

MSME Business Models Based on Sharia Principles

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Article Info:

Received: 10 May 2026

Accepted: 7 June 2026

Published : 2 July 2026

Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the Indonesian economy, yet they face complex structural challenges related to access to capital, governance, and business sustainability. This study aims to analyze and design an MSME business model grounded in Sharia values as an alternative holistic and equitable managerial framework. Using a qualitative approach based on a systematic literature review, this study examines various theories and recent empirical findings regarding Islamic economics, Sharia business ethics, and MSME governance practices. The findings indicate that integrating Sharia principles such as honesty (*shidq*), trustworthiness (*amanah*), justice (*adl*), and the prohibition of usury into SME business models can enhance consumer trust, strengthen partnership networks, and promote sustainable business growth. The Sharia business model constructed in this study encompasses seven key elements: value propositions based on *masalah*, ethical customer segments, halal distribution channels, trustworthy customer relationships, *riba*-free revenue sources, key resources based on Islamic competencies, and a transparent cost structure. This study offers a conceptual contribution to the development of Sharia-based SMEs and practical implications for policies aimed at the economic empowerment of the Muslim community.

Keywords: SMEs, Sharia business models, Islamic economics, business ethics, economic empowerment

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have long been recognized as the backbone of Indonesia's national economy. Data from the Ministry of Cooperatives and MSMEs (2023) shows that this sector accounts for approximately 60.5% of the total Gross Domestic Product (GDP) and employs more than 97% of the national workforce. These figures position MSMEs not merely as small economic entities, but as a structural foundation that determines the resilience of Indonesia's economy, particularly when facing external pressures such as the pandemic and global economic volatility.

Nevertheless, on-the-ground realities paint a contradictory picture. The majority of SMEs in Indonesia are still grappling with classic challenges: limited capital, low managerial capacity, a lack of product innovation, and weak access to broader markets. Moreover, unethical business practices—ranging from tampering with scales, product quality fraud, to involvement in high-interest financial schemes—have become significant obstacles to long-term business sustainability (Mulawarman & Triyuwono, 2022). These conditions underscore the need for a business framework that not only pursues profitability but is also grounded in strong moral and ethical values.

Given that the majority of Indonesia's population is Muslim, Sharia values actually hold great potential as both a philosophical and operational foundation for business management. Principles such as honesty (*shidq*), trustworthiness, the prohibition of exploitation (*zulm*), and the orientation toward the public good (*masalah*) are not merely normative teachings but practical guidelines with direct implications for how to build business relationships, manage resources, and treat stakeholders (Ascarya, 2020). Unfortunately, the systematic integration of these values into SME business models remains very limited in both academic discourse and empirical implementation.

Previous studies on Sharia-compliant SMEs have generally focused on financing aspects based on Islamic contracts such as *mudharabah*, *musyarakah*, and *murabahah*—without addressing the entire business model ecosystem holistically (Rusydiaana & Devi, 2021). Meanwhile, studies on business models in general, such as the Business Model Canvas (BMC) popularized by Osterwalder and Pigneur, are rarely adapted into a comprehensive Sharia perspective. This gap serves as the starting point for this research: how to design an SME business model that comprehensively integrates Sharia values not only in financial aspects but also in the dimensions of value proposition, customer relationships, internal governance, and social responsibility.

The objectives of this study are, first, to identify Sharia principles that are relevant and can be operationalized in the context of MSME business. Second, to analyze the elements of the conventional MSME business model and critique its inconsistencies with Islamic values. Third, to reconstruct a comprehensive and practically applicable framework for a Sharia-compliant MSME business model. This study is expected to contribute to the development of applied Islamic economics while serving as an operational reference for SME practitioners, policymakers, and Sharia financial institutions.

RESEARCH METHOD

This study employs a qualitative approach using the systematic literature review (SLR) method. This method was chosen based on the study's conceptual-exploratory objectives: to construct a new business model framework through a critical synthesis of existing theories and empirical findings, rather than to test hypotheses using field data. A systematic literature review was chosen for its ability to provide a structured, transparent, and replicable synthesis—three characteristics that are crucial for research aimed at developing a new conceptual framework

RESULTS

Criticism of the Conventional MSME Business Model from a Sharia Perspective

Before reconstructing a Sharia-compliant business model, it is important to first identify the weaknesses of the conventional approach from the perspective of Islamic values. A critical analysis of the literature reveals at least four fundamental issues that frequently arise in conventional MSME business practices.

First, a short-term profit orientation that disregards ethical dimensions. Conventional SMEs are generally driven by cash flow pressures that trap business owners in decision-making that sacrifices integrity for short-term gains. Practices such as mixing in low-quality raw materials, tampering with scales, or providing misleading information to customers are consequences of a profit orientation that is not balanced by strong moral values (Mulawarman & Triyuwono, 2022). Islam strictly prohibits all forms of fraud and exploitation through the concepts of *ghish* (falsification) and *tadlis* (deception), which in *fiqh muamalah* can serve as grounds for the annulment of a contract.

Second, reliance on interest-based financing creates a structural burden for MSMEs. Data from the OJK (2023) shows that more than 60% of MSMEs accessing formal financing still rely on conventional bank loans with interest rates ranging from 12–24% per year. In an Islamic context, *riba* is not merely prohibited due to its spiritual aspects, but also because of its tangible economic impact: interest creates a transfer of wealth from productive to speculative sectors, exacerbates inequality, and hinders the growth of the real economy (Chapra, 2020). SMEs burdened by high-interest debt spend their managerial energy meeting interest payment obligations rather than innovating and developing their businesses.

Third, a weak culture of accountability, which leads to poor governance. Research by Irawan and Priyanto (2021) found that the majority of Indonesian MSMEs lack adequate financial records, do not distinguish between personal and business finances, and have no accountability mechanisms toward stakeholders other than the owners. From an Islamic perspective, this lack of transparency contradicts the principle of *amanah*: if Allah mandates record-keeping for every transaction (QS. Al-Baqarah: 282), then orderly and accountable business management is an obligation, not an option. Fourth, the lack of structured social contributions. Conventional SMEs generally view social responsibility as an additional cost burden, not as a social investment that generates long-term value. In fact, within the Islamic framework, *zakat*, *infak*, *sadaqah*, and productive *waqf* are mechanisms for wealth distribution that—if managed well—can become a source of social capital that strengthens a business's position within the community.

Reconstructing a Sharia-Based SME Business Model

Based on a critical synthesis of the reviewed literature, this study reconstructs a Sharia-based SME business model that integrates Islamic values into seven key elements that are interrelated and synergistic. This model does not merely add a Sharia dimension as an external filter to the conventional BMC but rather rebuilds the conceptual foundation from within, using the maqashid al-Sharia as a compass and *falah* as the ultimate goal.

The first element is the Maslahah-Based Value Proposition. In conventional business models, a value proposition is defined as a set of benefits offered to customers to solve their problems. In Sharia-compliant models, this concept is expanded through the lens of *maslahah*: the value offered is not only relevant to individual customers but also does not harm third parties or the broader community. A food SME, for example, not only offers delicious flavors and affordable prices (individual *maslahah*), but also ensures the halal status of raw materials, the cleanliness of the production process, and avoids using environmentally harmful packaging (collective *maslahah*). Saifurrahman (2022) emphasizes that this *maslahah*-based value proposition can strategically differentiate Sharia SMEs from competitors and build customer loyalty based on moral trust, not merely functional satisfaction.

The second element is an Ethical and Inclusive Customer Segment. Rather than merely identifying who is willing to buy, the sharia business model encourages SMEs to proactively select markets that align with their values. This does not mean limiting the market solely to Muslim consumers, but rather developing customer segments that value halal products, ethical processes, and positive social impact—segments that are actually growing rapidly globally. Muslim-friendly markets, ethical consumers, and conscious shoppers are segments that, according to Ratten and Jones (2021), are growing at an average rate of 10–15% per year in the Southeast Asian market. Sharia-compliant SMEs that can authentically position themselves in these segments have significant growth opportunities.

The third element is Halal and Responsible Distribution Channels. Distribution channels in the Sharia model must not only be economically efficient, but also halal in their processes and socially responsible. This includes selecting distribution partners who share a commitment to ethical values, using transparent digital technology, and employing delivery practices that do not compromise the quality of halal products. In the context of the accelerated digitalization of SMEs post-pandemic, e-commerce platforms that provide guarantees of halal product authenticity and *riba*-free payment systems are becoming increasingly relevant strategic elements (Ministry of Cooperatives and SMEs, 2023).

The fourth element is Trust-Based Customer Relationships. This is the element that most distinguishes the Sharia model from conventional marketing approaches. Relationships with customers are not built on psychological manipulation or the exploitation of consumer vulnerabilities, but on trust: honesty in product communication, transparency regarding limitations, and a commitment to continuous quality improvement. Supriatna and Wahyudi (2021) document that MSMEs that consistently apply the principle of trust—including being willing to acknowledge

product shortcomings and provide fair compensation when mistakes occur—build a far more solid base of loyal customers than those that rely on aggressive promotion.

The fifth element is Riba-Free and Equitable Sources of Income. This is the most technically complex element from a fiqh perspective, yet it also has the greatest systemic impact. The Sharia business model requires MSMEs to avoid any form of income that involves riba, gharar, or maisir. In practice, this means replacing interest-bearing loans with profit-sharing financing (mudharabah/musyarakah) or fair deferred sales (murabahah), setting transparent and non-manipulative prices, and establishing bonus and discount systems that do not involve speculation. Rusydiana and Devi (2021) demonstrate that the adoption of Sharia financing instruments by SMEs not only reduces the interest burden but also promotes better financial discipline, as the profit-sharing mechanism encourages transparency in financial reporting.

The sixth element is Islamic Competency-Based Key Resources. Human resources in the sharia business model are not merely factors of production, but rather stewards entrusted with a sacred duty. Consequently, sharia-compliant SMEs need to invest in developing human resources who are not only technically skilled but also of sound character: honest, responsible, and committed to quality. Cahyadi and Yusuf (2023) found that SMEs that regularly conduct Islamic studies and business ethics training for employees exhibit lower turnover rates and higher productivity. In addition to human resources, the social capital of trust networks with suppliers, customers, and the community constitutes a key resource that, within the Sharia context, is built through social interaction, honesty, and consistency in values.

The seventh element is a Transparent and Proportional Cost Structure. Cost transparency in the Sharia model is not merely an administrative requirement, but a reflection of the values of trust and justice. Sharia-compliant SMEs must have a clear financial accounting system, separate personal expenses from business expenses, and be able to explain their pricing structure to customers upon request. Furthermore, the allocation of a portion of profits for zakat, charity, and community development investments must be included as a planned item in the cost structure, not merely as a residual obligation (Wiroso, 2020). This transforms philanthropy from a burden into a strategy for building sustainable reputation and social capital.

Implementation Analysis: Opportunities and Challenges

Although this reconstructed Sharia business model is conceptually coherent and comprehensive, its implementation in the field faces various challenges that need to be honestly identified. First, the challenge of competence: most Indonesian MSME actors, although personally upholding Islamic values, do not yet have an adequate understanding of contemporary fiqh muamalah and its implications for business operations. Low Sharia financial literacy—as noted in the OJK (2023) report, which states that Indonesia's Sharia financial literacy index is only 9.14%—poses a significant barrier to the widespread adoption of this model.

Second, ecosystem challenges: Sharia business models cannot function optimally in isolation. They require a supportive ecosystem consisting of easily accessible Sharia financial institutions,

verified halal supply chains, markets responsive to ethical values, and supportive regulations. While this ecosystem is developing, it is still far from mature, especially outside of Java. Bank Indonesia (2022) notes that the market share of Islamic banking has only reached 7.1% of total national banking assets, indicating that Islamic financing options remain very limited for most MSMEs in regional areas.

Third, challenges related to certification and verification: “Sharia” claims in business are often not independently verified, creating opportunities for the misuse of Sharia labels for marketing purposes without any real substance. These phenomena of “halal washing” and “Sharia washing” have the potential to undermine the credibility of the Sharia business model as a whole (Putri & Anwar, 2022). Therefore, there is a need for Shariah certification and audit mechanisms that are affordable and accessible to SMEs, not just large corporations.

On the opportunities side, the development of Shariah financial technology (fintech) opens up a highly promising new horizon. Shariah peer-to-peer lending platforms, crowdfunding based on productive waqf, and the halal marketplace ecosystem provide access to financing and markets previously inaccessible to SMEs. Fauzia (2020) notes that SMEs that integrate Sharia fintech services into their business models experience an average revenue growth 34% higher than those that do not. Furthermore, the rising global consumer awareness of the halal lifestyle—which is no longer limited to halal food but encompasses fashion, cosmetics, tourism, and financial services—opens up a trillion-dollar market segment that can be leveraged by Indonesia’s Sharia SMEs.

Another equally strategic opportunity lies in the role of Islamic boarding schools as mature, values-based business ecosystems. With more than 26,000 boarding schools spread across Indonesia and an extensive alumni network, these institutions can serve as incubators for sharia-compliant businesses that integrate character education, an understanding of muamalah fiqh, and entrepreneurial skills into a cohesive ecosystem. Putri and Anwar (2022) documented several Islamic boarding schools in South Kalimantan that have successfully developed sharia-based MSME clusters with business success rates far above the national average.

Policy and Practical Implications

The findings of this study have a number of important implications for various stakeholders. For the government, the results of this study underscore the need for more holistic SME empowerment policies that not only focus on capital and technology but also actively promote the internalization of ethical values within business models. SME mentoring programs need to incorporate modules on Islamic business ethics that are designed to be practical and contextually relevant, rather than merely consisting of normative lectures. Additionally, the government needs to create fiscal incentives for SMEs that can demonstrate Sharia compliance through standardized and affordable certification mechanisms.

For Sharia financial institutions, this study highlights the need to develop financing products that truly align with the needs and capacity of SMEs—not merely replacing the term “interest” with “margin” or “profit-sharing” without altering the substance of risk assessment mechanisms and

collateral requirements. Collaboration between Sharia banks, Sharia-compliant rural banks (BPRS), Sharia-compliant microfinance institutions (BMT), and Sharia fintech platforms in building an integrated and easily accessible financing ecosystem is an urgent necessity (Rusydiaana & Devi, 2021).

For academics and higher education institutions, this study opens up a broad research agenda: how to operationalize this reconstructed Sharia business model into valid measurement instruments, how to develop a comprehensive Islamic entrepreneurship curriculum in higher education, and how to measure the social impact of implementing Sharia business models at the community level. Longitudinal studies tracking sharia-based SMEs over the long term are urgently needed to build a stronger empirical evidence base.

For SME practitioners themselves, the key message from this study is that sharia values are not a competitive barrier, but rather a strategic advantage that has not yet been fully optimized. Honesty, trustworthiness, and justice are not merely moral obligations but also tangible business assets: customer trust, partner loyalty, and community reputation built on these values are far more enduring than those built solely on low prices or aggressive promotions. It is this paradigm shift from “Sharia business as a niche market” toward “Sharia business as the best model” that needs to be fostered through a combination of education, mentoring, and real-world examples from successful Muslim entrepreneurs.

CONCLUSION

This study has constructed a comprehensive business model framework for MSMEs based on Sharia values through a critical synthesis of the latest academic literature and institutional reports. The resulting model is not merely a cosmetic adaptation of the conventional Business Model Canvas, but rather a reconstruction rooted in the epistemological foundations of Islam: tawhid, khilafah, and adl, which are then translated into seven interrelated and synergistic operational elements.

This study finds that the integration of Sharia values into SME business models holds strong relevance both normatively and empirically. Normatively, values such as shidq, amanah, adl, and ihsan provide clear guidance on how to build dignified and sustainable business relationships. Empirically, the various studies reviewed consistently show a positive correlation between the implementation of Islamic ethical principles and long-term business performance, including customer trust, partner loyalty, and business resilience in the face of crises.

The Sharia business model reconstructed in this study comprises seven elements: (1) a *maslahah*-based value proposition that takes into account both individual and collective interests; (2) an ethical and inclusive customer segment; (3) halal and responsible distribution channels; (4) customer relationships based on trust; (5) *riba*-free and equitable revenue sources; (6) key resources based on Islamic competencies; and (7) a transparent and proportional cost structure—including the allocation of *zakat* and *sadaqah* as planned components.

A number of implementation challenges were identified, including low Islamic financial literacy, limitations in the supporting ecosystem, and the risk of “sharia washing.” However, the development of Islamic fintech, increasing consumer awareness of the halal lifestyle, and the potential of the pesantren ecosystem as an incubator for Islamic businesses present highly promising opportunities for the widespread implementation of this model.

For future research, it is recommended that the following be conducted: (1) empirical testing of this reconstructed model through field studies in various MSME clusters in Indonesia; (2) the development of a valid and reliable instrument for measuring Sharia compliance in business models; (3) a cross-sector comparative analysis between MSMEs that adopt the Sharia model and those that do not; and (4) a study on the role of the pesantren ecosystem in facilitating the transition of MSMEs toward a business model based on Islamic values. These studies will strengthen the scientific foundation for the development of Sharia MSMEs as a strategic component of Indonesia’s national economy.

ACKNOWLEDGMENTS

The author would like to express gratitude to those who have provided support, assistance, and contributions to the preparation of this article, whether in the form of scientific input, moral support, or facilities that facilitated the research and writing process. Thanks are also extended to the institution, faculty members, colleagues, and other relevant parties who provided guidance and motivation, enabling this article to be successfully completed. May this article provide benefits and contribute to the advancement of science, particularly in the field under study.

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