



Revealing Shariah Financial Practices and Ethical Decision Making Among Small and Medium Enterprises

Mardiana

Universitas Islam Negeri Maulana Malik Ibrahim

Corresponding Author: Mardiana mardiana@uin-malang.ac.id

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ABSTRACT

The practice of Islamic finance in small and medium enterprises is an important issue in encouraging business governance based on ethical values, justice, and social responsibility. This research aims to analyze Islamic finance practices and the relationship between ethical values and decision-making of MSME actors. The study used a qualitative approach through in-depth interviews with 15 informants of MSME actors in Malang, with thematic data analysis. The results of the study show that the understanding of sharia principles affects financial management patterns, transaction transparency, and ethical business decisions. This research contributes to the development of sharia economic studies through an empirical understanding of the application of sharia values in business practices.

INTRODUCTION

Small and medium enterprises (SMEs) have a strategic role in economic growth because they contribute to job creation, increased community income, and strengthening local economic activities. In the development of modern economies, the sustainability of SMEs is not only influenced by financial capabilities and business strategies, but also by the application of ethical values in decision-making. The perspective of sharia economics offers an alternative approach through the principles of justice, trust, transparency, and social responsibility that place economic activities not only oriented to profit, but also to social benefits. Hartanto et al. (2023) explained that Islamic finance practices have the potential to support the development of SMEs through the integration of moral values and Islamic economic principles in business activities.

Although the development of the halal industry and Islamic finance continues to increase globally, the implementation of sharia principles at the business level still faces various challenges. Many SMEs still experience limited understanding of Islamic financial mechanisms, financial recording in accordance with Islamic principles, and the application of ethical values in daily business decisions. Pahlevi's research (2022) shows that the application of sharia-based governance in SMEs is still a relatively new area and requires strengthening practical understanding so that Islamic values do not stop at the normative aspect, but can be applied in business operational activities.

Previous studies have extensively discussed the relationship between Islamic business ethics and business success, but most research has focused on measuring the influence of certain variables on business performance. For example, Katmas et al. (2022) found that aspects of justice, responsibility, and Islamic spiritual values affect the performance of SMEs. Meanwhile, the research of Hartanto et al. (2023) emphasizes more on the literature review on Islamic finance practices in SMEs. The research gap arises because there is still limited empirical studies that explore in depth how SMEs understand, apply, and consider sharia values in the direct financial and business decision-making process.

In addition, the ethical decision-making aspect in the context of sharia-based SMEs still needs further exploration. Sumpena research (2024) shows that Islamic ethical values such as justice, transparency, and accountability can be the basis for forming a responsible business strategy. However, the understanding of how these values are internalized by business actors when facing complex business decisions has not been widely studied through a qualitative approach. Therefore, research is needed that is able to describe the real experiences, perceptions, and practices of SMEs in applying Islamic finance principles.

This research aims to analyze the practice of Islamic finance as well as explore how Islamic ethical values affect the business decision-making process in SMEs. Using a qualitative approach through in-depth interviews, this study seeks to understand the experiences of business actors in applying sharia principles, including aspects of financial transparency, responsibility, honesty, and moral considerations in business activities.

This research makes a theoretical contribution by expanding the study of sharia economics through an empirical understanding of the relationship between Islamic financial practices and ethical decision making at the SME level. Practically, this research can be an input for business actors, Islamic financial institutions, and policymakers in designing strategies to increase Islamic financial literacy and strengthen business governance based on Islamic ethical values.

LITERATURE REVIEW

Shariah Financial Practices in Small and Medium Enterprises

The practice of Islamic finance in SMEs is not only related to the use of Islamic-based financial instruments, but also reflects the application of Islamic values in the management of economic activities. The main concept in Islamic finance emphasizes the principles of justice (adl), trust (trustworthiness), transparency, and prohibition of practices that contain usury, gharar, and maysir. According to Ali and Hassan (2021), Islamic finance has characteristics that distinguish it from the conventional system because it places moral aspects and social responsibility as an integral part of financial activities. Therefore, the application of Islamic finance practices in SMEs can not only be seen from the selection of financing sources, but also from how business actors manage transactions, financial records, and relationships with stakeholders.

In the context of SMEs, the application of Islamic finance principles faces challenges because most small businesses still have limitations in financial literacy, administrative capacity, and access to Islamic financial institutions. Rahayu and Nugroho (2022) explained that the limited understanding of the concept of sharia causes some SMEs to apply Islamic values informally based on personal experience, rather than through a structured financial management system. This condition shows that Islamic finance practices in SMEs need to be understood not only through formal compliance indicators, but also through the experience and perception of business actors in carrying out daily business activities.

Islamic Business Ethics and Entrepreneurial Decision Making

Islamic business ethics is a fundamental aspect that affects how business actors make economic decisions. In contrast to conventional business approaches that often focus on efficiency and profit, the Islamic perspective integrates moral considerations, social benefits, and responsibility to all parties involved. Rangkuti (2023) explained that Islamic business ethics are built through the relationship between ethical leadership, sharia governance, and responsibility to stakeholders. This principle shows that business decisions are not only judged on economic results, but also on processes that are in accordance with Islamic moral values.

At the SME level, the decision-making process is often heavily influenced by the business owner's personal values due to the simple organizational structure and direct involvement of the owner in operational activities. Research by Farooq and Ahmad (2024) shows that religious values and ethical orientation have an important role in shaping responsible entrepreneurial behavior. Business actors who have a strong understanding of sharia values tend to consider aspects of honesty, fairness, and sustainability when dealing with decisions related to transactions, financing, and business relationships.

Relationship Between Shariah Financial Practices and Ethical Decision Making

The relationship between Islamic financial practices and ethical decision making shows that the application of sharia principles can be a moral framework in determining business choices. The principle of maqasid al-shariah emphasizes that economic activities must be directed to achieve benefits, protection of property, and a balance between the interests of individuals and society. Alziyadat and Ahmed (2022) state that decision-making in an Islamic perspective not only considers the legality of a transaction, but also evaluates the ethical and social impact of the decision.

However, research on this relationship is still more conducted on Islamic financial institutions than on SMEs as direct economic actors. Some previous research has used quantitative approaches to measure the influence of ethical variables on business performance, while exploration of how SMEs understand and apply sharia values in financial decisions is limited. This condition shows that there is a need for qualitative research that is able to explore the subjective experience of business actors in translating sharia principles into real business practices.

Research Gap and Position of Current Study

Based on literature reviews, previous research has provided an understanding of the importance of Islamic finance and Islamic business ethics in supporting business sustainability. However, there are still limitations in understanding the process of internalizing sharia values at the SME level, especially how business actors relate Islamic financial principles to daily business decisions. Therefore, this study seeks to fill these gaps through a qualitative approach by exploring the experiences of SMEs in implementing Islamic finance practices and building ethical business decisions.

METHODOLOGY

Types of Research

This study uses a qualitative approach with an exploratory study design to understand in depth the practice of Islamic finance and ethical decision-making processes in small and medium enterprises (SMEs). The qualitative approach was chosen because the research focuses on exploring the experience, understanding, and interpretation of business actors in applying sharia values to daily business activities. This approach is appropriate for examining social and economic phenomena related to values, perceptions, and business practices that cannot be optimally explained through numerical measurements (Creswell & Creswell,

2023). The research focus is directed at how sharia principles, such as transparency, responsibility, honesty, and fairness, are applied in financial management as well as business decision-making.

Population and Sample

The research population includes small and medium enterprises (MSMEs) operating in the Malang region, East Java, Indonesia, and has direct involvement in the management of financial activities and business decision-making. The selection of informants was carried out using a non-probability sampling technique with a purposive sampling approach, which is the selection of participants based on certain criteria that are in accordance with the research objectives.

The research informants consisted of 15 MSME actors in Malang who were selected based on three main criteria, namely: (1) active owners or managers of MSMEs, (2) have experience in managing business finances, and (3) understand or apply Islamic business ethics values in business operational activities. The selection of informants is carried out to obtain in-depth information about the experience, perception, and practice of applying Islamic finance principles in daily business activities.

Research Instruments

The main instrument in this study is a semi-structured interview guideline developed based on the research focus on Islamic finance practices and ethical decision making in SMEs. The interview guidelines cover several main aspects, namely understanding the principles of Islamic finance, the application of transparency and responsibility in business transactions, business financial management, and ethical considerations in the decision-making process. The interview instrument does not use a measurement scale so statistical validity and reliability testing is not applied. However, the quality of the instrument is maintained through content validity by ensuring the suitability of interview questions to the purpose of research and literature review related to sharia economics. The validity of the data is strengthened through the member checking technique, which is the process of reconfirming the results of the researcher's interpretation to informants to ensure the suitability of the meaning of the data obtained (Kiger & Varpio, 2021).

Data Collection Procedure

Data collection was carried out through in-depth interviews with 15 informants of MSME actors in the Malang area, East Java. The interview was conducted using semi-structured guidelines to explore the experiences of informants related to the understanding of Islamic finance principles, the application of transaction transparency, business financial management, and ethical considerations in the business decision-making process. The interview data were then recorded, transcribed, and analyzed using a thematic analysis approach to identify the main patterns and themes related to Islamic finance practices and ethical decision making.

Data Analysis Techniques

The research data was analyzed using thematic analysis techniques that aimed to identify patterns, themes, and meanings of informant interview results. The analysis process is carried out through several stages, namely data familiarization, coding, theme development, theme review, and interpretation of research results. Thematic analysis was chosen because it was able to explore participants' subjective experiences and explain how sharia values are applied in real business contexts (Braun & Clarke, 2022). The data processing process is done manually with the help of qualitative data processing software such as NVivo to assist in the process of organizing, coding, and grouping the interview themes. The results of the analysis were used to identify key themes related to Islamic financial management practices, transaction transparency, business responsibility, and ethical considerations in decision-making.

RESEARCH RESULT AND DISCUSSION

Characteristics of Research Informants

This study involved 15 informants who are small and medium enterprises (SMEs) who are directly involved in the management of business activities and financial decision-making. The selection of informants was carried out using purposive sampling techniques by considering business experience, involvement in financial management, and understanding of Islamic business ethics principles. The characteristics of the informants are presented to provide an overview of the social and business context of the participants who are the source of the research data.

Table 1. Characteristics of Research Informants

Informant Code	Gender	Age	Business Sector	Long Term of Effort	Position in Business
MSMEs-01	Male	42 years old	Halal food trade	8 years	Business owners
MSMEs-02	Women	35 years old	Fashion muslim	6 years	Business owners
MSMEs-03	Male	39 years old	Culinary	10 years	Business owners
MSME-04	Women	31 years old	Halal handicrafts	5 years	Business manager
MSMEs-05	Women	45 years old	Food products	12 years	Business owners
MSME-06	Male	37 years old	General trading	7 years	Business owners

MSMEs-07	Women	33 years old	Services and trade	5 years	Business owners
MSME-08	Male	41 years old	Culinary	9 years	Business owners
MSME-09	Women	38 years old	Halal fashion and cosmetics	7 years	Business owners
MSMEs-10	Male	46 years old	Halal agricultural products	15 years	Business owners
MSMEs-11	Women	36 years old	Processed foods	8 years	Business manager
MSMEs-12	Male	40 years	Halal trade	11 years old	Business owners
MSMEs-13	Women	34 years old	Culinary	6 years	Business owners
MSMEs-14	Male	44 years old	Services	13 years	Business owners
MSMEs-15	Women	32 years old	Halal creative products	4 years	Business owners

Based on these characteristics, the majority of informants are direct business owners with more than five years of operational experience. This condition allows informants to provide in-depth information about the financial management process, relationships with customers, and moral considerations in business decision-making.

Internalization of Shariah Principles in Financial Management Practices

The results of the thematic analysis show that the first theme that emerged was the process of internalizing sharia values in the practice of MSME financial management. Informants do not understand Islamic finance only as the use of Islamic financial institutions, but as a set of values that guide economic behavior, especially in the aspects of honesty, trust, and justice.

Most informants explain that financial decisions are always associated with moral considerations. They try to ensure that the profits obtained come from transactions that are considered halal and do not harm other parties.

One of the informants said:

"I see business not only how to get big profits, but how those profits are obtained. If the method is not right, even though there are many benefits, it still does not provide peace." (MSME-03, interview January 12, 2026)

Another informant explained:

"In small businesses, the owner is in direct contact with the customer. So if we are not honest, the impact will be felt immediately because customer trust can be lost." (MSME-08, interview January 17, 2026)

These findings show that sharia principles function as an *internal ethical control* mechanism in business. Religious values are the basis for evaluation before making economic decisions. This strengthens the view of Ali and Hassan (2021) that Islamic finance is not only related to financial instruments, but also includes the moral dimension and social responsibility. In contrast to previous research that looked at Islamic finance through institutional aspects, this study shows that at the MSME level, sharia values more often emerge through informal practices such as how to set prices, treat customers, and manage profits.

Transparency and Accountability as Manifestations of Shariah Financial Practices

The second theme shows that transparency is an important aspect in Islamic finance practices. Informants consider information disclosure as a form of responsibility to customers and business partners.

One of the informants said:

"If there is a shortage of products or production errors, I prefer to explain rather than cover. It is possible to lose one transaction, but customers still believe." (MSKM-05, interview January 18, 2026)

Another informant explained:

"I always separate business money from personal money. It used to be difficult, but once it was done, it was easier to know the actual condition of the business." (MSME-07, interview January 15, 2026)

These findings show a shift in mindset from short-term profit orientation to business relationship sustainability. Financial transparency is a form of implementation of the principle of trust in the Islamic economy.

This result is in line with the concept of *maqasid al-shariah* which places the protection of property (*hifz al-mal*) as one of the main goals of Islamic economic activity (Alziyadat & Ahmed, 2022). Thus, the practice of financial recording and transaction disclosure is not only an administrative activity, but is part of a moral responsibility.

Ethical Decision Making in Business Activities

The third theme relates to how Islamic values influence the business decision-making process. The results of the interviews show that informants consider ethical aspects when determining prices, selecting suppliers, managing profits, and dealing with business conflicts.

An informant explained:

"Sometimes there is an opportunity to raise prices due to high demand, but I still see the ability of customers. Don't let our profits make customers feel disadvantaged." (MSME-09, interview January 22, 2026)

Another informant stated:

"If there is a supplier who provides more profits but the process is not clear, I prefer not to take the risk." (MSME-13, interview January 25, 2026)

These findings show that business decisions in the sharia perspective are not only based on economic efficiency, but also moral evaluation. These results support the research of Farooq and Ahmad (2024) that religious values play a role in shaping responsible entrepreneurial behavior. However, this study found that the application of ethics is stronger in decisions that are directly related to customers than in internal administrative aspects. Some informants still have difficulty in establishing a formal financial recording system despite understanding the importance of transparency.

Challenges in Implementing Shariah-Based Financial Practices

Although the majority of informants are aware of sharia values, the study found several obstacles to implementation. The main obstacles include limited Islamic financial literacy, lack of technical understanding of sharia-based recording, and limited time and resources.

One of the informants said:

"We understand the basic principles, such as not taking profits in the wrong way, but for a more complete Islamic financial system it still needs learning." (MSME-02, interview January 10, 2026)

These findings show that there is a gap between value awareness and implementation capability. This expands on the research of Rahayu and Nugroho (2022) who explain that literacy is an important factor in the successful implementation of Islamic finance in MSMEs.

Thus, strengthening the sharia economy in the MSME sector is not enough only through increasing religious understanding, but also requires practical assistance regarding financial management, transaction recording, and business governance.

Theoretical and Practical Implications

Theoretically, this research contributes to the development of the Islamic economy by showing that the practice of Islamic finance in MSMEs is a multidimensional phenomenon that includes financial, moral, and social aspects. The research findings reinforce the perspective that sharia values function as a guideline for economic behavior, not just transaction rules. Practically, this research provides implications for Islamic financial institutions and policymakers to develop MSME assistance programs that not only focus on access to financing, but also on building the capacity of financial management based on Islamic values. The limitations of this study are the limited number of informants and the characteristics of qualitative research that do not aim to produce statistical generalizations. Further research can expand the scope of the business sector and use a longitudinal approach to see changes in the Islamic financial behavior of MSMEs over time.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that the practice of Islamic finance in small and medium enterprises (SMEs) is not only understood as the application of Islamic-based financial instruments, but also as a process of internalizing ethical values in daily business activities. Based on the results of interviews with 15 informants of MSME actors, it was found that sharia principles such as honesty, trust, justice, transparency, and social responsibility have an important role in shaping financial management patterns and business decision-making processes. MSME actors tend to apply sharia values through simple practices such as transaction openness, separation of personal and business finances, reasonable pricing, and considering social impacts before making business decisions. These findings show that ethical decision-making in the context of sharia-based MSMEs is not only influenced by profit orientation, but also by the moral values inherent in business actors. This research contributes to the development of the study of Islamic economics by showing that Islamic finance practices are a multidimensional phenomenon that connects financial, ethical, and business sustainability aspects.

Based on the findings of the research, it is necessary to strengthen Islamic financial literacy and practical assistance for MSME actors so that the understanding of sharia values can be applied more systematically in business management. Islamic financial institutions, governments, and MSME support institutions can develop educational programs that not only focus on access to financing, but also include financial recording, business governance, and decision-making based on Islamic ethics. The next research is suggested to expand the number and characteristics of informants from various business sectors and use a longitudinal approach or a combination of qualitative and quantitative methods to understand the development of the application of Islamic finance practices in MSMEs more comprehensively. Thus, the development of the sharia economy does not only stop at the formal compliance aspect, but is able to build a business ecosystem that is sustainable, ethical, and provides wider social benefits.

ADVANCED RESEARCH

The next research can expand the study of Islamic finance practices in MSMEs through a more diverse scope of sectors and regions. Future studies can also use a longitudinal or mixed method approach to examine the development of Islamic financial literacy, governance, and business sustainability.

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