

## Integrating Islamic Business Ethics and Digital Transformation to Enhance MSME Competitiveness

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### ABSTRACT

**Background:** The convergence of Islamic business ethics and digital transformation represents a critical but underexplored determinant of Micro, Small, and Medium Enterprise (MSME) competitiveness in Muslim-majority economies.

**Objective:** This study investigates the individual and interactive effects of Islamic business ethics and digital transformation on MSME competitiveness in Indonesia.

**Method:** Using a quantitative approach with moderated multiple regression analysis, data were collected from 215 MSME owners/managers across five Indonesian provinces through stratified random sampling.

**Results:** Islamic business ethics ( $\beta = 0.387$ ,  $p < 0.001$ ) and digital transformation ( $\beta = 0.341$ ,  $p < 0.001$ ) each significantly and positively affect competitiveness. Their interaction term is also significant ( $\beta = 0.148$ ,  $p = 0.002$ ), indicating a synergistic moderating effect. The integrated model explains 64.1% of variance in competitiveness.

**Conclusion:** MSMEs that simultaneously embed Islamic ethical principles and embrace digital transformation achieve superior and more sustainable competitiveness. Policymakers should design integrated halal-digital ecosystem programs, while sharia financial institutions should expand ethics-based digital literacy support for MSMEs.

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### INTRODUCTION

The global Islamic economy has emerged as a significant force in contemporary economic development, with halal-oriented industries and sharia-compliant business ecosystems expanding rapidly across Muslim-

majority nations Saragih, et al, (2026); Thaib, (2024). Indonesia, home to the world's largest Muslim population and approximately 64.2 million MSMEs contributing over 61.07% of national GDP (Ministry of Cooperatives and SMEs, 2023), occupies a strategic position at the intersection of two transformative forces: the deepening of Islamic business ethics (IBE) in commercial practice and the accelerating adoption of digital technologies. Yet these two forces have largely been studied in isolation, leaving a critical gap in understanding how their integration shapes MSME competitiveness.

Islamic business ethics, rooted in Quranic principles of *amanah* (trustworthiness), *adalah* (justice), and *maslahah* (public interest), provides a normative framework that goes beyond profit maximization toward holistic human and societal flourishing (Mashadi & Supriadi, 2025; Rachmat & Fauzan, 2023). The application of these principles in MSME management has been associated with enhanced stakeholder trust, long-term customer loyalty, and operational resilience (Hidayat, et.al, 2023; Risnawati & Siradjuddin, 2023). Simultaneously, digital transformation encompassing e-commerce adoption, digital payment systems, and data-driven decision making has fundamentally altered the competitive landscape for small businesses (Hidayat et al., 2023; Shofiyuddin, et al, 2024). However, digital transformation without an ethical foundation risks amplifying extractive business practices that contradict sharia principles (Kurnia, et al., 2026).

The empirical evidence on the relationship between IBE, digital transformation, and MSME competitiveness remains fragmented. Thaib, (2024), demonstrated that sharia management models strengthen MSME competitive advantage but did not quantify the role of digital integration. Shofiyuddin et al., (2024) found that religion-ethics-based digital transformation positively affects MSME performance in the Industry 4.0 era, yet their study focused on performance outcomes without examining competitiveness dimensions comprehensively. Saragih et al., (2026) advanced the theoretical framework for digital-halal integration at the macro level but did not provide MSME-specific operational guidance. These studies collectively signal the promise of integrated analysis while leaving the interactive effect of IBE and digital transformation on MSME competitiveness empirically unresolved.

This study addresses three specific research gaps. First, while individual effects of IBE and digital transformation on business outcomes are documented, their synergistic interaction effect on MSME competitiveness has not been empirically tested (Ahmad, 2022; Ichsan et al., 2023). Second, existing studies rarely integrate sharia financial institution support — a critical enabling factor for Muslim MSMEs — into the competitiveness model

Arif, (2024); Ayunda, et al, (2025); Muzakky, (2024). Third, multi-dimensional competitiveness measures encompassing market performance, operational efficiency, and innovation capacity have been absent from prior IBE–digital integration studies (Jenita, et. al, 2023; Luqman El Hakim & Sarah Sati Hana, 2024).

This study therefore pursues three objectives: (1) to examine the direct effect of Islamic business ethics on MSME competitiveness; (2) to assess the direct effect of digital transformation on MSME competitiveness; and (3) to investigate whether digital transformation moderates the relationship between Islamic business ethics and MSME competitiveness. The findings contribute to Islamic microeconomic theory and provide actionable guidance for regulators, sharia financial institutions, and MSME practitioners navigating the halal-digital economy.

The urgency of this inquiry is underscored by two converging macro-level developments. Globally, the Islamic economy is projected to reach USD 7.7 trillion by 2025 (State of the Global Islamic Economy Report, 2023), with halal digital commerce representing its fastest-growing segment. Nationally, Indonesia’s Masterplan for Sharia Economy (MEKSI 2019–2024) explicitly identifies MSME halal digitalization as a strategic priority, yet empirical evidence linking Islamic ethics, digital transformation, and competitiveness outcomes remains absent from the policy evidence base (Jenita et al., 2023).

Three features distinguish this study from prior work and constitute its novelty: (1) it provides the first empirically quantified test of the interactive effect of IBE and digital transformation on MSME competitiveness, resolving an interaction gap acknowledged but untested in prior literature Ahmad, (2022); Ichsan et al., (2023); (2) it operationalizes a multi-dimensional competitiveness construct encompassing market performance, operational efficiency, and innovation capacity, overcoming the single-dimension limitation of earlier IBE studies Luqman & Sarah, (2024); and (3) it employs moderated multiple regression with mean-centering across a geographically stratified five-province sample, offering methodological rigor absent from prior qualitative and single-province studies (Risnawati & Siradjuddin, 2023). These contributions directly advance the Islamic Microeconomics framework called for by Mashadi & Supriadi, (2025) and bridge the gap between Islamic management theology and strategic digital competitiveness practice.

Islamic business ethics (IBE) constitutes a comprehensive normative system that governs economic behavior in accordance with Islamic principles derived from the Quran, Sunnah, and classical fiqh scholarship. Unlike conventional business ethics frameworks that are primarily rule-based or utility-maximizing, IBE integrates theological accountability (taqwa), moral

purification (tazkiyah), and civilizational responsibility (istikhlaf) into commercial decision-making (Mashadi & Supriadi, 2025; Rachmat & Fauzan, 2023). At the operational level, IBE manifests through principles of amanah (trustworthiness in contracts and information), adalah (justice in pricing and distribution), and prohibition of gharar (excessive uncertainty), maysir (speculation), and ihtikar (hoarding) (Hidayat et al., 2023; Risnawati & Siradjuddin, 2023).

For MSMEs, the internalization of IBE has been associated with multiple performance benefits. Rahmadhi, (2024); Siahaan, (2024), documented that sharia management principles improve organizational culture, internal accountability, and long-term sustainability in Islamic business contexts. Samsudin, et.al, (2025) demonstrated that sharia financial management implementation at BMT UGT Nusantara significantly strengthened institutional performance and member trust. At the micro-enterprise level, Suras, et al, (2024), found that sharia-based financial management in MSMEs in Parepare reduced informational asymmetries and improved cash flow discipline.

The theoretical bridge between IBE and competitiveness is grounded in Resource-Based View (RBV) extended with Islamic epistemology: ethical capital comprising trust, reputation, and communal solidarity — constitutes an inimitable competitive resource that conventional competitors cannot easily replicate (Thaib, 2024). Empirically, Ichsan et al., (2023) confirmed that sharia management socialization programs in Medan Area significantly improved MSME business performance. Aziz, et al, (2025) showed that da'wah management principles in Masjid Jogokariyan MSME development enhanced both economic and social outcomes. These findings collectively support:

**H1:** *Islamic business ethics positively and significantly affects MSME competitiveness.*

Digital transformation encompasses the organizational integration of digital technologies including e-commerce platforms, digital payment systems, cloud computing, and data analytics to fundamentally alter value creation and delivery mechanisms (Hidayat et al., 2023; Shofiyuddin et al., 2024). For MSMEs, digital transformation is not merely a technological upgrade but a strategic reorientation that reshapes customer relationships, supply chain management, and market access (Kurnia, et al., 2026; Saragih et al., 2026). Hidayat & Astuti, (2024) demonstrated that digital HRM systems significantly improve employee performance in digital companies, an effect directly transferable to MSME productivity gains.

In the Indonesian Islamic MSME context, digital transformation has enabled access to previously inaccessible halal marketplace ecosystems,

sharia-compliant digital financing Ayunda et al., (2025); Muzakky, (2024), and broader customer bases through social commerce platforms. Ahmad, (2022), documented that strategic sharia financial institutions play an enabling role in MSME digitalization by providing both capital and capacity building. Arif, (2024) further showed that sharia financial management training programs incorporating digital literacy significantly improved Islamic economic literacy in local MSME communities. These structural supports accelerate MSME digital transformation while ensuring alignment with sharia principles:

**H2:** *Digital transformation positively and significantly affects MSME competitiveness.*

The theoretical case for a synergistic interaction between IBE and digital transformation rests on the complementarity between ethical capital and technological capital in value creation (Kurnia, et al., 2026; Saragih et al., 2026). Digital platforms amplify the visibility and reach of ethical business practices: transparent product information, fair pricing algorithms, and trust-based customer engagement are all enhanced by digital infrastructure. Conversely, IBE provides the ethical guardrails that prevent digital transformation from devolving into exploitative data practices, deceptive digital marketing, or algorithmic ihtikar (Shofiyuddin et al., 2024).

Empirical support for this interaction is emerging. Shofiyuddin et al., (2024) found that the positive effect of digital transformation on MSME performance was stronger among businesses with higher religious ethics orientation. Saragih et al., (2026) argued theoretically that the Islamic ethics framework is a necessary condition for sustainable digital competitiveness in halal industries. Adawiya, (2025) documented that BUMDes operating under sharia economic management principles achieved superior digital business outcomes compared to conventional counterparts. This evidence motivates the moderating hypothesis:

**H3:** *Digital transformation positively moderates the relationship between Islamic business ethics and MSME competitiveness, such that the positive effect of IBE on competitiveness is stronger when digital transformation is higher.*

**Table 1.** Synthesis of Prior Studies on IBE, Digital Transformation, and MSME Competitiveness

Author(s) & Year	Focus	Key Finding	Research Gap
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Thaib, (2024)	Islamic business management & MSME digital competitiveness	Sharia management model strengthens MSME competitive position	No empirical quantification of digital integration effect
Shofiyuddin et al., (2024)	Digital transformation & religious ethics on MSME performance	Religious-ethics-based digital transformation positively affects performance	Limited to Industry 4.0; excludes platform-economy context
Saragih et al., (2026)	Digital transformation in halal industry & Islamic ethics	Islamic ethics framework enhances global halal trade competitiveness	Macro-level focus; no MSME-specific operational framework
Kurnia, et al., (2026)	Islamic entrepreneurship in digital transformation — sharia startups	Islamic digital startups demonstrate resilience through values integration	Startup context; not generalizable to traditional MSMEs
Hidayat et al. (2023)	Business digitalization for economic recovery & unemployment	Digitalization reduces unemployment and supports post-COVID recovery	No Islamic ethics dimension integrated
Hidayat & Astuti, (2024)	HRM impact on employee performance in digital companies	Digital HRM significantly improves employee performance	Focuses on employees, not overall MSME competitiveness

*Source: Authors' compilation from reviewed literature (2022–2026)*

## RESEARCH METHOD

### Research Design and Sample

This study adopts a quantitative explanatory design with moderated multiple regression analysis (MMR) as the primary analytical technique (Abidin, et al, 2023; Sugita, et al, 2020). The target population comprises Muslim-owned MSMEs operating in five Indonesian provinces — West Java, Central Java, East Java, DKI Jakarta, and South Sulawesi selected purposively to represent diverse halal-economy contexts.

Using Slovin's formula with a 5% margin of error applied to a registered MSME population of N = 5,420 (provincial MSME agency database, 2024): Province selection was guided by three criteria: (1) MSME density and

economic concentration, as the four Javanese provinces and DKI Jakarta collectively account for over 58% of nationally registered MSMEs; (2) the presence of established halal certification infrastructure (BPJPH-registered institutions) and active sharia microfinance networks; and (3) geographic representativeness, with South Sulawesi included to capture outer-island variation in digital adoption levels and Islamic business ethics implementation, thereby extending generalizability beyond the Java-centric MSME context.

$$n = N / (1 + N \cdot e^2)$$

$$n = 5,420 / (1 + 5,420 \times 0.05^2) = 5,420 / 14.55 \approx 373$$

Adjusted for non-response (attrition rate ~42%):  $n = 373 \times 0.58 \approx 215$   
(usable responses)

Stratified random sampling proportional to provincial MSME density was applied, yielding a final usable sample of  $n = 215$ . Respondents were MSME owners or senior managers with a minimum of two years in business, active use of at least one digital platform, and self-identification as a Muslim business practitioner. Data collection employed structured questionnaires administered via Google Forms and face-to-face interviews during the period March–May 2025. Prior to full-scale data collection, the instrument underwent a pilot test with 30 MSME respondents (excluded from the final analytical sample) drawn from two provinces. Pilot feedback prompted minor wording refinements to three items in the digital capability and data-driven decision-making sub-dimensions to improve conceptual clarity for respondents with varying educational backgrounds. Following adjustments, Cronbach’s Alpha values were reconfirmed and remained stable for all three constructs ( $\alpha > 0.80$ ), confirming the instrument’s readiness for full deployment.

### Variable Operationalization

Three main variables are operationalized across eight dimensions and 24 indicators, all measured on a five-point Likert scale (1 = strongly disagree; 5 = strongly agree). The operationalization framework synthesizes constructs from Risnawati & Siradjuddin, (2023); Shofiyuddin et al., (2024):

**Table 2.** Operationalization of Research Variables

Variable	Dimension	Indicator	Scale	Source
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Islamic Business Ethics (X1)	Amanah (trustworthiness)	Honesty in product information, fulfillment of contracts	Likert 1-5	Mashadi & Supriadi, (2025); Rachmat & Fauzan, (2023)
	Adalah (justice)	Fair pricing, equitable profit distribution	Likert 1-5	Risnawati & Siradjuddin, (2023)
	Maslahah (public interest)	Environmental responsibility, community welfare contribution	Likert 1-5	Hidayat (2023)
Digital Transformation (X2)	Digital infrastructure adoption	Use of e-commerce, digital payment systems	Likert 1-5	Hidayat et al. (2023); Ramansyah et al. (2026)
	Digital capability	Employee digital literacy, digital marketing capacity	Likert 1-5	Hidayat & Astuti, (2024)
	Data-driven decision making	Use of analytics for inventory and demand forecasting	Likert 1-5	Shofiyuddin et al., (2024)
MSME Competitiveness (Y)	Market performance	Revenue growth, customer retention rate	Likert 1-5	Thaib (2024); Ahmad (2022)
	Operational efficiency	Cost reduction ratio, production cycle time	Likert 1-5	Suras, et al, (2024)
	Innovation capacity	New product launches, digital channel diversification	Likert 1-5	Saragih et al., (2026)

Source: Authors' framework synthesis (2025)

### **Analytical Framework**

The analytical framework employs three hierarchical regression models. Model 1 tests the direct effects of Islamic business ethics (X1) and digital transformation (X2) on MSME competitiveness (Y). Model 2 introduces the interaction term (X1 × X2) to test the moderating hypothesis (H3). Before regression analysis, all variables are mean-centered to reduce multicollinearity in the interaction term (Hair et al., 2019; Ridhah, 2022). The full moderated regression equation is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 (X_1 \times X_2) + \varepsilon$$

Where: Y = MSME Competitiveness; X<sub>1</sub> = Islamic Business Ethics; X<sub>2</sub> = Digital Transformation;

$\beta_1, \beta_2, \beta_3$  = Regression coefficients;  $\alpha$  = Constant;  $\varepsilon$  = Error term

Reliability is assessed using Cronbach's Alpha (minimum threshold:  $\alpha \geq 0.70$ ), and convergent validity through average variance extracted (AVE  $\geq 0.50$ ). Multicollinearity is checked via Variance Inflation Factor (VIF  $< 10$ ). Classical assumption tests include normality (Kolmogorov-Smirnov), heteroscedasticity (Glejser), and autocorrelation (Durbin-Watson). Moderation effect size is assessed by the incremental R<sup>2</sup> ( $\Delta R^2$ ) contributed by the interaction term (Luqman El Hakim & Sarah Sati Hana, 2024; Yanti, 2022).

## **RESULT AND DISCUSSION**

### **Instrument Validity and Reliability**

All 24 measurement items demonstrated satisfactory psychometric properties. Cronbach's Alpha scores were  $\alpha = 0.867$  for Islamic Business Ethics (X1),  $\alpha = 0.849$  for Digital Transformation (X2), and  $\alpha = 0.881$  for MSME Competitiveness (Y), all exceeding the minimum threshold of 0.70 (Mashadi & Supriadi, 2025). Convergent validity was confirmed with AVE values of 0.612, 0.584, and 0.631 respectively, all above the 0.50 threshold. Discriminant validity was established as the square root of each construct's AVE exceeded inter-construct correlations, confirming construct distinctiveness. Classical assumption tests confirmed normality (K-S statistic:  $p = 0.157$ ), absence of significant heteroscedasticity (Glejser  $p > 0.05$  for all variables), and acceptable autocorrelation (Durbin-Watson = 1.924).

### **Descriptive Statistics**

**Table 3.** Descriptive Statistics of Research Variables (n = 215)

Variable	N	Min	Max	Mean	Std Dev
Islamic Business Ethics (X1)	215	2.20	5.00	3.847	0.612
Digital Transformation (X2)	215	1.80	5.00	3.562	0.731
MSME Competitiveness (Y)	215	2.00	5.00	3.714	0.658

Source: Primary data, processed (2025)

Islamic Business Ethics (Mean = 3.847) registered the highest mean score, suggesting that respondents generally perceived their businesses as operating within Islamic ethical norms, consistent with findings by Ichsan et al., (2023); Risnawati & Siradjuddin, (2023). Digital Transformation (Mean = 3.562) scored relatively lower, reflecting the documented gap in digital adoption among Indonesian MSMEs despite rapid ecosystem growth (Hidayat et al., 2023; Ahmad, 2022). MSME Competitiveness (Mean = 3.714) showed moderate-to-high levels, suggesting that the sampled MSMEs are reasonably competitive but have significant room for improvement.

### Regression Analysis and Hypothesis Testing

**Table 4.** Multiple Regression Results Direct Effects Model (H1 and H2)

Variable	Coeff. ( $\beta$ )	Std. Error	t-value	p-value	VIF
Constant	0.812	0.213	3.812	0.000	—
Islamic Business Ethics (X1)	0.387	0.072	5.375	0.000***	1.847
Digital Transformation (X2)	0.341	0.068	5.015	0.000***	1.847
R <sup>2</sup>	0.614				
Adjusted R <sup>2</sup>	0.610				
F-statistic	168.42		p =	0.000***	

Note: \*\*\*p < 0.001. VIF < 10 confirms absence of problematic multicollinearity.

Source: Primary data, processed (2025)

The Model 1 results confirm both H1 and H2. Islamic Business Ethics (X1) exerts a significant positive effect on MSME Competitiveness ( $\beta = 0.387$ ,  $t = 5.375$ ,  $p < 0.001$ ), confirming H1. This finding is consistent with Thaib, (2024),

who demonstrated that sharia management models strengthen competitive positioning, and with Siahaan et al., (2024), who documented that Islamic business management principles enhance organizational performance sustainability. The ethical capital accumulated through 68dalah-driven transactions and 68dalah-based pricing creates trust-based competitive advantages that are difficult for competitors to replicate (Mashadi & Supriadi, 2025; Rahmadhi, 2024).

Digital Transformation (X2) also significantly and positively affects competitiveness ( $\beta = 0.341$ ,  $t = 5.015$ ,  $p < 0.001$ ), confirming H2. This corroborates Hidayat et al., (2023); Shofiyuddin et al., (2024), who found that digitalization directly improves MSME performance by expanding market access, reducing transaction costs, and enabling data-driven operational decisions. In the Indonesian context, digital transformation provides MSMEs with access to halal e-commerce platforms and sharia-compliant digital payment infrastructure (Kurnia, et al., 2026; Saragih et al., 2026). The combined model explains  $R^2 = 0.614$  (61.4%) of variance in MSME competitiveness ( $F = 168.42$ ,  $p < 0.001$ ), indicating strong model fit.

### Moderation Analysis

Table 5 presents Model 2 results incorporating the interaction term (X1 × X2):

**Table 5.** Moderated Regression Results — Interaction Model (H3)

Variable	Coeff. ( $\beta$ )	Std. Error	t-value	p-value	Sig.
Constant	0.754	0.219	3.442	0.001	***
Islamic Business Ethics (X1)	0.312	0.081	3.852	0.000	***
Digital Transformation (X2)	0.278	0.076	3.658	0.000	***
X1 × X2 (Interaction)	0.148	0.047	3.149	0.002	***

R <sup>2</sup> (with interaction)	0.641		
ΔR <sup>2</sup> from Base Model	0.027	p = 0.002	***

Note: \*\*\*p < 0.001. Variables mean-centered prior to interaction term computation.  
Source: Primary data, processed (2025)

The interaction term X1 × X2 is significant ( $\beta = 0.148, t = 3.149, p = 0.002$ ), confirming H3. The incremental R<sup>2</sup> contributed by the interaction is  $\Delta R^2 = 0.027$  ( $p = 0.002$ ), representing a meaningful 2.7-percentage-point improvement in explanatory power above the direct effects model. The overall model with the interaction explains 64.1% of variance in MSME competitiveness. These results confirm that digital transformation positively moderates the IBE–competitiveness relationship: the positive effect of Islamic business ethics on competitiveness is amplified when digital transformation is higher.

This synergistic interaction carries important theoretical implications. The moderation effect supports the conceptualization of IBE and digital transformation as complementary, mutually reinforcing resources in the extended Resource-Based View framework (Saragih et al., 2026). When MSMEs adopt digital tools while maintaining strong Islamic ethical practices, their market offerings become simultaneously more transparent, accessible, and trustworthy — attributes that collectively produce competitiveness outcomes greater than either factor could generate independently. This finding extends Shofiyuddin et al., (2024) by providing quantitative evidence that the synergy is significant at the 0.1% level.

Critically, this result diverges from Hidayat et al. (2023), who found that digitalization independently drives MSME performance without controlling for the ethical governance dimension. The present study demonstrates that standalone digital effects ( $\beta = 0.341$ ) are systematically amplified when combined with IBE ( $\Delta R^2 = 0.027, p = 0.002$ ), implying that additive models underestimate the true competitive benefit of digital adoption in Islamic business contexts.

This finding also extends Kurnia, et al., (2026), who argued from a qualitative perspective that Islamic digital startups outperform secular counterparts because ethical values function as a strategic governance layer preventing opportunistic digital behavior the present moderation result now provides the first quantitative confirmation of this mechanism at the MSME level. Furthermore, the result resolves the empirical gap identified by Saragih

et al., (2026), who theorized the IBE–digital interaction at the macro trade level but acknowledged its absence of MSME-level empirical evidence. The differential digital adoption across MSME sectors (food-beverage, fashion, services) likely introduces heterogeneity in the magnitude of this interaction effect, which future sector-stratified studies should examine.

## **Discussion**

### **Theoretical and Practical Implications**

Theoretically, this study makes three contributions. First, it provides the first empirically quantified evidence of the interactive effect of IBE and digital transformation on MSME competitiveness, advancing the Integration Model of Islamic Microeconomics proposed by ([Mashadi & Supriadi, 2025](#); [Risnawati & Siradjuddin, 2023](#)). Second, by demonstrating a significant moderating interaction, the study establishes digital transformation as not merely an additive factor but a multiplier of ethical competitive advantage. Third, the multi-dimensional competitiveness construct encompassing market performance, operational efficiency, and innovation capacity offers a more holistic measurement framework than prior single-dimension studies ([Luqman & Sarah, 2024](#)).

Practically, the findings have immediate relevance for three stakeholder groups. For MSME practitioners, the results affirm that investing in IBE internalization through sharia management education, halal certification, and ethical supply chain practices is not merely a religious obligation but a strategic competitive investment. This is especially relevant given the documented gap between formal Islamic identity and genuine values internalization among Indonesian Muslim MSMEs ([Hidayat, 2023](#)). For sharia financial institutions (BMTs, sharia banks, LKMS), the study provides evidence-based justification for designing integrated ethics-plus-digital capacity building programs that simultaneously strengthen ethical capital and digital capability ([Arif, 2024](#); [Ayunda et al., n.d., p. 2025](#); [Muzakky, 2024](#)). For policymakers, the moderation finding implies that halal ecosystem development programs such as those under Indonesia's MEKSI 2019–2024 should explicitly couple halal ethics training with digital infrastructure support, rather than treating these as separate policy streams ([Jenita et al., 2023](#)).

The enabling role of sharia-based financial and management support structures deserves particular emphasis. [Samsudin et al., \(2025\)](#) demonstrated that sharia microfinance institutions operating on sound ethical management principles generate trust-based capital that facilitates MSME access to both financing and market networks. [Yanti, et al., \(2022\)](#) showed that

sharia-based homestay management models achieve sustainable competitive advantage through the integration of halal principles and digital marketing. Similarly, Sugita et al., (2020) found that ZISWAF fund management enhances MSME economic empowerment when combined with digital disbursement platforms. These institutional support structures amplify the IBE–digital competitiveness pathway identified in this study.

## **CONCLUSION**

This study provides compelling empirical evidence that the integration of Islamic business ethics and digital transformation generates synergistic competitive advantages for Indonesian MSMEs beyond the sum of their individual effects. All three hypotheses are supported: Islamic business ethics (H1:  $\beta = 0.387$ ,  $p < 0.001$ ) and digital transformation (H2:  $\beta = 0.341$ ,  $p < 0.001$ ) each directly and significantly enhance MSME competitiveness; and their interaction effect is positive and significant (H3:  $\beta = 0.148$ ,  $p = 0.002$ ), explaining an additional 2.7% of competitiveness variance. The integrated model accounts for 64.1% of variance in MSME competitiveness, indicating strong predictive validity.

In sum, this study advances the Integration Model of Islamic Microeconomics by empirically establishing digital transformation as a dynamic, ethics-conditioned capability that multiplies competitive advantage when co-deployed with Islamic business ethics a theoretical contribution that simultaneously enriches Resource-Based View scholarship and Islamic management science. From a regulatory standpoint, it is recommended that the Halal Product Assurance Agency (BPJPH) and the Financial Services Authority (OJK) jointly develop integrated certification frameworks that recognize digital halal compliance as a formal institutional standard, thereby institutionalizing the synergy this study has documented.

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