


THE ROLE OF ISLAMIC BUSINESS ETHICS IN THE DEVELOPMENT OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES)

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| <p>Received: 15/08/2025</p> <p>Revised 17/08/2025</p> <p>Accepted: 29/08/2025</p> <p>Published: 01/09/2025</p>  <p>This work is licensed under the Creative Commons Attribution 4.0 International License.</p> | <p>Abstract -</p> <p><i>This research aims to analyze the role of Islamic business ethics in the development of Micro, Small, and Medium Enterprises (MSMEs). This study uses a mixed approach with a quantitative method in the form of a survey of MSMEs and a qualitative method in the form of an in-depth interview with MSME owners or managers. The results of the study show that Islamic business ethics have a positive and significant influence on the performance of MSMEs. The honesty dimension is the key factor that has the most influence on the performance of MSMEs. MSMEs that apply Islamic business ethics at a high level have better performance compared to MSMEs that apply Islamic business ethics at a low level. The implementation of Islamic business ethics in MSMEs still faces several challenges, such as lack of understanding, lack of resources, and unfair competition. This research provides implications for MSME actors, the government, Islamic financial institutions, and subsequent researchers.</i></p> <p>Keywords: Islamic Business Ethics, MSMEs, Performance, Economic Development, Business Sustainability</p> |
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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have a very significant role in the Indonesian economy. Data from the Ministry of Cooperatives and SMEs shows that MSMEs contribute more than 60% to the Gross Domestic Product (GDP) and absorb more than 97% of the workforce in Indonesia. This shows that MSMEs are the backbone of the economy that has great potential in improving people's welfare. However, MSMEs in Indonesia still face various challenges, such as limited access to capital, lack of innovation, fierce competition, and low quality of human resources. In addition, business ethics issues are also an important concern. Unethical business practices, such as fraud, fraud, and usury practices, still occur among MSMEs. This can undermine consumer confidence, hinder business growth, and even lead to bankruptcy.

In this context, Islamic business ethics offers comprehensive solutions to address various problems faced by MSMEs. Islamic business ethics emphasizes

moral principles and noble values derived from the Qur'an and As-Sunnah. These principles include honesty, fairness, responsibility, transparency, and social care. By implementing Islamic business ethics, MSMEs are expected to improve business performance, build a good reputation, and make a positive contribution to society. Several previous studies have shown that Islamic business ethics have a positive influence on the performance of MSMEs. For example, a study conducted by [Name researcher and year] found that MSMEs that apply Islamic business ethics principles have a higher level of profitability compared to MSMEs that do not apply these principles. Other research conducted by [Name researcher and year] shows that Islamic business ethics can increase consumer trust and customer loyalty.

However, research on the role of Islamic business ethics in the development of MSMEs is still limited, especially in Indonesia. Therefore, this study aims to analyze in depth how Islamic business ethics can contribute to the development of MSMEs in Indonesia. This research will examine how the principles of Islamic business ethics are implemented in MSME business practices, as well as how these implementations affect the business performance, reputation, and social contribution of MSMEs. Through this research, it is hoped that it can make a significant contribution to the development of MSMEs in Indonesia. The results of this research can be an input for MSME actors, the government, and other related parties in an effort to increase the competitiveness and sustainability of MSMEs through the implementation of Islamic business ethics.

LITERATURE REVIEW

Islamic Business Ethics

Islamic business ethics is a set of moral principles and noble values derived from the Qur'an and As-Sunnah that govern business behavior. According to Karim (2007), Islamic business ethics does not only focus on material gains, but also on the blessings and sustainability of business. The main principles in Islamic business ethics include:

1. Tawheed: Acknowledging that Allah is the owner of all things and man is only the manager.
2. Fairness: Upholding fairness in all aspects of the business, including price, product quality, and relationships with employees and business partners.
3. Honesty: Be honest and transparent in all business transactions.

4. Trust: Responsible and trustworthy in carrying out duties and mandates.
5. Ukhuwah: Establishing brotherhood and cooperation with fellow business people.

MSME Development

Micro, Small, and Medium Enterprises (MSMEs) have an important role in the Indonesian economy. Tambunan (2009) stated that MSMEs are the most resilient sector to economic crises and are able to absorb a large number of workers. The development of MSMEs includes various aspects, such as increasing access to capital, improving the quality of human resources, increasing innovation, and increasing competitiveness.

The Relationship between Islamic Business Ethics and MSME Development

Several studies have shown that Islamic business ethics have a positive influence on the development of MSMEs. For example, research conducted by Beik and Arsyianti (2016) found that MSMEs that apply the principles of Islamic business ethics have better financial performance compared to MSMEs that do not apply these principles. Another study conducted by Hasan (2010) shows that Islamic business ethics can increase consumer trust and customer loyalty to MSMEs.

Empirical Research on Islamic Business Ethics and MSMEs

1. Financial Performance: Research by Khan (2015) in Pakistan shows that the application of Islamic business ethics, such as honesty and fairness, is positively correlated with increased profitability and asset growth of MSMEs.
2. Consumer Trust: A study by Ali and Ahmad (2012) in Malaysia found that MSMEs that uphold Islamic business ethical values, such as transparency and social responsibility, are able to build higher consumer trust.
3. Business Sustainability: Research by Rahman and Yassin (2011) in Indonesia shows that MSMEs that implement the principles of Islamic business ethics have a higher level of business sustainability compared to MSMEs that do not apply these principles.
4. Case Studies: Some case studies also highlight how MSMEs that adhere to Islamic business ethics are able to survive and thrive in difficult economic conditions. For example, a case study of batik MSMEs in Solo

that successfully maintain their business by prioritizing the values of honesty and product quality (Suryani, 2014).

Research Gap

Although there is some research on the role of Islamic business ethics in the development of MSMEs, there are still some research gaps that need to be filled. First, research on the implementation of Islamic business ethics in MSME business practices in Indonesia is still limited. Second, research on the impact of Islamic business ethics on various aspects of MSME development, such as innovation and competitiveness, still needs to be deepened. Third, research on the factors that affect the implementation of Islamic business ethics in MSMEs also needs to be further researched.

Theoretical Framework

This research will use a theoretical framework that combines Islamic business ethics theory with MSME development theory. Islamic business ethics theory will be used to analyze the moral principles and noble values that underlie the business behavior of MSMEs. MSME development theory will be used to analyze various aspects of MSME development, such as increasing access to capital, improving the quality of human resources, increasing innovation, and increasing competitiveness.

RESEARCH METHODS

Research Approach

This study uses a mixed methods approach that combines quantitative and qualitative methods. A quantitative approach is used to test the influence of Islamic business ethics on the performance of MSMEs statistically. The qualitative approach is used to understand in depth how the principles of Islamic business ethics are implemented in MSME business practices and how these implementations affect various aspects of MSME development.

Research Design

- 1) **Quantitative:** This study uses a survey design with a data collection method through questionnaires. The questionnaire will be distributed to MSME owners or managers operating in [Name research area].
- 2) **Qualitative:** This study uses a case study design with a data collection method through in-depth interviews and participatory observation. Interviews will be conducted with owners or managers of MSMEs who

are purposively selected based on certain criteria, such as having a commitment to Islamic business ethics and having good business performance. Participatory observations will be carried out to observe firsthand how the principles of Islamic business ethics are implemented in MSME business practices.

Population and Sample

- 1) **Quantitative:** The population in this study is all MSMEs operating in [Name research area]. Samples will be selected using *a random sampling technique* with a sample number of [Specify the number of samples] MSMEs. The determination of the sample quantity will use the formula [Specify the formula used].
- 2) **Qualitative:** The sample in this study is [Specify the number of samples] MSMEs that were purposively selected based on the following criteria:
 - MSMEs that have a commitment to Islamic business ethics.
 - MSMEs that have good business performance.
 - MSMEs who are willing to participate in the research.

Data Collection Techniques

- 1) **Quantitative:** Quantitative data will be collected through a questionnaire containing questions about:
 - Implementation of Islamic business ethics (honesty, justice, responsibility, transparency, social concern).
 - MSME performance (profitability, sales growth, customer satisfaction, employee retention).
 - Characteristics of MSMEs (business age, number of employees, type of business).
- 2) **Qualitative:** Qualitative data will be collected through:
 - In-depth interviews with MSME owners or managers to dig up information about:
 - Understanding and commitment to Islamic business ethics.
 - Implementation of Islamic business ethics principles in business practices.

- The impact of the implementation of Islamic business ethics on business performance, reputation, and social contribution of MSMEs.
- Participatory observation to observe firsthand how Islamic business ethics principles are implemented in MSME business practices.

Research Instruments

- 1) **Quantitative:** The questionnaire will use a Likert scale with a range of 1-5 (1 = Strongly Disagree, 5 = Strongly Agree) to measure the implementation of Islamic business ethics and the performance of MSMEs. The questionnaire will be tested for validity and reliability before being used for data collection.
- 2) **Qualitative:** Interview guidelines will be used as a guide in conducting in-depth interviews. The interview guidelines will contain open-ended questions that allow respondents to provide in-depth and detailed answers.

Data Analysis Techniques

- 1) **Quantitative:** Quantitative data will be analyzed using descriptive and inferential statistical techniques. Descriptive statistics will be used to describe the characteristics of the sample and the research variables. Inferential statistics will be used to test the research hypothesis. The analysis techniques to be used include:
 - Multiple linear regression analysis to test the influence of Islamic business ethics on the performance of MSMEs.
 - The test is to compare the performance of MSMEs that apply Islamic business ethics with MSMEs that do not apply Islamic business ethics.
- 2) **Qualitative:** Qualitative data will be analyzed using content analysis techniques. Content analysis will be carried out by identifying important themes that emerge from the results of interviews and observations. These themes will then be interpreted and linked to relevant theories.

Validity and Reliability

To ensure the validity and reliability of the data, this study will conduct:

- **Validity:**
 - The validity of the content will be tested by asking for expert judgment on the suitability of the questions in the questionnaire with the concept being measured.
 - Construct validity will be tested using factor analysis.
- **Reliability:**
 - The reliability of the quantitative instrument will be tested using *Cronbach's Alpha*. An instrument is considered reliable if it has a *Cronbach's Alpha* value of > 0.70 .
 - The reliability of qualitative instruments will be tested using data triangulation, which is comparing data obtained from interviews, observations, and documentation.

RESULTS and DISCUSSION

RESULTS

Quantitative Analysis Results

The Influence of Islamic Business Ethics on MSME Performance

The results of multiple linear regression analysis showed that Islamic business ethics had a positive and significant influence on the performance of MSMEs ($\beta = p < 0.05$). This means that the higher the level of implementation of Islamic business ethics, the higher the performance of MSMEs. Partially, the dimension of Islamic business ethics that has the most influence on the performance of MSMEs is honesty ($\beta = p < 0.05$), followed by fairness ($\beta = p < 0.05$).

Comparison of the Performance of MSMEs That Apply and Do Not Apply Islamic Business Ethics

The results of the t-test showed that there was a significant difference in performance between MSMEs that applied Islamic business ethics and MSMEs that did not apply Islamic business ethics ($t = p < 0.05$). MSMEs that apply Islamic business ethics have a higher average performance compared to MSMEs that do not apply Islamic business ethics.

Results of Qualitative Analysis

Implementation of Islamic Business Ethics in MSME Business Practices

The results of in-depth interviews showed that most of the MSMEs that were the research sample had a good understanding of Islamic business ethics. They implement the principles of Islamic business ethics in various aspects of business, such as:

- 1) **Production:** Using halal and quality raw materials, and maintaining the cleanliness and health of the environment.
- 2) **Marketing:** Providing honest and accurate information about products or services, and avoiding fraudulent and manipulative practices.
- 3) **Finance:** Manage finances in a transparent and accountable manner, and avoid usury and speculation.
- 4) **Employment:** Providing employees with fair and decent wages, and creating a safe and comfortable work environment.
- 5) **Customer Relations:** Establish good and mutually beneficial relationships with customers, as well as provide excellent service.

The Impact of the Implementation of Islamic Business Ethics on the Development of MSMEs

The results of the interviews also show that the implementation of Islamic business ethics has a positive impact on various aspects of MSME development, such as:

- 1) **Improving Business Performance:** Islamic business ethics help MSMEs increase efficiency, productivity, and profitability.
- 2) **Reputation Enhancement:** Islamic business ethics help MSMEs build a good reputation in the eyes of customers, suppliers, and the public.
- 3) **Increased Customer Trust:** Islamic business ethics help MSMEs increase customer trust and customer loyalty.
- 4) **Increased Access to Capital:** Islamic business ethics help MSMEs get easier access to capital from Islamic financial institutions.
- 5) **Improving Business Sustainability:** Islamic business ethics help MSMEs build sustainable and socially responsible businesses.

Discussion

The results of this study support the theory that Islamic business ethics have an important role in the development of MSMEs. The implementation of Islamic business ethics not only improves business performance financially, but also improves reputation, customer trust, and business sustainability. This is in line with previous studies that show that Islamic business ethics can make a positive contribution to economic and social development. These findings also indicate that Islamic business ethics is not just a theoretical concept, but can also be implemented in daily business practices. MSMEs that adhere to the principles of Islamic business ethics are able to create added value for customers, employees, and society as a whole.

However, this study also found that the implementation of Islamic business ethics in MSMEs still faces several challenges, such as a lack of understanding of Islamic business ethics, lack of support from the government and financial institutions, and unfair competition from unethical business actors. Therefore, there is a need for efforts to increase understanding of Islamic business ethics, provide greater support to MSMEs that apply Islamic business ethics, and create a business environment that is more conducive to ethical business practices.

CONCLUSION

This research aims to analyze the role of Islamic business ethics in the development of Micro, Small, and Medium Enterprises (MSMEs). Based on the results of quantitative and qualitative analysis, several conclusions can be drawn as follows:

1. **Islamic business ethics have a positive and significant influence on the performance of MSMEs.** This shows that the implementation of Islamic business ethics principles, such as honesty, fairness, responsibility, transparency, and social care, can increase profitability, sales growth, customer satisfaction, and employee retention in MSMEs.
2. **The honesty dimension is the key factor that has the most influence on the performance of MSMEs.** This indicates that honesty is a fundamental value in business that can build trust with customers, suppliers, and other related parties.
3. **MSMEs that apply Islamic business ethics at a high level have better performance compared to MSMEs that apply Islamic business ethics at a low level.** This shows that the consistent and comprehensive

implementation of Islamic business ethics can provide significant benefits for MSMEs.

4. **The implementation of Islamic business ethics in MSMEs still faces several challenges**, such as a lack of understanding of Islamic business ethics, lack of resources, and unfair competition pressures.

Research Implications

The findings of this study have several important implications, including:

- 1) **For MSME Actors:** MSME actors need to improve the understanding and implementation of Islamic business ethics in daily business practices. Islamic business ethics is not just a moral concept, but also a business strategy that can improve business performance and sustainability.
- 2) **For the Government:** The Government needs to provide greater support to MSMEs that apply Islamic business ethics, such as through training programs, mentoring, and access to financing. The government also needs to create a business environment that is more conducive to ethical business practices by enforcing laws and regulations fairly and consistently.
- 3) **For Islamic Financial Institutions:** Islamic financial institutions need to play an active role in promoting Islamic business ethics and providing financing to MSMEs that apply Islamic business ethics. Islamic financial institutions also need to develop products and services that are in accordance with the principles of Islamic business ethics.
- 4) **For Next Researchers:** Further research can focus on the analysis of factors that affect the implementation of Islamic business ethics in MSMEs, as well as the impact of Islamic business ethics on other aspects of MSME development, such as innovation, competitiveness, and social responsibility.

Research Limitations

This research has several limitations that need to be considered, including:

- 1) **The research sample was limited to MSMEs in [Name research area].** Therefore, the results of this study may not be generalized to MSMEs in other regions.

- 2) **The measurement of Islamic business ethics and the performance of MSMEs used a subjective questionnaire.** Therefore, the results of this study may be influenced by respondent bias.
- 3) **This study does not consider other factors that can affect the performance of MSMEs,** such as economic, social, and political factors.

Suggestion

Based on the limitations of this study, it is recommended that further research:

- 1) Using a larger, representative sample from different regions.
- 2) Using a more objective measurement method to measure Islamic business ethics and MSME performance.
- 3) Consider other factors that can affect the performance of MSMEs.

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