and environmental well-being while restricting activities considered harmful or inconsistent with Shariah principles (12). These characteristics demonstrate its compatibility with contemporary sustainability and ESG objectives.

The Halal Industry in Malaysia: A Global Leader in Ethical Sustainable Growth

Malaysia's halal industry operates through an established institutional ecosystem involving government agencies, private enterprises, financial institutions, and research organizations (13). JAKIM plays a central role in halal certification and standards, while the Halal Development Corporation (HDC) supports industry development, capacity building, investment, and market expansion (13, 14). This institutional structure has contributed to Malaysia's position as an important international halal hub across food, pharmaceuticals, cosmetics, Islamic finance, tourism, and logistics.

Financial sustainability is essential to maintaining this development because halal firms require stable financial resources to preserve Shariah compliance, quality standards, technological capabilities, and international competitiveness. Sustainable financing can enable firms to invest in research and development, digital technologies, sustainable production, product innovation, and

market expansion. This is particularly important for industries such as halal pharmaceuticals and cosmetics, where product development and commercialization may require substantial long-term investment (15). Financial sustainability also strengthens organizational resilience against economic disruptions, market volatility, and supply-chain challenges.

In summary, integrating financial sustainability is essential for the long-term growth and leadership of Malaysia's halal economy. By aligning with Islamic financial principles, driving technical innovation, building corporate resilience, and advancing social and environmental welfare, the industry can scale its global footprint while remaining true to its ethical foundations (16). As Malaysia pursues its strategic target of capturing 5% of the global halal market share, financial sustainability will serve as the engine to achieve this goal, positioning the nation as a global leader in ethical economic stewardship (15).

Methodology

This study adopts a quantitative, exploratory research design to evaluate the perceptions of corporate executives within the Malaysian halal industry toward Islamic financial sustainability. Given the nascent empirical literature linking halal value chains directly with sustainable Islamic financial frameworks, an exploratory quantitative approach was deemed most appropriate to map institutional understanding, current operational practices, and future strategic outlooks. The empirical setting was localized to the Klang Valley region (approximate GPS coordinates 3.1390° N, 101.6869° E), the economic nucleus of Malaysia, which hosts the highest density of halal-certified multi-sector enterprises, regulatory bodies, and Islamic financial institutions in the country.

Data collection was executed using a cross-sectional structured survey targeting middle-to-senior level executives within halal-certified firms. A purposive-convenience sampling strategy was deployed to ensure that respondents possessed the requisite institutional knowledge and decision-making authority regarding their firms' financial and sustainability strategies.

A total of 120 corporate executives were invited to participate in the survey, of whom 86 provided valid and complete responses, resulting in a

response rate of 71.7%. Prior to statistical analysis, the dataset was screened for completeness and missing values. No missing values or incomplete responses were identified among the 86 valid questionnaires; therefore, no data imputation was required. This response rate was considered appropriate given the exploratory nature of the study and the specialized profile of the respondents, who represented corporate decision-makers within a concentrated economic region. The resulting sample was considered sufficient for descriptive analysis, exploratory factor analysis, and non-parametric inferential testing, which are generally suitable for relatively small samples and data that may deviate from normality.

The structured survey instrument was developed based on a synthesis of contemporary literature on Islamic economic principles and corporate sustainability frameworks. The instrument was divided into three core operational sections, measured primarily via 5-point Likert scales (ranging from 1 = 'Strongly Disagree' to 5 = 'Strongly Agree'). To ensure face and content validity, the initial draft of the instrument underwent expert review by academic peers specializing in Islamic finance and halal industry operations before full-scale deployment.

The collected data were compiled and analysed using IBM SPSS Statistics for Windows, Version 26.0 (IBM Corp., Armonk, NY, USA). The analysis matrix involves a two-tiered approach: first, descriptive statistics (frequencies, means, and standard deviations) were calculated to establish baseline trends in executive perceptions; second, exploratory inferential analyses were conducted to assess relationships between core variables and test predictive pathways. To ensure data reliability, Cronbach's alpha (α) coefficients were calculated to verify the internal consistency of the measurement scales.

To enhance methodological transparency and reproducibility, the overall research design process is presented in Figure 1. The process encompasses seven sequential stages, beginning with the selection of the research design and development of the survey instrument, followed by expert validation, respondent selection, data collection, reliability assessment and statistical analysis, and concluding with the interpretation of findings.

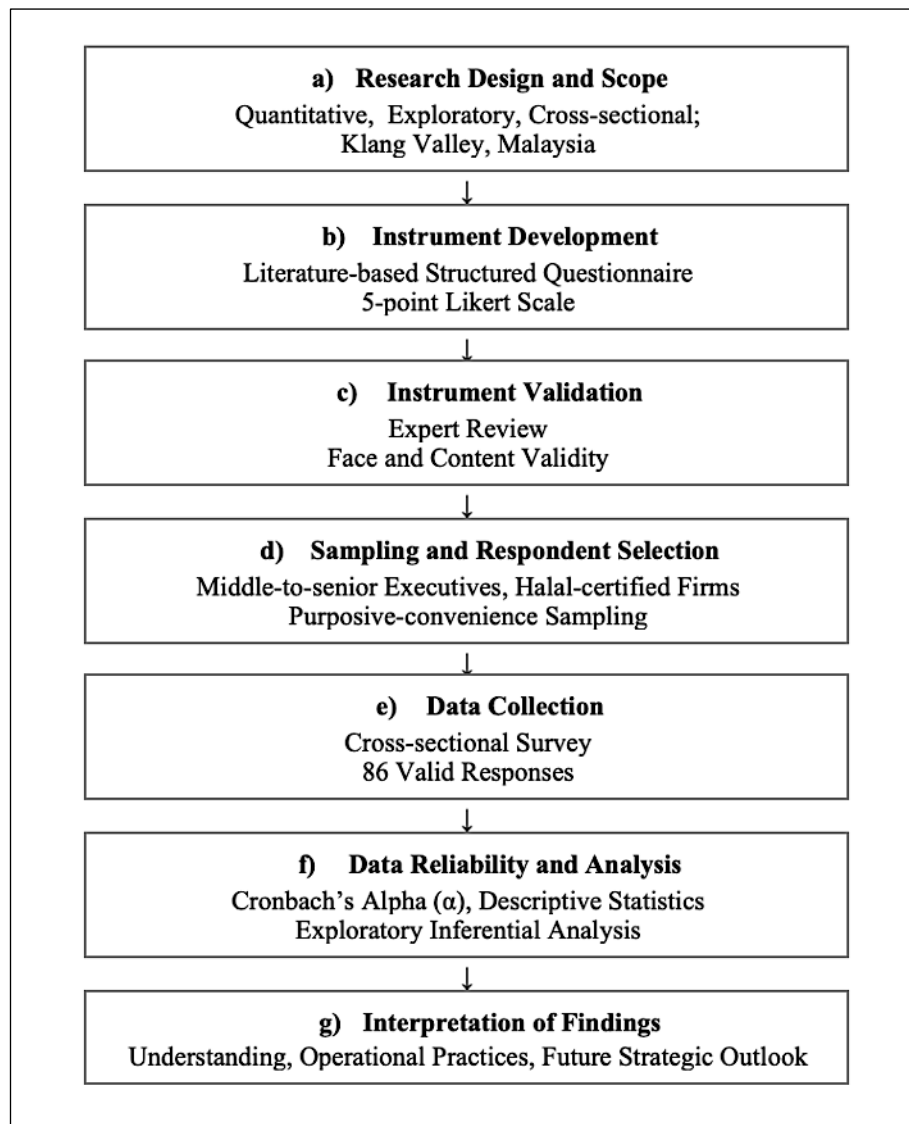


Figure 1: Research Design Process of the Study

Results

Profile of Respondents

Table 1 outlines the demographic characteristics of the surveyed cohort ($n = 86$). The data reveals a highly pronounced concentration of early-career and younger professionals within the sample framework. Specifically, a substantial majority of the participants are under the age of 30 (57.0%), whereas 24.4% are situated in the 31–40 age bracket, 14.0% fall between 41–50 years, and a minor segment (4.7%) exceeds 51 years of age. This age distribution aligns closely with the sample's professional tenure profiles within the halal industry: 87.2% of respondents possess five years or less of industry experience, while a mere 4.7% have accumulated more than 11 years of

professional expertise. This demographic skew indicates that the contemporary workforce driving operational execution in Malaysia's halal sector is predominantly composed of emerging professionals. From an analytical perspective, their views on Islamic financial sustainability are likely anchored in contemporary theoretical discourse, modern corporate training, and recent technological integration rather than decades of longitudinal, practice-based experience. Consequently, the findings presented herein should be interpreted as reflective of an evolving, highly receptive, yet structurally nascent conceptual understanding of sustainable Islamic finance architectures within the industry.

Table 1: Demographic Characteristics of Respondents

Profile	Frequency	Percentage (%)
Age group		
Below 30	49	57.0
31-40	21	24.4
41-50	12	14.0
Above 51	4	4.7
Work experience		
≤ 5 years	75	87.2
6-10	7	8.1
≥ 11 years	4	4.7

Reliability and Descriptive Statistics of Key Constructs

Psychometric properties, internal consistency parameters, and descriptive trends for the primary research constructs are presented in Table 2. All multi-item scales exhibited robust internal reliability, comfortably exceeding the widely accepted academic threshold of 0.70. Specifically, the Shariah Principles ($\alpha = 0.92$), Ethical Governance ($\alpha = 0.88$), Business Practice Adoption ($\alpha = 0.84$), and Social Responsibility ($\alpha = 0.83$) constructs demonstrated excellent psychometric strength. Risk Management also demonstrated acceptable reliability ($\alpha = 0.79$). Descriptive analysis revealed that Ethical

Governance achieved the highest mean score ($M = 4.35$, $SD = 0.62$), followed closely by Social Responsibility ($M = 4.28$, $SD = 0.68$) and Financial Sustainability ($M = 4.18$, $SD = 0.82$). Notably, Financial Sustainability and Ethical Governance exhibited statistically significant negative skewness values of -1.05 ($p < 0.01$) and -1.12 ($p < 0.01$) respectively. This clear ceiling effect indicates that executives perceive their organizations as operating at near-optimal capacities regarding ethical compliance and basic financial viability. Conversely, Risk Management yielded the lowest relative mean score ($M = 3.81$, $SD = 0.71$), identifying it as a critical operational bottleneck and a primary area requiring targeted strategic intervention.

Table 2: Psychometric Properties and Descriptive Statistics of Scales

Construct	Items	α	M	SD	Skewness	Response Range
Shariah Principles	8	0.92	4.12	0.51	-0.87	3.25-5.00
Islamic Finance Concepts	1	-	3.78	0.89	-0.32	1.00-5.00
Business Practice Adoption	7	0.84	3.45	0.76	-0.15	1.00-5.00
Financial Sustainability	1	-	4.18	0.82	-1.05*	2.00-5.00
Composite Scales						
Ethical Governance	3	0.88	4.35	0.62	-1.12*	2.67-5.00
Risk Management	3	0.79	3.81	0.71	-0.24	2.00-5.00
Social Responsibility	2	0.83	4.28	0.68	-0.93	2.50-5.00

Note: α = Cronbach's alpha, M = Mean, SD = Standard Deviation. * $p < 0.01$ for skewness significance testing.

Exploratory Factor Analysis of Shariah Principles (Varimax Rotation)

An Exploratory Factor Analysis (EFA) utilizing Varimax orthogonal rotation was conducted on the 8-item Shariah Principles instrument to substantiate structural dimensionality. As shown in Table 3, the underlying structure resolved into three distinct, theoretically coherent factors that collectively accounted for 76.1% of the total explained variance, satisfying standard cumulative

variance criteria for organizational research ($> 60\%$).

Factor structural integrity was exceptionally strong: all latent items displayed primary factor loadings well above conservative thresholds (> 0.74) and maintained negligible cross-loadings (< 0.31). Factor 1, designated as Ethical Governance, emerged as the dominant construct, explaining 34.7% of the total variance (Eigenvalue = 3.82), which underscores its conceptual primacy in Islamic corporate finance models. Factor 2 (Risk

Management) explained 22.1% of the variance (Eigenvalue = 2.15), while Factor 3 (Social Responsibility) captured 19.3% (Eigenvalue = 1.78). High communality estimates across all items

(> 0.72) confirmed that the observed variables were adequately accounted for by the extracted factor solution.

Table 3: Rotated Factor Loadings and Communalities for Shariah Principles

Item	Factor 1: Ethical Governance	Factor 2: Risk Management	Factor 3: Social Responsibility	Communality
Profit-sharing	0.87	0.12	0.08	0.79
Prohibition of interest	0.82	0.21	0.11	0.75
Ethical investments	0.79	0.18	0.29	0.76
Asset-backing	0.14	0.85	0.12	0.78
Prohibition of excessive ambiguity	0.22	0.82	0.17	0.77
Contract compliance	0.31	0.74	0.20	0.72
Charity mechanisms	0.09	0.17	0.91	0.88
Community development	0.18	0.23	0.86	0.84
Eigenvalue	3.82	2.15	1.78	
% Variance Explained	34.7	22.1	19.3	Total= 76.1

Bivariate Correlation Matrix

Pearson correlation coefficients were calculated to explore the direction and magnitude of the linear relationships between the key variables as presented in Table 4. The correlation analysis corroborated several foundational theoretical linkages. Notably, Shariah Principles demonstrated a strong, positive relationship with both Business Practices ($r = 0.78$, $p < 0.001$) and Financial Sustainability ($r = 0.65$, $p < 0.001$). Among the extracted sub-dimensions, Ethical

Governance exhibited the strongest association with Shariah Principles ($r = 0.82$, $p < 0.001$), empirically validating its conceptual centrality. Additionally, professional tenure (Tenure) demonstrated moderate but statistically significant positive correlations with Financial Sustainability ($r = 0.37$, $p < 0.01$), Shariah Principles ($r = 0.31$, $p < 0.05$), and Business Practices ($r = 0.28$, $p < 0.05$). This suggests that incremental experiential learning over time yields measurable benefits for corporate sustainability outcomes.

Table 4: Intercorrelations Between Key Variables

Variable	1	2	3	4	5	6
Shariah Principles	1.00					
Business Practices	0.78***	1.00				
Financial Sustainability	0.65***	0.71***	1.00			
Ethical Governance	0.82***	0.69***	0.58***	1.00		
Risk Management	0.73***	0.62***	0.51***	0.48***	1.00	
Tenure	0.31*	0.28*	0.37**	0.22	0.19	1.00

Note: *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$ (two-tailed).

Hierarchical Regression Analysis

To test the predictive validity of Shariah principles and operational practices on financial sustainability, alongside their potential interactive synergy, a three-step hierarchical regression analysis was executed as shown in Table 5.

a) **Model 1 (Control Stage):** The entry of contextual controls (Tenure and Business Type) accounted for a modest 11% of the total

variance ($R^2 = 0.11$), with Tenure emerging as a significant baseline predictor ($\beta = 0.28$, $p < 0.05$).

b) **Model 2 (Main Effects Stage):** The inclusion of core predictors resulted in a substantial, statistically significant increase in explanatory power ($\Delta R^2 = 0.46$, $p < 0.001$), bringing the total explained variance to 57% ($R^2 = 0.57$). Within this model, both Shariah Principles ($\beta = 0.48$, $p < 0.001$) and Business Practices ($\beta = 0.37$, $p < 0.001$)

0.01) acted as highly potent direct indicators of financial sustainability.

- c) **Model 3 (Interaction Stage):** To evaluate systemic synergy, a localized interaction term (Shariah Principles Business Practices) was added. Model 3 achieved optimal explanatory power, explaining 63% of the total variance in Financial Sustainability ($F(5,80) = 27.34$, $p < 0.001$, $\Delta R^2 = 0.6$, $p < 0.05$). The interaction effect was positive and statistically significant, indicating a clear synergistic relationship.

Firms capable of concurrently optimizing both internal Shariah principles and operational business practices outperformed isolated linear baseline projections by an additional 19%. Notably, upon the introduction of the primary constructs in Steps 2 and 3, all demographic control variables dropped to non-significance, confirming the dominant impact of specialized Islamic financial execution over demographic factors.

Table 5: Hierarchical Regression Models Predicting Financial Sustainability

Predictor	Model 1 (β)	Model 2 (β)	Model 3 (β)
Step 1: Controls			
Tenure	0.28*	0.21	0.18
Business Type (Services)	0.15	0.11	0.09
Step 2: Core Constructs			
Shariah Principles		0.48***	0.32**
Business Practices		0.37**	0.41***
Step 3: Interactions			
Principles $\times$ Practices			0.26*
R^2	0.11	0.57	0.63
ΔR^2	-	0.46***	0.06*

Note: β = Significant standardized regression coefficients reported. *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$.

Prevalence of Implementation Challenges

Table 6 maps the structural and market-driven challenges encountered by executives attempting to implement sustainable Islamic financial frameworks within the Malaysian halal industry. Frequency mapping indicates that internal cognitive and external systemic barriers heavily impede widespread corporate adoption.

The single most pervasive impediment identified was a Limited understanding of Islamic finance, with 72.1% ($n = 62$) of the executive cohort classifying it as a critical operational bottleneck. This was closely compounded by regulatory friction, as 68.6% ($n = 59$) of respondents identified Complex compliance and regulatory costs as a primary operational challenge. Furthermore, a significant structural supply gap exists in the commercial market: 62.8% ($n = 54$) of

corporate leaders reported clear Difficulty in accessing Shariah-compliant financing options.

In contrast, market-pull and internal financial pressures were less acute but remained problematic. A Lack of consumer awareness or demand was cited as a barrier by 45.3% ($n = 39$) of the sample. Interestingly, immediate capital market pressures were the least disruptive factor; only 37.2% ($n = 32$) of respondents stated that their firms faced excessive Pressure to focus on short-term profits at the expense of long-term sustainability frameworks.

Synthesizing these findings, the macro challenges facing the sustainable halal ecosystem are primarily institutional, educational, and regulatory rather than being driven by a systemic fixation on short-term corporate profitability. Addressing these bottlenecks will require coordinated educational initiatives, regulatory harmonization, and targeted diversification of accessible Shariah-compliant corporate financial products.

Table 6: Prevalence of Perceived Implementation Challenges (n = 86)

Items	Yes (n/%)	No (n/%)
Limited understanding of Islamic finance	62 (72.1%)	24(27.9%)
Difficulty in accessing Shariah-compliant financing options	32(37.2%)	54(62.8%)
Pressure to focus on short-term profits	39(45.3%)	47(54.7%)
Lack of consumer awareness or demand for Islamic financial sustainability in the halal industry	59(68.6%)	27(31.4%)
Complex compliance and regulatory costs regarding Islamic financial sustainability practices in the halal industry	54(62.8%)	32(37.2%)

Note: n = frequency, % = Percentage.

Discussion

Theoretical and Empirical

Implications of Participant Profiles

The empirical insights derived from this study offer a nuanced perspective on the operationalization of Islamic financial sustainability within Malaysia's halal industry. A defining characteristic of the surveyed cohort is its distinct demographic composition: a substantial majority are under 30 years old (57.0%) and possess five years or less of industry experience (87.2%). This structural composition underscores a pronounced "generational pivot" within the corporate workforce of the Malaysian halal sector. While conventional scholarship often associates a younger workforce with a lack of deeply entrenched operational insights, this youth-dominated pool explains a fascinating paradox in the dataset.

The high conceptual affinity for Shariah Principles ($M = 4.12$) coupled with a comparatively muted score for Business Practice Adoption ($M = 3.45$) indicates that while contemporary tertiary education and state-sponsored training programs have successfully internalized the philosophy of Islamic economics among emerging professionals, a clear execution gap persists. These early-career practitioners are well-versed in modern sustainability and Islamic financial discourse, yet they operate within rigid corporate structures where actual integration tools remain underdeveloped. Recent literature similarly emphasizes that the sustainability potential of Islamic finance depends not merely on awareness of Shariah principles but on their effective translation into institutional culture and operational practices (17, 18).

The Governance-Sustainability Nexus and Ceiling Effects

The descriptive metrics reveal a strong ideological anchoring toward ethical commerce, as evidenced by the high mean scores for Ethical Governance ($M = 3.45$) and Social Responsibility ($M = 4.28$). The statistically significant negative skewness observed in both Financial Sustainability (-1.05 , $p < 0.01$) and Ethical Governance (-1.12 , $p < 0.01$) flags an empirical phenomenon known as a ceiling effect. In the context of the Malaysian halal ecosystem, this suggests that baseline compliance with Shariah mandates is no longer viewed as an optional competitive advantage; rather, it has become a fundamental corporate standard. Halal firms in Malaysia operate within a mature regulatory environment where basic legal, ethical, and financial metrics are structurally enforced, leading executives to rate their compliance at near-optimal levels (19). This interpretation is consistent with recent evidence indicating that Shariah governance extends beyond formal religious compliance and can contribute positively to broader sustainability performance (20).

However, a critical vulnerability emerges in the domain of Risk Management, which yielded the lowest relative mean score ($M = 3.81$). The structural dimensionality validated by the EFA – where Ethical Governance, Risk Management, and Social Responsibility collectively accounted for 76.1% of the total variance – empirically isolates risk management as a distinct, yet lagging operational pillar (21). More recent empirical evidence reinforces this concern, demonstrating the continuing importance of distinguishing between risk-sharing and non-risk-sharing Islamic financial intermediation and their respective implications for sustainable economic activity (22).

Synergistic Pathways to Financial Sustainability

The inferential analyses provide robust evidence regarding the pathways leading to long-term corporate viability. The bivariate correlation matrix validates that Shariah Principles are not merely abstract theological ideals, but are actively integrated with Business Practices ($r = 0.78$, $p < 0.001$) and Financial Sustainability ($r = 0.65$, $p < 0.001$). This relationship is consistent with contemporary literature positioning Islamic finance and Maqasid al-Shariah as complementary to sustainable development rather than as frameworks concerned exclusively with formal religious compliance (18). Crucially, the moderate yet significant correlation between professional tenure and sustainability outcomes ($r = 0.37$, $p < 0.01$) demonstrates that longitudinal, experiential learning is vital for navigating the complexities of Islamic finance, compensating for the conceptual nature of the younger workforce.

The hierarchical regression models provide the most critical contribution of this paper. While both Shariah Principles ($\beta = 0.32$, $p < 0.01$) and Business Practices ($\beta = 0.41$, $p < 0.001$) act as powerful direct, independent predictors of financial sustainability, their true value is unlocked when paired together. The positive and statistically significant interaction term ($\beta = 0.26$, $p < 0.05$) confirms a powerful synergistic effect: firms that concurrently optimize both their ethical Shariah foundations and their operational business practices achieve a 19% premium in financial sustainability over baseline linear projections.

This finding challenges the conventional, neoclassical assumption that ethical compliance acts as a regulatory tax or a drag on corporate profitability. Instead, it establishes that within the halal industry, ethical compliance and operational excellence are deeply complementary. Recent studies provide support for this interpretation by demonstrating that value-based Islamic financial principles, Shariah governance, and sustainability-oriented practices can reinforce organizational resilience, social impact, and sustainability performance (17, 20). True sustainability cannot be achieved through superficial marketing or isolated financial engineering; it requires a holistic alignment where Shariah principles actively guide day-to-day business choices.

Overcoming Institutional Bottlenecks

Despite the strong empirical support for this integrated model, the practical implementation of these frameworks faces serious structural bottlenecks. As mapped in Table 6, 72.1% of executives cite a limited understanding of Islamic financial instruments as a primary hurdle, compounded by complex compliance frameworks and regulatory costs (68.6%). Furthermore, 62.8% of respondents report clear difficulties in accessing Shariah-compliant capital. These findings are consistent with recent studies highlighting persistent challenges related to the understanding and adoption of Islamic financing as well as access to Shariah-compliant financial resources among Malaysian businesses (23, 24).

These findings indicate that the primary barriers to sustainable growth within the halal industry are not driven by a short-term corporate obsession with profits (which was cited as a major concern by only 37.2% of the sample). More recent Malaysian evidence reinforces the importance of this educational dimension, demonstrating a significant connection between Islamic financial literacy and the financial sustainability of Muslim entrepreneurs (25). This suggests that improving access to Shariah-compliant finance alone may be insufficient unless it is accompanied by stronger practitioner knowledge and the capacity to evaluate and utilize Islamic financial instruments effectively (26).

Conclusion

This study investigated the strategic intersection of Islamic financial sustainability and halal industry operations in Malaysia through the lens of corporate executives. Empirically, the investigation yielded three critical conclusions. First, while there is a profound ideological alignment and high conceptual endorsement of Shariah principles and ethical governance among halal industry practitioners, a notable execution gap persists in the practical adoption of these models and the optimization of advanced risk-sharing instruments like profit-sharing partnership. Second, financial sustainability in the halal sector is not an isolated metric but an interactive outcome; hierarchical regression modelling verified that firms concurrently integrating deep Shariah compliance with proactive operational business practices unlock a

highly significant, non-linear performance premium. Third, the structural barriers preventing the widespread realization of this synergy are not driven by internal corporate short-term profit seeking, but rather by external institutional bottlenecks, namely a localized deficit in specialized financial literacy, heavy regulatory compliance costs, and a supply-side scarcity of accessible Shariah-compliant capital products.

From a theoretical perspective, this research advances the literature on Islamic business and corporate sustainability in two distinct ways. Primarily, it shifts the analytical paradigm away from institutional banking frameworks – which dominate current literature – and repositions the corporate executives of real-economy halal enterprises as the central unit of analysis. By doing so, it provides much-needed empirical evidence regarding how faith-based financial mandates materialize within day-to-day commercial supply chains. Furthermore, by identifying a positive, statistically significant interaction effect between Shariah principles and business practice adoption, this study provides an empirical counter-narrative to traditional neoclassical economic theories that view ethical or ESG-aligned governance as a regulatory friction or profit-reducing tax. Instead, this paper establishes a framework of complementarity, proving that ethical mandates and corporate performance can be mutually reinforcing drivers of long-term financial resilience.

The practical insights generated by this study offer actionable pathways for multiple stakeholders across the Malaysian halal ecosystem:

- a) For Islamic Financial Institutions:** There is a clear mandate to move beyond copy-pasting conventional banking products into basic Shariah-compliant formats. Financial institutions must actively innovate and commercialize tailored, accessible, equity-based, and risk-sharing corporate financial products that seamlessly match the cash-flow cycles of halal-certified enterprises.
- b) For Regulatory Bodies and Policymakers (e.g., HDC and JAKIM):** To realize the goals of Malaysia's Halal Industry Master Plan 2030, regulators must address the dual burdens of high compliance costs and complex bureaucratic frameworks. Introducing

streamlined, tier-structured compliance tracks for SMEs could dramatically lower entry barriers and accelerate the adoption of sustainable financial models.

c) For Corporate Managers and

Educators: Given the high concentration of early-career professionals steering modern operations, there is an urgent need for targeted capacity-building programs. Academic institutions and industry bodies must collaborate to design advanced professional certifications that bridge the gap between abstract Shariah theory and practical financial risk management workflows.

While this study establishes a robust foundational framework, certain limitations must be acknowledged, which open valuable avenues for future academic inquiry. First, the empirical dataset was restricted to a sample size of localized within the Klang Valley region. Although this cohort represents a highly specialized group of decision-makers in Malaysia's primary economic zone, future research should expand the geographic and sample scope using probability sampling methods to increase generalizability across the wider ASEAN landscape. Second, the cross-sectional design of this survey captures executive perceptions at a single point in time. Future researchers are encouraged to deploy longitudinal tracking methods to observe how executive perceptions and corporate adoption rates shift as macroeconomic policies evolve. Finally, future studies could integrate qualitative methodologies—such as semi-structured executive interviews or deep multi-case study analyses—to contextualize the exact organizational dynamics and internal political hurdles that firms face when transitioning toward an integrated model of Islamic financial sustainability.

Abbreviations

ESG: Environmental, Social and Governance, F&B: Food and Beverage, GDP: Gross Domestic Product, JAKIM: Department of Islamic Development Malaysia (Jabatan Kemajuan Islam Malaysia), SMEs: Small and Medium Enterprises, USD: United States Dollar.

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Author Contributions

Mohd Rizal Muwazir: Conceptualization, Methodology, Statistical Analysis, Writing Original Draft, Supervision, Ferry Prasetya: Data Curation, Investigation, Validation, Supervision, Noradilah Abdul Hadi: Methodology, Interpretation of Results, Writing-Review, Editing, Riduan Mas'ud: Literature Review, Project Administration, Visualization. All authors have reviewed and approved the submission of this manuscript.

Conflict of Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this research.

Data Availability

The data supporting the findings of this research were collected from corporate executives within the Malaysian halal industry located in the Klang Valley. The datasets are not publicly available because they contain confidential information and are subject to confidentiality agreements with the participants. Consequently, the data cannot be shared with third parties. Limited anonymized information may be made available by the corresponding author upon reasonable request, subject to ethical and confidentiality considerations.

Declaration of Artificial Intelligence (AI) Assistance

The authors used artificial intelligence (AI)-assisted language tools solely to improve the clarity, grammar, readability, and formatting of the manuscript. All intellectual content, research design, data analysis, interpretation of findings, and conclusions were developed and verified by the authors, who take full responsibility for the accuracy and integrity of the manuscript.

Ethics Approval

This research was conducted in accordance with the ethical principles for research involving human participants (Office Ref: PV0382024). Participation in the survey was voluntary, informed consent was obtained from all respondents prior to data collection, and all responses were treated confidentially and used solely for research purposes. No personally identifiable information was collected or disclosed.

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