

# Entrepreneurial Competence and MSME Performance: Islamic Business Ethics as Intervening Variable

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## ABSTRACT

This study aims to examine the influence of entrepreneurial competence on the performance of MSME actors, and to analyze the role of Islamic business ethics as an intervening variable in the relationship. The focus of this study is directed at MSME actors in Jember Regency, considering the high number of micro-enterprises that are the mainstay of the regional economy. This study uses a quantitative approach with a multivariate analysis method based on Partial Least Square Structural Equation Modeling (PLS-SEM), with the help of SmartPLS software version 3.0. The sample used was 100 MSME actors, selected using purposive sampling techniques based on certain criteria. The results of the analysis show that entrepreneurial competence has a significant direct influence on the performance of MSME actors. In addition, entrepreneurial competence has also been proven to directly influence the application of Islamic business ethics in business activities. Other findings show that Islamic business ethics directly influence the performance of MSME actors in Jember Regency. Furthermore, Islamic business ethics also acts as a significant intervening variable, which strengthens the relationship between entrepreneurial competence and MSME performance. This means that the higher the entrepreneurial competence possessed by business actors, if accompanied by the implementation of good Islamic business ethics, it will have a more optimal impact on improving business performance. This study provides theoretical contributions to the development of an entrepreneurial model based on Islamic ethical values, and offers practical implications for MSME actors and policy makers in designing business capacity development programs that not only emphasize technical competence aspects, but also moral and spiritual integrity.

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## 1. Introduction

UMKM (Micro, Small, and Medium Enterprises) is one of the sectors that has an important and strategic role in driving national economic growth. Based on Law Number 20 of 2008 [1]. MSMEs are productive economic activities carried out by individuals or business entities that meet certain criteria in terms of net worth or annual sales results. MSMEs are known to have flexible, adaptive characteristics, and are based on local potential, so they are able to absorb large numbers of workers and strengthen the economic structure of society from below.

The contribution of MSMEs to the national Gross Domestic Product (GDP) and employment

absorption is very significant, and has even been proven to survive in the midst of the economic crisis and pandemic [2]. This resilience shows that MSMEs are not only the drivers of the micro economy, but also the backbone of maintaining macroeconomic stability. Therefore, strengthening MSME performance is a major concern in various economic development programs, both at the national and regional levels.

MSME performance is a reflection of the extent to which business actors are able to achieve their business goals, such as increasing turnover, customer growth, operational efficiency, and profitability. According to [3] Business performance describes the level of achievement of results from business activities within a certain period of time. In this study, business performance is measured comprehensively by considering both financial and non-financial aspects. Good performance will ensure the sustainability of the business in the long term. One of the main factors that influences the performance of MSMEs is entrepreneurial competence.

According to [4] Entrepreneurial competence is the ability of business actors to identify opportunities, manage risks, design strategies, and build sustainable business relationships. This competence includes aspects of knowledge, skills, and attitudes needed to develop a business innovatively and responsively to market changes. Entrepreneurial competence is an important basis for MSME actors in carrying out business activities innovatively and adaptively to changing market dynamics. This is supported by research results [5], [6] that entrepreneurial competence affects the performance of MSME actors. Business actors are required to have sensitivity in reading trends, strategic thinking skills, and courage in making risky but measured decisions. In the context of globalization and the current digital era, this competence is becoming increasingly crucial because business actors must be able to compete not only locally, but also in the context of broader competition.

However, in the context of Indonesian society, which is predominantly Muslim, it is not enough to rely only on technical and managerial competencies. It is also necessary to strengthen Islamic business ethics as a moral foundation in carrying out business activities. Islamic business ethics include basic principles such as honesty (shidq), amanah (trustworthy), fairness in transactions, avoiding gharar practices (uncertainty), not hoarding, and upholding the principle of mutual benefit between sellers and buyers.[7]. These values not only provide direction in business decision making, but also build customer trust and business blessings. This is supported by research results [8] And [9] that Islamic business ethics influence the performance of MSMEs.

In this study, Islamic business ethics is positioned as an intervening variable that bridges the influence between entrepreneurial competence (independent variable) on the performance of MSME actors (dependent variable). This means that even though a business actor has high competence, the application of values in Islamic business ethics is believed to be able to strengthen the influence of this competence on improving overall business performance. Values such as honesty, trustworthiness, justice, and the principle of mutual benefit are not only moral guidelines, but are also able to create trust, customer loyalty, and a positive business reputation in the eyes of the community.

Jember Regency is one of the areas in the eastern region of East Java Province that has significant economic potential, especially in the micro, small, and medium enterprises (MSMEs) sector. This sector plays an important role in supporting the local economy through job creation

and developing community business potential. This study specifically focuses on MSME actors in Jember Regency, with reference to the MSME development data shown in Figure 1 for 2024.

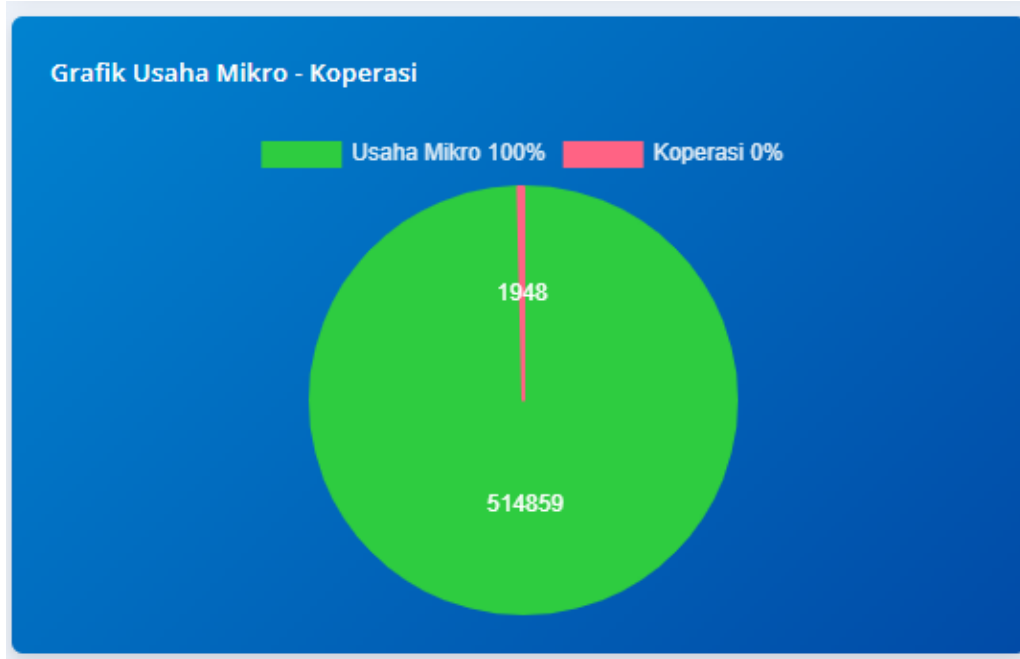


Figure 1. Micro Business Graph in Jember Regency in 2024

Source: [10]

Based on the Micro-Business – Cooperatives Graph in Jember Regency, it can be seen that the number of micro-businesses dominates absolutely with a total of 514,859 units, while the number of cooperatives is only 1,948 units, or almost invisible proportionally. This data shows that micro-businesses are the dominant economic force in Jember Regency, as well as being the main actors in the movement of the local economy. This dominance shows the great potential of MSMEs in driving regional economic growth, while also illustrating the urgency to pay more serious attention to factors that can improve the performance of these micro-businesses.

However, in reality, many MSMEs in Jember Regency still face various fundamental obstacles in running their businesses. Some of them are lack of innovation, weak business management, and the suboptimal application of ethical values, including Islamic business ethics, in daily business practices. This condition causes some MSMEs to have difficulty developing sustainably, and even unable to compete optimally amidst increasingly complex market competition.

By considering the context, this research is important to do. The focus of the research is directed at analyzing the influence of entrepreneurial competence on the performance of MSME actors, with Islamic business ethics as an intervening variable. Entrepreneurial competence is considered a crucial internal factor in improving the ability of business actors to face market challenges. On the other hand, the integration of Islamic business ethics is believed to be able to strengthen this influence by encouraging business actors to run their businesses honestly, honestly, fairly, and responsibly, thus creating business sustainability that is not only economically profitable, but also blessed and socially accepted.

## 2. Literature Review

### 2.1 Competence

Competence is an ability possessed by a person which includes knowledge, skills and attitudes so that they are able to carry out the work being done. According to [11] that competence Competence is a fundamental characteristic possessed by an individual that influences his/her thought patterns and behavior, enables the individual to respond to various situations consistently, and remains with him/her for a long period of time. [12] explains that competence is the ability possessed by a person that enables him/her to meet the demands of work in an organization, so that the organization can achieve the goals that have been set. Competence is able to influence the level of achievement of a person's work. Competence is able to help a person in carrying out their duties and responsibilities professionally to improve the standards expected by the organization, while entrepreneurial competence reflects the capacity to observe the environment in order to identify potential opportunities and design appropriate strategies, while managerial competence requires mastery of conceptual, interpersonal, and technical skills [4]. Thus, entrepreneurial competence can be interpreted as the ability possessed by MSME owners, which includes knowledge, skills, and attitudes in identifying business opportunities, managing business risks, and innovating in developing their businesses.

### 2.2 Islamic Business Ethics

According to [13] says that the word ethics comes from the Greek word ethos which means habit. In Webster's dictionary (dalam Kasim et al., 2022) ethics is a distinctive character, sentiment, moral character, or belief that guides a person, group or institution. According to [7] that Islamic business ethics is practicing integrity and responsibility, maintaining fairness in measurement or weighing, avoiding uncertainty (gharar), not hoarding commodities, not engaging in fraud or manipulation of information (al-ghab and tadlis), and ensuring the principle of mutual benefit in transactions between sellers and buyers. While the opinion of [14] Business ethics is a collection of ethical values that serve as guidelines for distinguishing between right and wrong behavior, good and bad, halal and haram, as well as general principles that provide a basis for individuals to apply them in various aspects of business activities. Business ethics in the perspective of Islamic law is a reflection of morals in carrying out business activities based on the values of Islamic teachings. By adhering to these principles, business actors do not need to worry, because every action is believed to be in accordance with goodness and truth according to Islamic teachings [15]. So it can be concluded that Islamic business ethics is a collection of values and norms applied by business actors in running their business so that mutually beneficial transactions occur between sellers and buyers.

### 2.3 Performance of MSME Actors

According to [16] that business performance refers to the level of success of a company in carrying out operational activities and managing its resources over a certain period of time. MSME performance can be interpreted as business achievements shown through the number of customers,

sales volume, and profit growth, when compared with competitors in the market [17]. Sutiyo's opinion (dalam Sukriani, 2022) performance can be interpreted as the result of a work activity that is closely related to strategic goals, customer satisfaction, and contribution to the economy. Therefore, individuals are motivated to carry out their duties optimally in order to achieve the expected results of the work. Meanwhile, according to [18] MSME performance describes the extent to which the business has succeeded in achieving previously determined targets. So it can be concluded that the performance of MSME actors is the result of achievements that have been obtained both in operational activities and managing resources according to the targets that have been set.

### **3. Methodology**

#### *3.1 Data Collection*

The data in this study were obtained through two types of sources, namely primary data and secondary data. Primary data were collected through distributing questionnaires and direct observation to respondents. Meanwhile, secondary data were obtained from various reports and journals that were relevant and supported this research study. The population in this study were MSME actors in Jember Regency. The sampling technique used was purposive sampling, with a sample size of 100 MSME actors. The sample selection criteria include: MSME owners are Muslim, have a minimum income of IDR 1,000,000, and have been running their business for at least one year.

The determination of the number of samples is based on Roscoe's opinion (in Sugiyono, 2009) which states that a good sample size for most studies ranges from 30 to 500 respondents. If the sample is divided into sub-samples, then the minimum recommended number is 30 for each group. In addition, in multivariate research, the number of samples should be several times (ideally 10 times) greater than the number of variables studied. Based on these considerations, the number of samples of 101 MSMEs is considered to have met the requirements and is sufficiently representative to test the relationship and influence between variables in this study.

#### *3.2 Analysis Techniques*

This study uses a multivariate analysis approach, a statistical method that allows analysis of more than two variables simultaneously. This approach is used to explore more deeply the relationships and interactions between the variables studied, while providing a predictive picture or classification based on the available data.

Since this study involves intervening variables, the analysis model applied is a causality model with an explanatory quantitative approach. The aim is to test the direct and indirect effects between variables, as well as to understand the pattern of causal relationships empirically. In data processing, this study uses the help of SmartPLS software version 3.0, which supports the analysis of structural relationship models (Structural Equation Modeling-SEM) based on Partial Least Square, so it is very appropriate for use in research with complex variable structures and limited

sample sizes.

### 3.3 Validation

To ensure the reliability and validity of the data in this study, the Partial Least Square (PLS) analysis approach is used, which consists of two main components, namely the inner model (structural model) and the outer model (measurement model). The inner model functions to test the relationship between latent constructs, while the outer model aims to assess the extent to which the indicators can represent the measured latent variables.

Evaluation of the outer model is done through three, namely: Convergent validity, Discriminant validity, and Composite reliability. Through this test, the data used in the study is considered valid and reliable to support further analysis.

## 4. Results and Discussion

### 4.1 Data Processing Results

#### a. Respondent Characteristic

Table 1. Respondent Characteristics

No	Characteristic	Category	Total	Percentage (%)
1	Gender	Man	48	48%
		Woman	52	52%
2	Income per Month	< 2,000,000	13	13%
		2,000,000 – 3,000,000	53	53%
		3,100,000 – 4,000,000	15	15%
		4,100,000 – 5,000,000	4	4%
		> 5,000,000	15	15%
3	Types of MSMEs	Trade	54	54%
		Service	16	16%
		Industry	30	30%
4	Level of education	High School/Equivalent	71	71%
		S1	27	27%
		S2	2	2%

Source: Processed Data 2025

This study involved 100 MSME actors as respondents. Based on the data obtained, most respondents were women (52%), while men were 48%. In terms of monthly income, the majority of respondents (53%) had an income between IDR 2,000,000 - IDR 3,000,000. As many as 15% had an income of more than IDR 5,000,000, another 15% were in the range of IDR 3,100,000 - IDR 4,000,000, and 13% had an income below IDR 2,000,000. Only 4% of respondents had an income between IDR 4,100,000 - IDR 5,000,000. For the type of business, the majority were engaged in trading (54%), followed by industry (30%), and services (16%). In terms of education, most respondents had a high school education/equivalent (71%), then a bachelor's degree (27%), and a master's degree (2%).

- b. Convergent validity test is conducted to ensure that each indicator used truly represents the latent variable being measured, by looking at the strength of the relationship between indicators in one construct. The following results of the outer loading test are shown in table 2.

Table 2. Outer Loading

	Entrepreneurial Competence (X)	MSME Performance (Y)	Islamic Business Ethics (Z)
X.1	0.773		
X.2	0.523		
X.3	0.687		
X.4	0.631		
X.5	0.755		
X.6	0.841		
X.7	0.760		
X.8	0.727		
Y1		0.796	
Y2		0.774	
Y3		0.799	
Y4		0.503	
Y5		0.769	
Y6		0.706	
Z.1			0.870
Z.2			0.928
Z.3			0.906
Z.4			0.879
Z.5			0.900
Z.6			0.875
Z.7			0.822
Z.8			0.855

Source: Processed Data 2025

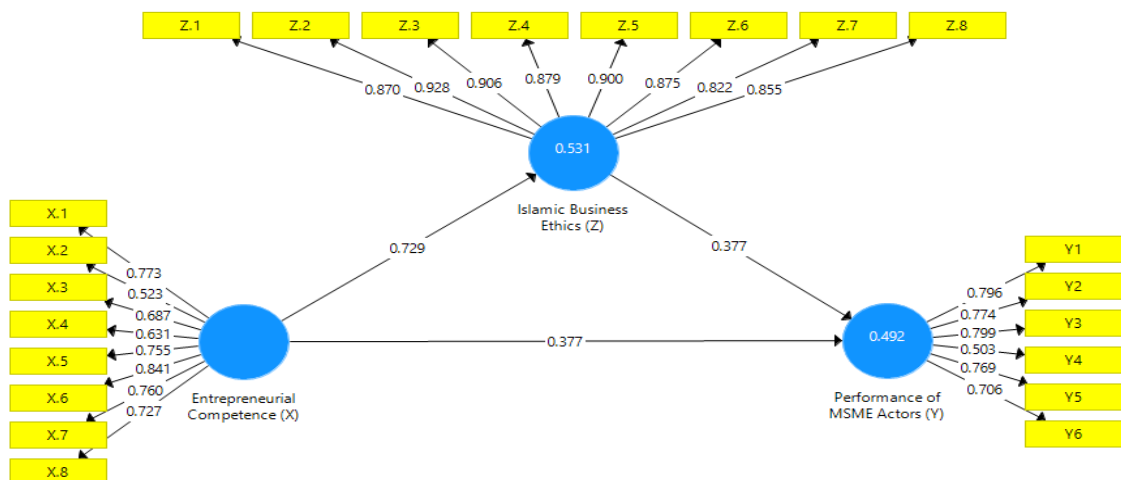


Figure 1 Outer Loading



Based on Table 2 and Figure 1, the outer loading value for each variable indicator is generally above 0.70. However, there are several indicators such as X2, X3, X4, and Y4 that have values below 0.70. These values are still acceptable because according to Chin (dalam Ghazali I & Latan H, 2015), at the instrument development stage, the outer loading value between 0.50 to 0.60 is still considered adequate. With no indicators found that have a value below 0.50, all indicators in this study are declared valid and worthy of further analysis. In addition to using the outer loading value, convergent validity testing can also be done through the Average Variance Extracted (AVE) value. If the AVE value exceeds 0.50, then the indicator is considered to meet the construct validity criteria.

Table 3. AVE values

Indicator	(AVE)
Entrepreneurial Competence (X)	0.515
Islamic Business Ethics (Z)	0.774
Performance of MSME Actors (Y)	0.536

Source: Processed Data 2025

The results of the convergent validity test based on the Average Variance Extracted (AVE) value show that all variables in this study have an AVE value above 0.50. This indicates that the indicators in each construct have been able to explain more than 50% of the variance of the construct it represents, so that it can be declared convergently valid.

- c. Composite Reliability Test is conducted to assess the extent to which the data collection instrument shows the level of consistency or stability of respondents' answers. A construct is considered to have good reliability if the composite reliability value exceeds 0.70. Likewise, if the Cronbach's Alpha value is above 0.70, then the construct is considered quite reliable in measuring the intended variable. The following composite reliability test results are shown in table 4.

Table 4. Cronbach's Alpha value

Indicator	Cronbach's Alpha	Composite reliability
Entrepreneurial Competence (X)	0.864	0.893
Islamic Business Ethics (Z)	0.958	0.965
Performance of MSME Actors (Y)	0.825	0.872

Source: Processed Data 2025

- d. Inner Model

Table 5. Inner Model

Indicator	R Square	Adjusted R Square
Islamic Business Ethics (Z)	0.531	0.526
Performance of MSME Actors (Y)	0.492	0.482

Source: Processed Data 2025



The results of the inner model test in table 5 show that the R Square value of the Islamic Business Ethics (Z) variable is 0.531, which means that 53.1% of the variability of Islamic business ethics can be explained by independent variables in the model (for example, entrepreneurial competence). While the remaining 46.9% is explained by other variables outside the model. Meanwhile, the R Square value of the Performance of MSME Actors (Y) variable is 0.492, which shows that 49.2% of the variation in the performance of MSME actors can be explained by a combination of variables in the model (for example, entrepreneurial competence and Islamic business ethics), while the other 50.8% is influenced by other external factors not included in this model.

## 4.2 Interpretation of Results

### a. Direct Influence

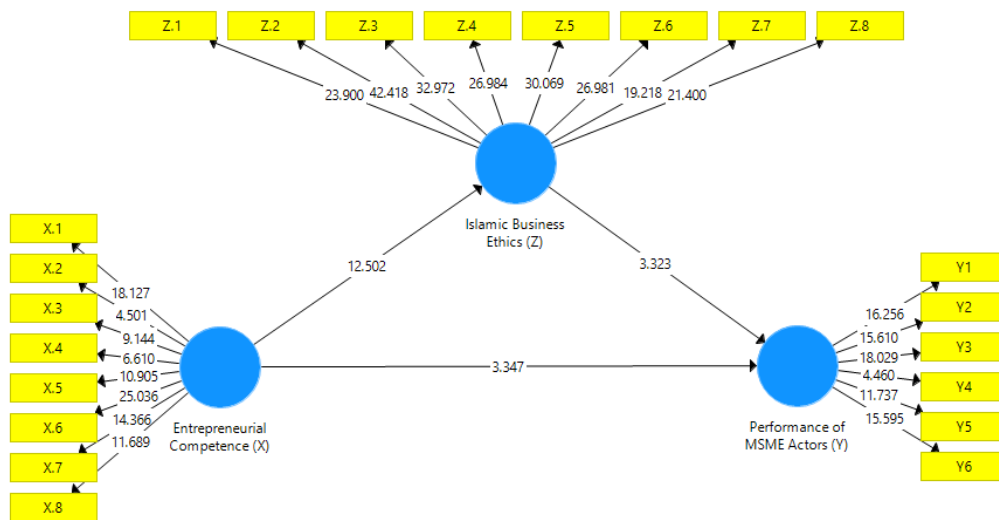


Figure 2. Inner Model

Table 6 Direct Influence

Hypothesis	T Statistics (  O/STDEV  )	P Values	Information
Entrepreneurial Competence (X) -> Performance of MSME Actors (Y)	3,347	0.001	Accepted
Entrepreneurial Competence (X) ->Islamic Business Ethics (Z)	12,502	0,000	Accepted
Islamic Business Ethics (Z)-> Performance of MSME Actors (Y)	3,323	0.001	Accepted

Source: Processed Data 2025

Based on the analysis results in Table 6, the direct influence between variables can be explained as follows:

1. The Influence of Entrepreneurial Competence on the Performance of MSME Actors

Based on the results of the hypothesis test shown in Table 6, it was obtained that the Entrepreneurial Competence variable on the Performance of MSME Actors has a T-statistic value of 3.347 (greater than 1.96) and a P-value of 0.001 (smaller than 0.05). This shows that the influence is significant, so the hypothesis can be accepted.

2. The Influence of Entrepreneurial Competence on Islamic Business Ethics

The results of the hypothesis testing listed in Table 6 show that the Entrepreneurial Competence variable has a significant effect on Islamic Business Ethics, indicated by the T-statistic value of 12.502 (greater than 1.96) and the P-value of 0.000 (smaller than 0.05). Thus, the hypothesis is declared accepted.

3. The Influence of Islamic Business Ethics on the Performance of MSME Actors

Based on the results of the hypothesis test in Table 6, the Islamic Business Ethics variable is proven to have a significant effect on the Performance of MSME Actors, with a T-statistic value of 3.323 (exceeding the critical value of 1.96) and a P-value of 0.001 (below the threshold of 0.05). Therefore, the hypothesis in this study is declared accepted.

*b. Indirect Influence*

Table 7 Indirect Influence

Hypothesis	T Statistics (  O/STDEV  )	P Values	Information
Entrepreneurial Competence (X) -> Islamic Business Ethics (Z) -> Performance of MSME Actors (Y)	3,409	0.001	Accepted

Source: Processed Data 2025

The results of the indirect influence analysis listed in Table 7 show that the Entrepreneurial Competence (X) variable has a significant effect on the Performance of MSME Actors (Y) through Islamic Business Ethics (Z), with a T-statistic value of 3.409 (greater than 1.96) and a P-value of 0.001 (smaller than 0.05). This finding indicates that Islamic Business Ethics acts as an intervening variable in the relationship between entrepreneurial competence and the performance of MSME actors.

## 5. Discussion

### 5.1 Comparison with Prior Research

The first hypothesis (H1), namely that there is an influence between Entrepreneurial Competence on the Performance of MSME Actors, is declared accepted. This shows that entrepreneurial competence has a positive and significant contribution in improving the performance of MSME actors in Jember Regency. The higher the level of entrepreneurial competence possessed by MSME actors such as the ability to analyze risks, manage business opportunities, make strategic decisions, and innovate, the greater the opportunity for them to improve operational efficiency, business competitiveness, and achieve business targets optimally. Thus, strengthening entrepreneurial competence is one of the key factors in encouraging the growth and sustainability of MSME performance in the Jember Regency area. This result is a strengthening of the local government, especially Jember Regency, MSME assistance institutions, which are more structured

and applicable in order to improve the competence of MSME actors. The results of this study are in line with the findings of previous studies. Research conducted by [5] shows that entrepreneurial competence influences the performance of MSME actors. Furthermore, [20] also found that entrepreneurial competence has a positive and significant influence on MSME performance. In addition, research conducted by [21] revealed that entrepreneurial competence also contributed to increasing the productivity of creative economy actors in Pangkalpinang City. These findings strengthen empirical evidence that entrepreneurial competence is one of the factors in driving the performance of small and medium enterprises in various sectors.

The results of the second hypothesis test (H2) show that Entrepreneurial Competence has an effect on Islamic Business Ethics, so the hypothesis is declared accepted. This finding indicates that the higher the level of entrepreneurial competence possessed by MSME actors, especially in terms of understanding ethical, social, and spiritual responsibilities in running a business, the greater their chances of implementing the principles of Islamic business ethics, such as honesty, fairness, responsibility, and not exploiting. As an implication, MSME actors in Jember Regency need to actively improve their entrepreneurial competence that is in line with Islamic values. Efforts that can be made include through sharia-based entrepreneurship training, increasing literacy on Islamic economic principles, and habituating ethical and fair business behavior in every business activity. In addition, collaboration with Islamic financial institutions, government agencies is also important to form a business ecosystem that is not only competitive, but also based on the values of blessing and social responsibility. In this way, MSMEs in Jember Regency are not only able to survive and develop economically, but also contribute to creating moral and sustainable business practices. The results of this study are in line with research from [22] that there is a positive and significant influence between competence and business ethics on business development.

The results of the third hypothesis test show that Islamic Business Ethics have an effect on the Performance of MSME Actors, so the hypothesis is declared accepted. This finding confirms that the consistent application of Islamic business ethics by MSME actors has a positive impact on improving business performance. When MSME actors are able to implement Islamic values in business practices such as honesty (shiddiq), trustworthiness (amanah), conveying information correctly (tabligh), and being wise (fathanah) - then an ethical, healthy, and sustainability-oriented business climate will be created. A business environment based on these ethical principles encourages consumer trust, operational efficiency, and a good business reputation, which ultimately contributes to improving overall performance. As a practical implication, MSME actors in Jember Regency need to make various efforts to integrate Islamic business ethics into all their business activities. These results support research conducted by [8] and [9] that Islamic business ethics influence the performance of MSMEs.

The results of the fourth hypothesis test indicate that Entrepreneurial Competence has a significant effect on the Performance of MSME Actors through Islamic Business Ethics. Thus, Islamic Business Ethics acts as an intervening variable that strengthens the relationship between entrepreneurial competence and the performance of MSME actors. This finding indicates that high entrepreneurial competence not only encourages increased performance directly, but also

indirectly through the internalization of Islamic business ethics values in the business management process. In other words, MSME actors, especially in Jember Regency who have the ability to analyze opportunities, make strategic decisions, and manage business risks professionally, if supported by the application of Islamic business ethics principles such as honesty, responsibility, fairness, and transparency, will have more potential to achieve optimal and sustainable business performance. This combination of competence and ethical integrity is the foundation for the success of MSMEs, both in operational, financial, and customer and business partner aspects. The results of this study support research from [23] that entrepreneurial competence and Islamic business ethics have a joint influence on the performance of MSMEs.

### *5.2 Limitations*

This study has several limitations that need to be considered. First, the number of samples used is still limited and only covers MSME actors in Jember Regency. This makes the results of the study unable to be generalized to MSMEs in other regions or with different business conditions. Second, the MSMEs that were respondents were mostly on a micro scale. This means that the results of this study better describe the conditions of micro MSMEs and do not represent small or medium-scale MSMEs that have different resources and challenges. Therefore, future research should involve MSMEs from various business scales so that the results are more complete. Third, the model used in this study has a moderate level of prediction. This shows that there are still other factors that have not been included in the study but can affect MSME performance. In the future, other variables such as leadership style, digital technology literacy, and utilization of financial technology (fintech) need to be added to see their influence on MSME performance more comprehensively. By realizing these limitations, it is hoped that further research can be carried out with a wider scope, a more varied approach, and involving additional variables so that understanding of improving MSME performance becomes more comprehensive and useful.

## **6. Conclusion**

This study aims to examine the influence of entrepreneurial competence on the performance of MSME actors in Jember Regency, by considering the role of Islamic business ethics as an intervening variable. The main problem in this study is how to improve MSME performance by strengthening entrepreneurial competence accompanied by the application of Islamic business ethics in business practices. This study uses a quantitative approach with data collection through questionnaires distributed to micro-scale MSME actors. Data analysis was carried out using the PLS SEM multivariate analysis method.

The results of the study indicate that entrepreneurial competence influences the performance of MSME actors, as well as influencing Islamic business ethics. Islamic business ethics have also been shown to influence the performance of MSME actors. In addition, Islamic business ethics mediate the relationship between entrepreneurial competence and the performance of MSME actors. This finding indicates that entrepreneurial competence possessed by MSME actors can encourage the implementation of Islamic business ethics, and indirectly impact the achievement of business performance.

The implications of this study indicate the importance of entrepreneurship training that does

not only focus on developing business skills, but also on the formation of Islamic-based ethical values. Currently, it is important for business actors to have ethical honesty in running their businesses. This study contributes by combining the entrepreneurial approach and Islamic ethical values in explaining the performance of MSMEs.

## 7. Recommendation

For further research development, it is recommended to include other variables such as leadership, digital literacy, and utilization of financial technology so that the model used is more comprehensive and can explain MSME performance more broadly.

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