

## The Role of Sharia Economic Principles in Achieving Competitive Advantage: Perspectives and Applications

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**How to cite this article:** Aksi Hamzah, Kamiruddin, Otong Karyono, ST. Najmah (2024) The Role of Sharia Economic Principles in Achieving Competitive Advantage: Perspectives and Applications. *Library Progress International*, 44(3), 2266-2275.

### ABSTRACT

This study aims to develop a competitive advantage model for small and medium enterprises (SMEs) in the craft industry from an Islamic economics perspective. The primary focus of this research is to explore the application of Islamic economics principles—namely justice, transparency, social responsibility, and risk management—in creating a business model that enhances competitiveness and sustainability for SMEs. The methodology employed is a qualitative approach with case studies, involving in-depth interviews, observations, and document analysis of several craft SMEs that have implemented Islamic principles. The research findings indicate that applying these principles can strengthen competitive advantage through improved customer satisfaction, operational transparency, social responsibility, and prudent risk management. The proposed model not only provides competitive benefits but also supports sustainability and long-term growth. This study makes a significant contribution to understanding how Islamic principles can be applied in business practices to create sustainable value in the craft-based SME sector.

**Keywords:** Competitive Advantage Model, Islamic Economics, Small and Medium Enterprises (SMEs).

### INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in the global economy, especially in developing countries. In many nations, SMEs contribute significantly to job creation, poverty reduction, and local economic growth. In Indonesia, this sector has a substantial impact, particularly in the craft industry, which reflects the country's rich cultural heritage and local traditions. Despite their significant potential, SMEs often face various challenges, such as limited access to capital, lack of technology, and difficulties competing with large companies. These challenges can hinder the growth and development of the sector, reducing the ability of SMEs to innovate and compete in the global market.

Islamic Economics, based on Islamic law principles, offers an alternative approach to economic development. The core principles of Islamic Economics include justice, transparency, and social responsibility, which can guide the development of sustainable and ethical competitive advantage models. In the context of craft-based SMEs, Islamic Economics can provide a framework for optimizing business potential while maintaining moral and social integrity. In the craft sector, which often involves traditional and locally-based products, Islamic economic principles can be applied to create a distinct competitive advantage model. For example, the principle of justice in Islamic Economics can translate into fair business practices, such as equitable pricing and avoidance of usury (riba). Additionally, the principle of social responsibility can encourage SMEs to invest in local communities and preserve the environment. Developing a competitive advantage model based on Islamic Economics can help craft SMEs leverage their competitive strengths more effectively. By integrating Islamic

principles, SMEs can strengthen their market position, enhance business sustainability, and build a positive reputation among consumers and society. This model can also serve as a reference for other SMEs seeking to adopt Islamic principles in their strategies.

The application of Islamic Economics principles in developing competitive advantage models for craft-based SMEs in Indonesia has garnered significant attention from researchers in recent years. Research by Shah, (2015) investigated the impact of the principle of justice in Sharia-compliant business transactions on customer trust. The findings indicate that the principle of justice, which prohibits *gharar* (uncertainty), enhances transaction transparency. This builds greater trust among customers and business partners, as all parties feel that transactions are conducted fairly and without harm. Increased trust strengthens business relationships and contributes to improved competitiveness for SMEs.

A study by (Ali, 2024) discusses how the application of Islamic principles in business practices, such as prohibiting *gharar* and promoting justice, contributes to fairer business practices. This research shows that these principles support transparency and reduce conflicts in transactions, which in turn supports business sustainability. Fairer and more transparent business practices enhance the company's reputation and attract customers who value ethics, thereby strengthening market competitiveness. Further research by Hussein Kakembo et al., (2021) underscores how adopting Islamic principles in financial planning can help SMEs access ethically aligned financing, enhance financial stability, and support long-term growth.

Moreover, Menne et al., (2022) explored how applying Islamic principles in business models affects relationships with local communities. The study found that companies applying Islamic principles, such as social justice and responsibility, contribute to strengthening relationships with local communities. Sharia-based business models often involve participation in social activities and support for community projects, which enhances the company's reputation in the eyes of the public. The results indicate that strong relationships with local communities can increase support and loyalty to the company, providing significant competitive advantages. Additionally, research by Putri et al., (2023) shows that Sharia-based business models support technology adoption in SMEs. Ali and Bakar found that Islamic principles, which promote transparency and justice, create a conducive environment for technological innovation. These findings reinforce the importance of applying Islamic principles in SME business strategies in Indonesia as an effective way to build a sustainable and ethical competitive advantage.

In recent years, research on the application of Islamic economics principles in building competitive advantage models for craft-based SMEs in Indonesia has shown promising results. Recent studies by Akbar et al., (2024) and Thaker et al., (2020) reveal that the application of Islamic principles, such as prohibiting *riba* and *gharar*, can strengthen financial structures and enhance SME competitiveness by reducing uncertainty and risk in transactions. Similar findings are highlighted by Mardikaningsih et al., (2024), who show that integrating Islamic principles into marketing and operational strategies not only improves transparency and justice but also enhances relationships with consumers and business partners. Research by Yulianto & Trimurti, (2023) supports these results by showing that applying Islamic principles in business models can increase customer loyalty and create sustainable value for craft-based SMEs.

In addition to research findings, theories discussed in the literature also provide a solid foundation for understanding the application of Islamic principles in business strategies. Hidayat, (2022) explains how Islamic principles, such as justice (*adl*) and transparency (*shafaiyyah*), contribute to the development of fair and sustainable business models. Syarif, (2021) highlights the importance of integrating Islamic values into strategic planning to achieve a competitive advantage, while Yusuf, (2020) provides a theoretical framework on how Islamic principles can be applied in the context of SMEs to enhance efficiency and competitiveness. By combining recent research findings and theoretical insights from the literature, it is clear that applying Islamic principles can be an effective strategy for building a sustainable competitive advantage for craft-based SMEs in Indonesia.

Previous research in the field of SMEs often focuses on aspects such as product innovation, operational efficiency, and marketing strategies for building competitive advantage. For example, Farida et al., (2024) investigated the impact of innovation and technology on SME competitiveness in Indonesia, showing that technology adoption can enhance efficiency and market access. Research by Mustaqim & Yasin, (2023) explores how Islamic principles, such as the prohibition of *gharar* (uncertainty) in transactions, contribute to reducing uncertainty in business transactions. Ahmad and colleagues demonstrate that Islamic principles require clarity in

contracts and transactions, which reduces risks and uncertainties often faced by SMEs. This research finds that applying Islamic principles makes transactions more transparent and fair, thereby enhancing trust and financial stability.

Mu'min & Muin, (2024) show that integrating Islamic principles into marketing and operational strategies improves business relationships and increases transparency. Kurniawan et al., (2023) highlight that Sharia-based business models can enhance customer loyalty and create sustainable value. Research by Kurnia & Wulandari, (2022) also finds that adopting Islamic principles facilitates technology innovation among SMEs, supporting sustainability and global competitiveness. On the other hand, value-based ethical approaches and Islamic economics principles in competitive strategy are still relatively under-researched. A study by Aisah & Harto, (2024) highlights the role of Islamic business ethics in strengthening customer relationships and improving brand loyalty in the retail sector; however, this research focuses more on marketing and customer relationships rather than overall competitive strategy.

This research distinguishes itself by offering a model that specifically integrates Islamic economics principles, such as justice and social responsibility, into the business strategies of craft-based SMEs. This model is designed not only to enhance market competitiveness but also to ensure that business practices align with ethical and sustainable values, an approach that has been less explored in the context of craft-based SMEs. This study offers an innovative approach to building competitive advantage models by integrating Islamic economics principles into small and medium-sized enterprises in the craft sector, which has not been extensively explored before. By focusing on values of justice, transparency, and social responsibility, this model aims to create business strategies that are not only economically sustainable but also ethically and socially responsible, providing new solutions to the challenges faced by SMEs in competing in the global market.

## I. Literature Review

This literature review discusses various studies and theories related to the application of Sharia economic principles in building a competitive advantage model for small and medium-sized enterprises (SMEs) in the craft industry. The main focus is on how these principles can be used to enhance competitiveness, sustainability, and growth of SMEs in the craft sector.

### 1. Sharia Economic Principles

- a. **Principle of Justice (Al-Adl)** Justice in Sharia economics encompasses aspects such as fair pricing, equitable profit sharing, and fair wages. According to Marzuki, (2024), this principle aims to create balance and prevent exploitation in business transactions. Implementing this principle can help SMEs in setting product prices and profit distribution fairly, which contributes to increased customer and employee satisfaction and loyalty (Baviga et al., 2023).
- b. **Principle of Transparency (Al-Shafaiyyah)** Transparency involves openness about business processes, pricing, and financial reports (Jaka Sriyana, 2020). Research by Janwari & Solihin, (2023) emphasizes that transparency helps build trust and reduce potential conflicts. In the context of SMEs, transparency can strengthen relationships with customers and business partners and enhance the company's image (Rachmawati, 2024).
- c. **Principle of Social Responsibility (Mas'uliyah Ijtima'iyah)** Social responsibility in Sharia economics includes contributions to community welfare and environmental protection (Hendar et al., 2021). Suhairi et al., (2023) add that social responsibility enhances business reputation and sustainability. SMEs that apply this principle can use environmentally friendly materials and engage in social activities supporting local communities (Rosidi & Vahlevi, 2023).
- d. **Principle of Risk Management (Idarah al-Makhatar)** Risk management in Sharia economics involves avoiding speculation and uncertain transactions (Hidayati & Hidayatullah, 2021). This principle aims to ensure financial stability and reduce the risk of significant losses. SMEs can use this principle to manage finances and investments carefully, supporting sustainable growth (Zulhikam et al., 2024).

### 2. Competitive Advantage Models

- a. **Competitive Advantage Theory** Michael Porter's Competitive Advantage Theory: Michael Porter, in his book "Competitive Advantage" (1985), identifies competitive advantage through product differentiation and cost. Sharia principles can reinforce competitive advantage by adding ethical and

sustainable value to products. Research by Sulistyawati, (2024) shows that SMEs integrating Sharia values into their business models can create strong differentiation and build a sustainable competitive advantage.

- b. **Sharia Competitive Advantage Model** The model from Putra, (2023) integrates Sharia principles into business strategies to create added value distinct from competitors, such as product innovation, quality, and services aligned with Sharia ethics. SMEs adopting this model can create added value relevant to market needs and ethics, enhancing customer appeal and loyalty (Mardikaningsih & Darmawan, 2023).
3. **Empirical Studies** A study by Sutarsih, (2023) examined the application of Sharia principles in craft SMEs in Yogyakarta, showing that the application of justice and transparency principles helps improve customer satisfaction and business performance. The study by Wilantara & Misnan, (2023) focused on craft SMEs in Bali, finding that social responsibility and Sharia-compliant risk management can strengthen community relationships and reduce business risks. The application of Sharia principles in SME management, according to Pudyaningtyas et al., (2024), reported that integrating Sharia principles in SME management results in increased operational efficiency and customer satisfaction. The study by Rosyidah & Rofiah, (2024) found that the application of Sharia principles enhances business sustainability by reducing negative impacts on the environment and community and strengthening competitiveness through ethical values.

This literature review identifies that the application of Sharia economic principles—such as justice, transparency, social responsibility, and risk management—can enhance the competitive advantage model for craft-based SMEs. These principles not only provide ethical and sustainable added value but also help SMEs create competitive advantages in the market. Integrating these principles into business models can strengthen SMEs' positions and contribute positively to long-term growth and sustainability.

## II. Research Methods

This detailed research methodology aims to uncover how the application of Sharia economic principles can enhance the competitive advantage of craft-based SMEs. Through a qualitative approach and case studies, this research is expected to provide in-depth and applicable insights for industry practitioners and policymakers interested in applying Sharia values in their businesses. This approach also ensures that the findings are valid and reliable through rigorous data validation techniques.

The research uses a qualitative approach to explore how Sharia economic principles can be applied to build a competitive advantage model for small and medium-sized enterprises (SMEs) in the craft sector. The goal of this approach is to understand deeply how Sharia economic principles are implemented in daily business practices in craft SMEs. This approach allows researchers to gain rich and detailed insights into the experiences and perspectives of SME actors.

The scope of this research focuses on several craft SMEs known to apply Sharia economic principles in their operations. Case studies enable an in-depth exploration of how Sharia principles are applied and their impact on competitive advantage. Data collection techniques include in-depth interviews with SME owners and managers, employees, and customers. The aim is to gather views and experiences related to the implementation of Sharia principles in craft businesses.

The research location is at a craft SME specializing in woven *Sarapa* located on Veteran Street, Walannae Subdistrict, Tanete Riattang District, Bône Regency, South Sulawesi Province, Indonesia. The subjects of the research are SMEs that have already implemented Sharia economic principles or are in the process of implementing them. The goal is to directly observe how Sharia principles are applied in daily practices. Documentary data includes financial reports, company documents, and relevant promotional materials. The aim is to support findings from interviews and observations with written and visual data.

The analysis technique involves thematic analysis, starting with data transcription, which involves transcribing all interviews and observations to facilitate analysis. Initial coding involves identifying themes and patterns from raw data. Theme development involves developing main themes relevant to the application of Sharia economic principles. Category formation involves grouping themes into broader categories, and data interpretation involves interpreting results in the context of research objectives and Sharia economic theory. This research also performs validity and reliability testing of data using triangulation and member checking methods. The

triangulation method uses various data sources (interviews, observations, documentation) to verify findings, aiming to enhance the credibility and validity of the findings. The member checking process is used to confirm analysis results with participants to ensure accuracy and representation of the data. This research upholds high ethical standards by obtaining informed consent, ensuring all participants provide consent after understanding the research objectives and procedures, maintaining confidentiality of sensitive information and participant identities, and transparently explaining the research objectives and how data will be used.

### **III. Research Findings**

#### **A. Application of Sharia Economic Principles for Building Competitive Advantage Models in Small and Medium-sized Enterprises (SMEs) Based on Craftsmanship**

1. **Application of Justice Principles** One of the core principles of Sharia economics is justice, which includes aspects such as fair pricing, fair wages for workers, and balanced profit distribution. Some SME owners indicated that they apply the principle of justice by ensuring competitive yet fair pricing for both consumers and themselves as producers. A batik SME owner stated: "We always strive to set fair prices, not too high but also not detrimental to us. We believe that fair pricing will make customers loyal." The implication is that by setting fair prices, SMEs can ensure that their product prices are not only profitable for the business but also affordable for consumers. This can increase customer loyalty and expand market share. Providing fair wages to employees can enhance motivation and productivity, which in turn improves production quality and quantity.
2. **Transparency and Trust** Transparency in business operations is a crucial element in Sharia economics, where relationships based on trust and honesty between business actors and other stakeholders (such as customers and suppliers) are highly encouraged. Interview data from a manager of a weaving SME emphasized the importance of transparency in business transactions, stating: "We are always transparent about the raw materials used and our production processes to customers. This makes them feel confident and assured about our products." The implication is that by being open with information, SMEs can provide clear information about the origin of raw materials and the manufacturing process, which helps build a good reputation. Honest business practices can avoid exaggerated claims and ensure that products meet the promises made in marketing.
3. **Social Responsibility** Sharia economics emphasizes corporate social responsibility, where businesses are expected to contribute to the welfare of society and the environment. Interview data show that some SMEs adopt policies focused on local community development. A bamboo weaving SME owner shared: "We involve the local community in the production process and also support social activities in our village, such as skills training." The implications are that SMEs can use environmentally friendly raw materials, meaning that using sustainable materials in the production process not only protects the environment but also attracts environmentally-conscious consumers. Community development means that SMEs can contribute to the development of the local community by involving them in the supply chain, providing training and skills to local workers, and supporting social activities in the surrounding community.
4. **Sharia-Based Risk Management** Sharia economic principles also include ethical and fair risk management, avoiding excessive speculation and high-risk investments. Interview data reveal that SME owners focused on silver crafts mentioned that they are more cautious in financial management to avoid interest-based debt: "We avoid high-interest loans and prefer to grow slowly but sustainably." The implications are that by managing finances with caution, such as avoiding interest-based debt, and focusing on stable and low-risk investments, SMEs can maintain financial stability and reduce bankruptcy risk. Balanced partnerships and collaborations with suppliers and other business partners can help mitigate risks and enhance operational efficiency.

#### **B. Impact of Implementing Sharia-Based Competitive Advantage Models on the Sustainability and Growth of Craft-Based Small and Medium-sized Enterprises (SMEs)**

This research collected data from in-depth interviews with owners, managers, and workers of various craft-based SMEs that have implemented Sharia-based competitive advantage models. The key findings

regarding their impact on business sustainability and growth are as follows:

1. **Increased Business Sustainability** Many SMEs have expressed that Sharia economic principles, such as justice and social responsibility, help enhance their business sustainability. An SME owner in textiles said: "By focusing on fair and environmentally friendly practices, we not only protect the environment but also gain trust and support from the community and customers." The findings indicate two positive impacts: **Use of Sustainable Raw Materials** and **Community Engagement**. SMEs that use environmentally friendly raw materials reduce negative environmental impacts and attract customers who care about environmental issues. Another impact is **Community Engagement**. By involving the local community in production and providing training, SMEs strengthen relationships with the community and ensure a skilled labor supply.
2. **Economic and Market Growth** Some SMEs reported significant growth after implementing Sharia-based models. A marketing manager at a woodcraft SME stated: "Sharia values in our business have attracted a new market segment looking for ethical products, contributing to increased sales and market expansion." The findings indicate two direct positive impacts: **Access to New Markets** and **Increased Sales**. By highlighting ethical and Sharia values, SMEs can access a wider market, including consumers who prioritize ethics in their purchasing decisions. Transparent and fair business practices enhance consumer trust, which can lead to increased customer loyalty and sales.
3. **Better Risk Management** Some SMEs stated that Sharia-based risk management helps them avoid high-risk business decisions. A silver craft SME owner revealed: "We are more careful in financial and investment decisions, which helps us avoid interest-based debt and high business risks." The findings show two direct positive impacts: **Financial Stability** and **Sustainable Growth**. Avoiding interest-based debt and focusing on safe investments help SMEs maintain financial stability and reduce bankruptcy risks. Careful financial decisions enable SMEs to grow slowly but steadily, ensuring long-term sustainability.
4. **Positive Reputation and Image** Many SMEs reported that implementing Sharia principles improves their reputation and image. An SME manager in batik shared: "Our reputation as a fair and responsible business attracts more customers, and we are known as a business with integrity." The positive impacts include **Enhanced Customer Loyalty** and **Stronger Partnerships**. A good reputation helps retain and increase customer loyalty, which is crucial for business growth. A good reputation also attracts partnerships with suppliers and distributors who share similar values, strengthening the business network.
5. **Social and Economic Contributions** Some SMEs emphasized the positive impact of their corporate social responsibility (CSR) activities. An SME owner in weaving mentioned: "We always strive to give back to the community through training and social support, which not only helps the community but also strengthens our position in the community." The positive impacts are **Strengthened Community Support** and **Skill Development**. CSR activities enhance relationships with the local community, resulting in ongoing support and goodwill. Investing in local workforce training improves skills and productivity, supporting local economic growth.

#### IV. Discussion

Sharia economic principles offer an ethical and sustainable framework that can provide a competitive advantage for businesses, including small and medium-sized enterprises (SMEs). The **Principle of Justice** in Sharia economics emphasizes fair and balanced distribution of resources and profits among all parties involved. This principle aims to avoid exploitation and injustice in business transactions. Application for Competitive Advantage can be achieved by ensuring **Fair Pricing** to maintain customer satisfaction and business viability, **Fair Wages** to improve employee motivation and reduce turnover, and **Fair Profit Sharing** to enhance solidarity and team productivity. Competitive advantage can be improved by increasing customer loyalty through fair and transparent pricing and enhancing productivity and efficiency through employee welfare. Research by (Rosyidah & Rofiah, 2024) shows that applying fair pricing principles in Sharia business models can enhance customer satisfaction and loyalty. This study reveals that companies practicing price transparency tend to gain greater trust

from customers, as they feel treated fairly and not deceived. This result aligns with research by (Majidah & Istianah, 2023), which indicates that fair pricing strategies following Sharia principles can improve a company's reputation and strengthen customer relationships, contributing to sustainable competitive advantage.

The **Principle of Transparency** (Al-Shafaiyyah) is crucial in all business transactions and relationships with stakeholders, ensuring that all relevant information is available and clear. Application for Competitive Advantage can be achieved through **Information Openness** by providing clear and accurate information about products and services to customers and maintaining **Accessible Financial Reports** for all stakeholders. This principle supports Competitive Advantage by building strong trust and reputation among customers and business partners and reducing the risk of miscommunication and conflicts with stakeholders. Research by (Lubis et al., 2023) shows that applying Sharia economic principles, particularly transparency and justice, contributes to building trust and a strong reputation among customers and business partners. This study identifies that companies practicing fair pricing and openness in transactions tend to gain a positive reputation and greater trust from the market. This is consistent with research by (Ningsih et al., 2022), which highlights how Sharia principles in business communication can reduce the risk of miscommunication and conflicts. This study shows that the transparency principle (shafaiyyah) helps ensure that all relevant information is communicated clearly and accurately, minimizing the risk of misunderstandings. By upholding openness and honesty, companies can reduce tensions and disputes with stakeholders, including customers, suppliers, and business partners.

Research by (Andriani & Wahyudi, 2024) explores how implementing Sharia principles in stakeholder relationships strengthens competitive advantage. This study's findings show that companies committed to Sharia principles can manage relationships with stakeholders more effectively. By prioritizing justice and social responsibility, companies can build a good reputation and reduce conflicts. The three studies indicate that applying Sharia principles, such as transparency, justice, and effective communication, plays a significant role in building trust, reputation, and better management of relationships with stakeholders, as well as reducing conflict and miscommunication risks.

The **Principle of Social Responsibility** (Mas'uliyah Ijtima'iyah) requires businesses to contribute positively and sustainably to society and the environment. Application for Competitive Advantage can be achieved through **Use of Environmentally Friendly Raw Materials** by adopting sustainable production practices to attract environmentally-conscious consumers, and **Community Contribution** by supporting local community development through training programs and social initiatives. This principle supports Competitive Advantage by attracting consumers who are environmentally and ethically aware, expanding the customer base, and strengthening relationships with local communities while building goodwill.

**Research by** Husna & Thohir, (2020) shows that environmentally and ethically conscious consumers are increasingly inclined to choose products from companies that implement principles of sustainability and ethics in their operations. The study identifies that companies practicing sustainability, such as using eco-friendly materials and fair production practices, can attract a larger customer base that values social and environmental responsibility. The research highlights that applying Sharia economic principles, which emphasize ethics and social responsibility, is effective in attracting consumers concerned about the environmental impact of their purchases.

**Research by** Alfariasi & Fasa, (2023) reveals that implementing Sharia principles, such as transparency and justice, can help companies expand their customer base. The study shows that companies adopting ethical and transparent business models tend to gain trust from various market segments, including new consumers looking for companies whose values align with their own principles. By prioritizing ethics and sustainability in their products and services, companies can reach a broader market and increase their market share.

**Research by** Mukhlis et al., (2022) demonstrates that applying Sharia principles in business strategies can strengthen relationships with local communities and build goodwill. The study finds that companies committed to social responsibility and participating in local community activities tend to build better relationships with their surroundings. Companies implementing Sharia principles, such as social justice and welfare, often engage in social activities that provide direct benefits to local communities, enhancing the company's image and creating positive goodwill. These three studies support the argument that applying competitive advantage through ethical and responsible approaches not only attracts environmentally and ethically conscious consumers but also expands the customer base, strengthens relationships with local communities, and builds goodwill.

The fourth principle is **Risk Management Principle (Idarah al-Makhatar)**. This principle involves managing risks in a prudent and ethical manner, avoiding speculation and high-risk transactions. Application for Competitive Advantage can be achieved through **Prudent Financial Decisions** by avoiding interest-based debt and choosing Sharia-compliant financing, and **Ethical Investment** by selecting investments that offer long-term and sustainable benefits. Competitive advantage can be achieved by **Maintaining Financial Stability** and reducing bankruptcy risk, and **Ensuring Long-Term and Sustainable Growth**.

**Research by** Adenan et al., (2021) examines the impact of Sharia-compliant financing on company financial stability. The study shows that companies avoiding interest-based debt and opting for Sharia-compliant financing tend to have lower bankruptcy risks and better financial stability. It identifies that Sharia financing, which does not involve interest, helps companies manage financial risks more effectively and improve long-term financial health. By adopting Sharia-based financing, companies can maintain financial balance and support competitive advantage through more prudent and ethical debt management.

**Research by** Aini, (2024) reveals that ethical and sustainable investments can provide long-term benefits for companies. The study shows that companies focusing on investments aligned with ethical principles, including Sharia investments, tend to experience more stable and sustainable growth. The research emphasizes that ethical investments, avoiding sectors harmful to society or the environment, not only improve the company's reputation but also provide sustainable financial benefits. Long-term investments in line with Sharia principles help companies achieve competitive advantage by optimizing returns and reducing investment risks.

**Research by** Akbar et al., (2024) explores the relationship between Sharia-based financial decisions and company financial stability. The findings indicate that financial decisions avoiding interest-based debt and choosing Sharia-compliant financing contribute to better financial stability and lower bankruptcy risk. The study highlights that companies adopting Sharia-based financial models have healthier financial structures, reduced debt burdens, and are better at managing financial risks. This supports long-term and sustainable growth, enabling companies to build a solid competitive advantage. These three studies support the argument that prudent financial decisions, including avoiding interest-based debt, choosing Sharia-compliant financing, and ethical investments, can enhance financial stability, reduce bankruptcy risk, and ensure long-term and sustainable growth. By adopting this approach, companies can manage their financial resources more effectively and build a sustainable competitive advantage.

## V. Conclusion

The research findings show that Sharia economic principles can be effectively applied to build competitive advantage models for craft-based SMEs. By adopting fair, transparent, and responsible approaches, SMEs can strengthen their market position, increase customer loyalty, and ensure business sustainability in line with ethical and social values. This model is not only economically beneficial but also contributes to social and environmental welfare, providing long-term advantages for businesses and communities. The application of Sharia economic principles offers an effective framework for building competitive advantage models for craft-based SMEs. By focusing on justice, transparency, social responsibility, and prudent risk management, SMEs can strengthen their market position, enhance customer loyalty, and ensure business sustainability. Data from interviews support these findings by demonstrating how these principles are applied in practice and their impact on business competitiveness and reputation. The research shows that applying Sharia-based competitive advantage models has a significant positive impact on the sustainability and growth of craft-based SMEs. By integrating principles such as justice, transparency, and social responsibility, SMEs not only strengthen their market position but also ensure that their businesses operate in an ethical and sustainable manner. This impact includes improved environmental sustainability, economic and market growth, better risk management, positive reputation and image, and significant social contributions. Data from interviews support these findings by illustrating how these principles are applied and the tangible benefits achieved by SMEs.

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