

-RESEARCH ARTICLE-

ISLAMIC ECONOMIC PRINCIPLES AND THE SUSTAINABILITY OF MICRO, SMALL, AND MEDIUM ENTERPRISES: A STRUCTURAL EQUATION MODEL APPROACH

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—Abstract—

This study examines the effect of Islamic economic principles on the sustainability of micro, small, and medium enterprises (MSMEs), with sharia business ethics and MSME performance as mediating variables and sharia economic literacy as a moderating variable. Using a quantitative survey of 200 MSME owners or managers in Medan City and analyzed through PLS-SEM, the findings indicate that several dimensions of Islamic economic principles positively influence MSME performance

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and sustainability. Sharia business ethics and MSME performance significantly mediate this relationship, while sharia economic literacy strengthens ethical business practices. The results support the Maqāṣid al-Sharī'ah perspective, emphasizing ethical and sustainable business development.

Keywords: Islamic Economic Principles, Sharia Business Ethics, Msme Performance, Sharia Economic Literacy, Msme Sustainability

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a crucial pillar of the national economy due to their significant contribution to employment, income equality, and strengthening the economic structure of society, (Basit et al., 2024). Amidst global economic dynamics, market uncertainty, and changing consumption patterns, MSMEs face increasingly complex challenges, (Susilawati, 2024). These challenges relate not only to the ability to generate profits but also to long-term business sustainability, encompassing economic, social, and environmental aspects, (Souto, 2024).

The sustainability of MSMEs has become a strategic issue because many small businesses are able to survive in the short term but fail to maintain their long-term viability, (Syamsari et al., 2022). Issues such as weak financial management, poor business ethics, limited access to financing, and minimal concern for social and environmental aspects often hinder MSME sustainability, (Saifurrahman & Kasim, 2024). This situation demonstrates that business sustainability is not solely determined by economic factors, but also by the values, behaviors, and principles underlying business activities, (Ardersson et al., 2022).

This study is grounded in the theory of Maqāṣid al-Sharī'ah as the main grand theory, which positions economic activities to achieve human welfare and sustainable living, (Mubarak et al., 2022). Maqāṣid al-Sharī'ah emphasizes the protection and development of five fundamental aspects of life, namely religion (ḥifẓ al-dīn), life (ḥifẓ al-nafs), intellect (ḥifẓ al-'aql), lineage (ḥifẓ al-nasl), and wealth (ḥifẓ al-māl). In the context of business activities, particularly micro, small, and medium enterprises (MSMEs), this theory views business practices as not merely aimed at maximizing financial profits, but also at upholding values of justice, social responsibility, ethics, and sustainability, (Uba et al., 2023). The implementation of Islamic economic principles, such as asset control, fair income distribution, halal business optimization, and sharia-compliant muamalat transactions, represents efforts to protect and develop wealth (ḥifẓ al-māl) while simultaneously creating social welfare. From the Maqāṣid al-Sharī'ah perspective, sharia business ethics and MSME performance are regarded as essential mechanisms that bridge Islamic values with business sustainability, enabling MSMEs to be not only economically competitive but also to contribute to social welfare and sustainable development, (Hartanto et al., 2025).

Micro, small, and medium enterprises (MSMEs) constitute a sector that plays a fundamental role in the structure of the Indonesian economy, both in terms of the number of business units, contribution to national economic output, and employment absorption, (Nursini, 2020). This strategic role positions MSMEs as the backbone of the people's economy as well as an important instrument in promoting income distribution and poverty reduction, (Tambunan, 2023). However, despite their significant contribution, MSMEs also face various structural and managerial challenges that may hinder their long-term sustainability, (Endris & Kaseegn, 2022). To understand the factual conditions and strengthen the research phenomenon, official statistical data are required to describe the position and characteristics of MSMEs at the national level. Therefore, the data presented in the following table are sourced from Statistics Indonesia (BPS) (2024) and related institutions as an empirical basis for examining the urgency of MSME sustainability and the relevance of applying Islamic economic principles in business practices.

Table 1: Statistics of MSMEs in Indonesia

Statistical Indicator	Data / Key Facts
Number of MSMEs in Indonesia	Approximately 30.18 million MSMEs were recorded as of December 31, 2024.
Proportion of MSMEs to total businesses	MSMEs account for about 99% of total business units nationwide.
Role of MSMEs in the national economy	MSMEs contribute approximately 61% to the national Gross Domestic Product (GDP).
Role in employment absorption	MSMEs serve as the backbone of the economy with a dominant share in national employment absorption (Ministry of Cooperatives and SMEs data 2023: 97%).
Distribution of MSMEs by business scale	Based on BPS data, Indonesia had approximately 4.1 million micro industries and 306 thousand small industries recorded in the 2023 survey.
Characteristics of MSMEs in Indonesia	Micro and small enterprises are labor-intensive, widely distributed across all provinces, and adaptive to changes in local markets.
Sustainability challenges of MSMEs	BPS data (2023) indicates the need to monitor business continuity dynamics in the annual Micro and Small Industry (IMK) survey.

Source: BPS (2024)

The table above demonstrates that MSMEs play a highly strategic role in the Indonesian economy. Based on data from Statistics Indonesia (BPS) and related institutions, MSMEs dominate the national business structure, accounting for approximately 99 percent of total business units. In addition, MSMEs make a significant contribution to the national Gross Domestic Product (GDP), exceeding 60 percent, and serve as the primary sector for employment absorption, with a share of

nearly 97 percent. These facts underline that the sustainability of MSMEs not only affects individual business actors but also has a direct impact on overall economic stability and societal welfare.

However, BPS data also indicate that the majority of MSMEs in Indonesia are dominated by micro and small enterprises with limited capital, narrow business scale, and varying managerial capabilities. These conditions make MSMEs vulnerable to economic shocks and increase the risk of business failure in the long term. Therefore, MSME sustainability becomes a crucial issue that requires serious attention. This phenomenon strengthens the urgency of research that examines non-economic factors, such as the implementation of Islamic economic principles, business ethics, and entrepreneurial behavior, as alternative approaches to improving MSME performance and achieving sustainable business continuity.

Although MSMEs play a strategic role as the backbone of the economy, many MSMEs still face serious challenges in maintaining business sustainability, ([Anggahegari et al., 2025](#)). A common phenomenon is the low resilience of MSMEs in dealing with competitive pressures, economic fluctuations, and changes in consumer behavior, which causes several businesses to fail to survive in the long term. In Medan City, as reflected in the national characteristics of MSMEs, many business actors still manage their enterprises in a conventional manner, characterized by weak financial management practices, low implementation of business ethics, and limited understanding of Islamic economic principles. As a result, business activities tend to focus on short-term profit orientation without adequately considering economic, social, and environmental sustainability aspects. This condition indicates a gap between the significant potential of MSMEs and the business practices being implemented, highlighting the need for a value-based approach, such as the application of Islamic economic principles supported by strong business ethics, sound business performance, and sharia economic literacy, to comprehensively address MSME sustainability issues.

In the context of a predominantly Muslim society, Islamic economics emerges as an economic system that is not solely oriented toward profit maximization, but also emphasizes moral values, justice, and social welfare, ([Nurdiana et al., 2025](#)). Islamic economic principles such as control of individual assets, fair income distribution, halal and productive business optimization, interest-free financial transactions, social participation, and the implementation of sharia-compliant muamalat transactions are believed to shape healthy and sustainable business practices, ([Zulhilmi, 2024](#)). These principles encourage business actors to operate responsibly, transparently, and with a long-term orientation, ([Rosecká et al., 2024](#)).

However, the implementation of Islamic economic principles in MSME practices has not yet been fully optimized. Many MSME actors still perceive sharia principles

merely as normative or administrative aspects, without integrating them into daily business behavior, (Mukhoyyaroh et al., 2025). This condition indicates that the influence of Islamic economic principles on MSME sustainability is not always direct, but rather operates through certain mechanisms, such as the formation of sharia business ethics and the improvement of business performance, (Siregar et al., 2025). Sharia business ethics, which encompass values of honesty, trustworthiness, justice, and responsibility, play an important role in building trust among consumers and business partners, which ultimately affects MSME performance, (Panakaje et al., 2025).

In addition, MSME performance is a key factor in determining business sustainability. MSMEs with strong financial and operational performance tend to be more capable of surviving economic pressures and market competition, (Hariyono & Narsa, 2024). On the other hand, the level of understanding and knowledge of MSME actors regarding Islamic economics, or sharia economic literacy, also becomes an important factor that can strengthen or weaken the influence of Islamic economic principles in business practices, (Choiruddin et al., 2025). MSME actors with high sharia economic literacy are more likely to translate sharia principles into concrete business decisions and behaviors, (Sulhan et al., 2025). Conversely, low sharia economic literacy may result in suboptimal implementation of Islamic principles, (Panjaitan et al., 2024). Therefore, sharia economic literacy has the potential to act as a moderating variable in the relationship between Islamic economic principles and sharia business ethics, (Aldino et al., 2025).

Based on the above discussion, it can be concluded that MSME sustainability is a multidimensional phenomenon influenced by the interaction between Islamic economic principles, business ethics, business performance, and the level of literacy of business actors. This study is important because it not only examines the direct effect of Islamic economic principles on MSME sustainability but also reveals the mediating and moderating mechanisms involved in this relationship.

LITERATURE REVIEW

Maqāṣid al-Sharī‘ah

Opinion (Mubarak et al., 2022) maqāṣid al-Sharī‘ah is a fundamental concept in Islamic economics that explains the primary objectives of Islamic law, namely, to achieve public welfare (maslahah) and prevent harm (mafsadah) in human life. This concept emphasizes that all human activities, including economic and business activities, should be directed toward the protection and development of five essential aspects of life: the protection of religion (ḥifẓ al-dīn), life (ḥifẓ al-nafs), intellect (ḥifẓ al-‘aql), lineage (ḥifẓ al-nasl), and wealth (ḥifẓ al-māl), (Hariram et al., 2023). In the economic context, Maqāṣid al-Sharī‘ah provides a normative framework that balances

individual interests with social interests, as well as material objectives with spiritual values.

Islamic Economic Principles

Islamic economic principles are a set of values, norms, and rules derived from Islamic teachings that regulate the economic behavior of individuals and organizations in conducting business activities, (Zulhildi, 2024). These principles function not only as technical guidelines for transactions but also as a moral foundation that shapes attitudes, decisions, and responsibilities of business actors, (Ugah et al., 2025). In the context of MSMEs, Islamic economic principles emphasize a balance between achieving economic profit and fulfilling social and spiritual responsibilities, (Mardikaningsih et al., 2024). The implementation of these principles is expected to create business practices that are fair, transparent, free from *riba*, *gharar*, and *maysir*, and oriented toward long-term welfare, (Iqbal et al., 2024). In this study, Islamic economic principles are understood as constructs that reflect the extent to which MSME actors apply sharia values in asset management, transactions, and social business relations.

Control of Individual Assets

Control of individual assets in Islamic economics views wealth not as absolute private ownership, but as a trust (*amanah*) from Allah SWT that must be managed responsibly, (Hamzah et al., 2023) This principle requires business actors to avoid excessive consumption, wasteful behavior, and the use of assets for unproductive or non-sharia-compliant activities. In the MSME context, asset control is reflected in the ability to manage capital efficiently, separate personal and business finances, and make rational and ethical investment decisions, (Zahari et al., 2025). Proper asset control has the potential to enhance financial stability and support business sustainability, (Samborska et al., 2023).

Income Distribution

Income distribution in Islamic economics refers to a fair and proportional mechanism for sharing business returns among business owners, employees, and other involved parties, (Khalidin, 2024). This principle aims to promote social justice and reduce economic inequality, (Nae et al., 2024). In MSME practices, income distribution is reflected through fair wages, equitable profit-sharing, and concern for social obligations such as *zakat*, *infaq*, and *sadaqah*, (Purnomo & Hidayati, 2025). Fair income distribution not only improves employee welfare but also strengthens loyalty and sustainable social relationships within the business environment, (Agu et al., 2024).

Business Optimization

Business optimization in Islamic economics refers to efforts to manage businesses effectively and efficiently while adhering to halal and ethical principles, (Ramli et al., 2024). Optimization is not solely oriented toward profit maximization but also toward business continuity and positive social impact, (Ostadi et al., 2021). In the MSME context, business optimization includes improving product quality, production efficiency, innovation, and responsible resource management, (Utami et al., 2024). This principle encourages MSME actors to continuously enhance competitiveness without neglecting sharia values, (Hamzah et al., 2024).

Financial Transactions

Financial transactions in Islamic economics are regulated to avoid *riba*, *gharar*, and *maysir*, while promoting the use of fair and transparent contracts, (Asia & Semaun, 2025). This principle emphasizes contractual clarity, balance of rights and obligations, and proportional risk-sharing, (Gul et al., 2025). For MSMEs, the application of sharia-compliant financial transactions can reduce financial risk and foster healthier partnership relationships, particularly in accessing financing, (Nadya et al., 2024). Sharia-compliant financial transactions are expected to enhance trust and financial stability.

Social Participation

Social participation reflects the social responsibility of business actors toward their surrounding community and environment, (Hasibuan et al., 2023). In Islamic economics, business activities must not be detached from social welfare considerations, (Asutay & Yilmaz, 2021). For MSMEs, social participation can be realized through job creation, contributions to community social activities, and environmental concern, (Iskandar et al., 2023). Strong social participation enhances business reputation and strengthens relationships between MSMEs and society, ultimately supporting business sustainability.

Muamalat Transactions

Muamalat transactions regulate economic interactions among individuals to ensure fairness, transparency, and compliance with sharia principles, (Jabbar et al., 2024). This concept emphasizes honesty, clear agreements, and responsibility in every transaction, (Jazil & Firdaus, 2024). In the MSME context, muamalat transactions include relationships with suppliers, customers, and business partners. Proper implementation of muamalat transactions builds trust and reduces conflict, thereby creating sustainable business relationships.

Sharia Business Ethics

Sharia business ethics are a set of moral values derived from Islamic teachings that regulate business behavior, (Jie et al., 2023). These ethics emphasize honesty, trustworthiness (amanah), justice, transparency, and responsibility, (Abdurrahman, 2025). In the MSME context, sharia business ethics serve as guidelines for decision-making, interactions with customers and partners, and responsible resource management, (Panakaje et al., 2025). The application of sharia business ethics is believed to enhance trust, business reputation, and customer loyalty, ultimately contributing to improved MSME performance and sustainability.

MSME Performance

MSME performance reflects the level of success of a business in achieving its economic and operational objectives, (Purwanto et al., 2022). Performance is measured not only through financial indicators such as revenue growth and profitability, but also through non-financial indicators such as operational efficiency, product quality, and customer satisfaction, (Abdullahi et al., 2021). From an Islamic economic perspective, MSME performance is also evaluated based on compliance with ethical values and social responsibility, (Siregar et al., 2025). Strong MSME performance is a crucial factor in building competitiveness and business resilience in a dynamic business environment.

MSME Sustainability

MSME sustainability refers to the ability of a business to survive, grow, and create value in the long term, (Afdal et al., 2021). The concept of sustainability encompasses a balance among economic, social, and environmental dimensions, (Hariram et al., 2023). Economic sustainability relates to the ability to generate profits and maintain financial stability, social sustainability concerns contributions to employee and community welfare, and environmental sustainability emphasizes responsible resource use. In the context of sharia-based MSMEs, sustainability is viewed as a concrete manifestation of Islamic values in economic activities.

Sharia Economic Literacy

Sharia economic literacy refers to the level of understanding, knowledge, and capability of MSME actors in applying Islamic economic principles in business activities, (Supriadi et al., 2023). This literacy includes understanding basic concepts of Islamic economics, sharia contracts and transactions, and Islamic business ethics, (Heriyanto et al., 2023). A high level of sharia economic literacy enables MSME actors to internalize Islamic principles more consistently and effectively, (Masrizal et al.,

2024). Therefore, sharia economic literacy plays an important role in strengthening the influence of Islamic economic principles on business ethics and MSME performance.

METHODOLOGY

This study employs a quantitative approach using a survey method to analyze the effect of Islamic economic principles on MSME sustainability, with sharia business ethics and MSME performance as mediating variables and sharia economic literacy as a moderating variable. Primary data was collected through the distribution of Likert-scale questionnaires to micro, small, and medium enterprise (MSME) actors. The research population consists of all MSMEs operating in Medan City, North Sumatra Province, particularly those engaged in the trade, services, and manufacturing sectors. Given the large and heterogeneous population, purposive sampling was applied with criteria that MSMEs must have been operating for at least two years and be managed directly by the owner or business manager. The sample size was set at 200 respondents, which is considered adequate for Partial Least Squares–Structural Equation Modeling (PLS-SEM) analysis. Data analysis was conducted using SmartPLS software to test validity, reliability, as well as direct, indirect, and moderating effects within the research model.

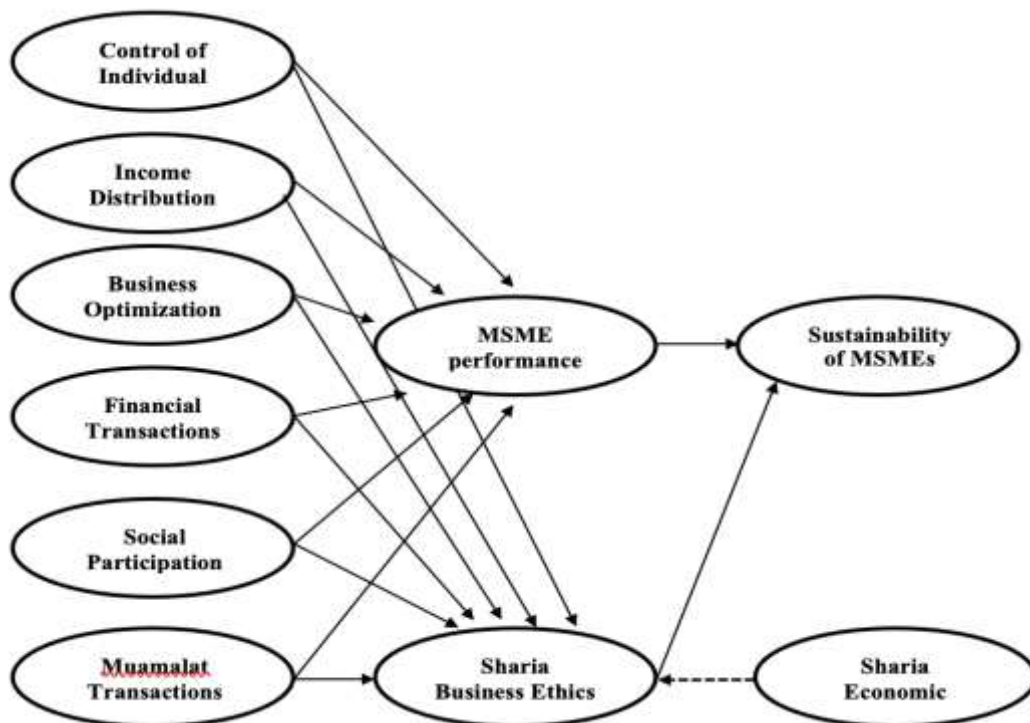


Figure 1: Research Model

RESEARCH FINDING

Convergent validity and construct reliability tests are conducted to ensure that each indicator consistently and accurately represents the construct being measured. Convergent validity indicates the extent to which indicators within the same construct exhibit a high degree of correlation, as reflected by factors loading values and the Average Variance Extracted (AVE). Meanwhile, construct reliability describes the level of internal consistency of the measurement instrument, which is assessed using Cronbach’s Alpha and Composite Reliability values. This testing constitutes an essential part of evaluating the measurement model (outer model) in Partial Least Squares–Structural Equation Modeling (PLS-SEM) before examining the relationships among variables in the structural model.

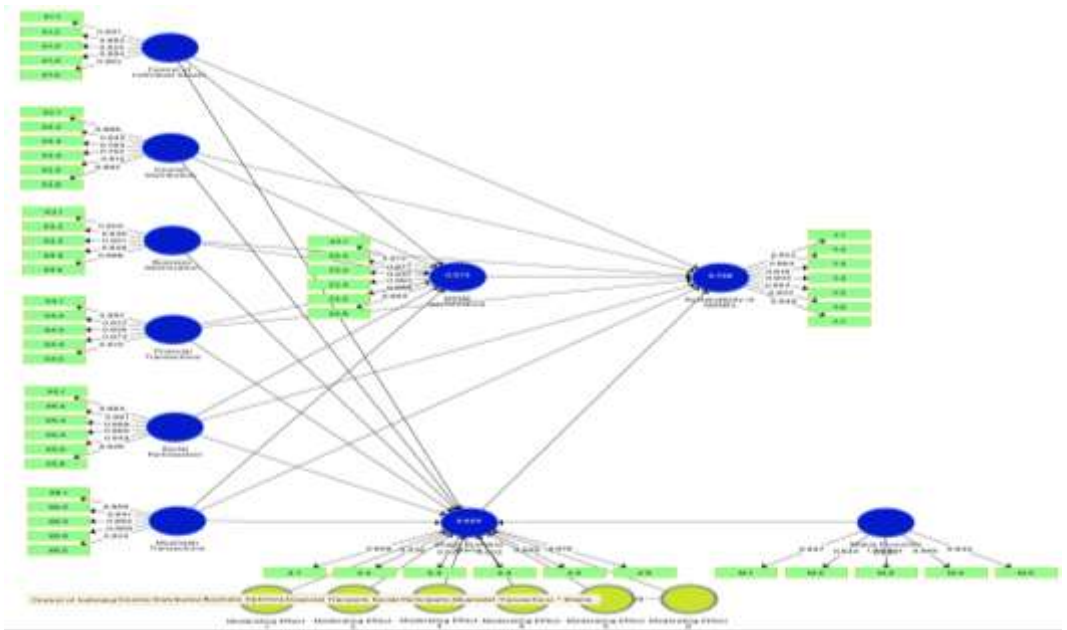


Figure 2: Model Struktural

Tabel 2: Convergent Validity

Constructs	Items	Loading	Alpha	CR	AVE
Control of Individual Assets (X1)	X1.1	0.891	0.925	0.940	0.759
	X1.2	0.883			
	X1.3	0.824			
	X1.4	0.894			
	X1.5	0.862			
Income Distribution (X2)	X2.1	0.888	0.912	0.931	0.692
	X2.2	0.845			
	X2.3	0.794			

	X2.4	0.752			
	X2.5	0.812			
	X2.6	0.892			
Business Optimization (X3)	X3.1	0.900	0.942	0.955	0.811
	X3.2	0.935			
	X3.3	0.851			
	X3.4	0.929			
	X3.5	0.886			
Financial Transactions (X4)	X4.1	0.892	0.940	0.954	0.805
	X4.2	0.922			
	X4.3	0.925			
	X4.4	0.873			
	X4.5	0.875			
Social Participation (X5)	X5.1	0.963	0.980	0.984	0.910
	X5.2	0.961			
	X5.3	0.969			
	X5.4	0.960			
	X5.5	0.944			
	X5.6	0.926			
Muamalat Transactions (X6)	X6.1	0.859	0.936	0.951	0.796
	X6.2	0.941			
	X6.3	0.884			
	X6.4	0.869			
	X6.5	0.904			
Sharia Business Ethics (Z)	Z1	0.908	0.960	0.968	0.835
	Z2	0.938			
	Z3	0.927			
	Z4	0.902			
	Z5	0.888			
	Z6	0.919			
MSME Performance (Z2)	Z2.1	0.973	0.985	0.988	0.931
	Z2.2	0.977			
	Z2.3	0.947			
	Z2.4	0.963			
	Z2.5	0.965			
	Z2.6	0.963			
Sharia Economic Literacy (M)	M1	0.947	0.951	0.962	0.836
	M2	0.943			
	M3	0.891			
	M4	0.855			
	M5	0.933			
Sustainability of MSMEs (Y)	Y1	0.902	0.955	0.963	0.789
	Y2	0.863			
	Y3	0.819			
	Y4	0.903			
	Y5	0.963			
	Y6	0.805			
	Y7	0.949			

The table above presents the results of convergent validity and construct reliability testing for all research variables. The loading factor values of all indicators exceed the minimum threshold of 0.70, indicating that each indicator adequately represents its respective construct. In addition, the Cronbach's Alpha and Composite Reliability (CR) values for all constructs are greater than 0.70, suggesting that the research instrument has a high level of reliability. The Average Variance Extracted (AVE) values, which exceed 0.50 for all constructs, further indicate that convergent validity has been achieved. Therefore, all constructs in the research model are considered valid and reliable and are suitable for further analysis using PLS-SEM.

The coefficient of determination is a statistical measure used to indicate the extent to which independent variables can explain the variation in the dependent variables. The coefficient of determination is commonly expressed as an R^2 value, which ranges from 0 to 1. A higher R^2 value indicates a greater proportion of variance in the dependent variable that can be explained by the independent variables in the research model, while the remaining variance is explained by other factors outside the model. In PLS-SEM analysis, the coefficient of determination is used to assess the strength of the structural model in predicting endogenous variables, thereby providing an indication of the model's accuracy and predictive capability.

Tabel 3: Koefisien Determinasi

	R Square	R Square Adjusted
MSME performance	0.573	0.560
Sharia Business Ethics	0.523	0.490
Sustainability of MSMEs	0.736	0.724

The table above presents the coefficient of determination (R Square) and Adjusted R Square values for each endogenous variable in the research model. An R Square value of 0.573 for MSME performance indicates that 57.3 percent of the variation in MSME performance can be explained by the independent variables included in the model, while the remaining variation is influenced by other factors outside the model. Furthermore, the R Square value of 0.523 for sharia business ethics suggests that 52.3 percent of its variation can be explained by the exogenous constructs affecting it. Meanwhile, the R Square value of 0.736 for MSME sustainability indicates that the model has strong explanatory power, with 73.6 percent of the variation in MSME sustainability explained by the variables in the research model. The Adjusted R Square values, which are relatively close to the R Square values for all endogenous variables, indicate that the structural model has good accuracy and stability in explaining the relationships among variables.

Path analysis is a statistical analysis technique used to examine and illustrate causal relationships among variables within a research model that has been established based on theory. This analysis allows researchers to simultaneously assess both direct and indirect effects among independent variables, mediating variables, and dependent variables. In the context of Structural Equation Modeling (SEM), path analysis serves to evaluate the structural model by examining the magnitude of path coefficients and their levels of significance, thereby identifying the direction, strength, and meaning of relationships among variables in the research model.

Tabel 4: Path Analysis

Relationship	Original Sample (O)	T Statistics	P Values	Effect Type	Result
Business Optimization → MSME Performance	0.301	4.152	0.000	Direct	Positive and Significant
Business Optimization → Sustainability of MSMEs	0.091	2.055	0.040	Direct	Positive and Significant
Control of Individual Assets → MSME Performance	0.149	2.760	0.006	Direct	Positive and Significant
Financial Transactions → MSME Performance	0.064	1.404	0.161	Direct	Positive but Not Significant
Income Distribution → MSME Performance	0.634	15.581	0.000	Direct	Positive and Significant
Financial Transactions → Sustainability of MSMEs	0.229	5.960	0.000	Direct	Positive and Significant
Income Distribution → Sustainability of MSMEs	0.034	0.525	0.600	Direct	Positive but Not Significant
MSME Performance → Sustainability of MSMEs	0.306	5.026	0.000	Direct	Positive and Significant
Sharia Business Ethics →	0.521	9.240	0.000	Direct	Positive and Significant

Sustainability of MSMEs					
Sharia Economic Literacy → Sharia Business Ethics	0.472	5.620	0.000	Direct	Positive and Significant
Social Participation → Sustainability of MSMEs	0.380	2.497	0.013	Direct	Positive and Significant
Business Optimization → MSME Performance → Sustainability of MSMEs	0.092	3.763	0.000	Mediation	Partial Mediation (Significant)
Control of Individual Assets → MSME Performance → Sustainability of MSMEs	0.046	2.413	0.016	Mediation	Partial Mediation (Significant)
Financial Transactions → MSME Performance → Sustainability of MSMEs	0.020	1.386	0.166	Mediation	Mediation Not Supported
Income Distribution → MSME Performance → Sustainability of MSMEs	0.194	4.674	0.000	Mediation	Partial Mediation (Significant)
Income Distribution → Sharia Business Ethics → Sustainability of MSMEs	0.134	4.065	0.000	Mediation	Partial Mediation (Significant)
Sharia Economic Literacy → Sharia Business Ethics → Sustainability of MSMEs	0.246	3.896	0.000	Mediation	Full/Strong Mediation
Moderating Effect 1 → Sharia Business	0.121	1.759	0.079	Moderation	Positive but Not Significant

Ethics					
Moderating Effect 2 → Sharia Business Ethics	0.134	2.231	0.026	Moderation	Positive and Significant
Moderating Effect 3 → Sharia Business Ethics	0.250	4.369	0.000	Moderation	Positive and Significant
Moderating Effect 4 → Sharia Business Ethics	0.091	0.859	0.391	Moderation	Positive but Not Significant
Moderating Effect 5 → Sharia Business Ethics	0.504	2.125	0.034	Moderation	Positive and Significant
Moderating Effect 6 → Sharia Business Ethics	0.668	2.443	0.015	Moderation	Positive and Significant

The table above presents the results of testing direct, indirect (mediation), and moderating effects in the research model using path analysis with PLS-SEM. The results of the direct effect analysis indicate that business optimization, control of individual assets, and income distribution have positive and significant effects on MSME performance, while financial transactions show a positive but not significant effect on MSME performance. Furthermore, business optimization, financial transactions, social participation, MSME performance, and sharia business ethics are proven to have positive and significant effects on MSME sustainability, whereas income distribution does not show a significant direct effect on MSME sustainability.

In the mediation effect analysis, MSME performance is found to partially mediate the relationships between business optimization, control of individual assets, and income distribution on MSME sustainability. Conversely, MSME performance does not mediate the relationship between financial transactions and MSME sustainability. In addition, sharia business ethics partially mediate the relationship between income distribution and MSME sustainability and fully mediate the effect of sharia economic literacy on MSME sustainability, indicating that sharia business ethics play a dominant role in bridging the influence of sharia economic literacy on business sustainability.

The results of the moderating effect analysis show that some moderating variables significantly strengthen the effect on sharia business ethics, while others exhibit positive but insignificant effects. These findings indicate that not all moderating effects operate consistently; however, overall, sharia economic literacy plays an important

role in strengthening the formation of sharia business ethics. Overall, the results of this path analysis confirm that the research model has strong and relevant causal relationships in explaining the factors influencing MSME sustainability.

Discussion

The findings of this study indicate that business optimization has a positive and significant effect on MSME performance. This result suggests that the ability of MSME owners to manage their businesses efficiently, innovatively, and professionally plays a crucial role in improving business performance. Business optimization, reflected in product quality improvement, process efficiency, optimal resource utilization, and continuous innovation, enables MSMEs to increase revenue, profitability, and business stability. These findings are consistent with (Souto, 2022) and (Utami et al., 2024), who argue that innovation and efficient resource utilization are key drivers of firm performance and sustainability. From an Islamic economic perspective, business optimization is also regarded as a form of amanah in safeguarding and developing wealth (ḥifẓ al-māl), as emphasized by (Nurdiana et al., 2025) and (Hamzah et al., 2024).

Furthermore, business optimization is proven to have a positive and significant effect on MSME sustainability. This indicates that effective business management not only enhances short-term performance but also strengthens long-term business resilience. MSMEs that are able to optimize their business activities tend to be more adaptive to market changes, economic uncertainty, and competitive pressures. This finding supports (Susilawati, 2024), who highlights the importance of entrepreneurial resilience in sustaining MSMEs, and (Syamsari et al., 2022), who identify strategic business management as a critical factor for MSME sustainability.

Control of individual assets is also found to have a positive and significant effect on MSME performance. This suggests that MSME owners who manage assets prudently, separate personal and business finances, and avoid excessive consumption tend to achieve better business performance. This result aligns with (Samborska et al., 2023) and (Zahari et al., 2025), who emphasize the importance of sound financial management practices in ensuring business stability and profitability. Within the Maqāṣid al-Sharī'ah framework, asset control represents an effort to safeguard wealth (ḥifẓ al-māl), which contributes indirectly to business sustainability, as highlighted by (Mubarak et al., 2022) and (Hamzah et al., 2023).

However, financial transactions show a positive but insignificant effect on MSME performance. This finding implies that although sharia-compliant financial transactions have a favorable direction, their implementation has not yet fully translated into improved business performance. This may be attributed to limited

access to Islamic financing and regulatory constraints faced by MSMEs, as noted by (Saifurrahman & Kassim, 2024). Additionally, limited understanding of Islamic financial instruments among MSME owners may reduce the effectiveness of such transactions, as suggested by (Masrizal et al., 2024) and (Supriadi et al., 2023).

Income distribution has a positive and significant effect on MSME performance, indicating that fair profit sharing and equitable wage distribution enhance employee motivation, loyalty, and productivity, thereby improving overall business performance. This finding supports (Andersson et al., 2022) and (Nae et al., 2024), who emphasize the role of justice and equity in organizational performance. However, income distribution does not have a significant direct effect on MSME sustainability, suggesting that while fairness in income distribution strengthens internal performance, long-term sustainability requires additional mechanisms such as strong business ethics and sustained performance, as also noted by (Afdal et al., 2021).

The results further reveal that financial transactions and social participation have positive and significant effects on MSME sustainability. Sharia-compliant financial transactions foster fair and sustainable business relationships, while social participation reflects the social responsibility of MSMEs toward their communities. These findings are consistent with (Uba et al., 2023) and (Hasibuan et al., 2023), who demonstrate that social responsibility and stakeholder engagement enhance business sustainability. Moreover, social participation supports the achievement of the Sustainable Development Goals (SDGs), as emphasized by (Tambunan, 2023) and (Anggahegari et al., 2025).

MSME performance is also found to have a positive and significant effect on MSME sustainability, confirming that financially and operationally strong MSMEs are better equipped to survive and grow in the long term. This finding is in line with (Hariyono & Narsa, 2024), (Purwanto et al., 2022), and (Endris & Kassegn, 2022), who identify firm performance as a key determinant of business sustainability. Additionally, sharia business ethics have a positive and significant effect on MSME sustainability. The application of values such as honesty, trustworthiness (amanah), justice, and transparency strengthens trust among customers and business partners, thereby enhancing business reputation and sustainability. This result supports the findings of (Jie et al., 2023), (Jazil & Firdaus, 2024), and (Panakaje et al., 2025), who highlight the critical role of Islamic business ethics in fostering sustainable business practices.

The mediation analysis reveals that MSME performance partially mediates the effects of business optimization, control of individual assets, and income distribution on MSME sustainability, indicating that these factors influence sustainability through improved performance. In contrast, MSME performance does not mediate the relationship between financial transactions and sustainability, suggesting a more direct

pathway. Furthermore, sharia business ethics partially mediate the effect of income distribution on sustainability and fully mediate the effect of sharia economic literacy on MSME sustainability. This full mediation indicates that sharia economic literacy contributes to sustainability only when it is translated into ethical business behavior, consistent with the findings of (Masrizal et al., 2024), (Panakaje et al., 2025), and (Mukhoyyaroh et al., 2025).

Finally, the moderation analysis shows that while some moderating effects are significant, others are not, suggesting that sharia economic literacy does not uniformly strengthen all relationships in the model. Nevertheless, overall, sharia economic literacy plays an important role in reinforcing the formation of sharia business ethics, which subsequently supports MSME sustainability. This finding is consistent with (Choiruddin et al., 2025) and (Aldino et al., 2025), who emphasize the role of Islamic financial and economic literacy as a reinforcing factor in ethical decision-making and sustainable business behavior.

Research Implications

The implications of this study encompass both theoretical and practical implications. From a theoretical perspective, the findings strengthen the field of Islamic economics by providing empirical evidence that Islamic economic principles play an important role in promoting MSME sustainability through the mechanisms of sharia business ethics and business performance. These findings support the grand theory of Maqāṣid al-Sharī‘ah, which emphasizes that economic activities should be directed toward achieving social welfare and sustainability, rather than merely focusing on short-term profit maximization. This study also enriches the literature by integrating the concept of MSME sustainability into the Islamic economic framework using a Structural Equation Modeling approach, thereby offering a more comprehensive understanding of the causal relationships among variables.

From a practical perspective, the results provide important implications for MSME actors, local governments, and Islamic financial institutions. For MSME actors, the findings highlight the importance of consistently applying Islamic economic principles in business management, particularly in business optimization, asset control, and the implementation of sharia business ethics, to enhance business performance and sustainability. For local governments and policymakers, the findings can serve as a basis for designing MSME development and assistance programs that not only focus on technical and financial aspects but also emphasize improving sharia economic literacy and business ethics. Meanwhile, for Islamic financial institutions, this study offers insights into strengthening the role of sharia-based financing and education for MSMEs so that Islamic principles can be implemented more effectively and sustainably in business practices.

Conclusion

Based on the results of the analysis and discussion, it can be concluded that the implementation of Islamic economic principles plays an important role in enhancing MSME sustainability. Principles such as business optimization, control of individual assets, income distribution, financial transactions, and social participation are proven to contribute, both directly and indirectly, to MSME performance and sustainability. The findings indicate that sharia business ethics and MSME performance function as significant mediating variables in linking Islamic economic principles to MSME sustainability, while sharia economic literacy plays an important role in strengthening the formation of sharia business ethics. These results emphasize that MSME sustainability is not determined solely by economic factors, but also by the application of ethical values and an understanding of Islamic economic principles. Overall, this study supports the Maqāsid al-Sharī'ah perspective, which positions business activities to achieve social welfare and long-term sustainability, and provides both theoretical and practical contributions to the development of sharia-based MSMEs.

Limitations and Future Directions

This study has several limitations that should be considered when interpreting the research findings. First, the study employs a survey approach with cross-sectional data, meaning that the results reflect conditions at a single point in time and cannot capture dynamic changes in MSME behavior over the long term. Second, the scope of the study is limited to MSMEs operating in Medan City; therefore, the generalization of the findings to other regions with different economic and social characteristics should be approached with caution. Third, the data are based on respondents' perceptions collected through questionnaires, which may involve a certain degree of subjective bias. In addition, this study focuses only on selected variables within the Islamic economic framework, leaving the possibility that other factors outside the model may also influence MSME sustainability.

Based on these limitations, future research is recommended to adopt a longitudinal research design to observe changes and sustainability of MSMEs over a longer period. Future studies may also expand the research area to other regions or conduct interregional comparisons to enhance the generalizability of the findings. Moreover, incorporating additional variables such as government policy support, digital innovation, or access to Islamic financing could enrich the research model and provide a more comprehensive understanding of the factors influencing MSME sustainability. A mixed-methods approach is also recommended to gain deeper insights through qualitative data that complement the quantitative findings.

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Table 1: Variable Measurement Scale

Item	Statement	Source
Variable: Control of Individual Assets (X1)		
X1.1	I clearly separate personal finances from business finances	Musa (2024)
X1.2	Business capital is used productively and not excessively	
X1.3	I avoid using business assets for unproductive activities	
X1.4	I manage business assets responsibly	
X1.5	I consider business assets as a trust that must be safeguarded	
Variable: Income Distribution (X2)		
X2.1	Business profits are distributed fairly	Pinto & Scalzo (2024)
X2.2	I provide fair and adequate wages to employees	
X2.3	Profit sharing in my business is conducted transparently	
X2.4	I pay attention to the welfare of parties involved in the business	
X2.5	I fulfill social obligations such as zakat or charity	
X2.6	Income distribution in my business follows the principle of justice	
Variable: Business Optimization (X3)		
X3.1	I continuously improve the quality of products or services	Akhiroh et al (2025)
X3.2	I manage the business efficiently and professionally	
X3.3	I implement innovations to enhance business competitiveness	
X3.4	Business resources are utilized optimally	
X3.5	All business activities comply with halal principles	
Variable: Financial Transactions (X4)		
X4.1	I avoid business transactions involving interest (riba)	Noori (2021)
X4.2	Every financial transaction uses a clear contract	
X4.3	I avoid transactions containing uncertainty (gharar)	
X4.4	I prefer profit-sharing based financing schemes	
X4.5	Financial transactions are conducted transparently	

Variable: Social Participation (X5)		
X5.1	My business contributes to job creation	Ring (2022)
X5.2	I actively participate in community social activities	
X5.3	I pay attention to the environmental impact of my business	
X5.4	I maintain good relationships with the surrounding community	
X5.5	My business strives to provide social benefits	
X5.6	I feel socially responsible for the business I operate	
Variable: Muamalat Transactions (X6)		
X6.1	I conduct business transactions honestly	Jazil & Firdaus (2024)
X6.2	I always fulfill promises made in business transactions	
X6.3	I maintain fairness in relationships with business partners	
X6.4	All business agreements are conducted transparently	
X6.5	I avoid fraudulent practices in business	
Variable: Sharia Business Ethics (Z)		
Z1	I conduct my business honestly	Arrum & Azzaki, (2024)
Z2	I uphold trust (amanah) in managing the business	
Z3	I treat customers and partners fairly	
Z4	I provide transparent business information	
Z5	I take responsibility for every business decision	
Z6	I avoid business practices that harm others	
Variable: MSME Performance (Z2)		
Z2.1	My business revenue has increased in recent years	Lee (2023)
Z2.2	My business profit shows positive growth	
Z2.3	My business operates in a stable manner	
Z2.4	Business productivity continues to improve	
Z2.5	My business is competitive compared to others	
Z2.6	Business targets are achieved effectively	
Variable: Sharia Economic Literacy (M)		
M1	I understand basic concepts of Islamic economics	Judijanto et al (2024)

M2	I understand the prohibition of riba, gharar, and maysir	
M3	I understand Islamic economic contracts (akad)	
M4	I understand profit-sharing principles	
M5	I am able to apply Islamic economic principles in my business	
Variable: Sustainability of MSMEs (Y)		
Y1	My business is able to survive in the long term	Vásquez et al (2021)
Y2	My business has sustainable economic prospects	
Y3	My business considers employee welfare	
Y4	My business maintains good relationships with society	
Y5	My business pays attention to environmental sustainability	
Y6	My business continues to grow over time	
Y7	My business is able to adapt to changes	