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EXPLORING THE DRIVERS OF ENTREPRENEURIAL INTENTIONS TO ADOPT ISLAMIC FINANCE IN UZBEKISTAN

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Abstract

Islamic finance in Uzbekistan has expanded through Islamic windows and leasing companies, yet accessibility remains limited. This study examines the key determinants shaping entrepreneurs' intentions to adopt Islamic finance, employing Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze data from an online survey conducted between February and April 2024. The results reveal that business support, perceived behavioral control, awareness and knowledge, and religious obligation all significantly influence Islamic finance adoption. Among these, business support and perceived behavioral control emerge as the strongest predictors, underscoring the importance of institutional backing and financial self-efficacy. These findings highlight the need for targeted financial literacy initiatives, regulatory reforms, and tailored Shari'ah-compliant financial solutions to facilitate broader adoption. The study provides valuable insights for policymakers, financial institutions, and regulators, emphasizing the role of business incentives and financial education in promoting Islamic finance among entrepreneurs.

Key Words: Islamic Financial Adoption, PLS-SEM; Entrepreneurial Intentions, Business Support, Perceived Behavioral Control, Financial Literacy, Regulatory Framework, Shari'ah Compliance

GİRİŞİMCİLERİN İSLAMİ FİNANSMANI BENİMSEME NİYETLERİNİN BELİRLEYİCİLERİ: ÖZBEKİSTAN'DAN KANITLAR

Özet

Özbekistan'da İslami finans, İslami pencereler ve leasing şirketleri aracılığıyla genişlemiş olsa da erişilebilirliği sınırlı kalmaktadır. Bu çalışma, girişimcilerin İslami finansı benimseme niyetini şekillendiren temel belirleyicileri incelemekte ve Şubat-Nisan 2024 tarihleri arasında çevrimiçi bir anketle toplanan verileri analiz etmek için Kısmi En Küçük Kareler Yapısal Eşitlik Modellemesi (PLS-SEM) yöntemini kullanmaktadır. Bulgular, işletme desteği, algılanan davranışsal kontrol, farkındalık ve bilgi düzeyi ile dini yükümlülüğün İslami finansın benimsenmesi üzerinde önemli bir etkisi olduğunu göstermektedir. Bunlar arasında işletme desteği ve algılanan davranışsal kontrol en güçlü belirleyiciler olarak öne çıkmakta ve kurumsal destek ile finansal öz-yeterliliğin önemini vurgulamaktadır. Bu sonuçlar, hedefe yönelik finansal okuryazarlık girişimleri, düzenleyici reformlar ve özelleştirilmiş Şeriat uyumlu finansal çözümlere olan ihtiyacı ortaya koymaktadır. Çalışma, işletme teşvikleri ve finansal eğitimin girişimciler arasında İslami finansın yaygınlaştırılmasındaki rolüne dikkat çekerek politika yapıcılar, finans kurumları ve düzenleyiciler için değerli bilgiler sunmaktadır.

Anahtar Kelimeler: İslami Finansal Kabul, PLS-SEM, Girişimci Niyetleri, İş Desteği, Algılanan Davranış Kontrolü, Finansal Okuryazarlık, Düzenleyici Çerçeve, Şer'i Uyumluluk

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Introduction

Islamic finance has gained increasing attention among both the general population and business sectors in Uzbekistan. However, the absence of a dedicated legislative framework for its growth remains a significant barrier. Recognizing this gap, President Shavkat Mirziyoyev, in his 2020 address to the Oliy Majlis, emphasized the urgent need to establish a legal foundation for Islamic financial services. Given that over 95% of Uzbekistan's population is Muslim, he underscored the strategic importance of expanding this sector. More recently, on June 16, 2023, during a meeting with voters in Namangan, President Mirziyoyev reaffirmed his commitment to alternative financial support systems, stating:

"If Namangan entrepreneurs propose to establish a private bank, we will certainly support them. Alternative financial support systems for entrepreneurs will be introduced. In particular, Islamic financial services will be significantly expanded in Namangan." (Mirziyoyev, 2020)

Despite a Muslim-majority population exceeding 37 million, Uzbekistan lags behind its regional counterparts in developing a robust Islamic finance sector. According to the Islamic Finance Development Indicator Report 2023 (ICD & LSEG, 2023), Kazakhstan remains the regional leader, ranking 22nd globally, with well-established regulatory frameworks, active Sukuk issuance, and a growing network of Islamic financial institutions. In contrast, Uzbekistan ranks 50th, reflecting its early-stage development and limited institutional support. Kyrgyzstan (39th) and Tajikistan (45th) have also introduced Islamic finance mechanisms, though their market penetration remains modest compared to Kazakhstan. While Uzbekistan collaborates with the Islamic Development Bank (IDB) Group, providing Shari'ah-compliant financing through *Murabaha*, *Istisna*, and *Ijara* (leasing) in partnership with *Kapitalbank*, *O'zsanoatqurilishbank*, *Trastbank*, *Asia Alliance Bank*, and *Turonbank*, these offerings remain largely institution-focused, with limited accessibility for entrepreneurs and SMEs.

Empirical studies on Islamic finance adoption have primarily examined markets such as Malaysia, Pakistan, Turkey, Morocco, and Uganda, where factors like perceived *Shari'ah* compliance, financial literacy, religious obligation, and institutional reputation have been identified as key determinants (Aziz & Afaq, 2018; Bananuka et al., 2019; Boubker et al., 2021; Jaffar & Musa, 2016; Mahdzan et al., 2017; Maryam et al., 2021; Saygılı et al., 2022; Shah et al., 2023). While these studies provide valuable insights, there remains a critical gap in research focusing on entrepreneurs' adoption of Islamic finance in Uzbekistan. Due to regulatory, institutional, and economic differences, context-specific empirical evidence is essential to identify the barriers and drivers of Islamic finance adoption among Uzbek entrepreneurs.

This study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) to assess the key determinants influencing entrepreneurs' intentions to adopt Islamic finance in Uzbekistan. By analyzing primary data collected through a structured survey of entrepreneurs engaged in financial decision-making, this research:

- Identifies the institutional, behavioral, and religious factors shaping entrepreneurs' financial decision-making.
- Positions Uzbekistan's Islamic finance landscape within global trends, highlighting key challenges and opportunities.
- Provides practical insights for policymakers, financial institutions, and entrepreneurs to promote the growth of Islamic finance.

The findings of this study highlight the significant role of institutional and behavioral factors, with business support and perceived behavioral control emerging as the most influential drivers of Islamic finance adoption. Religious obligation, while relevant, exerts a relatively weaker

influence compared to financial confidence and institutional backing. This study contributes to the literature in several ways. First, it fills a research gap by focusing on entrepreneurs' perspectives, an underexplored area in Uzbekistan's Islamic finance landscape. Second, it integrates findings from global studies, offering comparative insights into how Uzbekistan aligns with or differs from more mature Islamic finance markets. Third, it offers actionable policy recommendations, emphasizing the need for enhanced business support programs, targeted financial education, and regulatory improvements to facilitate Islamic finance adoption.

The remainder of this article is structured as follows: Section 2 reviews the literature on key factors influencing Islamic finance adoption. Section 3 outlines the research methodology, data collection, and analytical techniques. Section 4 presents the empirical findings and discussion, while Section 5 concludes the study with policy recommendations.

1. Literature Review

The adoption of Islamic finance has been extensively studied across various countries, with researchers emphasizing the role of psychological, economic, and institutional factors in shaping individuals' and businesses' financial decisions. Two widely applied theoretical models in this field are the Theory of Reasoned Action (TRA) by Ajzen & Fishbein (1980) and the Theory of Planned Behavior (TPB) by Ajzen (1991). Both models suggest that attitudes, subjective norms, and perceived behavioral control play a significant role in shaping financial behavior. More recently, Saygılı et al. (2022) introduced the Attitude-Social Influence-Self-Efficacy (ASE) Model, emphasizing the role of confidence in financial knowledge and peer influence in determining Islamic finance adoption.

Empirical studies have confirmed that perceived Shariah compliance (PoSC), financial literacy, religious obligation, and institutional reputation significantly impact individuals' and businesses' intentions to adopt Islamic finance. Shah et al. (2023) found that knowledge of the Islamic financial system (KoIF), religious preferences (RP), and loyalty directly influence adoption, with attitude toward Islamic finance (AtIF) playing a mediating role. Similarly, Bananuka et al. (2019) established that attitude acts as a mediator between subjective norms, religiosity, and the intention to adopt Islamic banking, reinforcing the role of social and religious influences.

Several studies have explored Islamic finance adoption across different contexts. Maryam et al. (2021) identified reputation, cost benefits, and government support as key determinants of adoption in Pakistan, while Mahdzan et al. (2017) highlighted the importance of financial literacy and perceived economic advantages in Malaysia. In Pakistan, Aziz & Afaq (2018) found that attitude and subjective norms significantly influence adoption intentions, alongside awareness, uncertainty, compatibility, and relative advantage. In Morocco, Boubker et al. (2021) emphasized the role of cost considerations, institutional reputation, and religious obligations.

A key study by Jaffar & Musa (2016) examined Islamic finance adoption among non-users in Malaysia, revealing that religious obligation, business support, and perceived cost benefits strongly shape attitudes toward Islamic finance. Their findings further support the significance of subjective norms and perceived behavioral control in influencing adoption decisions.

While these studies provide valuable insights, most have been conducted in Malaysia, Pakistan, Turkey, Morocco, and Uganda, where Islamic finance is relatively more developed. In contrast, Uzbekistan's Islamic finance sector remains in its infancy, with limited empirical studies addressing entrepreneurial adoption. Given the regulatory and institutional differences, there is

a need for context-specific research to examine how awareness, business support, and regulatory factors shape Islamic finance adoption among entrepreneurs in Uzbekistan.

This study builds on the existing literature by providing empirical evidence specific to Uzbekistan, examining the influence of awareness and knowledge levels, religious obligation, business support, and perceived behavioral control on entrepreneurs' intention to adopt Islamic finance. The findings contribute to both theoretical and practical discussions, offering insights for policymakers, financial institutions, and business stakeholders to facilitate the growth of Islamic finance in an emerging market context.

2. Data and Analytical Framework

Building upon the theoretical and empirical insights discussed in Section 2, this section outlines the data collection process and analytical approach used to examine the factors influencing entrepreneurs' intention to adopt Islamic finance (IUIF) in Uzbekistan. A quantitative research design was employed, leveraging Partial Least Squares Structural Equation Modeling (PLS-SEM) for hypothesis testing. This methodological approach enables the simultaneous estimation of both measurement and structural models, making it well-suited for exploring complex relationships between latent variables.

3. Model Specification and Variables

The conceptual model of this study is based on established theoretical frameworks and prior empirical research. As illustrated in Figure 1, the model examines the influence of Awareness and Knowledge (AANL), Religious Obligation (RO), and Business Support (BS) on Intention to Adopt Islamic Finance (IUIF), with Perceived Behavioral Control (PBC) serving as a mediating variable. Specifically, AANL is hypothesized to influence PBC *(H1)*, which in turn affects IUIF *(H4)*. Additionally, RO *(H2)* and BS *(H3)* are expected to have direct effects on IUIF.

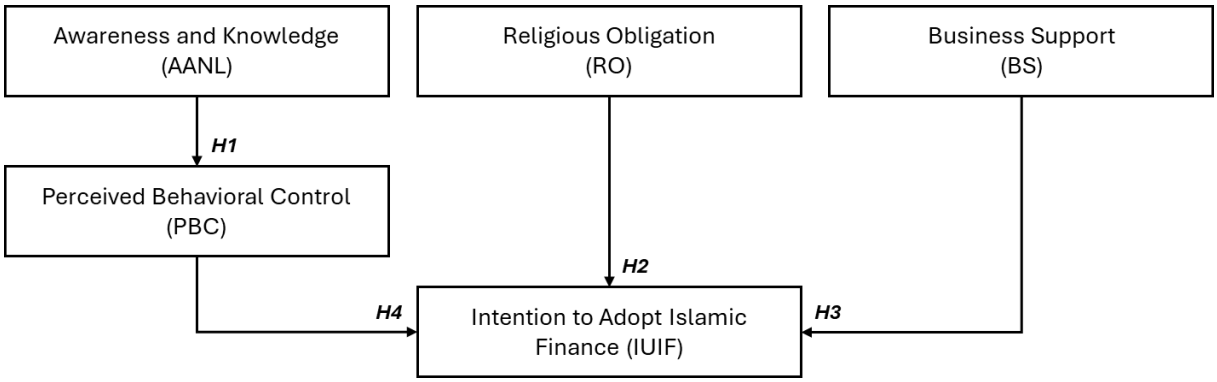

Figure 1. Conceptual Framework of Entrepreneurial Intentions to Adopt Islamic Finance

To empirically test these relationships, data were collected through an online survey (Google Forms) administered to entrepreneurs across various sectors in Uzbekistan. The final dataset comprised 305 valid responses, which were analyzed using SmartPLS 4.0 for PLS-SEM estimation and IBM SPSS AMOS 26 for additional statistical assessments. The following equation represents the general regression model:

$$Y = \alpha + \sum_{i=1}^{n} \beta_i X_i + \varepsilon \quad (1)$$

Substituting the study-specific variables, the model can be expressed as:

$$IUIF = \alpha + \beta_1 AANL + \beta_2 RO + \beta_3 BS + \beta_4 PBC + \varepsilon \quad (2)$$

Where, IUIF denotes the intention to adopt Islamic Finance, α is the constant term, β_1 to β_4 correspond to the regression coefficients for the independent variables, and ε is the error term. This model provides a structured approach to understanding how entrepreneurial perceptions, religious influences, and institutional support shape the adoption of Islamic financial instruments.

4. Estimation Method: PLS-SEM Approach

To examine the hypothesized relationships, this study employs Partial Least Squares Structural Equation Modeling (PLS-SEM), a variance-based SEM technique widely used for predictive modeling and theory development in social sciences (Hair et al., 2013, 2019). PLS-SEM is particularly advantageous in handling small-to-moderate sample sizes, non-normal data distributions, and complex structural relationships, making it suitable for this study. The analytical procedure is conducted in two stages: (i) Measurement Model Evaluation (Outer Model) and (ii) Structural Model Evaluation (Inner Model). The evaluation criteria applied in these stages are summarized in Table 1.

Table 1. PLS-SEM Model Evaluation Criteria and Assessment Guidelines

Step	Evaluation Measures	Threshold/Criteria
Step 1: Measurement Model Evaluation (Outer Model)	Convergent Validity	
	▪ Factor Loadings	$\lambda > 0.70$
	▪ Cronbach's Alpha	$CA > 0.70$
	▪ Composite Reliability	$CR > 0.70$
	▪ Average Variance Extracted	$AVE > 0.50$
	Discriminant Validity	
	▪ Fornell-Larcker Criterion	$\sqrt{AVE}$
	▪ Heterotrait-Monotrait Ratio	$HTMT < 0.85$
Step 2: Structural Model Evaluation (Inner Model)	Model Fit and Explanatory Power	
	▪ Coefficient of Determination (R^2)	R^2
	▪ Effect Size (f^2)	Small: $f^2 > 0.02$ Medium: $f^2 > 0.15$ Large: $f^2 > 0.35$
	▪ Goodness-of-Fit Index (GoF)	$GoF = \sqrt{\overline{AVE} \times \overline{R^2}}$
	Hypothesis Testing	
	▪ Path Coefficients (β)	
	▪ *t*-values and *p*-values	$p - \text{value} < 0.05$

The measurement model ensures that latent constructs are accurately represented by their observed indicators. Convergent validity is assessed through Factor Loadings ($\lambda > 0.70$), Cronbach's Alpha ($CA > 0.70$), Composite Reliability ($CR > 0.70$), and Average Variance Extracted ($AVE > 0.50$) (Hair et al., 2013). Constructs with AVE values above this threshold demonstrate that their indicators explain a sufficient proportion of variance.

Discriminant validity is evaluated using the Fornell-Larcker Criterion and the Heterotrait-Monotrait (HTMT) ratio. The Fornell-Larcker Criterion requires that the square root of AVE for each construct must exceed its highest correlation with other constructs, ensuring that constructs are empirically distinct (Fornell & Larcker, 1981). The HTMT ratio is applied with a threshold of $HTMT < 0.85$, confirming construct distinctiveness (Hair et al., 2019). These validity assessments verify that the constructs measure unique concepts rather than overlapping with others.

Following validation of the measurement model, the structural model is assessed to evaluate the strength and significance of the hypothesized relationships. The Coefficient of Determination R^2 measures the proportion of variance in the Intention to Adopt Islamic Finance (IUIF) explained by the independent variables. Higher R^2 values indicate greater explanatory power. Additionally, effect size f^2 is computed to assess the relative impact of each predictor on R^2, using Cohen's (1988) benchmarks: 0.02 (small), 0.15 (medium), and 0.35 (large).

The Goodness-of-Fit (GoF) Index, calculated as $GoF = \sqrt{\overline{AVE} \times \overline{R^2}}$, provides an overall model fit assessment. While debated in PLS-SEM literature, GoF offers an additional measure to gauge model adequacy (Hair et al., 2019).

Hypothesis testing is performed using Path Coefficients (β), *t*-values, and *p*-values, obtained through bootstrapping with 5,000 resamples. A *p*-value < 0.05 indicates statistical significance, confirming the strength and direction of relationships among variables. The significance of path relationships provides empirical support for the proposed model, reinforcing the validity of the hypothesized determinants influencing the adoption of Islamic finance.

With the measurement and structural model evaluations completed, the next section presents the results of the analysis, including the assessment of model reliability, discriminant validity, effect sizes, and hypothesis testing outcomes. These findings offer empirical evidence on the factors shaping entrepreneurial intentions toward Islamic finance in Uzbekistan.

5. Results and Discussion

5.1. Measurement Model Evaluation: Reliability and Validity Assessment

In this study, a range of metrics, including factor loadings, Cronbach's alpha (CA), average variance extracted (AVE), and composite reliability (CR), were employed to assess the internal consistency, construct reliability, and convergent validity of the measurement model. According to (Hair et al., 2013, 2019), factor loadings should ideally exceed 0.70, while values between 0.60 and 0.70 are considered acceptable in exploratory research. Additionally, Cronbach's alpha and composite reliability should be greater than 0.70, and AVE must exceed 0.50 to confirm adequate construct validity.

As presented in Table 2, all factor loadings met the recommended threshold, except PBC1, which had a loading of 0.561. Despite this, PBC1 was retained due to three primary considerations: (i) its theoretical relevance in measuring Perceived Behavioral Control, (ii) the construct-level reliability remaining within acceptable limits (CR = 0.799, AVE = 0.578), and (iii) best practices in PLS-SEM recommending retention of lower-loading indicators if they contribute meaningfully to the construct and do not compromise model validity (Hair et al., 2019).

To ensure that constructs measure distinct theoretical concepts, discriminant validity was evaluated using the Fornell-Larcker Criterion and the Heterotrait-Monotrait (HTMT) Ratio. According to Fornell & Larcker (1981), discriminant validity is confirmed if the square root of AVE for each construct exceeds its highest correlation with other constructs. As shown in Table 3, all diagonal values in italics (square roots of AVE, indicated in *italics*) are greater than their corresponding off-diagonal correlation coefficients, confirming discriminant validity.

Table 2. Measurement Model Reliability and Validity Results

Constructs	Code	Factor Loading	VIF	CA	CR	AVE
Awareness and knowledge	AANL1	0.859	2.75	0.920	0.942	0.804
	AANL2	0.931	3.68			
	AANL3	0.922	3.65			
	AANL4	0.872	2.61			
Perceived Behavioral Control	PBC1	0.561	1.16	0.644	0.799	0.578
	PBC2	0.855	1.36			
	PBC3	0.829	1.36			
Religious Obligation	RO1	0.727	1.35	0.637	0.792	0.563
	RO2	0.643	1.23			
	RO3	0.865	1.23			
Business Support	BS1	0.897	2.10	0.813	0.888	0.726
	BS2	0.896	2.08			
	BS3	0.756	1.53			
Intention to adopt IF	IUIF1	0.833	1.22	0.632	0.797	0.569
	IUIF2	0.690	1.24			
	IUIF3	0.733	1.27			

Table 3. Discriminant Validity Assessment Using Fornell-Larcker Criterion

Constructs	AANL	PBC	RO	BS	IUIF
AANL	*0.897*				
PBC	0.258	*0.760*			
RO	0.204	0.524	*0.751*		
BS	0.161	0.554	0.651	*0.852*	
IUIF	0.224	0.515	0.497	0.544	*0.754*

Further confirmation is provided by the HTMT ratio, which is a more stringent test of discriminant validity, assessing construct correlations relative to within-construct variability. Hair et al. (2019) recommend that HTMT values should be below 0.85 to confirm discriminant validity. As presented in Table 4, all HTMT values range between 0.181 and 0.837, remaining within the prescribed threshold. These results confirm that the constructs are empirically distinct, reinforcing the robustness of the measurement model.

Table 4. HTMT Ratio for Discriminant Validity

Constructs	AANL	PBC	RO	BS	IUIF
AANL					
PBC	0.291				
RO	0.265	0.734			
BS	0.181	0.722	0.837		
IUIF	0.283	0.731	0.713	0.705	

The discriminant validity assessment reinforces the uniqueness of each construct, confirming that Perceived Behavioral Control (PBC), Religious Obligation (RO), and Business Support (BS) are strong predictors of the intention to adopt Islamic finance. In contrast, Awareness and Knowledge (AANL), while conceptually relevant, exhibits comparatively lower correlations,

suggesting that its influence on the adoption of Islamic finance may be indirect or moderated by other factors. This observation highlights the complex nature of financial decision-making among entrepreneurs, indicating that behavioral and institutional influences may outweigh purely informational effects.

The measurement model validation process affirms that all constructs are both reliable and distinct, providing a solid empirical foundation for evaluating the structural model and hypothesis testing in the following section.

5.2. Structural Model Evaluation: Model Fit, Hypothesis Testing, and Discussion

Building on the validated measurement model, the structural model was evaluated to examine the relationships among constructs and assess overall model fit. This evaluation involves analyzing the coefficient of determination (R^2) to measure explanatory power, the effect sizes (f^2) to assess the contribution of individual predictors, and hypothesis testing using path coefficients (β), *t*-values, and *p*-values. Together, these measures provide a comprehensive understanding of the predictive accuracy of the model and the factors influencing entrepreneurs' intention to adopt Islamic finance.

The coefficient of determination (R^2) measures how well the independent variables explain the variance in the dependent variables. As presented in Table 5, the model explains 37.8% of the variance in Intention to Adopt Islamic Finance (IUIF) ($R^2 = 0.378$), which indicates moderate explanatory power based on Cohen's (1988) Cohen's (1988) classification. In contrast, Perceived Behavioral Control (PBC) has an R^2 of 0.067 (6.7%), suggesting that while Awareness and Knowledge (AANL) significantly contributes to PBC, other external factors beyond the model may also play a role in shaping an entrepreneur's perceived behavioral control.

Table 5. Coefficient of Determination (R^2) for Endogenous Constructs

Constructs (Endogenous)	R^2	Adj. R^2
PBC	0.067	0.064
IUIF	0.378	0.371

While R^2 provides insight into the variance explained by predictors, effect size (f^2) further assesses the relative contribution of each independent variable to its respective endogenous construct. As shown in Table 6, the results indicate that all effect sizes are small, with Perceived Behavioral Control (PBC) exerting the strongest effect on Intention to Adopt Islamic Finance ($f^2 = 0.075$), followed by Business Support ($f^2 = 0.066$) and Awareness and Knowledge ($f^2 = 0.071$) on PBC. Religious Obligation ($f^2 = 0.025$) shows the smallest effect, reinforcing the notion that while religiosity plays a role, it is not the primary driver of Islamic finance adoption among entrepreneurs.

These findings align with previous studies suggesting that entrepreneurs' financial decision-making is influenced more by institutional support, business feasibility, and perceived financial self-efficacy than by religious motivation alone (Boubker et al., 2021). The small effect sizes also suggest that adoption is likely influenced by additional moderating or mediating factors not captured in the model, further emphasizing the complexity of financial decision-making in Islamic finance adoption.

Table 6. Effect Size (f^2) of Predictor Constructs

Constructs	f^2	Effect Size
AANL => PBC	0.071	*small*
RO => IUIF	0.025	*small*
BS => IUIF	0.066	*small*
PBC => IUIF	0.075	*small*

Beyond individual predictors, overall model fit is an essential component in evaluating the global performance of the PLS-SEM model. To assess this, the Goodness-of-Fit (GoF) index was calculated as the geometric mean of the average variance extracted (AVE) and the mean R^2 of endogenous constructs, following the approach suggested by Tenenhaus et al. (2005). This metric integrates measurement quality (AVE) and explanatory power (R^2) to validate the model holistically.

As presented in Table 7, the average AVE across all constructs is 0.648, while the mean R^2 is 0.2225. Based on these values, the GoF is computed as:

$$GoF = \sqrt{\overline{AVE} \times \overline{R^2}} = \sqrt{0.648 \times 0.2225} = 0.3797 \approx 38\%$$

For interpretation, Wetzels et al. (2009) established GoF benchmarks of 0.10 (small), 0.25 (medium), and 0.36 (large). The GoF of 0.3797 exceeds the large-effect threshold (0.36), indicating strong model fit and substantial explanatory power. This reinforces the robustness of the PLS-SEM framework, suggesting that the model effectively captures key determinants influencing the adoption of Islamic finance among entrepreneurs.

Table 7. Goodness-of-Fit (GoF) Calculation for PLS-SEM

Constructs	AVE	R^2
AANL	0.804	
PBC	0.578	0.067
RO	0.563	
BS	0.726	
IUIF	0.569	0.378
Mean	0.648	0.2225

Following the evaluation of model fit, hypothesis testing was conducted to examine the statistical significance of the relationships between constructs. Table 8 presents the results of hypothesis testing, showing that all four hypotheses are statistically significant at $p < 0.05$. Awareness and Knowledge (*H1*: $\beta = 0.258, t = 3.538, p < 0.000$) positively influences Perceived Behavioral Control (PBC), reinforcing the idea that greater awareness of Islamic finance enhances entrepreneurs' confidence in their ability to engage with it. Religious Obligation (*H2*: $\beta = 0.171, t = 2.387, p < 0.017$) has a significant but weaker effect on Intention to Adopt Islamic Finance (IUIF), indicating that while faith-based considerations contribute to adoption, they are secondary to institutional and behavioral influences.

Business Support (*H3*: $\beta = 0.284, t = 4.037, p < 0.000$) emerges as the strongest predictor of Islamic finance adoption, underscoring the importance of financial incentives, institutional support, and advisory services in shaping adoption decisions. Similarly, Perceived Behavioral Control (*H4*: $\beta = 0.269, t = 4.308, p < 0.000$) significantly influences IUIF,

suggesting that entrepreneurs with greater confidence in navigating Islamic finance mechanisms are more likely to adopt them.

Table 8. Results of Structural Model and Hypothesis Testing

Hypothesis Path	β	S.E.	*t*-values	*p*-values	Supported?
H1: AANL => PBC	0.258	0.049	3.538	0.000	Yes
H2: RO => IUIF	0.171	0.072	2.387	0.017	Yes
H3: BS => IUIF	0.284	0.070	4.037	0.000	Yes
H4: PBC => IUIF	0.269	0.062	4.308	0.000	Yes

These findings provide deeper insight into the factors shaping Islamic finance adoption. Business support and perceived behavioral control play the most influential roles, suggesting that entrepreneurs prioritize institutional backing and financial self-efficacy over purely informational or religious motivations. Interestingly, Awareness and Knowledge does not directly impact IUIF, but instead operates through PBC, meaning that entrepreneurs who are knowledgeable about Islamic finance tend to feel more confident engaging with it, yet knowledge alone is not enough to drive adoption.

The validated model offers a comprehensive explanation of Islamic finance adoption, highlighting the interplay between business support, cognitive factors, and religious obligations. Figure 2 visually represents these relationships, including the statistical significance of each path. The structural model confirms that while religious motivation plays a role, it is the enabling environment, i.e., business incentives, financial confidence, and institutional backing, that ultimately drive adoption.

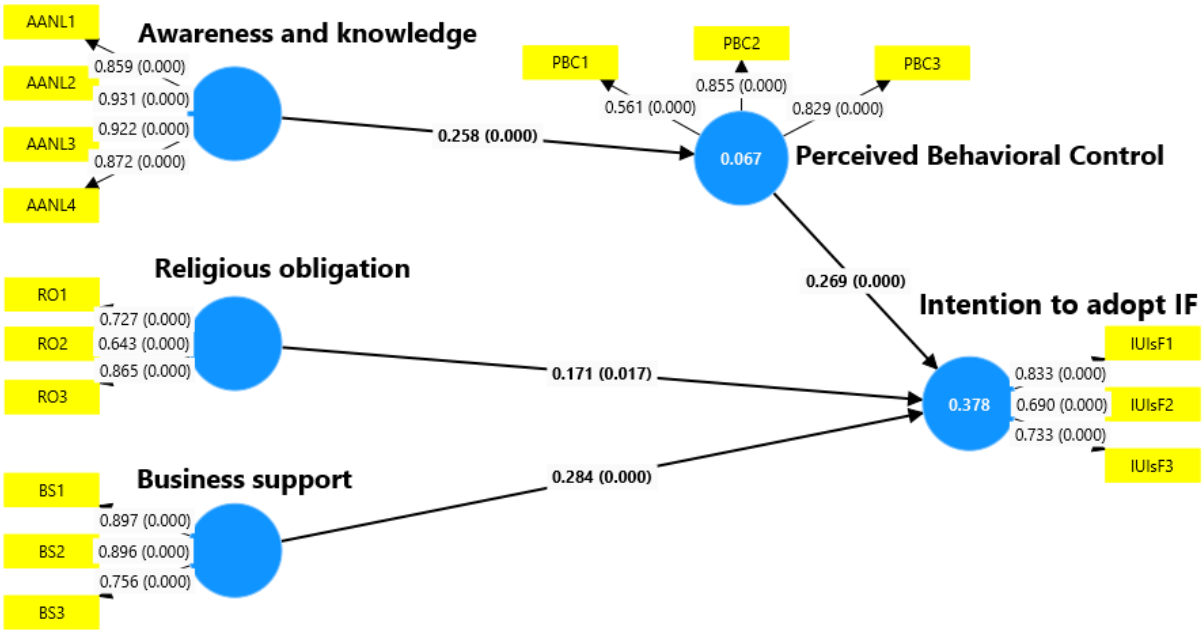

Figure 2. Structural Model with Path Coefficients and Significance Levels

These results reinforce the notion that entrepreneurial decision-making in financial adoption is multifaceted, influenced by both external institutional support and individual perceptions of financial control. While religious factors contribute to the decision-making process, they appear secondary to the availability of tangible business support and financial self-efficacy. Given these findings, a broader discussion is needed to position this study within the existing body of

literature, compare it with prior research, and explore its implications for policymakers and financial institutions. The following section expands on these aspects, drawing connections to existing studies, highlighting key contributions, and offering targeted recommendations.

Conclusion

This study examined the key determinants influencing entrepreneurs' intentions to adopt Islamic finance, applying Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze their interrelationships. The findings demonstrate that business support (BS) and perceived behavioral control (PBC) are the most influential factors, while awareness and knowledge (AANL) indirectly affects Islamic finance adoption through PBC. Religious obligation (RO), while statistically significant, exhibits the smallest effect size, suggesting that while faith-based considerations contribute to adoption, entrepreneurs prioritize financial self-efficacy and institutional support.

This study advances the literature on Islamic finance adoption by reinforcing the notion that institutional and behavioral determinants outweigh purely religious motivations. Previous studies, such as Mahdzan et al. (2017) and Aziz & Afaq (2018), emphasize religiosity as a primary driver of Islamic finance adoption. However, the findings of this study align more closely with Jaffar & Musa (2016), who suggest that institutional support, business incentives, and financial literacy play more substantial roles in influencing adoption decisions. Furthermore, this study builds on Boubker et al. (2021) by confirming that awareness and knowledge alone do not directly lead to adoption, but rather influence perceived financial control. This finding provides new empirical evidence that supports Ajzen (1991) Theory of Planned Behavior (TPB), wherein entrepreneurs must not only be aware of Islamic finance but also feel empowered to engage with it.

The insights from this study hold significant policy implications for multiple stakeholders, including policymakers, financial institutions, and entrepreneurs, in enhancing the adoption of Islamic financial products. The findings indicate that institutional and behavioral support mechanisms are essential to bridging the gap between awareness and actual adoption.

- For Policymakers: Expanding advisory services, tax incentives, and funding programs specific to Islamic finance can encourage broader adoption, particularly among small and medium-sized enterprises (SMEs). Strengthening legal and regulatory frameworks to provide greater clarity, transparency, and consistency in Islamic financial governance will also enhance credibility and reduce uncertainty.

- For Financial Institutions: Developing tailored Islamic financing solutions with more flexible eligibility criteria and competitive pricing can improve accessibility, particularly in the SME sector. Additionally, targeted financial literacy initiatives should be launched to equip entrepreneurs with the necessary skills to effectively integrate Islamic finance into their business operations.

- For Entrepreneurs: Beyond awareness, entrepreneurs must develop financial self-efficacy by engaging in training programs and workshops focused on Islamic financial instruments and risk management. Collaborating with industry experts and financial advisors can help navigate regulatory requirements and leverage available business support mechanisms.

While religious obligation remains a motivating factor, its relatively small effect size highlights the necessity of practical, business-driven incentives over purely faith-based promotion. The findings confirm that institutional support, financial education, and regulatory confidence play a more decisive role in driving adoption. The validated model underscores that entrepreneurs must feel both financially empowered and institutionally supported to engage with Islamic finance meaningfully.

For Islamic finance to gain broader acceptance, stakeholders must work collaboratively to foster an environment where entrepreneurs perceive Islamic financial instruments as both viable and advantageous for business growth. By focusing on enhanced accessibility, usability, and confidence-building measures, Islamic finance can transition from being viewed as a niche alternative to becoming a mainstream financial solution for businesses in diverse economic sectors.

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