

Collaborative Ecosystems and Performance Constraints of Islamic MSMEs: Evidence from Magelang Raya

Collaborative MSME
Ecosystem in
Magelang

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ABSTRACT

Islamic MSMEs have become an important driver of Indonesia's growing Islamic economic sector, yet their development is still constrained by limited financing access, weak managerial capacity, and insufficient ecosystem support. Despite strong potential across various regions, the lack of comprehensive data and persistent structural barriers continue to hinder efforts to strengthen their competitiveness and long-term sustainability. This study aims to analyze the potential, challenges, and strengthening strategies of Islamic MSMEs in Magelang Raya. A mixed-method approach was employed, combining survey data from 214 respondents with focus group discussions involving stakeholders. The findings reveal that Islamic MSMEs possess great potential with a relatively high level of sharia compliance but face major obstacles such as limited access to Islamic financing, low financial literacy, and weak institutional support. Cross-tabulation analysis shows significant relationships between the number of employees and the need for external support, while Exploratory Factor Analysis identifies latent factors including limited capital, mentoring, and market access. Strengthening strategies based on Maqashid Sharia, Resource-Based View, and the Entrepreneurial Ecosystem framework recommend multi-stakeholder collaboration in providing sharia financing, managerial training, and digital marketing to enhance the competitiveness of Islamic MSMEs in Magelang Raya.

Keywords: Entrepreneurial Ecosystem, Financial Inclusion, Islamic MSMEs, Institutional Support, Magelang Raya.

ABSTRAK

UMKM syariah merupakan salah satu pendorong penting pertumbuhan ekonomi syariah di Indonesia, tetapi pengembangannya masih terhambat oleh keterbatasan akses pembiayaan,

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lemahnya kapasitas manajerial, dan minimnya dukungan ekosistem. Meskipun memiliki potensi besar di berbagai daerah, kurangnya data komprehensif dan beragam kendala struktural terus membatasi upaya untuk meningkatkan daya saing dan keberlanjutan UMKM syariah. Penelitian ini bertujuan menganalisis potensi, permasalahan, dan strategi penguatan UMKM Syariah di wilayah Magelang Raya. Pendekatan yang digunakan adalah mixed method dengan pengumpulan data melalui survei terhadap 214 responden dan focus group discussion bersama pemangku kepentingan. Hasil penelitian menunjukkan bahwa UMKM Syariah memiliki potensi besar dengan tingkat kepatuhan syariah relatif tinggi, namun masih menghadapi kendala utama berupa keterbatasan akses pembiayaan, rendahnya literasi keuangan, serta lemahnya dukungan ekosistem. Analisis tabulasi silang memperlihatkan hubungan signifikan antara jumlah karyawan dengan kebutuhan dukungan eksternal, sedangkan Exploratory Factor Analysis mengidentifikasi faktor laten berupa keterbatasan modal, pendampingan, dan akses pasar. Strategi penguatan berbasis Maqashid Syariah, Resource-Based View, dan konsep Entrepreneurial Ecosystem merekomendasikan kolaborasi multipihak dalam menyediakan pembiayaan syariah, pelatihan manajerial, serta digitalisasi pemasaran untuk memperkuat daya saing UMKM Syariah di Magelang Raya.

Kata kunci: Ekosistem Kewirausahaan, Inklusi Keuangan, UMKM Islam, Dukungan Kelembagaan, Magelang Raya.

INTRODUCTION

The Islamic economy in Indonesia has experienced significant growth in recent years, driven by increasing public awareness of economic activities that embody the principles of justice, blessing, and sustainability. The establishment of the National Committee for Islamic Economy and Finance (*Komite Nasional Ekonomi dan Keuangan Syariah/KNEKS*) has further accelerated this growth by strengthening the integration of the real sector with the Islamic financial sector. One of the main pillars and driving forces of this development is Islamic Micro, Small, and Medium Enterprises (Islamic MSMEs). These enterprises play a crucial role in creating jobs, enhancing financial inclusion, and promoting community economic independence (Kamaruddin & Soemitra, 2022). However, despite their importance, Islamic MSMEs still face structural challenges that hinder their optimal development (Yusmadiza et al., 2025).

Empirical research by Dewi (2024) shows that Islamic financing products can increase the income and profitability of MSMEs. This finding underscores the importance of expanding access to Islamic financing that aligns with the characteristics of micro-entrepreneurs as part of efforts to strengthen the Islamic economic ecosystem at the local level. Nevertheless, limited access to Islamic financing remains one of the main obstacles faced by Islamic MSMEs in Indonesia, along with low levels of financial literacy, weak managerial capacity, and insufficient institutional ecosystem support. Bank Indonesia notes that MSMEs' access to Islamic financing remains relatively lower compared to conventional schemes. Similarly, a study by the Indonesian Association of Islamic Economists (IAEI) in 2021 reveals that the limited understanding of sharia contracts, risk management, and the use of Islamic financial products among entrepreneurs weakens the competitiveness of Islamic MSMEs compared to their conventional counterparts. These conditions highlight the urgent need for more comprehensive and evidence-based policy interventions to expand Islamic financial inclusion and strengthen the institutional capacity of Islamic MSMEs.

Magelang Raya, which includes Magelang City and Magelang Regency, has significant potential for the development of Islamic MSMEs. This potential is supported by strong social foundations such as Islamic boarding schools (*pesantren*), zakat institutions, and Islamic Microfinance Institutions (*Baitul Maal wat Tamwil/BMTs*) that play an important role in sharia-compliant financing. The region's Muslim community provides a natural base for competitive Islamic entrepreneurship. However, comprehensive data regarding the profile, potential, and challenges of Islamic MSMEs in

this region remain unavailable, leading to policy formulations that are often misaligned with actual business needs.

National data shows that Indonesia has substantial opportunities in the development of Islamic MSMEs, given its position as the world's largest Muslim-majority country and the dominance of MSMEs, which account for 99.9% of all business actors (Jannah et al., 2024). Despite this, the contribution of Islamic MSMEs to the global economy remains relatively small. Central Java Province has the highest number of halal MSMEs, but their global competitiveness remains low due to limited innovation, digitalization, and halal certification. This situation highlights the urgent need for adaptive strategies to meet global market demands (Susilawati, 2024).

Several strategies have been identified in previous studies, including expanding access to financing, strengthening human resources, obtaining halal certification, utilizing modern technology, product innovation, and digital transformation. Without innovation and digitalization, Islamic MSMEs will struggle to upgrade and compete globally. In Magelang, empowerment strategies have already been initiated by Islamic microfinance institutions such as KSPPS Makmur Gemilang Sejahtera, which provide financing through savings mobilization, zakat management, community education, and the use of digital platforms (Nurhidayah & Musfiroh, 2023). Although such initiatives have increased community participation in accessing Islamic financing, challenges remain, particularly regarding the complexity of financing procedures.

This study aims to identify the key characteristics, challenges, and support needs of Sharia-oriented MSMEs in Magelang Raya, focusing on their compliance with Islamic principles, access to Islamic financing, and the structural barriers they encounter. The research also seeks to understand how these factors interact within the broader entrepreneurial ecosystem to provide evidence-based insights that can guide strategies for strengthening the development of Sharia MSMEs. The results of this study are expected to benefit entrepreneurs, financial institutions, policymakers, and educational institutions in building an inclusive and sustainable Islamic MSME ecosystem

LITERATURE REVIEW

Maqashid al-Shariah Concept

The concept of *maqashid al-shariah* (the objectives of Islamic law) underscores that every provision of the sharia is designed to secure human well-being, encompassing both worldly and spiritual dimensions. Classical Islamic legal theory presents this framework as a foundation for understanding that sharia seeks to protect essential human interests and promote a balanced, prosperous life (Ma'mun, 2020; Alfaatih et al., 2024).

Maqashid al-shariah is broadly divided into two main categories: *qasd al-shar'i* (the intent of the Lawgiver) and *qasd al-mukallaf* (the intent of human actors). The intent of the Lawgiver encompasses four key dimensions. First, *Qashdu al-Shar'i fi Waq'i al-Shari'ah* explains that sharia seeks to safeguard fundamental aspects of human life through three levels of benefit: *al-dharuriyyat* (essentials), which ensure the protection of religion, life, intellect, lineage, and wealth; *al-hajjiyyat* (complementary needs), which ease difficulties; and *al-tahsiniyyat* (embellishments), which refine and elevate human welfare. Second, *Qashdu al-Shari'fi Waq'i al-Shari'ah li al-Ifham* highlights that Islamic law is communicated in a manner accessible to human understanding. Third, *Qashdu al-Shari' fi Waq'i al-Shari'ah li al-Taklif bi Muqtadha-ha* affirms that legal obligations are designed within human capacity and allow concessions in times of hardship. Fourth, *Qashdu al-Shar'i fi Dukhul al-Mukallaf Tahta Ahkam al-Shari'ah* stresses the necessity for individuals to operate under divine guidance to prevent moral deviation.

In contrast, *qasd al-mukallaf* focuses on the intentions and motivations of human actors, requiring that their actions align with the objectives established by the Lawgiver. This is reflected in three principles: actions are judged by their intentions, human purposes must conform to the divine aims of sharia, and any action that lacks a legitimate sharia-based objective is considered invalid (Aziz & Sholikah, 2013). Taken together, these two

dimensions demonstrate that *maqashid al-shariah* offers a comprehensive framework for understanding Islamic law, integrating essential, complementary, and perfectionary objectives to support a balanced and prosperous human life.

Resource-Based View in Islamic MSME

The Resource-Based View (RBV) serves as a foundational theory in strategic management, emphasizing that a firm's competitive advantage originates from its unique resources and internal capabilities rather than solely from its market position (Furr & Eisenhardt, 2021; Zahra, 2021). These resources encompass both tangible assets, such as equipment and financial capital, and intangible assets, including knowledge, reputation, and organizational culture. To generate a sustainable competitive advantage, such resources must fulfill the VRIN criteria: Valuable, Rare, Inimitable, and Non-substitutable. Although RBV was initially developed within the context of stable market environments, subsequent studies have demonstrated its adaptability to more dynamic and uncertain conditions. For instance, Chatterjee et al. (2025) found that cross-functional capabilities significantly enhance organizational resilience during post-COVID-19 turbulence. The RBV framework has also been increasingly applied to Micro, Small, and Medium Enterprises (MSMEs), emphasizing the importance of leveraging internal competencies, such as skilled labor, managerial capacity, and innovation, to strengthen competitiveness and expand market presence (Beamish & Chakravarty, 2021). In this regard, Wediawati (2025) provides empirical evidence that entrepreneurial, financial, and digital literacy positively influence MSME performance, reinforcing the RBV's proposition that the enhancement of internal resources and capabilities constitutes a crucial determinant of sustainable competitive advantage for Islamic MSMEs.

Entrepreneurial Ecosystem

Financial literacy serves as one of the key pillars in building a resilient entrepreneurial ecosystem. According to Munauwaroh (2025), the level of Islamic financial literacy and inclusion plays a significant role in improving the welfare of MSME actors and ensuring the sustainability of their businesses. This finding reinforces the argument that financial capability constitutes an integral component in strengthening the Islamic MSME ecosystem at the regional level. In line with this, the entrepreneurial ecosystem framework views entrepreneurship as being embedded within a broader and holistic environment that encompasses cultural, social, institutional, and material dimensions (Wahyuningsih et al., 2024). Within this framework, critical elements such as a supportive entrepreneurial culture, enabling policies, human capital, access to finance, mentorship, business networks, and technological support collectively contribute to the growth and competitiveness of MSMEs (Ratten, 2020; Megawati et al., 2024).

Mawardi (2020) explains that an entrepreneurial ecosystem comprises three interrelated pillars such as the cultural dimension, which reflects societal mindsets and values toward entrepreneurship; the social dimension, which encompasses networks and community-based resources; and the material dimension, which includes physical infrastructure, regulatory support, and market access. Building on this perspective, Roundy (2020) highlights the importance of cognitive dynamics, such as diversity, coherence, and connectivity, that strengthen knowledge exchange and foster entrepreneurial learning within the ecosystem.

Recent studies also suggest that ecosystems function as inter-organizational talent management systems, enabling collaborative acquisition, development, and retention of human capital (Roundy & Burke-Smalley, 2022). This perspective highlights that ecosystems not only provide external support but also generate collective capacities crucial for innovation and sustainable growth.

RESEARCH METHODS

This study adopts a mixed-method research design that integrates quantitative and qualitative approaches to develop a comprehensive understanding of the dynamics of

sharia-oriented MSMEs in the Magelang Raya, encompassing both Magelang City and Regency (Nair & Prem, 2020; Saraswati & Devi, 2023). By combining statistical patterns with rich contextual narratives, this approach bridges the epistemological gaps between positivist, interpretivist, and constructivist paradigms, enabling the exploration of diverse perspectives and the resolution of complex or potentially contradictory research questions (Oranga et al., 2025). The integration of both methods facilitates data triangulation, allowing qualitative insights to contextualize and enrich quantitative findings, thereby generating more holistic, evidence-based, and actionable recommendations for strengthening the Islamic MSME ecosystem.

The quantitative component involved structured survey questionnaires administered to 214 purposively selected MSME actors. The survey instrument was designed to collect measurable data on key dimensions, including MSME profiles, sharia compliance, access to Islamic financing, structural challenges, support needs, and institutional expectations. These data enabled the mapping of general conditions, the identification of prevalent patterns, and the statistical examination of relationships among variables. Complementing the survey, the qualitative strand employed Focus Group Discussions (FGDs) with diverse stakeholders, including sharia-oriented MSME entrepreneurs from various sectors, leaders of Islamic microfinance institutions (BMTs), zakat managers, academics specializing in Islamic economics, and representatives from local government. The FGDs captured in-depth perspectives on social context, local wisdom, institutional roles, and unmet needs that surveys alone could not adequately address.

The study population consisted of all sharia-oriented MSMEs operating in Magelang Raya. Purposive sampling was applied based on specific inclusion criteria to ensure relevance and depth of insight: participants had to be micro or small-scale enterprises, operational for at least two years, committed to sharia principles in their business practices, and preferably had prior experience interacting with Islamic financial institutions such as BMTs, Islamic banks, or zakat organizations (Andrade, 2021). The study variables were categorized into independent, dependent, and moderating dimensions (Morin et al., 2021; Raghuvanshi & Srivastav, 2024). Independent variables encompassed Profile and Sharia Compliance, Access to Islamic Financing, Problems and Barriers, Needs and Support, and Expectations and Suggestions. Each construct was operationally defined to support accurate measurement. For instance, Profile and Sharia Compliance covered demographic and operational characteristics alongside adherence to sharia principles, while Access to Islamic Financing assessed experiences with financial institutions, product suitability, and perceived procedural barriers.

Data analysis combined descriptive statistics, crosstabulation, and Exploratory Factor Analysis (EFA) for the quantitative data, alongside thematic analysis of FGD transcripts for the qualitative component. Descriptive statistics summarized MSME characteristics, financing access, challenges, and support needs; crosstabulation examined relationships between categorical variables; and EFA identified underlying latent factors. Thematic analysis of qualitative data highlighted recurring patterns, stakeholder perspectives, and contextual nuances, thereby enabling the construction of conceptual models that complement and deepen the quantitative results. Together, these analytical techniques provided a robust, multi-layered understanding of the structural and contextual factors shaping sharia MSMEs, ultimately informing practical and policy-oriented strategies for their sustainable development (Kiger & Varpio, 2020).

RESULTS

Descriptive statistical analysis was conducted as an initial step to organize the data and provide information on the characteristics and classifications of sharia-oriented MSMEs in Magelang Raya, with the aim of identifying historical trends and patterns (Geetha & Sujatha, 2024). Data were obtained from a survey of MSME actors in Magelang City and Magelang Regency using Likert-scale and short-answer questionnaires. The descriptive results are summarized in Table 1.

The findings indicate that the majority of respondents operate in the culinary sector (82%), followed by agriculture (4%) and retail (4%). This dominance highlights the culinary sector as the most accessible business field with high consumer demand and relatively low entry barriers. On average, the surveyed MSMEs have been operating for 8.77 years (approximately 8 years and 9 months), suggesting that most enterprises have survived beyond the early survival stage and are in a stabilization phase. According to Sakdiah and Ningsih (2023), sustainability in MSMEs is influenced by factors such as capital management, digital sales utilization, product quality maintenance, and training. These results imply that MSMEs in Magelang Raya have demonstrated resilience and adaptability in sustaining their businesses.

In terms of workforce, the analysis shows that the average number of employees (excluding the owner) is zero, indicating that most businesses are managed individually or with minimal additional labor. This suggests that sharia MSMEs in the region predominantly operate on a micro scale, facing limitations in production capacity and expansion potential due to restricted human resources.

Table 1. Descriptive Statistics of Research Variables

Variable	Mean	Median	Std. Dev.	Interpretation
Sharia Compliance	19.86	20	3.32	High and relatively consistent across respondents
Access to Financing	8.63	9	3.80	Limited access with varying experiences
Problems	15.22	15	4.26	Significant challenges with diverse types across MSMEs
Needs	21.11	21	3.63	Strong demand for training, mentoring, market access, and financing support

Further insights can be drawn from the measurement of research variables. The Sharia Compliance variable records an average of 19.86, a median of 20, and a standard deviation of 3.32, reflecting a high and relatively consistent adherence to sharia principles across respondents. This implies that most MSME actors emphasize halal products, honest transactions, and avoidance of usury (*riba*). In contrast, the Access to Financing variable has a lower average of 8.63 with a standard deviation of 3.80, revealing that financing access remains limited. The variation indicates that while some MSMEs have successfully accessed Islamic financial services, others continue to face difficulties, especially in securing sharia-based financing.

The Problems variable scores an average of 15.22 with a standard deviation of 4.26, suggesting significant challenges faced by MSMEs. These challenges include limited capital, difficulties in marketing, and a shortage of skilled labor. The relatively high variation highlights that the types and intensity of problems differ across enterprises. Meanwhile, the Needs variable shows the highest score with an average of 21.11 and a standard deviation of 3.63, reflecting strong demands for support in training, business mentoring, market access, and Islamic financing facilities. This finding underlines the urgent need for targeted interventions to strengthen the competitiveness of sharia MSMEs.

The crosstab analysis in Table 2 indicates that business type does not significantly influence Sharia compliance among MSMEs in Magelang Raya. Indicators such as avoiding usury (*riba*), ensuring halal products, practicing honesty and fairness, understanding Sharia economic principles, and participating in Sharia-based training all yielded non-significant results ($p > 0.05$). This suggests that adherence to Sharia principles is more closely linked to individual values and personal awareness rather than the sector of business, meaning culinary, agricultural, and retail MSMEs demonstrate relatively uniform commitment to Islamic guidelines.

Table 2. Summary of Crosstab Analysis Findings

Category & Indicator	Significant Relationship	Direction	Interpretation
Business Type	–	–	No significant effect on sharia compliance, financing access, problems, or support needs.
Business Age → Access to Islamic Financing	Yes ($p < 0.05$)	Positive	Older MSMEs have better financing access, despite perceiving the process as complex; also more likely to receive mentoring and relevant financing products.
Business Age → Regulatory Barriers	Yes ($p < 0.05$)	Positive	Older MSMEs experience stronger impacts from government regulations and compliance requirements.
Business Age → Expectations toward Government Support	Yes ($p < 0.05$)	Positive	Older MSMEs express stronger demands for active government facilitation.
Number of Employees → Sharia Training Participation	Yes ($p < 0.05$)	Negative	MSMEs with more employees are less likely to attend sharia-related training.
Number of Employees → Access to Financing	Yes ($p < 0.05$)	Negative	MSMEs with more employees face greater difficulties in obtaining Islamic financing, mentoring, and relevant products.
Number of Employees → HR & Regulatory Problems	Yes ($p < 0.05$)	Negative	Larger MSMEs are less likely to face HR shortages and regulatory barriers due to better resources.
Number of Employees → Needs & Support	Yes ($p < 0.05$)	Negative	Smaller MSMEs (few employees) express higher needs for training, marketing, mentoring, and government support.

Similarly, no significant relationships were observed between business type and access to Islamic financing. Indicators such as obtaining financing, complexity of the application process, mentoring from institutions, and relevance of financial products all showed p -values above 0.05. This implies that barriers to financing are largely shaped by institutional policies rather than sector-specific characteristics. Additionally, business type was not significantly related to structural problems faced by MSMEs, including capital shortages, marketing challenges, human resource limitations, regulatory issues, and access to information, indicating these issues are common across all sectors. The need for support, such as training, marketing assistance, mentoring, and government facilitation, was also evenly distributed, suggesting policy interventions should target inclusive support rather than sector-specific solutions.

When examining business age, no significant correlation was found with Sharia compliance ($p > 0.05$), highlighting that adherence to Islamic principles is driven by personal commitment rather than the length of operation. In contrast, older MSMEs had significantly better access to Islamic financing ($p < 0.05$), benefiting from enhanced credibility and trust from financial institutions, which facilitated access to mentoring and financing products despite the perceived complexity of procedures.

Regarding structural problems, most indicators did not correlate significantly with business age, except for regulatory barriers ($p < 0.05$), where older MSMEs experienced more frequent interactions with formal systems, taxes, and government regulations. Similarly, older businesses expressed stronger expectations for government facilitation, reflecting their demand for institutional support to sustain growth and compliance.

Finally, firm size, measured by the number of employees, revealed nuanced patterns. Larger MSMEs tended to participate less in Sharia training and faced more challenges accessing financing ($p < 0.05$), yet they were less affected by human resource and regulatory issues due to stronger internal capacity. Conversely, micro-scale MSMEs with fewer employees expressed greater needs for training, mentoring, marketing support, and

government facilitation, highlighting their vulnerability and the importance of targeted capacity-building interventions for smaller enterprises.

Table 3. Summary of Exploratory Factor Analysis (EFA)

Factor	Dimension	Indicators	Interpretation
Factor 1: Needs and Support	Institutional & Capacity Building	Desire for regular mentoring from government/institutions- Need for product marketing support (online & offline) Need for Sharia entrepreneurship training- Expectation of active facilitation from local government- Willingness to join or form Sharia MSME communities	Highlights the strong demand for external support, mentoring, and institutional facilitation to strengthen MSMEs.
Factor 2: Access to Islamic Financing	Financial Inclusion	Financing products aligned with business needs- Mentoring from Islamic financial institutions- Experience in applying for financing- Perception of complexity in financing applications	Demonstrates that financial access remains a critical determinant of MSME development, shaped by product relevance and institutional support.
Factor 3: Problems and Barriers	Structural Challenges	Limited access to business information- Lack of competent human resources Difficulty in obtaining capital- Marketing challenges- Regulatory burdens	Reveals persistent structural obstacles that hinder MSME growth and competitiveness.
Factor 4: Profile & Sharia Compliance (I)	Business Practices	Ensuring freedom from usury (<i>riba</i>) Clear halal assurance for products Implementation of Islamic principles in business management	Emphasizes Sharia adherence as a key identity marker and competitive strength of Sharia MSMEs.
Factor 5: Profile & Sharia Compliance (II)	Knowledge & Training	Understanding of basic Islamic economic principles- Participation in Sharia business training	Indicates the need for continuous education and training to enhance both spiritual and managerial aspects.

According to Table 3, the first factor, needs and support, comprises five indicators, including the demand for regular mentoring from government or related institutions, marketing assistance both online and offline, Sharia entrepreneurship training, greater facilitation from local government, and participation in Sharia MSME communities. This factor highlights the crucial role of institutional support and capacity-building programs in ensuring the sustainability and growth of Sharia MSMEs. The second factor, access to Islamic financing, is captured by indicators such as the alignment of financing products with business needs, mentoring from Islamic financial institutions, experiences in applying for financing, and perceptions of procedural complexity. This factor underscores the importance of financial institutions in providing accessible and relevant financing options for Sharia-oriented enterprises.

The third factor, problems and barriers, reflects structural challenges faced by Sharia MSMEs, including limited access to information, lack of skilled human resources, difficulties in obtaining capital, marketing challenges, and regulatory constraints. This indicates that overcoming these barriers requires both internal capacity-building and external support. The fourth factor, profile and sharia compliance (Dimension 1), consists of indicators related to avoiding *riba* (usury), ensuring halal product assurance, and implementing Islamic principles in business management. This factor emphasizes that Sharia compliance forms the identity and competitive edge of Sharia MSMEs relative to conventional businesses.

The fifth factor, profile and sharia compliance (Dimension 2), includes understanding basic Islamic economic principles and participation in Sharia business training, highlighting the importance of continuous education to strengthen both spiritual and

managerial capabilities. The EFA results suggest that the sustainability and performance of Sharia MSMEs in Magelang Raya are influenced by five interrelated dimensions: institutional support, access to financing, structural barriers, and Sharia-based compliance and education. Therefore, strategies to enhance Sharia MSMEs should adopt an integrated approach, addressing institutional, financial, regulatory, and educational interventions simultaneously.

DISCUSSION

Sharia MSMEs in Magelang Raya are predominantly engaged in the culinary sector (82%), with an average business age of 8.77 years. This finding demonstrates relatively strong business sustainability, considering that many MSMEs typically fail within the first 3–5 years. However, most Sharia MSMEs in the region remain micro in scale, as reflected in the average number of employees (excluding the owner), which is zero. This means that the businesses are largely self-managed, with minimal or no additional workforce.

The data further show high levels of Sharia compliance, limited access to financing, diverse business challenges, and strong needs for capacity strengthening. In the perspective of *Maqashid al-Shariah*, this suggests that MSME actors consciously preserve the values of *hifz al-din* (protection of religion) and *hifz al-mal* (protection of wealth) by avoiding non-halal practices such as *riba*, *gharar*, and fraud. Nonetheless, the lack of Islamic financing access remains a barrier to realizing broader economic benefits and wealth distribution (Thaidi et al., 2023). Therefore, strengthening Sharia MSMEs in Magelang requires strategies focused on enhancing Islamic financial literacy, expanding access to halal financing, and improving halal product marketing facilitation (Tubastuvi & Rusydiana, 2024).

From the Resource-Based View (RBV), the relatively long business age of Sharia MSMEs indicates accumulated experience and market knowledge that can serve as intangible competitive resources, even though many still operate with limited labor and financial access. This highlights the need to strengthen internal capabilities such as creativity in halal products, social capital, and Sharia-based reputation to build sustainable competitiveness (Azwar & Sarip, 2024). At the same time, the Entrepreneurial Ecosystem Theory underscores the influence of external conditions, such as regulation, financing, infrastructure, networks, and institutional support, which in Magelang remain underdeveloped, as seen in the limited access to Islamic financing and high demand for capacity-building programs. These findings suggest that government institutions, Islamic financial providers, halal communities, and educational actors must enhance their role through initiatives such as halal digital marketing training, Islamic business incubators, and accessible Sharia microfinancing schemes (Hakim et al., 2025; Qizam et al., 2025).

The crosstab results show that Sharia compliance does not differ across business types or business age, indicating that adherence to Islamic principles is shaped primarily by individual values rather than sector-specific dynamics or firm longevity. At the same time, older businesses report greater access to Islamic financing, stronger perceptions of regulatory burdens, and higher expectations for government support, reflecting deeper institutional interactions as firms mature (Guzzo et al., 2022). These patterns align with *Maqashid al-Shariah*, particularly the preservation of religion and wealth, which guide consistent compliance across sectors while highlighting the growing importance of financial and regulatory engagement over time. When viewed through a combined RBV and entrepreneurial ecosystem lens, the findings underscore that internal resources alone are not sufficient; the shared challenges across sectors, such as limited financing, inadequate mentoring, and weak institutional support point to the need for simultaneous strengthening of MSMEs' internal capabilities and systematic improvements in the surrounding ecosystem.

The Exploratory Factor Analysis (EFA) identified five interrelated latent factors influencing the development of Islamic MSMEs: needs and support, access to Islamic financing, problems and barriers, and two dimensions of profile and Sharia compliance. Together, these factors explain 68.52% of the total variance, indicating that the dynamics

of Islamic MSMEs are shaped by a network of interdependent components rather than isolated issues. From the Resource-Based View (RBV) perspective, these factors reflect the tangible and intangible resources that determine MSME sustainability and competitiveness. Access to Islamic financing and institutional support, for instance, represent strategic resources that help MSMEs overcome structural constraints (Saifurrahman & Kassim, 2024). Viewed through the lens of the Entrepreneurial Ecosystem Theory, the findings highlight both systemic weaknesses, such as a shortage of skilled human resources and regulatory complexity and potential opportunities, including training, mentoring, and financial facilitation, that can foster the growth of MSMEs. Within the framework of *Maqashid al-Shariah*, these five factors collectively contribute to achieving *maslahah* (societal well-being) by protecting wealth through business growth, safeguarding life through improved welfare, and nurturing intellect through enhanced knowledge and compliance. In line with this, Satria et al. (2021) emphasize the importance of digital education and socialization for MSME actors in the era of Industry 4.0. Digitalization thus becomes a key element in building cross-institutional collaboration and enhancing the efficiency of halal product marketing, an essential component in strengthening the Islamic MSME ecosystem in Magelang Raya.

These findings suggest that strengthening Islamic MSMEs in Magelang Raya requires a coordinated approach that builds internal capabilities while improving the external ecosystem. Internally, MSMEs need to enhance financial management, digital literacy, and Sharia compliance, with sound financial reporting, such as adherence to Financial Accounting Standards for Micro, Small, and Medium Enterprises (*Standar Akuntansi Keuangan Entitas Mikro, Kecil, dan Menengah*/SAK EMKM), supporting accountability and better decision-making, as noted by Anggraeni et al. (2021). This aligns with the Resource-Based View, which highlights financial literacy and managerial competence as key strategic resources for long-term competitiveness. Externally, stronger collaboration among Islamic financial institutions, government bodies, educational institutions, and community organizations is essential to expand access to Islamic financing, strengthen entrepreneurial capacity, and broaden digital market opportunities for halal products (Mohieldin et al., 2015). When these efforts are aligned with *Maqashid al-Shariah* and RBV principles, Islamic MSMEs are better positioned to achieve sustainable growth, enhance economic resilience, and contribute meaningfully to wider social welfare.

CONCLUSION

This study contributes to the growing discourse on Islamic MSME development by integrating the RBV, Entrepreneurial Ecosystem Theory, and *Maqashid al-Shariah* framework into a cohesive analytical model. The findings highlight that the sustainability and competitiveness of Islamic MSMEs are shaped by both internal resources, such as financial literacy, managerial capability, and digital competence, and external ecosystem factors, including access to Islamic financing, institutional collaboration, and policy support. Theoretically, this research enriches the understanding of how Islamic MSMEs leverage tangible and intangible resources within a value-driven ecosystem that aligns with *Shariah* principles.

From a policy perspective, the results underscore the need for a multi-stakeholder approach in strengthening Islamic MSMEs. Government agencies, Islamic financial institutions, and educational entities should collaborate to expand access to Islamic financing, enhance entrepreneurial training, and foster digital transformation. Locally, the findings suggest that a collaborative model can serve as a blueprint for inclusive and sustainable Islamic MSME ecosystems in other regions. Future research should extend this analysis through longitudinal studies and cross-regional comparisons to capture the dynamic evolution of Islamic MSME ecosystems. Incorporating digital ecosystem metrics and social impact assessments will also deepen understanding of how collaboration, innovation, and ethical values jointly drive sustainable growth within the Islamic economic framework.

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