



## An Institutional Economics Perspective: Strengthening Sharia Frameworks and Entrepreneurial Culture For Community Empowerment In Palopo City

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#### ABSTRACT

**Purpose:** This study investigates the institutional dynamics of community empowerment in Palopo City by examining the impact of formal and informal institutions on grassroots socio-economic development.

**Design/methodology/approach:** Operating within an explanatory quantitative framework, this study utilized primary data gathered through structured questionnaires distributed to a purposive sample of 105 local economic actors in Palopo City. The data, measured on a 4-point Likert scale, underwent rigorous validity, reliability, and descriptive statistical processing before being analyzed using a multiple linear regression model.

**Findings/Results:** The empirical results reveal that both Sharia economics and entrepreneurial culture exert a positive and statistically significant influence on community empowerment.

**Originality:** This research contributes a novel institutional economics perspective to local developmental studies by proving that community empowerment is heavily contingent upon the harmony between formal regulatory frameworks and informal cultural values. The key takeaway and practical implications highlight that policymakers can maximize socio-economic impact not solely through financial injections, but by actively integrating formal Sharia structural fairness with targeted educational initiatives that cultivate a self-sustaining, risk-optimized entrepreneurial mindset at the grassroots level.

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## 1. INTRODUCTION

Community empowerment is the values that build community welfare. Community empowerment is an effort to improve the dignity and status of community groups that cannot escape from poverty and backwardness (Purnama et al., 2023), besides that, efforts to improve the dignity and status of the grassroots who are currently unable to escape the shackles of poverty and backwardness (Wahyuningtyas et al., 2023). Empowerment is actually developed to increase the capacity of the community to meet its needs (Prasetyo & Firdauzi, 2023). In community empowerment, community participation is used as one aspect in encouraging development so that it can further strengthen community solidarity. (Achmad, 2022) Community empowerment is an effort to prepare communities and strengthen community institutions. This enables them to realize progress, independence, and prosperity within the framework of sustainable social justice (Sulaiman et al., 2022).

Community empowerment is a crucial effort to increase the dignity, status and capacity of the grassroots to be able to escape the trap of poverty. However, from an institutional economic perspective, empowerment cannot operate in a vacuum; it is heavily influenced by the rules of the game that prevail in society. Institutions in this context are divided into two: formal institutions, consisting of regulations, laws, and formal economic systems such as the implementation of Islamic economic principles, and informal institutions, embedded in norms, customary values, and entrepreneurial culture. To date, the failure of empowerment programs has often been caused by weak local institutional arrangements and top-down communication that does not involve active community participation. Therefore, this study aims to analyze how formal Islamic economic institutions (which prioritize distributive justice and profit sharing) and informal institutions of entrepreneurial culture (initiative, innovation, and independence) interact to strengthen community institutions and promote sustainable prosperity in Palopo City.

By empowering the community, many communities do not develop and manage their lifestyles well. In other words, information is not evenly distributed to the surrounding community, and communication is top-down without involving the community in various matters (Rasyid & Nasution, 2021). Community empowerment is in reality difficult to achieve and has escaped the attention of many countries. (Nguyen et al., 2022), the value of life is used to compare the savings and risk reduction benefits of new policies, regulations and projects with a number of other factors (Hidayah et al., 2023), Understanding how communities are empowered and the perceptions of other stakeholders is crucial (Adebayo & Butcher, 2023). communities cannot collaborate with companies to start businesses or empowerment programs (Sapar & Syafruddin, 2021).

Solutions To achieve community empowerment, we must carry out Education and Training, Local Economic Development, Participation and Development of Cultural Values and Poverty Alleviation in this community. It is hoped that this will achieve sustainable community empowerment and have a positive impact on their welfare. Increase human resources, community participation, and increase the strength of less empowered parties (Setyaningrum et al., 2022). This approach to tourism can also reduce poverty and improve the quality of life of local communities by creating economic opportunities and encouraging the preservation of local traditions (Agustina et al., 2023). Community empowerment is an effort to improve community welfare, through several activities including increasing community initiative and self-reliance, improving the environment and housing, developing village economic enterprises, developing Village Financial Institutions, and activities that can increase the community's ability to improve community welfare (W et al., 2021), to improve the welfare and prosperity of the Indonesian people in a proper, fair and equitable manner (Achmad & Fadlurrohman, 2023). community expertise in development and reduced central government intervention in the regions, then development must be shown to be able to change people's lives for the better (Putra et al., 2022)

This research is important to be conducted to raise public awareness of the importance of empowerment and to be able to make the community independent, especially from the poor, and to strive to achieve more empowered social change so that they have knowledge and are independent and able to fulfill their life needs better, improve family welfare with a holistic approach, including economic, social, cultural and sustainable environmental aspects (Jesika et al., 2023), well-being has been proposed as an organizing approach that draws attention to many of these issues (Anderson et al., 2023), the availability of basic human needs consisting of clothing, food, shelter, health and education (Habib, 2021) the availability of basic human needs consisting of clothing, food, shelter, health and education (Nguyen et al., 2022). Empowerment is also a very potential strategy in increasing social and cultural economic transformation (Hidayah et al., 2023). The

purpose of this research is to determine the community's ability to develop themselves and build a good social life and increase community empowerment through the level of independence, the ability to utilize resources according to needs and fulfill policies through the community as well as increase income and support community welfare.

## 2. LITERATURE REVIEW AND DEVELOPMENT HYPOTHESIS

### Sharia Economics as a Formal Institution

Sharia economics is not only seen as a religious doctrine, but also as a system of formal rules (formal institutions) that regulates the mechanisms of human relations, business ethics, transparency, and the prohibition of usury that distorts the market. These formal rules minimize transaction costs through mutual trust (accountability) and Sharia-based legal certainty. Economics is the study of how humans utilize, manage, and utilize existing natural resources to meet their needs and desires. In economic activities, the actors involved are divided into producers, consumers, and distributors. One of the economic activities discussed in economics is consumer behavior in meeting their needs. Considering conventional economic theory, consumer behavior is based on the rule of absolute freedom. Unlike conventional economic theory, Islamic economic theory teaches humanity in general and Muslims in particular to adhere to norms and limits based on Sharia provisions. Humans have various types of needs, both physical and spiritual. In an economic sense, consumption is an activity aimed at reducing or consuming the benefits of an object (goods and services) to meet needs (Adinugroho et al., 2023). Sharia economics is an important part of Islamic law (Murod & Santoso, 2023), Sharia economics always encourages profit-sharing practices, trade and prohibits usury, thus making Sharia Financial Institutions and their stakeholders tend to be more resilient in facing crises (Tama et al., 2023). Currently, advances in science, especially in the fields of economics and technology, are something that must be understood and applied in every economic transaction (Ariwibowo et al., 2023).

In modern society, economics serves as an indicator for assessing a person's success. However, in the future, the economy will even become the primary indicator determining whether a country is classified as developed, developing, or at least developed. This further reinforces the meaning of the term "economics" as related to material and wealth (Byarwati, 2013). Meanwhile, in Islamic economics, economic behavior has implications for ethics, morality, and other normative values, which have a prominent place, so that in the development of its theory, economics always upholds the sharia aspects of normative values (Hoetoro, 2007) (Adinugraha & Muhtarom, 2021),

The sharia economic system is increasingly loved and favored by the public as a system that can offer all the rhythms and models that regulate all economic activities of the community by upholding the values of honesty, justice, transparency, and accountability to provide a high level of trust in the sharia economic system. The sharia economic system is increasingly loved and favored by the public as a system that can offer all the rhythms and models that regulate all economic activities of the community by upholding the values of honesty, justice, transparency, and accountability to provide a high level of trust in the sharia economic system. (Amrin et al., 2023).

According to Fitri et al., (2022) Sharia economics is built on four philosophical foundations, namely

1. First, monotheism, in the sense that everything that is in nature is God's creation and only God is the one who regulates everything, including the mechanisms of human relationships, how to earn a living and do things, and business transactions and other economic activities.
2. Second, justice and balance, meaning that these two things must be used as the basis for achieving human well-being. Therefore, all economic activities must be based on the ideas of justice and balance.
3. Third, freedom, meaning that people are free to engage in all economic activities as long as there are no regulations or prohibitions. In line with Sharia economics, innovation and creativity in the Sharia sector are essential.
4. Fourth, accountability, in the sense that humans must assume responsibility for all the decisions they make.

Therefore, we suggest that Islamic economics encourages the success of society through economic development by upholding the values of honesty, justice and participation in carrying out activities. The research hypothesis is described as follows:

H1: Sharia Economics has a positive influence on community empowerment

## **Entrepreneurial Culture as an Informal Institution**

Entrepreneurial culture is a representation of informal institutions that are passed down from generation to generation in the form of attributes, values, beliefs and independent behavior. These informal institutions provide a moral incentive structure for individuals to take risks, innovate, and optimize local resources to solve social problems (social entrepreneurship) without over-reliance on central government intervention.

Entrepreneurial culture is an integral element of the organization of entrepreneurial activity. It is based on the general concept of culture and is closely related to it. The concept of "culture" can be defined as the attributes, values, beliefs, and behaviors practiced by an individual or passed from one generation to another, and passed from one person and group to another. Entrepreneurship is a form of creativity; innovation is always present. However, it is difficult to imagine a person creating under praise. An indispensable condition for this process is one's own initiative. Thus, the most important features of entrepreneurial activity are as follows: Initiative and independent activity; Activities aimed at systematic profit; The entrepreneur himself, with his own resources, is responsible for the results of his activities; Understanding the risks of the activity. (YAK 330.8 S. Lyakisheva Entrepreneurial Culture 28, 2022).

Entrepreneurship is the process by which individuals whether within their own organization or within a company seize opportunities without regard for their current resource base. Entrepreneurship is the act of creating a business or a business while building and scaling it to generate profits (Galvao et al., 2018). Therefore, a sustainable entrepreneurial culture is becoming increasingly important. Several factors influence a sustainable entrepreneurial culture, such as internal, external, and individual factors. Internal organizational factors include organizational structure, incentive systems, and human resource management policies. External factors include government support and a conducive regulatory environment, while individual factors include entrepreneurial knowledge, skills, and motivation. The development of a sustainable entrepreneurial culture can increase innovation and economic growth. In developing an entrepreneurial culture, several factors influence a sustainable entrepreneurial culture, such as internal organizational factors, external factors, and individual factors. Internal organizational factors include organizational structure, incentive systems, and human resource management policies (Agnu Dian Wulandari et al., 2023).

Entrepreneurial characteristics are personality traits that mark a person as an entrepreneur (Kazanjian et al., 2001; Maritan and Brush, 2003), while these characteristics are specifically defined as the ability of an entrepreneur to identify new business opportunities and take initiative by exploiting them in a competitive environment (Velichová, 2013). In previous literature, many researchers have devoted much attention to finding out which characteristics are important for an entrepreneurial personality to launch a new business; even today, these characters are still less debated among economists and entrepreneurship experts because there is no universal consensus defined (Rashid et al., 2003; Zimmerer et al., 2008; Sunarya, 2013; Thoyib et al., 2016).

According to research by Falola et al. (2018), entrepreneurial characteristics are crucial for establishing a business because individuals combine their characteristics with the company's innovative capabilities to achieve success. Gurol and Atsan (2006) argue that entrepreneurial characteristics are a combination of individual, social, and environmental factors. Individual aspects include personal traits and values; social factors consist of family, community, and professional background; while environmental factors are extrinsic characteristics (Hsieh et al., 2019). All of these characteristics influence a company's strategic goals and actions, which in turn influence business performance (Frese et al., 2012). Therefore, in this study, we examine the following entrepreneurial characteristics: sociability, planning, leadership, and innovation, and their impact on tourism vloggers' intentions and performance (Xie et al., 2021). Therefore, we propose that an entrepreneurial culture can have a positive influence on community empowerment by encouraging innovative attitudes, entrepreneurial spirit, and the ability to overcome economic challenges. Through an entrepreneurial culture, communities can develop their economic potential and improve their standard of living.

H2: Entrepreneurial Culture has a positive influence on Community Empowerment.

### 3. METHODOLOGY

This study uses a quantitative explanatory approach to examine the influence of formal and informal institutions on empowerment. The population in this study were business actors or communities involved in the community-based economic ecosystem in Palopo City. The sample was selected using a purposive sampling technique of 105 respondents with the criteria of communities who understand or carry out sharia economic activities and have business start-ups. Data collection used a questionnaire instrument with a Likert scale of 1-4. Hypothesis testing was conducted through multiple linear regression analysis to determine the extent to which formal institutional variables (X1) and informal (X2) determine the capacity for community empowerment (Y).

The data in this study were collected and distributed to 105 residents of Palopo City. The population in this study was Islamic economics and entrepreneurial culture. The sample in this study was aimed at community empowerment using a purposive sampling technique that considers the difficulty in identifying a sampling frame based on predetermined criteria. This study used a Likert scale, namely 1 (strongly disagree) to 4 (strongly agree). This data collection was carried out using primary data, the instrument used in this study was a questionnaire as a tool selected and used in collecting data to make activities systematic and easier. Furthermore, instrument tests were carried out such as the Viladis test and reliability test for the Islamic Economics variable (X1), Entrepreneurial Culture (X2), and Community Empowerment (X3). Meanwhile, data processing used descriptive and inferential statistical analysis in managing the research results. The data analysis used multiple linear regression analysis.

### 4. RESULTS AND DISCUSSION

#### Respondent Profile Analysis

**Table 1. Respondent profile**

Characteristics	Frequency	Percentage (%)
Gender		
Man	33	31
Woman	72	69
Age		
<21 Years	52	49
21-30 Years	42	40
31-40 Years	10	9
>40 Years	1	1

Source: Author's Analysis, (2026)

Based on the table above, it can be explained that the number of male respondents is 33 people and if it is a percentage it will be 31% and the number of female respondents is 72 people and if it is a percentage it will be 69%. Where the age of 20 years and under is 52 people and if it is a percentage it becomes 49%, 21-30 years is 42 people and if it is a percentage it becomes 40%, 31-40 is 10 people if it is a percentage it becomes 9%, and 40 years and above is 1 person and if it is a percentage it becomes 1%

#### Descriptive Analysis

**Table 2. Descriptive Statistics**

Information	N	Minimum	Maximum	Mean	Standard Deviation
Sharia Economics	105	9	16	12.19	1,029
Entrepreneurial Culture	105	7	16	12.24	1,229
Community empowerment	105	8	16	12.10	1,037

Source: Author's Analysis, (2026)

Based on the descriptive analysis, the mean value for the Sharia Economics variable was 12.19, indicating that it was in the moderate category. The Entrepreneurial Culture variable had a mean value of 12.24, which was below the moderate category. Meanwhile, the Community Empowerment variable had a mean value of 12.10, indicating that it was in the good category.

### Multiple Linear Regression Analysis

**Table 3. Regression Analysis**

Variables	information	
	B	Sig
Constant	3,423	,001
Sharia Economics	,562	,000
Entrepreneurial culture	,149	,034

Source: Author's Analysis, (2026)

The regression equation is as follows

$$y = a + bx_1 + bx_2 + e$$

$$y = 3.423 + 562X_1 + 149X_2$$

These numbers can be interpreted

1. The constant is positive 3.423, meaning that if the quality of Sharia Economics (x1) and Entrepreneurial Culture (x2) has a value of 0, then Community Empowerment has a positive value, namely 3.423.
2. The regression coefficient of Islamic economics (x1) is positive 562. If Islamic economics (x1) experiences an increase in value of 1, then community empowerment (y) will experience an increase of 562. A positive coefficient means that there is a positive relationship between Islamic economics (x1) and community empowerment (y).
3. The regression coefficient of Entrepreneurial Culture (x2) is positive 149, if the entrepreneurial culture (x2) experiences an increase in value of 1, then community empowerment (y) will experience an increase of 149. A positive coefficient means that there is a positive relationship between entrepreneurial culture (x2) and community empowerment (y).

### Hypothesis testing

**Persail Table 4. (t-test)**

Variables	Information	
	B	Sig
constant	3,423	,001
Islamic economics	,562	,000
Entrepreneurial culture	,149	,034

Source: Author's Analysis, (2026)

The results of the output "coefficients" obtained a significant value of sharia economics (x1) of 0.000 and a significant value of entrepreneurial culture of 0.34. This value shows less than 0.05 so that Ho is rejected and H1 is accepted. So it can be interpreted that Sharia Economics and Entrepreneurial Culture (x2) have a positive and significant effect on community empowerment (y).

Coefficient of determination

**Table 5. Coefficient of Determination**

Model	R	R Square
1	,630a	,397

Predictors: (constant), Sharia Economics, Entrepreneurial culture

Source: Author's Analysis, (2026)

The results of the coefficient of determination (R-Square) test show a value of 0.397. The coefficient of determination (R-Square) of 0.397 is the same as 39.7%. This figure indicates that the Islamic economics and entrepreneurial culture variables are able to explain 39.7% of the variation in the community empowerment variable. The remainder is explained by other variables outside this regression model.

## Discussions

The results of this study indicate that Islamic economics has a significant influence on community empowerment in Palopo City. Community empowerment can be considered successful, economically speaking, if it generates income for the local community (Muhamad Falak Cahyadi et al., 2023). This means that the better the Sharia economy is provided, the greater the community empowerment in Palopo City will be. Sharia economics has great potential to empower communities through its principles based on Islamic values. Its impact is evident in the development of micro and small businesses, women's empowerment, and increased financial inclusiveness for broader segments of society. The implementation of Sharia economics can improve social justice and economic distribution.

In Palopo City, or elsewhere, the influence of Islamic economics on community empowerment can be seen in various aspects. For example, Islamic financial institutions can facilitate financing for small and medium-sized businesses, which in turn supports local economic growth and creates jobs. Furthermore, Islamic economic principles, which prioritize fairness and sustainability, can encourage economic empowerment programs, such as skills training, increasing women's access to business, and developing infrastructure that supports sustainable economic growth in Palopo City. Raising public awareness and educating them about Islamic economic concepts can also play a significant role in increasing their participation in the economic system, thereby allowing its benefits to be felt more widely in the local community (Marolt et al., 2020).

The role as an agent of change is seen from changes in mindset and economic behavior in the community and promotes values such as justice, business ethics, inclusion, and equality, which create an environment that supports inclusive economic growth. This is manifested in increased participation in economic activities, increased capacity of individuals and groups to manage economic resources, and their contribution to economic development, both at the local and global levels. The economic empowerment gained from progressive also produces widespread social impacts, including improved quality of life, environmental involvement, more active political involvement, and more inclusive community development (Karimullah, 2023). Human resources are very important for the growth of the Indonesian economy. With this function, human resources can be seen as an asset for intelligent individuals, but these human resources require management and development so that they can function effectively for the main purpose of improving the community's economy (Economy et al., 2022)

Meanwhile, according to Muhammad Abdul Manan in "Islamic Economics: Theory and Practice," Islamic economics is a social science that studies the economic problems of society, inspired by Islamic values. The purpose of Islamic economics is to address the needs of humanity and ensure the realization of those needs. Islamic economics has a foundation and principles that are incompatible with its objectives. The basic principles of Islamic economics can be explored and found in numerous verses and hadiths scattered throughout hundreds of primary references to Islamic scholarly treasures (Samsuddin et al., 2023).

The definition of entrepreneurship itself evolves according to one's perspective on the actions of an entrepreneur. The results of this study indicate that entrepreneurial culture has a significant influence on community empowerment in Palopo City. This means that a better entrepreneurial culture will increase community empowerment in Palopo City. Entrepreneurial culture can have a positive influence on community empowerment by encouraging innovative attitudes, a spirit of entrepreneurship, and the ability to overcome economic challenges. Through an entrepreneurial culture, communities can develop their economic potential and improve their standard of living. The literature shows that entrepreneurial culture is associated with a number of positive organizational outcomes, such as generating new businesses and improving company performance (Xie et al., 2021).

From the definition above, it can be concluded that an entrepreneur is someone who disrupts the existing economic system by introducing new goods and services, creating new organizational forms, or processing new raw materials (Aris Slamet Widodo: 2012). According to experts, entrepreneurial culture has a significant influence on community empowerment. Some relevant research findings include: Suyanto (2001) stated that failure to help communities become independent is influenced by many factors, one of which is poverty.;The study on "The Effect of Small and Medium Enterprise Empowerment on the Economic

Development of the Wara District Community in Palopo City" aims to determine the extent of the influence of small and medium enterprise empowerment on the economic development of the Wara District Community in Palopo City. The results of the study indicate that small and medium enterprise empowerment has a positive effect on the community's economic development. From these findings, it can be concluded that entrepreneurial culture plays an important role in community empowerment, especially through its contribution to the progress of micro, medium and small businesses and community economic development.

According to Mustanir, and Entrepreneurship is essentially the nature, characteristics, and character of someone who has the desire to creatively translate innovative ideas into reality. In its most extreme form, entrepreneurship is defined as someone who can transform trash into gold. Within the concept of entrepreneurship itself, there is a term known as social entrepreneurship. Broadly speaking, social entrepreneurship is creativity and innovation aimed at solving social problems, Explaining the untapped potential of society, And Fulfilling the needs of the community, etc., in a way that allows managers to also earn income to maintain the continuity of activities. Entrepreneurship in general is a process of doing something new or creative and different (innovative) which is useful in providing added value. According to Busby et al., (2023), Entrepreneurship is the ability of a risk manager to optimize all available resources, whether material, intellectual, time, and creative abilities to produce a product or business that is useful for himself and for others.

## **5. CONCLUSION**

Based on institutional economic analysis, it can be concluded that community empowerment in Palopo City is significantly influenced by formal and informal institutional pillars. Partially, formal institutions, such as the implementation of Islamic Economics, provide a dominant positive contribution through upholding the values of justice and certainty of transaction regulations. On the other hand, informal institutions, such as Entrepreneurial Culture, also strengthen community independence through the internalization of innovative attitudes and the ability to manage economic risks independently. The implications of this research suggest the importance of synergy between regional Islamic financial regulations and education on local entrepreneurial values to build a resilient and sustainable community economic institutional system.

## **6. RECOMMENDATIONS AND POLICY IMPLICATIONS**

Based on the empirical findings of this study, several strategic policy recommendations are formulated through an institutional economic framework to optimize community empowerment in Palopo City. First, given the dominant positive influence of formal Islamic economic institutions, the local government, together with the Financial Services Authority (OJK), needs to strengthen the governance and legality of Islamic Microfinance Institutions (such as BMTs and Islamic cooperatives) by standardizing profit-sharing regulations (mudharabah and musyarakah). This structural step is crucial for minimizing transaction costs and breaking the chain of micro-entrepreneurs' dependence on exploitative conventional credit. Second, because informal institutions of entrepreneurial culture have been shown to significantly support welfare, local policies should shift from top-down financial assistance to community-based training programs that integrate business skills with local wisdom. This approach aims to instill the values of independence, innovation, and risk-taking, enabling communities to organically transform local potential into economic opportunities. Finally, because there are still variations in empowerment influenced by factors outside the model, this indicates a problem of information asymmetry in the field. Therefore, universities in Palopo are advised to collaborate with local bureaucracies to establish an integrated data service center (Eco-Data Clinic) to bridge access to market information, improve Islamic financial literacy, and provide ongoing institutional support for grassroots communities.

## **7. LIMITATIONS AND FUTURE RESEARCH**

Although this study provides theoretical contributions regarding the importance of alignment between formal and informal institutions in community empowerment, several limitations warrant consideration for future research. The primary limitation lies in the limited scope of variables, which are limited to Islamic economic regulations as a formal institution and entrepreneurial culture as an informal institution, while the institutional economic spectrum is much broader. Furthermore, the use of quantitative methods with questionnaire instruments sometimes fails to fully capture how sociological dynamics and changes in

community behavior occur on the ground. Therefore, future research is recommended to expand institutional analysis by incorporating other formal institutional variables, such as the effectiveness of local government regulatory policies, village fund governance, and the role of informal institutions such as social capital and trust within local communities. Future researchers are also recommended to employ mixed-methods or qualitative phenomenological approaches to delve deeper into institutional barriers such as transaction costs and information asymmetry faced by grassroots micro-entrepreneurs.

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