

THE EFFECT OF SHARIA FINANCIAL LITERACY ON MSME GROWTH: COMPETITIVE ADVANTAGE AS A MEDIATOR AMONG MUSLIM ENTREPRENEURS

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Abstract

The purpose of this research is to identify and measure the level of Islamic financial literacy and other related variables influencing the growth of MSMEs in Palembang Jaya Market, Palembang, South Sumatra, Indonesia. This study focuses on examining the effect of Islamic financial literacy and additional variables on MSME development. It explains the extent to which small and medium enterprises in Palembang understand and implement Islamic financial literacy, both directly and indirectly, through the mediating variable of Competitive Advantage of Muslim Entrepreneurs, in supporting the growth of MSMEs at Palembang Jaya Market. The research sample consisted of 373 MSME actors and related stakeholders selected from a total population of 5,512 business units operating in Palembang Jaya Market. A survey method was employed to measure Islamic financial literacy and intervening variables, including the Competitive Advantage of Muslim Entrepreneurs. Data were collected through a quantitative survey approach and analyzed using the SEM Statistical Test Application Version 4. The findings confirm a significant relationship between Shariah financial literacy and the Competitive Advantage of Muslim Entrepreneurs in influencing MSME growth at Palembang Jaya Market. Furthermore, Islamic financial literacy affects MSME growth both directly and indirectly through the mediation of Competitive Advantage, consistent with the Knowledge-Based View (KBV) theory. These results offer practical implications by providing policy makers with strategic insights to enhance MSME growth in Palembang Jaya Market through strengthening Shariah financial literacy supported by the competitive advantage of Muslim entrepreneurs.

Keywords: *Shariah Financial Literacy, Muslim Entrepreneur's Competitive Advantage, MSME Growth*

Abstrak

Tujuan penelitian ini adalah untuk mengidentifikasi dan mengukur tingkat literasi keuangan Islam dan variabel terkait lainnya yang memengaruhi pertumbuhan UMKM di Pasar Palembang Jaya, Palembang, Sumatera Selatan, Indonesia. Studi ini berfokus pada pemeriksaan pengaruh literasi keuangan Islam dan variabel tambahan terhadap pengembangan UMKM. Penelitian ini menjelaskan sejauh mana usaha kecil dan menengah di Palembang memahami dan menerapkan literasi keuangan Islam, baik secara langsung maupun tidak langsung, melalui variabel mediasi Keunggulan Kompetitif Pengusaha Muslim, dalam mendukung pertumbuhan UMKM di Pasar Palembang Jaya. Sampel penelitian terdiri dari 373 pelaku UMKM dan pemangku kepentingan terkait yang dipilih dari total populasi 5.512 unit usaha yang beroperasi di Pasar Palembang Jaya. Metode survei digunakan untuk mengukur literasi keuangan Islam dan variabel intervening, termasuk Keunggulan Kompetitif Pengusaha Muslim. Data dikumpulkan melalui pendekatan survei kuantitatif dan dianalisis menggunakan Aplikasi Uji Statistik SEM Versi 4. Hasil penelitian mengkonfirmasi adanya hubungan yang signifikan antara literasi keuangan Syariah dan Keunggulan Kompetitif Pengusaha Muslim dalam memengaruhi pertumbuhan UMKM di Pasar Palembang Jaya. Lebih lanjut, literasi keuangan Islami memengaruhi pertumbuhan UMKM baik secara langsung maupun tidak langsung melalui mediasi Keunggulan Kompetitif, sejalan dengan teori Pandangan Berbasis Pengetahuan (Knowledge-Based View/KBV). Hasil ini menawarkan implikasi praktis dengan memberikan wawasan strategis kepada para pembuat kebijakan untuk meningkatkan pertumbuhan UMKM di Pasar Palembang Jaya melalui penguatan literasi keuangan Syariah yang didukung oleh keunggulan kompetitif pengusaha Muslim.

Kata kunci: *Literasi Keuangan Syariah, Keunggulan Kompetitif Pengusaha Muslim, Pertumbuhan UMKM*

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have long been recognized as a fundamental pillar of economic growth in both developed and developing countries. In many ASEAN economies, MSMEs contribute more than 90% of total business units and absorb a substantial share of the labor force, highlighting their strategic role in sustaining economic resilience and inclusive development (Mohamadi, 2020). In Indonesia, the importance of MSMEs is particularly evident, as this sector dominates business activity and provides employment for more than 100 million workers, making it a critical driver of national economic stability. Despite continuous growth in the number of MSMEs over the past decade, their contribution to sustainable economic development remains constrained by structural challenges. Limited access to financing, weak managerial capabilities, and inadequate financial literacy are consistently identified as major obstacles to MSME performance and long-term growth (Sarwono, 2015; CNN Indonesia, 2019). Although the Indonesian government has demonstrated strong commitment

through substantial budget allocations and policy support via the Ministry of Cooperatives and MSMEs, these interventions have not fully translated into optimal MSME competitiveness and productivity.

One of the underlying issues is the relatively low level of financial literacy among MSME actors. Financial literacy plays a crucial role in enabling entrepreneurs to make informed financial decisions, manage cash flows efficiently, and allocate resources strategically to support business expansion (Amanita, 2017). In the context of Muslim entrepreneurs, financial literacy extends beyond conventional financial knowledge to include compliance with Sharia principles, which emphasize ethical financial behavior, risk-sharing, and productive investment. Sharia financial literacy therefore represents not only technical competence but also value-based financial management that can strengthen business sustainability. Previous studies have shown that financial literacy positively influences MSME performance and growth, either directly or indirectly (Nohong et al., 2019). Other strands of research emphasize that competitive advantage—through cost leadership, differentiation, or focus strategies—serves as a key mechanism through which firms enhance performance and sustain growth (Porter, 1985; Setyawati, 2015). However, much of the existing literature examines these relationships separately. Empirical evidence that integrates Sharia financial literacy, competitive advantage, and MSME growth—particularly among Muslim entrepreneurs—remains limited.

Moreover, Indonesia's relatively low ranking in global Islamic economic indicators and the modest market share of Islamic financial institutions suggest that Sharia financial literacy has not yet been fully internalized by economic actors. This condition indicates a critical gap between the potential of Sharia-based financial systems and their practical utilization by MSMEs. While several studies have explored financial literacy or competitive advantage in isolation, few have examined how Sharia financial literacy contributes to MSME growth through the mediating role of competitive advantage. Therefore, this study aims to address this gap by analyzing the effect of Sharia financial literacy on MSME growth, with competitive advantage serving as a mediating variable among Muslim entrepreneurs. By integrating financial literacy and strategic management perspectives within a Sharia economic framework, this research contributes to the literature by offering a more comprehensive explanation of how value-based financial

knowledge can enhance MSME competitiveness and growth in emerging economies such as Indonesia.

The Ministry of Cooperatives and MSMEs of the Republic of Indonesia is a State Institution that has a role in making regulations and stimulating the current movement and progress of cooperatives and MSMEs. The following Table 1. Describes the budget and financial realization of the Indonesian Ministry of Cooperatives and MSMEs in recent years, namely:

Table 1.
Financial Realization Performance Ministry of Cooperations And Msmes

Num.	Years	Financial Budget	Financial Realization	% Realization
1	2016	Rp. 1.065.438.716.000,	Rp. 957.651.014.539,	89,88%
2	2017	Rp. 960.773.348.000,	Rp. 880.688.842.420	91,66%
3	2018	Rp. 944.538.384.000,	Rp. 858.493.948.940	90,89%
4	2019	Rp. 961.430.000.000,	Rp.903.744.200.000	94%

Data source: (author-managed) (KUMKM, 2018, p. 4),

The table above illustrates that the potential budget prepared by the Government is quite large with an average absorption capacity in the last few years in 2019 below above 85%, this indicates that the role of the Indonesian government in improving the performance of Indonesian MSMEs through the Ministry of Cooperatives and MSME Empowerment Services is already underway. MSMEs itself has long-standing problems in the field of financing and business development strategies.(Sarwono, 2015, p. kata sambutan). Comparisons in the allocation and management of MSME funds in several countries, especially the ASEAN region, provide an illustration of how the role of MSMEs in each country contributes to the development and progress and welfare of the people of a nation. Indonesian entrepreneurs in 2019 amount to 1.65 percent of the total population. This is much lower than the conditions of several Asian countries, for example Singapore (7%), Malaysia (5%), Thailand (3) in the Global Entrepreneurship Monitor Report, while in the global entrepreneurship index Indonesia in 2019 Indonesia is ranked sixth below Other ASEAN, namely (1). Singapore score 52.4; (2). Malaysia scores 40.1; (3). Brunei Darussalam score 36.5; (4). Thailand scores 33.5; (5). Vietnam score 26.05; (6). Indonesia Score Index 26.0. (Bosma et al., 2020).

Tracing the research trend of the Competitive Advantage variable on MSME growth in the Scopus database with link strings; (: (TITLE-ABS-KEY (sme AND

Previous research examined the relationship between sharia financial literacy and variable indicators such as: Knowledge (personal financial knowledge and use of personal financial applications), skills, credit access, attitude, behavior and its impact on the growth of small medium enterprises. Researchers M D Lestari, S Kantun (2019), Md. M. Hossain, (2020), Afred Suci & Hardi (2020), Juma Buhimila (2018 (Atkinson, adele messy, flore anne(2013))), Purnomo M et al (2017), Girum Abebea and Yukichi Manob (2018), Naoyuki Yoshino (2016(Prof. Elsa Fornero)), Neneh Brownhilder (2016), Samuel Adomako et al (2015), Stephen Korutaro et al (2014) recommend that in the future the effect of financial literacy is believed to have important features for effectiveness and further studies need to be carried out on how the role of better and comprehensive sharia financial literacy in terms of concepts and procedures for the growth of Small Medium Enterprises

The results of previous research mapping previous research on financial literacy variables that research related to financial literacy that affects the performance of MSMEs was conveyed differently by Anthony Abiodun Eniola et al (2017), Qianwei Ying (2019), Hasan Abdul Rozak (2020) who stated that financial knowledge and level the awareness of small and medium business owners is not an indicator of improving business performance but rather the level of skills, experience, and personal characteristics of the business actors themselves as well as leadership capabilities which will become a benchmark for improving the performance of MSMEs in the future. Competitive advantage is a form of resource that provides benefits for organizations to move forward (Blesa & Ripolles, 2008; Boso et al. 2013), Vilani Sachitra (2017), Syed Ali Fazal (2019), The results of previous research mapping are on competitive advantage variables for 6 studies related to handicraft business or home industry submitted by researchers Clare D'Souza & Mehdi Taghian (2017), Nuryakin (2018), Syed Ali Fazal (2019), Fisla Wirda (2019) , Marcin Soniewicki, Joanna Paliszkievicz (2019), Cesar-Augusto Bernal (2020), With measuring indicators that are influenced by internal and external, namely: Managers; Competition, External consultants in the field of business, Conditions of the company's external environment, Customers, Suppliers, Operational staff Middle

management. Not much has been discussed about investor behavior, competitors, and no one has discussed competitive advantage regarding the Palembang songket business.

The results of the research mapping are on the growth of Micro, Small and Medium Enterprises (MUKM) towards research on measuring the variables for MSME growth submitted by Yao Wang (2016) namely "access to finance", "tax rate", "competition", "electricity" and "political factors". Among those five obstacles, "access to finance" appeared to be the biggest barrier, followed by "competition"

RESEARCH METHODS

This study employs a quantitative research design to examine the effect of Sharia financial literacy on MSME growth, with competitive advantage serving as a mediating variable among Muslim entrepreneurs. A quantitative approach was selected to enable objective measurement of relationships among variables and to test the proposed hypotheses statistically. The research adopts an explanatory approach, aiming to explain causal relationships between Sharia financial literacy, competitive advantage, and MSME growth. The study focuses on Muslim entrepreneurs operating Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, as this group represents a strategic segment in the development of the Sharia-based economy. The population consists of Muslim MSME owners actively managing their businesses. A purposive sampling technique was used to select respondents who meet the following criteria: (1) Muslim entrepreneurs, (2) owners or primary decision-makers of MSMEs, and (3) businesses operating for at least two years to ensure organizational stability. The sample size was determined based on minimum requirements for multivariate analysis to ensure statistical reliability. Primary data were collected through a structured questionnaire distributed to respondents. The questionnaire was designed using a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5) to measure perceptions related to each research variable.

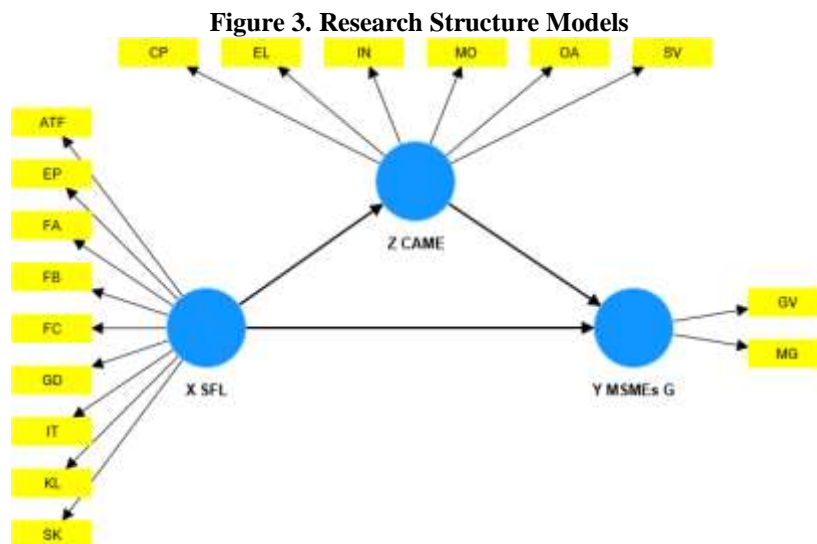
Secondary data were obtained from government reports, academic publications, and relevant institutional databases to support the research context. Sharia Financial Literacy (Independent Variable): Refers to the ability of entrepreneurs to understand and apply financial knowledge in accordance with Islamic principles, including financial planning, risk management, savings, investment, and the use of Sharia-compliant financial

products. Competitive Advantage (Mediating Variable): Defined as the firm’s capability to outperform competitors through strategies such as cost efficiency, product differentiation, innovation, and market focus. MSME Growth (Dependent Variable): Measured through indicators such as revenue growth, expansion of business scale, increased market reach, and employment growth. Data were analyzed using Structural Equation Modeling (SEM) to evaluate both direct and indirect relationships among variables and to test the mediating role of competitive advantage. Prior to hypothesis testing, validity and reliability assessments were conducted to ensure the accuracy and consistency of the measurement instruments. Classical assumption tests were also performed to confirm that the data met the requirements for multivariate analysis

RESULT AND DISCUSSION

Structural equation modelling is an analytical technique used to investigate the relationship between Sharia financial literacy and its variables, namely the intervening variable experience and the growth variable of Micro Small and Medium Enterprises (MSMEs).

Data analysis



Uji Convergent validity

The convergent validity test value is the factor loading value on the latent variable with the building indicators. The loading factor value is valid if the number shows more than 0.5.

Table 3. Analysis Results Convergent Validity

	(X) Sharia Financial Literacy (SFL)	(Z) Competitive Advantage Muslim Entrepreneur (CAME)	(Y) MSMEs Growth (MSMEs G)
PG	0,74		
KK	0,79		
TI	0,81		
SK	0,83		
G	0,83		
AK	0,86		
KT	0,87		
PH	0,88		
PK	0,91		
Ep		0,842	
NU		0,873	
Ps		0,884	
MO		0,917	
In		0,949	
Og		0,960	
Mj			0,91
Pm			0,95

Source: processed by the author, 2022

The table above shows that all loading factors show a sufficient level of validity and there are no numbers below 0.7. This shows that the variables used to measure the exogenous variable of Sharia financial literacy are at all valid levels.

Average variance extracted (AVE).

Discriminant validity measurement uses the crossloading factor and the average variance extracted (AVE) value. The findings in this test indicate that the AVE value

produced by each variable is greater than 0.5 or the factor that measures it, so it can be said that all of these loading factors meet the requirements.

Table 4 Average Variance Extracted (AVE)

X SFL	0,699
Z CAME	0,819
Y MSMEs G	0,865

Validity test Fornell-Larcker criterion

Table 5 Fornell Larcker Criterion

	X1 LKS	Y PMSMES	Z CAME
X SFL	0,836		
Z CAME	0,053	0,513	0,905
Y MSMEs G	0,304	0,930	

Reliability Test Analysis

Table 6 Composite Reliability Results

Variable	Composite Reliability
XSFL	0,959
Z CAME	0,965
Y MSMEs G	0,928

The reliability value of the number is above 0.7, this shows that the indicator variable used is reliable. Composite reliability of Sharia financial literacy is greater than 0.7, namely 0.954; the competitive advantage of Muslim entrepreneurs is greater than 0.7, namely 0.964, ; the growth of MSMEs is greater than 0.7, namely 0.928.

Table 7 Croncbach’s Alpha

Variable	Cronbach's Alpha
X SFL	0.946
Z CAME	0.956
Y MSMEs G	0.846

The results of Cronbach's alpha variable of Sharia financial literacy are 0.946; the competitive advantage of Muslim entrepreneurs, namely 0.956; the growth of MSMEs is

0.846. Thus these results can be concluded that all variables have a high level of reliability4.1.3

Test Result *Goodness Of Fit Model*

Table 8 . R-Square

	R-square	R-square adjusted
Z CAME	0,003	0,000
Y MSMEs G	0,341	0,337

The table above shows that the R Square of the Sharia Financial Literacy variable of 0.341 or 34.1 percent is able to explain the Y variable (MSMEs G). R Square variable Sharia Financial Literacy of 0.003 or 0.3% percent capable. explain Variable Z (CAME). According to Wong, (2013). The f square value of 0.02 has a small value, 0.15 has a medium value, and 0.35 has a large value. Values less than 0.02 can be ignored or considered as having no effect (Sarstedt et.al., 2017)

Table 9 F.Square

Variable	Y MSMEs G	X SFL	Z CAME
Y. MSMEs G			
X SFL	0,117		0,003
Z CAME	0,376		

The table above shows F Square. It's the magnitude of the influence between variables with Effect Size. The test results show that the variable competitive advantage of Muslim entrepreneurs is 0.37. This value shows the effect of the Competitive Advantage Muslim Entrepreneur (Z CAME) variable on the Growth of Micro, Small and Medium Enterprises (Y MSMEs G) with the effect category having a Strong influence. The influence of variables with small effect size values is shown by the variable Sharia financial literacy on MSMEs growth (Y MSMEs G) in the medium category, which is equal to 0.11. The influence of Sharia Financial Literacy (X LKS) on Competitive Advantage Muslim Entrepreneurs (Z CAME) is included in the category of having no effect or no effect, namely 0.003.

The interpretation of the statistical value of the mediation effect refers to that recommended by Cohen in Ogbeibu et al (2020), namely 0.175 (high mediation effect), 0.075 (medium mediation effect) and 0.01 (low mediation effect). The term used to

measure the value of the mediating effect is called the upsilon statistic (v). calculation of the value of the effect of mediation is:

$$\begin{aligned} \text{rumus } (v) &= \beta^2_{X1Z} \cdot \beta^2_{Z \text{ MSMEs G}} \\ &= (0,053) \times (0,499) = 0,002809 \times 0,2490 = 0,000699444 \end{aligned}$$

The results of this mediation effect calculation show that the influence of the Sharia Financial Literacy (X SFL) variable on the Growth of Micro, Small and Medium Enterprises (Y MSMEs G) through the Competitive Advantage Muslim Entrepreneur (Z CAME) mediation variable has no effect with a value of 0.0006994 (below 0, 01) mediation category no effect.

Test The Research Hypothesis

Table 10, Total Effects Path Coefficients (Mean, STDEV, T-Values)

NO	Variable Relations	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV))	P values
1	X SFL -> Y MSMEs G	0,304	0,306	0,050	6,057	0,000
2	X SFL -> Z CAME	0,053	0,054	0,053	0,991	0,322
3	Z CAME -> Y MSMEs G	0,499	0,499	0,036	13,679	0,000

Table 11 Total Indirect Effects

Variable Relations	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV))	P values
X SFL -> Y MSMEs G	0,026	0,027	0,026	0,993	0,321

The relationship between Sharia Financial Literacy (SFL) and MSMEs Growth (MSMEs G) in Pasar Jaya Palembang city is significant with a T-statistic of 6.057 (>1.96) and the original sample estimate value is positive, namely 0.304, so the direction of the relationship between Sharia Financial Literacy (X) with the growth of MSMEs in the city of Palembang (Y) is positive. Connection. This means that there is a positive total effect of X on Y. Or it can be interpreted that the higher the value of X, the higher Y will be. An increase of one unit of X will increase Y by 30.4%. Value Significant Value below 0.05

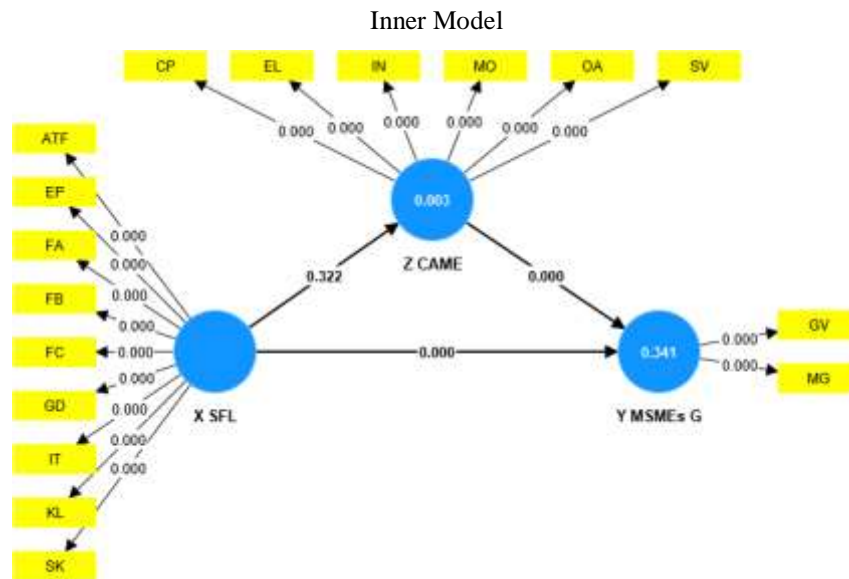
The relationship between Sharia Financial Literacy (X) and the Competitive Advantage of Muslim Entrepreneurs (Z)) is not significant with a T-Statistic of 0.991 (< 1.96) and the original sample estimate value is positive, namely 0.053, so the direction of the relationship between Sharia financial literacy (X) with Competitive Advantage Muslim Entrepreneur (Z) is positive. Connection. This means that there is a positive total effect of X on Z. with insignificant P values

The relationship between competitive advantage Muslim entrepreneur (Z) and MSMEs Growth (MSMEs G) in Pasar Jaya Palembang city (Y) is significant with a T-statistic of 13.679 (> 1.96) and the original sample estimate value is positive, namely 0.499, so the direction of the relationship between the competitive advantage of Muslim entrepreneurs (X2) with the growth of MSMEs in Palembang (Y) is positive. Connection. This means that there is a positive total influence Z on Y. Or it can be interpreted that the higher the Z value, the Y will also increase. An increase of one unit of Z will increase Y by 49.9%. Significant Values . below 0.05. The influence of the biggest variable on the growth of MSMEs in Palembang City is shown by the Competitive advantage Muslim entrepreneur variable with a value of $13.961 > 6.057$ and 0.991 as the T Statistics value on the variable Sharia Financial Literacy and the Competitive Advantage of Muslim Entrepreneurs on the Growth of MSMEs in Pasar Jaya Palembang City.

The results of the Mediation Variable test for the indirect effect of Sharia Financial Literacy (SFL) on MSMEs Growth (MSMEs G) through the Competitive Advantage Muslim Entrepreneur (CAME) variable is 0.026 (Original Sample column) and P-Value = $0.321 > 0.05$, then these results indicate that the mediating variable, namely Competitive Advantage Muslim Entrepreneurs, does not significantly mediate the relationship between Sharia Financial Literacy (SFL) and Growth of Micro, Small and Medium Enterprises (MSMEs G)

Model Feasibility Test

Figure 4, Bootstrapping Figure



The inner model figure above illustrates the power of estimation between latent or construct variables. This study presented the feasibility analysis of the coefficient model, goodness of fit (Q-square) test and hypothesis testing.

Table 11, R, Square

	R-square	R-square adjusted
Y MSMEs G	0,341	0,337
Z CAME	0,003	0,000

The R Square table above of 0.341 shows that 34.1 percent of the Sharia Financial Literacy Variable and the Competitive Advantage Muslim Entrepreneurs Variable are able to explain the influence on the growth of MSMEs in the Palembang Jaya Market, Palembang City, while the remaining 65.9 percent is explained by the influence of other variables not discussed. in this research. Based on the theory presented by Chin, 1998 in Ghozali and Latan, 2015) for the R Square value in the range of 33-66 it is in the moderate category, meaning that the variable Sharia financial literacy and the competitive advantage of Muslim entrepreneurs have sufficient moderate influence to increase the growth of MSMEs in the Palembang Market. Jaya City of Palembang

Table 12, result Construct Crossvalidated Redundancy

Variabel	SSO	SSE	Q ² (=1- SSE/SSO)
X SFL	3.357.000	3.357.000	
Z CAME	2.238.000	2.238.000	
Y MSMEs	746.000	532.052	0.287

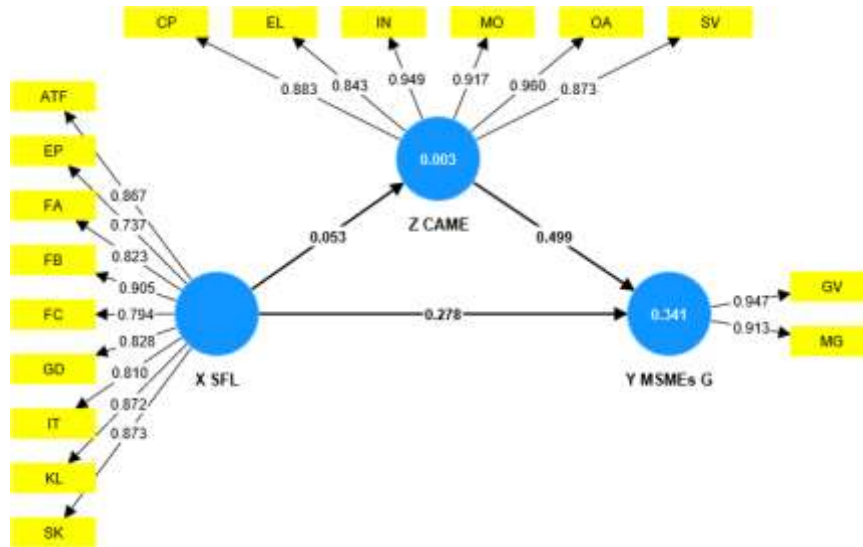
Source. Processed by the author, 2022

Q-square dependent latent variable with the same interpretation as regression. Q-Square predictive relevance for structural models, measures how well the observed values are produced by the model and also the parameter estimates. Q-square value > 0 indicates the model has predictive relevance otherwise if the Q-square value ≤ 0 indicates the model has less predictive relevance. The table above shows a Q Square of 0.287 and this means > 0.0, it can be concluded that the construct model designed in this study is relevant. This means that the exogenous variables, namely Sharia Financial Literacy (SFL) and Muslim Entrepreneur's Competitive Advantage used to predict the endogenous variables, namely MSME Growth (MSMEs G) are appropriate and good.

Table 13, Summarize of Statistical Test Results using the smart PLS 4 application

Hypothesis	Path Coefficient t	p-value	95% Interval Path Coefficient trust		T Count	F Square
			Lower limit	Upper limit		
H1. SFL ->MSMEs G	0,278	0,000	0,196	0,360	6,057	0,117
H2.SFL-> CAME	0,053	0,322	0,053	0,154	0,991	0,003
H3 CAME->MSMEs G	0,499	0,000	0,427	0,569	13,679	0,376
H4.SFL->CAME->MSMEs G.	0,026	0,321	0,375	0,723	0,993	0,000699444

Figure 5 PLS SEM Algorithm



The Influence of Sharia Financial Literacy on the Growth of MSMEs in Palembang Jaya Market, Palembang City

The results of the first hypothesis testing (H1) indicate that Sharia financial literacy has a positive and significant effect on MSME growth in Palembang City. This is evidenced by a T-statistic value of 6.580, which exceeds the critical value of 1.97, with a p-value below 0.05. These findings confirm that higher levels of Sharia financial literacy among Muslim entrepreneurs are associated with improved business growth performance. The effect size ($f^2 = 0.117$) suggests a moderate and meaningful direct effect of Sharia financial literacy on MSME growth. This finding is consistent with previous studies emphasizing the role of financial literacy in enhancing business performance and sustainability. Amanita (2017) found that financial literacy enables entrepreneurs to manage financial resources more effectively, thereby supporting business expansion and stability.

Similarly, Nohong et al. (2019) demonstrated that financial literacy contributes significantly to MSME performance, particularly when integrated with strategic business practices. The present study extends these findings by highlighting that financial literacy grounded in Sharia principles also plays a crucial role in driving MSME growth. From a Sharia economic perspective, financial literacy does not merely involve technical

knowledge but also encompasses ethical financial behavior, risk-sharing, and compliance with Islamic financial principles. This aligns with Laily (2016), who argued that Sharia-based financial literacy strengthens economic resilience by promoting prudent financial management and productive investment. Therefore, Muslim entrepreneurs with higher Sharia financial literacy are better positioned to allocate capital efficiently, access Sharia-compliant financing, and mitigate financial risks, all of which contribute to business growth. The empirical results observed in MSMEs operating in Palembang Jaya Market further reinforce this argument. With a diverse market structure consisting of both government-managed and privately managed markets, the positive influence of Sharia financial literacy suggests that value-based financial knowledge remains relevant across different business environments. These findings support earlier research by Eniola and Entebang (2015), who identified inadequate financial knowledge as a major constraint to MSME growth in developing economies. Overall, this study supports and strengthens prior empirical evidence by confirming that Sharia financial literacy is a significant determinant of MSME growth. Moreover, it contributes to the literature by providing contextual evidence from a regional market setting, demonstrating that Sharia-based financial knowledge can serve as a strategic resource for enhancing MSME performance in emerging Islamic economies.

The Influence of Sharia Financial Literacy on the Competitive Advantage of Muslim Entrepreneurs

The results of the second hypothesis testing (H2) indicate that Sharia financial literacy does not have a statistically significant effect on the competitive advantage of Muslim entrepreneurs. This is evidenced by a T-statistic value of 0.991, which is lower than the critical value of 1.96, and a p-value of 0.322, which exceeds the 0.05 significance threshold. Although the relationship is positive, the effect size is very small ($f^2 = 0.003$), indicating that Sharia financial literacy alone does not substantially explain variations in competitive advantage among MSMEs in Palembang City. This finding partially contradicts previous studies that suggest financial literacy plays a strategic role in strengthening competitive advantage. For instance, Nohong et al. (2019) found that financial literacy significantly enhances competitive advantage when supported by

appropriate capital structures and managerial capabilities. Similarly, Porter (1985) emphasized that firms gain competitive advantage through strategic resource allocation, which often requires strong financial knowledge.

However, the present study suggests that Sharia financial literacy, when examined in isolation, may not be sufficient to directly generate competitive advantage for MSMEs. One possible explanation for this result lies in the nature of competitive advantage itself, which is influenced by multiple factors beyond financial literacy, such as innovation capability, market orientation, technology adoption, and entrepreneurial skills (Maroun Jneid, 2012). In the context of MSMEs operating in traditional and semi-traditional markets such as Palembang Jaya Market, competitive advantage may be driven more strongly by product differentiation, customer relationships, and price competitiveness rather than by financial knowledge alone. This result is consistent with the findings of Eniola and Entebang (2015), who argued that financial literacy improves business sustainability primarily through better financial control and access to financing, but does not automatically translate into strategic advantages unless complemented by innovation and market-based competencies. Therefore, Sharia financial literacy may function as an enabling factor rather than a direct determinant of competitive advantage. Overall, the findings of this study do not fully support prior research that positions financial literacy as a direct driver of competitive advantage. Instead, they suggest that the impact of Sharia financial literacy on competitive advantage may be indirect or conditional, depending on the presence of other strategic resources. This insight reinforces the importance of examining mediating and moderating mechanisms in understanding how financial literacy contributes to MSME competitiveness.

The Influence of Competitive Advantage of Muslim Entrepreneurs on the Growth of MSMEs

The results of the third hypothesis testing (H3) demonstrate that the competitive advantage of Muslim entrepreneurs has a positive and statistically significant effect on MSME growth in Palembang City. This is indicated by a T-statistic value of 13.961, which far exceeds the critical value of 1.96, and a p-value below 0.05. Furthermore, the

effect size is substantial ($f^2 = 0.378$), suggesting that competitive advantage is a strong explanatory factor in driving MSME growth.

These findings are consistent with the strategic management literature, which emphasizes competitive advantage as a key determinant of firm performance and growth. Porter (1985) argued that firms achieving superior performance do so by implementing effective competitive strategies such as cost leadership, differentiation, or focus. Empirical studies have similarly confirmed that competitive advantage significantly enhances business growth and sustainability among MSMEs (Setyawati, 2015; Wahyono, 2019). In the context of developing economies, competitive advantage plays an even more critical role due to intense market competition and limited resources. Tambunan (2001) highlighted that MSME competitiveness is a central factor in improving national economic performance, particularly in emerging markets. The present findings support this argument by demonstrating that Muslim entrepreneurs who successfully develop competitive advantages—such as efficient cost structures, distinctive products, or strong customer relationships—are more likely to experience business growth.

Moreover, this result aligns with the findings of Maroun Jneid (2012), who emphasized that sustainable competitive advantage emerges from the firm's ability to leverage internal capabilities and adapt to market dynamics. For MSMEs operating in urban traditional markets like Palembang Jaya Market, competitive advantage may stem from practical business strategies rather than technological sophistication, including pricing flexibility, service quality, and local market knowledge. Overall, the results of this study support and reinforce previous empirical evidence that positions competitive advantage as a critical driver of MSME growth. By providing regional-level evidence from Palembang City, this study extends the existing literature and confirms that competitive advantage remains a decisive factor in determining MSME performance, particularly within the context of Muslim entrepreneurship in urban markets

The Influence of Sharia Financial Literacy on the Growth of MSMEs in Palembang Jaya Palembang Market through Competitive Advantage Variables Muslim Entrepreneurs as Mediation variable

The results of the fourth hypothesis testing (H4) indicate that competitive advantage does not significantly mediate the relationship between Sharia financial literacy and MSME growth in Palembang City. This is evidenced by a T-statistic value of 0.993, which is below the critical value of 1.97, and a p-value of 0.321, exceeding the 0.05 significance level. Although the indirect relationship is positive, the effect size is negligible ($f^2 = 0.00069$), suggesting that the indirect influence of Sharia financial literacy on MSME growth through competitive advantage is very weak. This finding contrasts with several previous studies that have identified competitive advantage as an effective mediating mechanism between financial capability and business performance. For example, Nohong et al. (2019) found that financial literacy indirectly enhances firm performance through strategic advantages when supported by strong capital structures and managerial competencies. Similarly, studies grounded in resource-based theory argue that financial knowledge can be transformed into competitive advantage when it is effectively integrated with firm-specific capabilities (Barney, 1991). However, the results of the present study suggest that in the context of MSMEs operating in traditional urban markets such as Palembang Jaya Market, Sharia financial literacy may not be sufficiently translated into strategic advantages that directly drive business growth.

This finding is consistent with Eniola and Entebang (2015), who argued that financial literacy primarily improves financial discipline and access to financing rather than immediately strengthening competitive positioning. One possible explanation for the insignificant mediation effect is that competitive advantage among MSMEs is shaped more strongly by operational and market-oriented factors, such as product quality, pricing strategies, customer loyalty, and location advantages, rather than by financial knowledge alone. As noted by Maroun Jneid (2012), competitive advantage in small businesses often emerges from practical capabilities and market responsiveness, which may not be directly influenced by financial literacy unless complemented by innovation and entrepreneurial skills.

Overall, this finding refutes the assumption that Sharia financial literacy automatically contributes to MSME growth through competitive advantage. Instead, it suggests that Sharia financial literacy functions as a foundational capability that supports business sustainability, but requires additional strategic and managerial factors to generate meaningful competitive advantages. This result adds to the literature by highlighting the contextual limitations of mediation mechanisms and underscores the importance of examining complementary variables in explaining MSME growth.

CONCLUSION

This study examined the role of Sharia financial literacy in promoting MSME growth, with competitive advantage positioned as a mediating variable among Muslim entrepreneurs in Palembang City. The findings reveal that Sharia financial literacy has a significant direct effect on MSME growth, indicating that entrepreneurs with stronger financial knowledge grounded in Islamic principles are better equipped to support business expansion and sustainability.

However, Sharia financial literacy was not found to significantly influence competitive advantage, nor did competitive advantage mediate the relationship between financial literacy and MSME growth. These results suggest that while financial literacy serves as an essential foundational capability, it does not automatically translate into strategic superiority. Instead, competitive advantage appears to function as an independent driver of MSME growth rather than as a mechanism through which financial literacy operates. From a theoretical perspective, this study contributes to the Knowledge-Based View (KBV) by demonstrating that knowledge resources—such as Sharia financial literacy—must be complemented by strategic and market-oriented capabilities to generate meaningful business outcomes. The findings extend the literature on MSME development by highlighting the contextual boundaries of financial literacy, particularly within traditional urban market environments in emerging economies.

Practical Implications

The results suggest that improving financial behavior through effective financial management, accountability, and informed decision-making can support sustainable

MSME growth. Nevertheless, entrepreneurs must also strengthen strategic capabilities, including customer orientation, service quality, innovation, and organizational agility, to remain competitive in dynamic markets. For policymakers, these findings underscore the importance of designing integrated empowerment programs that go beyond financial education. Government initiatives should combine financial literacy training with entrepreneurship development, market access support, and managerial capacity building to maximize MSME performance.

Social Implications

Local governments play a strategic role in fostering MSME development by establishing supportive regulatory environments and expanding access to financing. Collaborative programs involving banks and non-bank financial institutions can enhance entrepreneurs' financial capabilities while promoting inclusive economic growth. Additionally, structured training initiatives may help MSME actors adapt to market changes and improve long-term business resilience.

Limitations and Future Research

This study is limited to MSMEs operating in the Palembang Jaya Market, which may restrict the generalizability of the findings to other sectors or regions. Future research is encouraged to examine diverse business categories, incorporate technological adoption, and consider demographic factors such as gender and capital structure to obtain a broader understanding of MSME competitiveness. Moreover, the insignificant mediating effect identified in this study suggests the need to explore additional variables that may better explain the linkage between financial literacy and business growth, such as innovation capability, entrepreneurial orientation, or digital readiness. Further theoretical and empirical investigations are therefore necessary to refine the measurement of Sharia financial literacy and to better understand its strategic implications for MSME development

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