

From Social Trust to Halal Industry Dynamic: The Synergy of Islamic Social Capital and Financial Capability in Small Enterprises Sectors

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Abstract

This study aims to examine the determinants of performance in Halal micro, small, and medium enterprises (MSMEs) by positioning Islamic Social Capital (ISC) as the primary explanatory construct. To provide a more comprehensive framework, Islamic Financial Literacy (IFL) and Islamic Financial Inclusion (IFI) are integrated into the model to capture the knowledge and financial accessibility dimensions essential for Halal MSME development. A quantitative approach was employed, utilizing partial least squares structural equation modeling (PLS-SEM) on survey data from 242 Muslim-owned Halal MSMEs in Indonesia. The results reveal that ISC significantly enhances IFL, which in turn promotes IFI and ultimately strengthens MSME performance. These findings highlight the pivotal role of cohesive and ethically grounded social networks in facilitating financial literacy and access to Sharia-compliant financial services. The novelty of this study lies in integrating ISC with IFL and IFI within a single model, a relationship that has not been comprehensively explored in prior research. By bridging Islamic social capital with financial capability from an Islamic legal-ethical perspective, this study contributes new insights into how community-based mechanisms can drive the growth and resilience of Halal MSMEs.

Keywords: Islamic Social Capital; Islamic Financial Literacy; Islamic Financial Inclusion; Halal Industry; MSMEs.

I. Introduction

In the world, the micro, small, and medium enterprises (MSMEs) sector serves as a pillar of economic progress for a nation. Data from 2022 shows that this sector is the backbone of the global economy, accounting for nearly 70% of worldwide employment and gross

domestic product.¹ However, the growth of Halal MSMEs remains a key global issue, particularly in developing countries. In economic theory, growth is viewed as a means to achieve maximum profit, but in reality, not all Halal MSME owners can grow their businesses to maximize profits. This is often due to significant issues such as a lack of knowledge resources and poor internal management processes.² Specifically in Indonesia, a Muslim-majority country, data from 2023 shows that 97% of MSMEs are micro and small businesses, and this structure has not changed significantly in recent years. This indicates that the productivity of Halal MSMEs remains low, making them generally more fragile and vulnerable to external uncertainties.³

From an Islamic legal perspective, the development of Halal MSMEs is not merely an economic issue but also a normative imperative rooted in the *maqāṣid al-shari‘ah*.⁴ In particular, *hijz al-māl* (protection of wealth) underscores the obligation to safeguard and manage resources responsibly as part of the broader framework of preserving religion, life, intellect, progeny, and wealth. Thus, strengthening Halal MSMEs directly contributes to the realization of the *maqāṣid* and reflects the practice of Islamic law (*fiqh al-mu‘āmalāt*).⁵ Within this context, the concept of Islamic entrepreneurship emphasizes that business activities are a form of *‘ibādah*, whereby entrepreneurial efforts are aligned with ethical values, social responsibility, and the pursuit of *barakah* rather than solely profit

¹ Olivier Woeffray and Olivier M. Schwab, “The Big Opportunity behind Small Businesses,” World Economic Forum, 2022, <https://www.weforum.org/agenda/2022/12/future-readiness-here-s-why-smaller-businesses-success-matters/>.

² Ali Asgary, Ali Ihsan Ozdemir, and Hale Özyürek, “Small and Medium Enterprises and Global Risks: Evidence from Manufacturing SMEs in Turkey,” *International Journal of Disaster Risk Science* 11, no. 1 (February 12, 2020): 59–73, <https://doi.org/10.1007/s13753-020-00247-0>; Rashimah Binte Rajah and Olivier Woeffray, “Future Readiness of SMEs and Mid-Sized Companies: A Year On,” 2022, <https://www.weforum.org/publications/future-readiness-of-smes-and-mid-sized-companies-a-year-on/>.

³ Satria Utama et al., “Intentional Model of MSMEs Growth: A Tripod-Based View and Evidence from Indonesia,” *Journal of Asia Business Studies*, July 28, 2023, <https://doi.org/10.1108/JABS-08-2022-0291>; Annisa Anastasya, “Data UMKM, Jumlah Dan Pertumbuhan Usaha Mikro, Kecil, Dan Menengah Di Indonesia,” UKMIndonesia.id, 2023, <https://ukmindonesia.id/baca-deskripsi-posts/data-umkm-jumlah-dan-pertumbuhan-usaha-mikro-kecil-dan-menengah-di-indonesia>.

⁴ Mukhammad Yazid Afandi et al., “NGOs and the Development of Islamic Entrepreneurship: Enhancing Absorptive Capacity Innovation, and Performance through an Institutional Lens,” *Journal of Islamic Accounting and Business Research*, 2025, <https://doi.org/10.1108/JIABR-02-2025-0105>; Mudeer Ahmed Khattak, “Protection and Distribution of Wealth, Islamic Commercial and Financial Transactions: A Maqasid Al-Shariah Perspective,” *European Journal of Islamic Finance* 10 (2018): 1–8, <https://doi.org/10.13135/2421-2172/2570>.

⁵ Ayraf Wajdi Dusuki and Said Bouheroua, “The Framework of Maqasid Al-Shari‘ah and Its Implication for Islamic Finance,” *ICR Journal* 2, no. 2 (January 2011): 316–36, <https://doi.org/10.52282/icr.v2i2.651>; Kausar Yasmeen, “Framework for Islamic Social Entrepreneurship,” *Journal of Islamic Accounting and Business Research*, May 1, 2024, <https://doi.org/10.1108/JIABR-08-2023-0256>.

maximization.⁶ The principles of trust (*amānah*), cooperation (*ta'awun 'alā al-birr wa al-taqwā*), and justice (*'adl*) are not merely social ethics but also legal norms that shape contracts, transactions, and institutional interactions in Islamic law.⁷

At the same time, gaps persist between entrepreneurial activities and formal economic structures in many Muslim societies, particularly in terms of access to Islamic institutions and financial resources.⁸ This lack of integration complicates Halal entrepreneurs' ability to navigate complex business environments, where trust-building, risk management, and information sharing are crucial.⁹ Overcoming these challenges requires more than individual efforts; it demands a supportive social infrastructure in which business actors are connected through networks that facilitate mutual support and cooperation.¹⁰ The concept of Islamic Social Capital (ISC) is highly relevant here. Its core elements, trust, reciprocity, and collective responsibility,¹¹ resonate with the Islamic legal tradition, especially with rules such as *al-amānatu fi al-mu'amalat* (trust in transactions) and *al-hukmu yadūru ma 'a illatihī* (legal rulings change with their effective cause).¹²

Furthermore, strengthening MSME performance requires adequate Islamic Financial Literacy (IFL) and broader Islamic Financial Inclusion (IFI). IFL reflects *hifz al-māl* through responsible wealth management, while IFI can be regarded as a form of *fard kifayah* that ensures collective access to Sharia-compliant financial resources and

⁶ Rizaldi Yusfiarto et al., "Shaping Entrepreneurial Performance in Small Business Sectors: Does Islamic Financial Institutions' Support Matter?," *Journal of Developmental Entrepreneurship*, July 3, 2025, <https://doi.org/10.1142/S1084946725500141>.

⁷ Ali Aslan Gümüsay, "Entrepreneurship from an Islamic Perspective," *Journal of Business Ethics* 130, no. 1 (August 24, 2015): 199–208, <https://doi.org/10.1007/s10551-014-2223-7>; M. Kabir Hassan and Will Hippeler, "Entrepreneurship and Islam: An Overview," *SSRN Electronic Journal* 11, no. 2 (2014).

⁸ Abu Hanifah Ayob and Abrar Ali Saiyed, "Islam, Institutions and Entrepreneurship: Evidence from Muslim Populations across Nations," *International Journal of Islamic and Middle Eastern Finance and Management* 13, no. 4 (July 4, 2020): 635–53, <https://doi.org/10.1108/IMEFM-11-2019-0472>.

⁹ Heba Younis, Pavlos Dimitratos, and Said Elbanna, "International Entrepreneurial SMEs in the Muslim World: The Role of Religion in the GCC Countries," *International Business Review* 31, no. 5 (October 2022): 102023, <https://doi.org/10.1016/j.ibusrev.2022.102023>.

¹⁰ Galuh Tri Pambekti, Rizaldi Yusfiarto, and Septi Setia Nugraha, "ROSCAs Through the Islamic Community: An Alternative to Enhancing Entrepreneurship and Wealth," *Journal of Islamic Monetary Economics and Finance* 8 (December 29, 2022): 81–106, <https://doi.org/10.21098/jimf.v8i0.1371>.

¹¹ Isna Khairani, Imsar Imsar, and Muhammad Lathief Ilhamy Nasution, "Analysis of the Contribution of Islamic Social Capital to Increasing MSMEs," *Journal of Islamic Economics and Finance Studies* 4, no. 1 (June 30, 2023): 145–62, <https://doi.org/10.47700/jiefes.v4i1.8923>; Rizaldi Yusfiarto et al., "Does Islamic Social Capital Enhancing SMEs Sustainable Performance?," *Journal of Islamic Monetary Economics and Finance* 8, no. 1 (February 28, 2022), <https://doi.org/10.21098/jimf.v8i1.1398>; Muhammad Tariq Majeed, "Social Capital and Economic Performance of the Muslim World," *International Journal of Islamic and Middle Eastern Finance and Management* 12, no. 4 (September 9, 2019): 601–22, <https://doi.org/10.1108/IMEFM-02-2018-0057>.

¹² Ali Afsari, "Social Capital in Islam," *Interdisciplinary Quranic Studies* 3, no. 1 (2012): 101–18; Abul Hassan Farooqi, "Islamic Social Capital and Networking," *Humanomics* 22, no. 2 (April 2006): 113–25, <https://doi.org/10.1108/08288660610669400>.

promotes economic justice.¹³ In line with this, a study found that financial literacy serves as a key driver of financial inclusion growth, particularly among MSMEs in Indonesia.¹⁴ Other studies have found that IFI levels are significantly influenced by Islamic financial knowledge, especially on the demand side.¹⁵ Expanding on these findings, the other results also indicated that greater Islamic bank inclusion is strongly correlated with employment growth in the MSME sector. Therefore, studies on the determinants of IFL and IFI from a community-based perspective are essential to understand how ISC can drive Halal MSME performance.

Motivated by the aforementioned issues, this study aims to explore the antecedents of business performance in Halal MSMEs, with Islamic Social Capital (ISC) as the primary proxy. Furthermore, within a comprehensive model, Islamic Financial Literacy (IFL) and Islamic Financial Inclusion (IFI) are integrated to address the internal knowledge creation needs of Halal MSMEs. Although previous studies have examined IFL and IFI separately in relation to financial access and MSME growth¹⁶, limited attention has been given to their integration with ISC, particularly in the context of Halal MSMEs. This gap persists despite increasing recognition that community-based mechanisms rooted in Islamic values can strengthen the Islamic entrepreneurial ecosystem.¹⁷

To the best of the author's knowledge, no study has comprehensively investigated the proposed model's interrelation in shaping Halal MSME performance. Addressing this gap is essential, as integrating social capital and Islamic financial capabilities may offer a distinctive pathway to enhance the resilience and competitiveness of Muslim entrepreneurs in a dynamic business environment. Therefore, the proposed model not only seeks to extend current theoretical discussions but also offers practical contributions

¹³ Muhammad Abdullah, "Islam, Spirituality and Wealth: Islamic Framework of Wealth Management," in *Wealth Management and Investment in Islamic Settings* (Singapore: Springer Nature Singapore, 2022), 43–55, https://doi.org/10.1007/978-981-19-3686-9_3; Haithem Kader, "Human Well-Being, Morality and the Economy: An Islamic Perspective," *Islamic Economic Studies* 28, no. 2 (August 3, 2021): 102–23, <https://doi.org/10.1108/IES-07-2020-0026>.

¹⁴ Masrizal, Raditya Sukmana, and Budi Trianto, "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia," *Journal of Islamic Marketing* 16, no. 1 (January 2, 2025): 166–92, <https://doi.org/10.1108/JIMA-07-2022-0197>.

¹⁵ Mohammad Mahbubi Ali et al., "Islamic Financial Inclusion Determinants in Indonesia: An ANP Approach," *International Journal of Islamic and Middle Eastern Finance and Management* 13, no. 4 (July 15, 2020): 727–47, <https://doi.org/10.1108/IMEFM-01-2019-0007>.

¹⁶ Masrizal, Sukmana, and Trianto, "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia"; Masrizal Masrizal et al., "Investigating The Determinants of Cash Waqf Intention: An Insight From Muslims in Indonesia," *Journal of Islamic Monetary Economics and Finance* 9, no. 1 (February 28, 2023): 17–38, <https://doi.org/10.21098/jimf.v9i1.1607>; Abdullah, "Islam, Spirituality and Wealth: Islamic Framework of Wealth Management."

¹⁷ Kader, "Human Well-Being, Morality and the Economy: An Islamic Perspective"; Yasmeen, "Framework for Islamic Social Entrepreneurship."

by generating relevant knowledge that supports the sustainable development of Halal MSMEs within Muslim communities.

II. Methodological Note

1. Sample and Measurement

This study employs a quantitative approach, where numerical data is systematically analyzed to address the research objectives.¹⁸ The data were collected through self-administered questionnaires, online channels (e.g., social media and e-mail), and face-to-face meetings. The questionnaire model regarding items and measurement scale, this study employs a 5-point Likert scale, ranging from Strongly Disagree (1) to Strongly Agree (5). The use of a 5-point scale was chosen because it offers a balance between reliability and simplicity, reduces respondent fatigue compared to scales with more points, and is widely adopted in behavioral and management research for capturing attitudes and perceptions.¹⁹

Items used in this study were adopted from previous studies and also adjusted to the research objectives. A dimensional construct is applied in ISC and is assessed using the cognitive construct (3 items), the relational construct (4 items), and the structural construct (4 items), adapted from Yusfiarto et al. and Muniady et al.²⁰ Other construct was measured directly; for instance, the IFL construct is measured using six items adapted from Dinc et al. and Duñendez et al., the IFI construct is measured using four items adapted from Eton et al. and Muslichah et al, and business performance is also measured using four items adapted from Yusfiarto et al.²¹

Furthermore, sampling was selected based on specific criteria to align with the research objective, including: (1) Muslim entrepreneurs, (2) operators of MSMEs, and (3) providers of Halal products/services. The total sample analyzed in this study consisted of 242 Halal MSME entrepreneurs from several major cities in Indonesia. The majority of respondents were drawn from Java, as most Halal-certified MSMEs in Indonesia are concentrated there.²² This regional focus ensures that the sample reflects areas with the highest density of Halal-certified enterprises.

¹⁸ Jan Jonker and Bartjan Pennink, *The Essence of Research Methodology* (Berlin, Heidelberg: Springer Berlin Heidelberg, 2009), <https://doi.org/10.1007/978-3-540-71659-4>.

¹⁹ Malcolm Koo and Shih-Wei Yang, "Likert-Type Scale," *Encyclopedia* 5, no. 1 (February 3, 2025): 18, <https://doi.org/10.3390/encyclopedia5010018>.

²⁰ Yusfiarto et al., "Does Islamic Social Capital Enhancing SMEs Sustainable Performance?"; Rajennd A/L Muniady et al., "The Effect of Cognitive and Relational Social Capital on Structural Social Capital and Micro-Enterprise Performance," *SAGE Open* 5, no. 4 (October 1, 2015): 215824401561118, <https://doi.org/10.1177/2158244015611187>.

²¹ Yusfiarto et al., "Does Islamic Social Capital Enhancing SMEs Sustainable Performance?"

²² Kementerian Agama, "Jumlah Penerbitan Sertifikat Halal Menurut Skala Usaha," Satu Data Kementerian Agama RI, 2024, <https://satudata.kemenag.go.id/dataset/detail/jumlah-penerbitan-sertifikat-halal-menurut-skala-usaha>.

2. Data Analysis

This study was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), with SmartPLS 3 software utilized for data management. PLS-SEM was chosen over Covariance-Based SEM due to limitations in the number of respondents and the complexity of the study model. This complexity refers to the combination of direct and indirect paths and the use of mediation effects.²³ Previous studies have demonstrated the advantages and capabilities of this method in addressing modeling issues in entrepreneurship and Islamic business reviews.²⁴ Specifically, regarding mediation analysis, this study adheres to various decision criteria for types of mediation, including full and partial mediation, along with their respective subcategories.²⁵ The assessment of reflective indicators includes reliability, convergent validity, and discriminant validity, ensuring that the measurement model is robust and valid.²⁶

Sample	Spectrum	Count.	%
Gender Ownership	Male	127	52%
	Female	115	48%
Business Age	< 2 years	77	32%
	2-4 years	74	31%
	5-8 years	41	17%
	> 8 years	50	21%
Business Scale	Micro	115	48%
	Small	91	38%
	Medium	36	15%
Sector	Food & Beverages	124	51%

²³ Joe F. Hair Jr et al., “Partial Least Squares Structural Equation Modeling (PLS-SEM),” *European Business Review* 26, no. 2 (March 4, 2014): 106–21, <https://doi.org/10.1108/EBR-10-2013-0128>.

²⁴ Lukman Hamdani, Hesty Juni Tambuati Subing, and Rizaldi Yusfiarto, “Catalysing Sustainability: Exploring Factors Shaping Green Initiatives in Micro, Small, and Medium-Sized Enterprises,” *Journal of Environmental Assessment Policy and Management*, February 19, 2024, <https://doi.org/10.1142/S146433224500042>; Annes Nisrina Khoirunnisa et al., “Linking Religiosity to Socio-Entrepreneurship Intention: A Case of Muslim Youth in Indonesia,” *Journal of Islamic Monetary Economics and Finance* 9, no. 2 (May 31, 2023), <https://doi.org/10.21098/jimf.v9i2.1647>; Sunarsih Sunarsih et al., “Motivational Factors to Paying Zakat through Institutions: A Multigroup Analysis of Urban and Suburban Muzakki Based on Digital Payment Scheme,” *Journal of Islamic Accounting and Business Research*, December 4, 2023, <https://doi.org/10.1108/JIABR-12-2022-0333>.

²⁵ Christian Nitzl, Jose L. Roldan, and Gabriel Cepeda, “Mediation Analysis in Partial Least Squares Path Modeling,” *Industrial Management & Data Systems* 116, no. 9 (October 17, 2016): 1849–64, <https://doi.org/10.1108/IMDS-07-2015-0302>.

²⁶ Joseph F. Hair et al., “When to Use and How to Report the Results of PLS-SEM,” *European Business Review* 31, no. 1 (January 14, 2019): 2–24, <https://doi.org/10.1108/EBR-11-2018-0203>.

	Tourism	82	34%
	Creative	36	15%
Province	Special Region of Yogyakarta	60	25%
	Special Region of Jakarta	43	18%
	West Java	39	16%
	Central Java	34	14%
	East Java	34	14%
	Banten	32	13%

Source: authors

3. Hypothesis Development

Islamic Social Capital (ISC) refers to the relationships and positions of formal and informal Islamic institutions, as well as their connections to the ability of Muslim business owners to maintain relationships that create shared value and achieve collective well-being.²⁷ From an Islamic legal perspective, ISC is firmly rooted in *fiqh al-mu'amalāt*, where values such as trust (*amānah*), cooperation (*ta'awun 'alā al-birr wa al-taqwā*), and justice ('*adl*) are not only ethical ideals but binding legal principles that regulate contracts, transactions, and institutional interactions. The foundation of ISC also resonates with the objectives of the *maqāṣid al-shari'ah*, particularly in promoting social cohesion (*hifz al-nafs* and *hifz al-māl*), safeguarding wealth through collective responsibility, and ensuring distributive justice.²⁸ Moreover, this research highlights that ISC comprises three main dimensions: cognitive, structural, and relational.

Cognitive dimension. This dimension is built upon the principles of solidarity, morality, and brotherhood, which ultimately stem from the agreed-upon vision and norms.²⁹ This cognitive dimension in ISC is divided into two categories: first, shared goals, which encompass a unified understanding and approach to collective tasks or activities grounded in Islamic principles, as well as a shared perspective on economic objectives. Second, shared culture categories are the rules and norms that govern appropriate behavior within social networks, such as noble character, honesty, and social responsibility.³⁰ The interaction in this dimension allows each business entity in the same

²⁷ Farooqi, "Islamic Social Capital and Networking"; Majeed, "Social Capital and Economic Performance of the Muslim World."

²⁸ Afsari, "Social Capital in Islam"; Adam Ng, Abbas Mirakhor, and Mansor H. Ibrahim, *Social Capital and Risk Sharing* (New York: Palgrave Macmillan US, 2015), <https://doi.org/10.1057/9781137476050>; Majeed, "Social Capital and Economic Performance of the Muslim World."

²⁹ Farooqi, "Islamic Social Capital and Networking"; Afsari, "Social Capital in Islam."

³⁰ Yusfiarto et al., "Does Islamic Social Capital Enhancing SMEs Sustainable Performance?"; Paul S. Adler and Seok-Woo Kwon, "Social Capital: Prospects for a New Concept," *The Academy of Management Review* 27, no. 1 (January 2002): 17, <https://doi.org/10.2307/4134367>.

organizational network to learn or enhance its literacy.³¹ Other studies also demonstrate that social capital is a crucial determinant of the financial literacy index and score in the context of rural household entrepreneurship.³² The ability to foster an understanding of financial institutions, improve financial management skills, and build trust in financial institutions can be developed through the information they receive from external organizations.³³ Therefore, the following hypothesis can be formulated:

H1: Cognitive dimension in ISC has a positive and significant effect on IFL.

Furthermore, this dimension also has implications for enhancing IFI. IFI, which is closely related to entrepreneurs' access to the Islamic financial industry, shows a strong correlation with cognitive skills.³⁴ The communication among members of an organization facilitates the exchange of information about Islamic financial institutions.³⁵ In the context of small businesses, it has been demonstrated that social connections and networks among entrepreneurs improve their access to the formal financial sector. This effect is illustrated by the tendency of small business operators with better social networks to use digital transactions.³⁶ In the same vein, Cheng and Shu's findings on the effectiveness of social capital demonstrate its ability to enhance financial inclusion

³¹ Kusdi Rahardjo, "The Effect of Social Capital on Financial Literacy of Small Businesses in Malang, East Java," in *3rd Annual International Conference on Public and Business Administration (AICoBPA 2020)* (Atlantis Press, 2021), 30–33; Eduardo Sánchez-García et al., "Cognitive Social Capital for Knowledge Absorption in Specialized Environments: The Path to Innovation," *Helijon* 9, no. 3 (March 2023): e14223, <https://doi.org/10.1016/j.heliyon.2023.e14223>; Muniady et al., "The Effect of Cognitive and Relational Social Capital on Structural Social Capital and Micro-Enterprise Performance."

³² Jingmei Zhao and Tiancheng Li, "Social Capital, Financial Literacy, and Rural Household Entrepreneurship: A Mediating Effect Analysis," *Frontiers in Psychology* 12, no. 724605 (August 27, 2021): 1–13, <https://doi.org/10.3389/fpsyg.2021.724605>.

³³ Annemarie Lloyd, *Information Literacy Landscapes* (Chandos Publishing, 2010), <https://doi.org/10.1533/9781780630298>; Gunilla Widén, Farhan Ahmad, and Isto Huuila, "Connecting Information Literacy and Social Capital to Better Utilise Knowledge Resources in the Workplace," *Journal of Information Science* 49, no. 6 (December 15, 2023): 1481–92, <https://doi.org/10.1177/01655515211060531>.

³⁴ Zamir Iqbal and Abbas Mirakhor, "Financial Inclusion: Islamic Finance Perspective," *Journal of Islamic Business and Management* 2, no. 1 (2012); Mutamimah and Pungky Lela Saputri, "Digital Social Capital and Financial Inclusion for Small Medium Enterprises," in *Computational Intelligence in Security for Information Systems Conference* (Springer, 2022), 249–59, https://doi.org/10.1007/978-3-031-08812-4_24; Akilu Aliyu Shinkafi, Sani Yahaya, and Tijjani Alhaji Sani, "Realising Financial Inclusion in Islamic Finance," *Journal of Islamic Marketing* 11, no. 1 (2020): 143–60.

³⁵ Farooqi, "Islamic Social Capital and Networking"; Mutamimah and Saputri, "Digital Social Capital and Financial Inclusion for Small Medium Enterprises."

³⁶ George Okello Candiya Bongomin et al., "Institutions and Financial Inclusion in Rural Uganda: The Mediating Role of Social Capital," *Journal of African Business* 19, no. 2 (April 3, 2018): 244–61, <https://doi.org/10.1080/15228916.2018.1425961>.

through a shared vision and mutual benefits. Therefore, the following hypothesis can be formulated:

H2: Cognitive dimension in ISC has a positive and significant effect on IFI.

Structural dimension. Structural dimensions include network density and connectivity, which influence the distribution of information among actors within networks.³⁷ The key factors supporting growth in Muslim business communities are social relationships, Sharia-compliant business networks, and community structures.³⁸ Furthermore, organizations with Islamic-based network structures tend to promote innovation and business growth while upholding Islamic business ethics and the values of *barakah* (blessings).³⁹ Previous studies have shown that networking structures are important for developing deep knowledge of the business environment to map strategy.⁴⁰ In the context of ISC, the structural dimension plays a crucial role in accelerating innovation processes and fostering the emergence of new ideas.⁴¹ Knowledge and information related to financial institutions and financial management processes circulate within these networks, supporting entrepreneurial growth.⁴² Therefore, the following hypothesis can be formulated:

H3: Structural dimension in ISC has a positive and significant effect on IFL.

From another perspective, the accessibility of poor and unbanked groups is supported by interpersonal trust and the trust developed within their social environment, which subsequently leads them to use formal banking services.⁴³ This social coordination mechanism helps reduce transaction costs and adds its own opportunistic value.⁴⁴

³⁷ Adler and Kwon, “Social Capital: Prospects for a New Concept.”

³⁸ Yusfiarto et al., “Does Islamic Social Capital Enhancing SMEs Sustainable Performance?”

³⁹ Pambekti, Yusfiarto, and Nugraha, “ROSCAs Through the Islamic Community: An Alternative to Enhancing Entrepreneurship and Wealth”; Farooqi, “Islamic Social Capital and Networking.”

⁴⁰ Dien Van Tran et al., “Exploring the Impact of Social Capital on Business Performance: The Role of Dynamic Capabilities, Open Innovation and Government Support,” *Journal of Open Innovation: Technology, Market, and Complexity* 10, no. 4 (December 2024): 100416, <https://doi.org/10.1016/j.joitmc.2024.100416>.

⁴¹ Yusfiarto et al., “Does Islamic Social Capital Enhancing SMEs Sustainable Performance?”

⁴² Widén, Ahmad, and Huivila, “Connecting Information Literacy and Social Capital to Better Utilise Knowledge Resources in the Workplace”; Zhao and Li, “Social Capital, Financial Literacy, and Rural Household Entrepreneurship: A Mediating Effect Analysis.”

⁴³ Bongomin et al., “Institutions and Financial Inclusion in Rural Uganda: The Mediating Role of Social Capital.”

⁴⁴ Francis Fukuyama, “Social Capital, Civil Society and Development,” *Third World Quarterly* 22, no. 1 (February 25, 2001): 7–20, <https://doi.org/10.1080/713701144>; Siqi Huang, Manli Cheng, and Zhenzhu Shu, “Role of Social Capital and Financial Inclusion in Sustainable Economic Growth,” *Research in International Business and Finance* 72 (October 2024): 102525, <https://doi.org/10.1016/j.ribaf.2024.102525>.

Similarly, the challenges faced by MSMEs, such as limited access to external capital due to the absence of financial statements,⁴⁵ can be mitigated through social structures that encourage them to access formal financial institutions, even imposing sanctions if they fail to meet their obligations.⁴⁶ Additionally, this structural process can be further reinforced by engaging Muslim communities, where information about formal financial institutions can be exchanged through various community and religious forums.⁴⁷ Thus, the following hypothesis can be formulated:

H4: Structural dimension in ISC has a positive and significant effect on IFI.

Relational dimension. The relational dimension is associated with the strength of networks built on trust.⁴⁸ Trust among members in a social context reduces business uncertainty, streamlines processes, and enhances efficiency.⁴⁹ In Muslim communities, relationships among individuals often develop through repeated interactions, which, in turn, facilitate intensive knowledge transfer for community development.⁵⁰ The ability of members within a social group to trust and respect one another facilitates knowledge exchange and access to additional information, such as financial and business-related knowledge.⁵¹ The trust among Halal MSME operators often leads them to have greater confidence in the knowledge they acquire from their surroundings. Therefore, trust in the social environment can enhance their understanding and skills, particularly in essential areas such as financial literacy.⁵² Based on these considerations, the following hypothesis can be formulated:

⁴⁵ Irena Jindrichovska, "Financial Management in SMEs," *European Research Studies* 16, no. 4 (2013): 79.

⁴⁶ Bongomin et al., "Institutions and Financial Inclusion in Rural Uganda: The Mediating Role of Social Capital."

⁴⁷ Dilwar Hussain, "Islamic Social Ethics, Social Work and the Common Good: Learning from Western Contexts," in *Exploring Islamic Social Work*, 2022, 121–36, https://doi.org/10.1007/978-3-030-95880-0_7; Abul Hassan, "Financial Inclusion of the Poor: From Microcredit to Islamic Microfinancial Services," *Humanomics* 31, no. 3 (2015): 354–71; Iqbal and Mirakhori, "Financial Inclusion: Islamic Finance Perspective."

⁴⁸ Xiaotang Zhang, Hailei Zhang, and Michael Song, "Does Social Capital Increase Innovation Speed? Empirical Evidence from China," *Sustainability* 11, no. 22 (November 15, 2019): 6432, <https://doi.org/10.3390/su11226432>.

⁴⁹ Rhys Andrews, "Organizational Social Capital, Structure and Performance," *Human Relations* 63, no. 5 (May 31, 2010): 583–608, <https://doi.org/10.1177/001827609342931>.

⁵⁰ Yusfiarto et al., "Does Islamic Social Capital Enhancing SMEs Sustainable Performance?"

⁵¹ Andrews, "Organizational Social Capital, Structure and Performance"; Majeed, "Social Capital and Economic Performance of the Muslim World"; Nathanael Ojong and Amon Simba, "Fostering Micro-Entrepreneurs' Structural and Relational Social Capital through Microfinance," *Journal of Small Business & Entrepreneurship* 31, no. 1 (January 2, 2019): 1–20, <https://doi.org/10.1080/08276331.2017.1423161>.

⁵² Ali Saleh Alshebami and Theyazn H. H. Aldhyani, "The Interplay of Social Influence, Financial Literacy, and Saving Behaviour among Saudi Youth and the Moderating Effect of Self-Control," *Sustainability* 14, no. 14 (July 18, 2022): 8780, <https://doi.org/10.3390/su14148780>; Catherine A Rogers, "What

H5: The Relational dimension in ISC has a positive and significant effect on IFL.

Several empirical findings indicate that the relational dimension is correlated with financial inclusion.⁵³ Trust-based networks enable individuals to trust their surroundings or at least other individuals they consider references. The role of social capital allows disadvantaged groups to gain access to the formal financial sector.⁵⁴ Moreover, the connections among members of social groups can serve as a collective strength, gathering actual and potential resources, including access to the formal financial sector.⁵⁵ The same applies to SMEs, where social connections enhance their access to formal financial services.⁵⁶ Thus, within the context of Muslim communities that build social capital, this also increases the accessibility of Halal MSMEs to formal Islamic finance. Therefore, the following hypothesis can be formulated:

H6: The Relational dimension in ISC has a positive and significant effect on IFI.

Islamic financial literacy. IFL can be defined as the level of understanding individuals possess in managing and decision-making processes related to finance that align with Islamic principles.⁵⁷ These aspects collectively encompass the concept of IFL application for Muslim individuals, which plays a significant role in enhancing IFL. Research indicates that financial literacy acts as a stimulant for MSMEs to access Islamic banking.⁵⁸ This finding is further supported by empirical evidence showing that IFL is a key factor in its formation in Indonesia.⁵⁹ The improvement in Halal SMEs' knowledge and skills in

Causes Suboptimal Financial Behaviour? An Exploration of Financial Literacy, Social Influences and Behavioural Economics," no. 18 (2010).

⁵³ Bongomin et al., "Institutions and Financial Inclusion in Rural Uganda: The Mediating Role of Social Capital"; Nixon Kamukama and Bazinzi Natamba, "Social Capital: Mediator of Social Intermediation and Financial Services Access," *International Journal of Commerce and Management* 23, no. 3 (2013): 204–15.

⁵⁴ Bongomin et al., "Institutions and Financial Inclusion in Rural Uganda: The Mediating Role of Social Capital."

⁵⁵ Fukuyama, "Social Capital, Civil Society and Development"; Robert D. Putnam, "Bowling Alone: America's Declining Social Capital," in *Culture and Politics* (New York: Palgrave Macmillan US, 2000), 223–34, https://doi.org/10.1007/978-1-349-62965-7_12; Giancarlo Spagnolo, "Social Relations and Cooperation in Organizations," *Journal of Economic Behavior & Organization* 38, no. 1 (January 1999): 1–25, [https://doi.org/10.1016/S0167-2681\(98\)00119-X](https://doi.org/10.1016/S0167-2681(98)00119-X).

⁵⁶ Ishaq Ahmad Dar and Mridula Mishra, "Dimensional Impact of Social Capital on Financial Performance of SMEs," *Journal of Entrepreneurship* 29, no. 1 (2020): 38–52, <https://doi.org/10.1177/0971355719893499>; Mutamimah and Saputri, "Digital Social Capital and Financial Inclusion for Small Medium Enterprises."

⁵⁷ Purnomo M Antara, Rosidah Musa, and Faridah Hassan, "Bridging Islamic Financial Literacy and Halal Literacy : The Way Forward in Halal Ecosystem," *Procedia Economics and Finance* 37, no. 16 (2016): 196–202, [https://doi.org/10.1016/S2212-5671\(16\)30113-7](https://doi.org/10.1016/S2212-5671(16)30113-7).

⁵⁸ Ahmed Tahiri Jouti, "Islamic Finance: Financial Inclusion or Migration?," *ISRA International Journal of Islamic Finance* 10, no. 2 (December 10, 2018): 277–88, <https://doi.org/10.1108/IJIF-07-2018-0074>.

⁵⁹ Ali et al., "Islamic Financial Inclusion Determinants in Indonesia: An ANP Approach."

managing finances in accordance with Islamic principles ultimately encourages them to prefer the Islamic financial sector for business funding.⁶⁰ Therefore, the following hypothesis can be formulated:

H7: IFL has a positive and significant effect on IFI

In a business context, IFL has been recognized as a precursor to knowledge acquisition and the implementation of financial concepts, which help develop Shariah-compliant business models.⁶¹ The improvement in business management processes among Halal MSME actors is likely to increase as their knowledge, understanding, and capabilities in financial management improve.⁶² Financial literacy influences business actors' decision-making by enhancing their understanding of financial management.⁶³ Similarly, in this context, financial attitudes and financial awareness can improve the business performance of Muslim SMEs.⁶⁴ Furthermore, other findings also clarify that IFL enhances the capabilities and performance of Halal MSMEs.⁶⁵ Therefore, the following hypothesis can be formulated:

H8: IFL has a positive and significant effect on Halal business performance.

⁶⁰ Ali et al.; Masrizal, Sukmana, and Trianto, "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia"; Siti Mujiyatun et al., "The Impact of Marketing Communication and Islamic Financial Literacy on Islamic Financial Inclusion and MSMEs Performance: Evidence from Halal Tourism in Indonesia," *Sustainability* 15, no. 13 (June 21, 2023): 9868, <https://doi.org/10.3390/su15139868>.

⁶¹ Firman Menne et al., "Sharia Economy, Islamic Financial Performance and Factors That Influence It—Evidence from Indonesia," *Economies* 11, no. 4 (April 6, 2023): 111, <https://doi.org/10.3390/economies11040111>.

⁶² Anthony Abiodun Eniola and Harry Entebang, "SME Managers and Financial Literacy," *Global Business Review* 18, no. 3 (June 4, 2017): 559–76, <https://doi.org/10.1177/0972150917692063>; Sajiah Yakob et al., "Financial Literacy and Financial Performance of Small and Medium-Sized Enterprises," *The South East Asian Journal of Management* 15, no. 1 (April 30, 2021): 72–96, <https://doi.org/10.21002/seam.v15i1.13117>.

⁶³ Antonio Duréndez et al., "Management Control Systems and Performance in Small and Medium Family Firms," *European Journal of Family Business* 6, no. 1 (January 2016): 10–20, <https://doi.org/10.1016/j.ejfb.2016.05.001>.

⁶⁴ Raed Khamis Alharbi, Sofri Yahya, and Veland Ramadani, "Financial Literacy, Access to Finance, SMEs Performance and Islamic Religiosity: Evidence from Saudi Arabia," *International Journal of Entrepreneurship and Small Business* 46, no. 2 (2022): 259–85.

⁶⁵ Masrizal, Sukmana, and Trianto, "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia"; Chandra Satria et al., "Performance Improvement in Small and Medium Enterprises; Financial Literacy and Business Experience: A Case of Palembang City," *Quality - Access to Success* 24, no. 193 (January 1, 2023), <https://doi.org/10.47750/QAS/24.193.30>; Popon Srisusilawati et al., "The Nexus Between Dynamic Capability and Islamic Financial Literacy Towards Innovation of Small Medium Enterprises (SMEs) in Indonesia," 2021, <https://doi.org/10.2991/assehr.k.210304.008>.

Islamic financial inclusion. IFI refers to the accessibility of Islamic financial institutions' services and products.⁶⁶ The mechanism of IFI focuses on accessibility to Sharia-compliant financial institutions, including Islamic banking and Islamic insurance.⁶⁷ Generally, access to formal finance can help MSMEs avoid stagnation, foster innovation, and enhance their business performance.⁶⁸ This is crucial for Halal MSMEs, which frequently face capital constraints in business development.⁶⁹ Furthermore, regarding the enhancement of Halal MSME performance, another study emphasizes the importance of increasing financial inclusion for Muslim entrepreneurs.⁷⁰ Therefore, the following hypothesis can be formulated:

H9: IFI has a positive and significant effect on Halal business performance.

IFL as a mediator. Financial literacy among MSMEs has been shown to contribute as a mediator in various empirical studies⁷¹. Other findings reveal that financial literacy mediates the relationship between institutional framing and financial inclusion.⁷² This study underscores that financial literacy serves as an intermediary between the social influences that shape financial decisions. Similarly, Bongomin et al.⁷³ explain that social capital can reduce the occurrence of fraudulent activities by facilitating easy access to

⁶⁶ Tahiri Jouti, "Islamic Finance: Financial Inclusion or Migration?"; Masrizal, Sukmana, and Trianto, "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia."

⁶⁷ Sasiaprita Novreska and Tika Arundina, "The Role of Islamic Financial Inclusion in Poverty, Income Inequality, and Human Development in Indonesia," *Journal of Islamic Monetary Economics and Finance* 10, no. 1 (February 29, 2024), <https://doi.org/10.21098/jimf.v10i1.1973>.

⁶⁸ Tita Anthanasius Fomum and Pieter Opperman, "Financial Inclusion and Performance of MSMEs in Eswatini," *International Journal of Social Economics* 50, no. 11 (November 17, 2023): 1551–67, <https://doi.org/10.1108/IJSE-10-2020-0689>; Kusuma Ratnawati, "The Influence of Financial Inclusion on MSMEs' Performance Through Financial Intermediation and Access to Capital," *The Journal of Asian Finance, Economics and Business* 7, no. 11 (November 30, 2020): 205–18, <https://doi.org/10.13106/jafeb.2020.vol7.no11.205>.

⁶⁹ Bassey Ina Ibor, Amenawo Ikpa Offiong, and Enyeokpon Samuel Mendie, "Financial Inclusion and Performance of Micro, Small and Medium Scale Enterprises in Nigeria," *International Journal of Research Granthaalayah* 5, no. 3 (2017): 104–22; Masrizal, Sukmana, and Trianto, "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia."

⁷⁰ Mujiatun et al., "The Impact of Marketing Communication and Islamic Financial Literacy on Islamic Financial Inclusion and MSMEs Performance: Evidence from Halal Tourism in Indonesia."

⁷¹ Roberto Graña-Alvarez et al., "Financial Literacy in SMEs: A Systematic Literature Review and a Framework for Further Inquiry," *Journal of Small Business Management*, April 20, 2022, 1–50, <https://doi.org/10.1080/00472778.2022.2051176>.

⁷² George Okello Candiya Bongomin, Joseph Mpeera Ntayi, and John C. Munene, "Institutional Framing and Financial Inclusion," *International Journal of Social Economics* 44, no. 12 (December 4, 2017): 1727–44, <https://doi.org/10.1108/IJSE-02-2015-0032>.

⁷³ George Okello Candiya Bongomin et al., "Social Capital: Mediator of Financial Literacy and Financial Inclusion in Rural Uganda," *Review of International Business and Strategy* 26, no. 2 (June 6, 2016): 291–312, <https://doi.org/10.1108/RIBS-06-2014-0072>.

financial services. Social capital, based on trust, social norms, and connections among members, enables members to monitor and remind each other.⁷⁴ This means that being part of a social community provides Halal business actors with opportunities to enhance their knowledge and information about potential financing.⁷⁵ Therefore, the following hypothesis can be formulated:

H7a: IFL mediates the relationship between cognitive and IFI.

H7b: IFL mediates the relationship between structural and IFI.

H7c: IFL mediates the relationship between relational and IFI.

IFI as a mediator. As previously explained, enhancing business actors' knowledge of Islamic financial institutions improves their ability to manage finances in accordance with Islamic Sharia principles, thereby affecting the use of Islamic financial products and services.⁷⁶ This improvement in financial management knowledge and skills facilitates better access to formal finance and increases the acceptance of external funding.⁷⁷ The ability of Halal MSMEs to secure external funding can enhance innovation and improve

⁷⁴ Mutamimah and Saputri, "Digital Social Capital and Financial Inclusion for Small Medium Enterprises"; Chike Onodugo et al., "Moderating Role of Social Capital on the Effect of Financial Behavior on Financial Inclusion," *Problems and Perspectives in Management* 19, no. 3 (September 28, 2021): 502–12, [https://doi.org/10.21511/ppm.19\(3\).2021.41](https://doi.org/10.21511/ppm.19(3).2021.41); Widén, Ahmad, and Huuila, "Connecting Information Literacy and Social Capital to Better Utilise Knowledge Resources in the Workplace."

⁷⁵ Anirban Ganguly, Asim Talukdar, and Debdeep Chatterjee, "Evaluating the Role of Social Capital, Tacit Knowledge Sharing, Knowledge Quality and Reciprocity in Determining Innovation Capability of an Organization," *Journal of Knowledge Management* 23, no. 6 (August 12, 2019): 1105–35, <https://doi.org/10.1108/JKM-03-2018-0190>; Perminas Pangeran, "Entrepreneurs' Social and Human Capital on Their Knowledge of Finance Alternatives: Evidence From Indonesia," *European Scientific Journal* 11, no. 10 (2015): 114–31; Arnout Seghers, Sophie Manigart, and Tom Vanacker, "The Impact of Human and Social Capital on Entrepreneurs' Knowledge of Finance Alternatives," *Journal of Small Business Management* 50, no. 1 (January 2012): 63–86, <https://doi.org/10.1111/j.1540-627X.2011.00344.x>.

⁷⁶ Alharbi, Yahya, and Ramadani, "Financial Literacy, Access to Finance, SMEs Performance and Islamic Religiosity: Evidence from Saudi Arabia."

⁷⁷ Anthony Abiodun Eniola and Harry Entebang, "Financial Literacy and SME Firm Performance," *International Journal of Research Studies in Management* 5, no. 1 (October 2015), <https://doi.org/10.5861/ijrsm.2015.1304>; Srisusilawati et al., "The Nexus Between Dynamic Capability and Islamic Financial Literacy Towards Innovation of Small Medium Enterprises (SMEs) in Indonesia"; Aqidah Asri Suwarsi, Aninta Gina Sharfina, and Anisatun Anggraeni, "Portrait of MSMEs' Islamic Financial Literacy and The Impact on Business Development," *Afkaruna: Indonesian Interdisciplinary Journal of Islamic Studies* 18, no. 1 (July 26, 2022), <https://doi.org/10.18196/afkaruna.v18i1.12991>.

overall business processes.⁷⁸ In line with these findings, Masrizal et al.⁷⁹ specifically discuss IFI as a mediator of the relationship between financial literacy and business performance in the Muslim context. Thus, the multifaceted impact of IFL on the growth and development of Halal MSMEs underscores its importance as a key driver of financial inclusion and business success among Muslim entrepreneurs. Finally, the following hypothesis can be formulated:

H9a: IFI mediates the relationship between IFL and Halal business performance

III. Results and Discussion

1. Data Screening

This study examines the presence of standard-method bias (CMB) due to simultaneous respondent collection, which may affect the validity of the research findings.⁸⁰ The results of Harman's single-factor test indicate that the most significant variance explained by a single factor is only 43.2 percent. This finding suggests that potential standard method bias, which could compromise data validity, can be mitigated.⁸¹ Regarding the minimum sample adequacy, this study follows the guidelines provided by Hair et al.⁸² by applying the inverse square root method introduced by Kock and Hadaya.⁸³ With a statistical power level of 80 percent, a significance level of 5 percent, and a path coefficient of 0.15, the minimum required sample size is 155. Given that the final sample size in this study is 242, it meets the requirements for PLS-SEM analysis. Figure 1 illustrates in detail the conceptual model of this study, outlining the relationships among the key variables and the analytical framework employed.

⁷⁸ Mujiatun et al., "The Impact of Marketing Communication and Islamic Financial Literacy on Islamic Financial Inclusion and MSMEs Performance: Evidence from Halal Tourism in Indonesia"; Ratnawati, "The Influence of Financial Inclusion on MSMEs' Performance Through Financial Intermediation and Access to Capital."

⁷⁹ Masrizal, Sukmana, and Trianto, "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia."

⁸⁰ Philip M. Podsakoff et al., "Common Method Biases in Behavioral Research: A Critical Review of the Literature and Recommended Remedies," *Journal of Applied Psychology* 88, no. 5 (2003): 879–903, <https://doi.org/10.1037/0021-9010.88.5.879>.

⁸¹ Inma Rodríguez-Ardura and Antoni Meseguer-Artola, "Editorial: How to Prevent, Detect and Control Common Method Variance in Electronic Commerce Research," *Journal of Theoretical and Applied Electronic Commerce Research* 15, no. 2 (2020): 0–0, <https://doi.org/10.4067/S0718-18762020000200101>.

⁸² Joseph F. Hair et al., *Partial Least Squares Structural Equation Modeling (PLS-SEM) Using R*, Classroom Companion: Business (Cham: Springer International Publishing, 2021), <https://doi.org/10.1007/978-3-030-80519-7>.

⁸³ Ned Kock and Pierre Hadaya, "Minimum Sample Size Estimation in PLS-SEM: The Inverse Square Root and Gamma-Exponential Methods," *Information Systems Journal* 28, no. 1 (January 2018): 227–61, <https://doi.org/10.1111/isj.12131>.

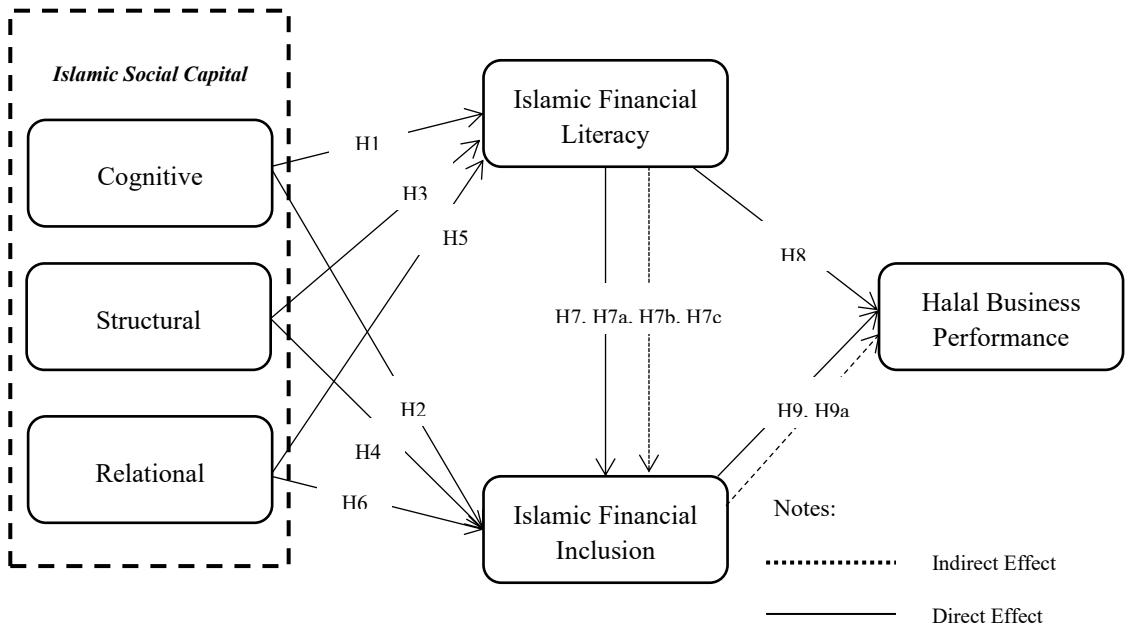
2. Measurement Model

In this phase, the first test applied was a reliability examination, which was further assessed using Composite Reliability (CR) values. The output showed that all CR values exceeded the recommended threshold of 0.70, confirming the internal consistency of the constructs.⁸⁴ Following the reliability assessment, the subsequent tests focused on evaluating the constructs' convergent and discriminant validity. Convergent validity was assessed using outer loadings and Average Variance Extracted (AVE) values. The outer loadings for all items exceeded the recommended threshold of 0.70, except for IFL 2 and REL 1, which were excluded from the final model. Other analysis results showed that all AVE values exceeded the recommended minimum of 0.50.⁸⁵ Finally, discriminant validity was examined using the Heterotrait-Monotrait (HTMT) ratio, which indicated that the relationships between the constructs were generally lower than the maximum threshold of 0.90.⁸⁶

⁸⁴ J. F. Hair et al., "A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM) (3rd Ed.)," *Thousand Oaks, CA: Sage*, 2022.

⁸⁵ Hair et al., "When to Use and How to Report the Results of PLS-SEM."

⁸⁶ Jörg Henseler, Christian M. Ringle, and Marko Sarstedt, "A New Criterion for Assessing Discriminant Validity in Variance-Based Structural Equation Modeling," *Journal of the Academy of Marketing Science* 43, no. 1 (January 22, 2015): 115–35, <https://doi.org/10.1007/s11747-014-0403-8>.



Constructs	1	2	3	4	5	6
Cognitive	1.000					
Islamic Financial Inclusion	0.786	1.000				
Islamic Financial Literacy	0.853	0.873	1.000			
Performance	0.497	0.650	0.671	1.000		
Relational	0.861	0.715	0.813	0.679	1.000	
Structural	0.861	0.808	0.893	0.732	0.893	1.000

3. Structural Model

At this stage, multicollinearity analysis (inner) was considered, tested using the Variance Inflation Factors (VIF) value. The VIF values ranged from 1.741 to 2.785, remaining below the threshold of 5. Furthermore, the coefficient of determination (R^2) for the business performance construct indicated that the analyzed constructs explained 37.6% of the variance in business performance. Following this measurement, predictive relevance analysis was performed using Stone-Geisser Q^2 values. The Q^2 values indicate the predictive relevance of the dependent variable with respect to the independent

variables.⁸⁷ Overall, the Q^2 values for all constructs exceeded the minimum threshold of 0 (0.382), indicating that the research model is well-constructed.

Moving on to bootstrapping analysis, this research assessed significance levels using bootstrap resampling with 5,000 iterations and confidence intervals with t- and p-values for two-tailed significance (ns: not significant; * p: 0.05; ** p: 0.01; *** p: 0.001). First, in hypothesis testing, the direct relationships revealed that the cognitive ($\beta = 0.115, p > 0.05$), relational ($\beta = 0.052, p > 0.05$), and structural ($\beta = 0.119, p > 0.05$) dimensions did not directly enhance IFI. Conversely, higher levels of the dimensions of ISC, cognitive ($\beta = 0.195, p < 0.05$), relational ($\beta = 0.197, p < 0.05$), and structural ($\beta = 0.492, p < 0.05$) were found to improve IFL among Muslim entrepreneurs significantly. Similarly, the mechanism of enhancing IFL was found to be effective for IFI ($\beta = 0.585, p < 0.05$) and business performance ($\beta = 0.359, p < 0.05$). Furthermore, IFI is an essential predictor of the Halal MSME sector's performance ($\beta = 0.296, p < 0.05$). Therefore, H2, H4, and H6 were rejected, while H1, H3, and H5 were accepted in this study.

Construct	Code	Outer Loadings	Outer VIF	Outer Weights	CR	AVE
Cognitive	COG 1	0.787***	1.329	0.449		
	COG 2	0.750***	1.157	0.490	0.797	0.567
	COG 3	0.720***	1.268	0.388		
Relational	REL1	Dropped	Dropped	Dropped	0.874	0.698
	REL2	0.808***	1.665	0.358		
	REL3	0.872***	1.928	0.406		
	REL4	0.826***	1.515	0.432		
Structural	STC1	0.733***	1.459	0.313	0.848	0.583
	STC2	0.759***	1.472	0.335		

⁸⁷ Hair et al., "When to Use and How to Report the Results of PLS-SEM."

STC3	0.813***	1.760	0.358
STC4	0.747***	1.619	0.301

Construct	Code	Outer Loadings	Outer VIF	Outer Weights	CR	AV E
IFI	IFI1	0.836***	2.652	0.292	0.89	0.67
					2	4
	IFI2	0.884***	2.971	0.330		
	IFI3	0.754***	1.735	0.255		
	IFI4	0.805***	1.904	0.337		
IFL	IFL1	0.748***	1.562	0.271	0.86	0.56
					6	4
	IFL2	Dropped	Dropped	Dropped		
	IFL3	0.713***	1.523	0.214		
	IFL4	0.782***	1.674	0.278		
	IFL5	0.764***	1.598	0.272		
	IFL6	0.744***	1.470	0.294		
Performance	PER 1	0.898***	2.979	0.288	0.94	0.79
					0	5
	PER 2	0.885***	2.761	0.274		
	PER 3	0.915***	3.470	0.281		
	PER 4	0.869***	2.475	0.279		

PLS-Path	β	<i>t</i>	ULCI	LLCI	Conclusion
COG -> IFL -> IFI	0.114*	2.301	0.030	0.225	Full Mediation
REL -> IFL -> IFI	0.115*	2.454	0.034	0.220	Full Mediation

STC -> IFL -> IFI	0.288***	5.088	0.186	0.410	Full Mediation
IFL -> IFI -> PER	0.173*	2.332	0.045	0.336	Partial Mediation

Notes: *LLCI* is a lower-level confidence interval, and *ULCI* is an upper-level confidence interval

Second, the mediation analysis mechanism revealed that IFL fully mediates the relationship between the dimensions of ISC: cognitive ($\beta = 0.114, p < 0.05$), structural ($\beta = 0.115, p < 0.05$), and relational ($\beta = 0.288, p < 0.05$), and IFI. This is because, in the direct relationship, none of the ISC dimensions were found to have a significant effect on IFI, whereas IFL did.⁸⁸ In contrast, the IFI construct partially mediates the relationship between IFL and business performance ($\beta = 0.173, p < 0.05$), while the direct relationship was also significant ($\beta = 0.359, p < 0.05$). Therefore, it can be concluded that H7a, H7b, H7c, and H9a are supported in this study.

PLS-Path	VIF	β	f^2	t	LLCI	ULCI	Result
COG -> IFL	1.741	0.195**	0.157	2.581	0.044	0.339	Yes
REL-> IFL	2.160	0.197**	0.147	2.778	0.058	0.334	Yes
STC -> IFL	2.156	0.492***	0.392	7.022	0.347	0.624	Yes
COG -> IFI	1.840	0.115ns	0.019	1.711	-0.019	0.249	No
REL-> IFI	2.260	0.052ns	0.003	0.717	-0.086	0.201	No
STC-> IFI	2.785	0.119ns	0.014	1.205	-0.078	0.311	No
IFL -> IFI	2.600	0.585***	0.456	6.575	0.401	0.754	Yes
IFI -> PER	2.533	0.296**	0.156	2.658	0.067	0.504	Yes
IFL -> PER	2.533	0.359***	0.182	3.522	0.149	0.551	Yes

Notes: *LLCI* is a lower-level confidence interval, and *ULCI* is an upper-level confidence interval

Constructs	SSO	SSE	Q^2	R^2
Islamic Financial Inclusion	836	493.224	0.410	0.623
Islamic Financial Literacy	1045	693.425	0.336	0.610
Performance	836	585.969	0.299	0.376

⁸⁸ Nitzl, Roldan, and Cepeda, "Mediation Analysis in Partial Least Squares Path Modeling."

Relational	627	627.000
Structural	836	836.000
Cognitive	627	627.000

Notes: SSO is the Sum of Squared Observations, and SSE is the Sum of Squared Errors

4. Discussion

This study focuses on exploring the relationship between dimensions of ISC and Muslim business performance (Halal MSMEs) in the context of Indonesia, a Muslim-majority country. Findings from the direct relationship indicate that the dimensions of ISC, cognitive, structural, and relational, are essential antecedents for enhancing IFL among Muslim entrepreneurs, supporting similar previous studies.⁸⁹ Specifically, in the cognitive aspect, the findings emphasize the role of creating a conducive environment as a knowledge resource,⁹⁰ particularly regarding Islamic financial principles. A business environment that fosters a model of roles and collective awareness of the importance of financial management in accordance with Islamic principles has the potential to promote the implementation of values consistent with these principles. This collective awareness can create a shared understanding and commitment among entrepreneurs, fostering a culture of trust, mutual respect, and ethical collaboration.

In the structural aspect, the study reveals that a social network structure aligned with Islamic principles and ethics plays a central role in improving IFL. As discussed, the structural aspect focuses on social relationship patterns among Muslim entrepreneurs, particularly in the context of Halal MSMEs.⁹¹ An Islamic-oriented social structure can create a knowledge network based on Islamic principles, such as ethical transaction management and interest-free financial planning strategies. This social network also has the potential to form a dense network for the sharing of both tangible and intangible resources, supporting more effective and efficient Islamic financial management. Similarly, the relational aspect shows significant results, providing a substantial effect on enhancing IFL. This mechanism underscores the quality of social networks formed

⁸⁹ Farooqi, "Islamic Social Capital and Networking"; Alshebami and Aldhyani, "The Interplay of Social Influence, Financial Literacy, and Saving Behaviour among Saudi Youth and the Moderating Effect of Self-Control"; Rogers, "What Causes Suboptimal Financial Behaviour? An Exploration of Financial Literacy, Social Influences and Behavioural Economics."

⁹⁰ Seghers, Manigart, and Vanacker, "The Impact of Human and Social Capital on Entrepreneurs' Knowledge of Finance Alternatives"; Lloyd, *Information Literacy Landscapes*; Widén, Ahmad, and Huivila, "Connecting Information Literacy and Social Capital to Better Utilise Knowledge Resources in the Workplace."

⁹¹ Farooqi, "Islamic Social Capital and Networking"; Majeed, "Social Capital and Economic Performance of the Muslim World"; Yusfiarto et al., "Does Islamic Social Capital Enhancing SMEs Sustainable Performance?"

among Halal MSME entrepreneurs, which can build trust and mutual respect and strengthen reciprocal obligations among them.⁹² Also, with appropriate intensity, this process can serve as a means for Muslim entrepreneurs to access knowledge and skills in Islamic financial management.

An interesting finding of this study is that the three dimensions of ISC (cognitive, structural, and relational) do not have a significant influence on IFI among Halal MSMEs. Focusing on the cognitive dimension, the findings suggest that patterns of social interaction and correlation do not automatically translate into greater access to formal financial institutions. Instead, they indicate that the cognitive dimension helps explain a shared perspective of economic objectives grounded in Islamic principles and the influence of social networks shaped by Islamic teachings. These networks appear to affect IFL more strongly than IFI.⁹³ In this context, IFL is understood as a shared, mutually beneficial outcome, while IFI reflects concrete actions by Halal SME actors that are less easily transmitted within social groups.⁹⁴

The structural dimension yields similar results. Network density and connectivity, even when aligned with Islamic ethical values and the notion of *barakah*, do not necessarily foster IFI among SMEs. Instead, the structural dimension more clearly reinforces IFL, which is more readily shared as a collective value within SME social groups in Indonesia. This extends the study that argues that social capital can promote financial inclusion by showing that these effects do not hold uniformly across structural dimensions.⁹⁵

Finally, the relational dimension also appears to exert no direct effect on IFI. The trust embedded in social groups does not automatically enhance financial inclusion. While Afsari⁹⁶ emphasizes that social correlations, such as moral values, cooperation, and solidarity rooted in Islam, can stimulate economic activity, the present findings suggest a narrower channel: trust tends to strengthen IFL rather than IFI. In other words, social

⁹² Shahzad Ansari, Kamal Munir, and Tricia Gregg, "Impact at the 'Bottom of the Pyramid': The Role of Social Capital in Capability Development and Community Empowerment," *Journal of Management Studies* 49, no. 4 (June 24, 2012): 813–42, <https://doi.org/10.1111/j.1467-6486.2012.01042.x>; Ojong and Simba, "Fostering Micro-Entrepreneurs' Structural and Relational Social Capital through Microfinance"; Alshebami and Aldhyani, "The Interplay of Social Influence, Financial Literacy, and Saving Behaviour among Saudi Youth and the Moderating Effect of Self-Control."

⁹³ Yusfiarto et al., "Does Islamic Social Capital Enhancing SMEs Sustainable Performance?"

⁹⁴ Afdawaiza Afdawaiza, Indri Supriani, and Rizaldi Yusfiarto, "Catalyzing Muslim Women-Owned Halal SMEs: Aligning Models of Islamic Financial Institutions and Governmental Involvement," *Social Sciences & Humanities Open* 12 (2025): 102042, <https://doi.org/10.1016/j.ssaho.2025.102042>.

⁹⁵ George Okello Candiya Bongomin et al., "Exploring the Mediating Role of Social Capital in the Relationship between Financial Intermediation and Financial Inclusion in Rural Uganda," *International Journal of Social Economics* 45, no. 5 (May 14, 2018): 829–47, <https://doi.org/10.1108/IJSE-08-2017-0357>.

⁹⁶ Afsari, "Social Capital in Islam."

ties among Halal SMEs in Indonesia are more closely linked to the expansion of informal linkages before they can contribute to formal inclusion. This underscores the continuing importance of strengthening Islamic social capital (ISC) as a pathway toward enhancing IFI.

Regarding IFI and business performance, both as antecedents and consequences, the findings align with expectations. The focus on enhancing IFL is crucial for the mechanisms of IFI and business performance. Improving IFL enables Muslim entrepreneurs to understand better the complexity of the products and services offered by Islamic financial institutions, thereby enhancing their access to and use of these services. Furthermore, IFL also improves the implementation of financial management aligned with Islamic principles, thereby enhancing business performance. Enhanced access to and use of services offered by Islamic financial institutions provides Halal MSME actors with diverse alternatives for business development through capital participation and external support. Therefore, these findings overall support previous studies that highlight IFL and IFI as essential proxies at the organizational level for Halal MSME operations.⁹⁷

The study also examines the influence of IFL and IFI as mediators. The findings support previous research indicating that IFL fully mediates the relationships between the dimensions of ISC and IFI.⁹⁸ In the cognitive dimension, shared religious values and ethical principles shape business practices, encouraging Halal MSME owners to seek Shariah-compliant financial solutions; however, without sufficient financial literacy, their ability to navigate Islamic financial services remains limited. Structurally, Halal MSME networks, such as Islamic cooperatives and entrepreneurial forums, play a vital role in disseminating financial knowledge and facilitating access to Islamic financial institutions, but their impact depends on their members' financial literacy. The relational dimension, characterized by trust and social cohesion among Halal MSME entrepreneurs, strengthens confidence in Islamic banking and financial institutions; however, trust alone does not guarantee optimal financial decision-making without adequate literacy.

⁹⁷ Alharbi, Yahya, and Ramadani, "Financial Literacy, Access to Finance, SMEs Performance and Islamic Religiosity: Evidence from Saudi Arabia"; Ibor, Offiong, and Mendie, "Financial Inclusion and Performance of Micro, Small and Medium Scale Enterprises in Nigeria"; Mujiatun et al., "The Impact of Marketing Communication and Islamic Financial Literacy on Islamic Financial Inclusion and MSMEs Performance: Evidence from Halal Tourism in Indonesia"; Masrizal, Sukmana, and Trianto, "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia."

⁹⁸ Bongomin et al., "Exploring the Mediating Role of Social Capital in the Relationship between Financial Intermediation and Financial Inclusion in Rural Uganda"; Ganguly, Talukdar, and Chatterjee, "Evaluating the Role of Social Capital, Tacit Knowledge Sharing, Knowledge Quality and Reciprocity in Determining Innovation Capability of an Organization"; Pangeran, "Entrepreneurs' Social and Human Capital on Their Knowledge of Finance Alternatives: Evidence From Indonesia."

Finally, the findings support previous research stating that IFI can mediate the relationship between financial literacy and business performance in the Halal MSME sector.⁹⁹ This study shows that greater knowledge among Muslim entrepreneurs of Islamic financial management aspects leads to a more effective understanding of access to and the concepts underlying the products offered by Islamic financial institutions. Therefore, enhancing IFL within the Halal MSME community through targeted education programs, mentoring initiatives, and institutional support is a critical step to maximize the benefits of ISC and drive broader financial inclusion, enabling Muslim entrepreneurs to access and use Islamic financial products effectively.¹⁰⁰ This mechanism highlights the involvement of external financial resources, both capital and technical, which are beneficial for efficient capital participation and performance.

IV. Conclusion

It is widely recognized that Halal MSME entrepreneurs are often engaged in business networks due to their communal orientation and reliance on personal relationships. From this perspective, this study highlights the importance of ISC dimensions: normative, relational, and structural as crucial proxies for enhancing knowledge and access to Islamic finance. The findings demonstrate that ISC mechanisms are effective in improving IFL, which strongly correlates with the increased utilization of Islamic financial institutions. This occurs because a supportive cognitive environment facilitates knowledge of Islamic financial principles, while relational and structural networks aligned with these principles contribute to more effective Islamic financial management.

From an Islamic legal perspective, enhancing IFL and IFI through ISC is consistent with the objectives of *maqāṣid al-sharī‘ah*, particularly *hifz al-māl*, which underscores the obligation to safeguard, manage, and responsibly develop wealth. Moreover, ethical and collaborative social networking practices reflect the principles of *ta‘awun* and *‘adālah* within *fiqh al-mu‘āmalat*, which form the foundation of Islamic economic interactions. Therefore, these findings emphasize that cohesive and ethical social networks serve not only as socio-economic instruments but also as manifestations of *Shari‘ah* principles, strengthening Islamic financial literacy and inclusion and thereby fostering the business performance of Halal MSME entrepreneurs.

⁹⁹ Udullage Shaniqa Thathsarani and Wei Jianguo, “Do Digital Finance and the Technology Acceptance Model Strengthen Financial Inclusion and SME Performance?,” *Information* 13, no. 8 (August 17, 2022): 390, <https://doi.org/10.3390/info13080390>; Utama et al., “Intentional Model of MSMEs Growth: A Tripod-Based View and Evidence from Indonesia”; Alharbi, Yahya, and Ramadani, “Financial Literacy, Access to Finance, SMEs Performance and Islamic Religiosity: Evidence from Saudi Arabia”; Masrizal, Sukmana, and Trianto, “The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia.”

¹⁰⁰ Masrizal, Sukmana, and Trianto, “The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia.”

Based on these findings, the study has several implications: First, to expand the body of knowledge by reinforcing the theoretical understanding of the mediating role of IFI on business performance in the Halal MSME sector. It highlights the importance of IFL and its integration with social capital to enhance business outcomes. The study enriches the theoretical framework of Islamic finance by emphasizing the role of social networks in facilitating the dissemination of financial knowledge and access to Islamic financial resources.

Second, practical implications. The findings suggest that developing ethical and supportive social networks among Halal MSMEs is crucial, as these networks facilitate resource exchange, trust-building, and shared learning. This amplifies the impact of financial literacy initiatives by ensuring that knowledge is contextualized and continuously reinforced within community settings. Moreover, targeted education programs, mentoring, and peer-learning initiatives embedded in these networks can enhance entrepreneurs' capacity to make informed financial decisions, leading to more effective resource management, innovation, and long-term business sustainability. Significantly, these networks can also reduce information asymmetry between MSMEs and Islamic financial institutions, thereby encouraging greater financial participation.

Third, policy implications. This study recommends that Islamic financial institutions, government agencies, and non-governmental organizations strengthen collaboration to foster inclusive and ethical social networks within the Halal MSME community. Policy interventions should focus on creating enabling environments for resource and knowledge sharing, designing incentive schemes that encourage MSMEs to engage with Islamic financial institutions, and integrating financial literacy modules into broader MSME development programs. In addition, policies should promote institutionalized partnerships across the penta-helix stakeholders (academia, industry, government, community, and Islamic finance institutions) to ensure a sustainable ecosystem that supports financially literate and inclusive Halal MSMEs.

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