

## Islamic Values in Business: The Role of Islamic Work Ethics in Strengthening the Impact of Ethical Production on Sme Growth in Surabaya

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islamic production ethics; islamic work ethics; sme growth.

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### Abstract

This research aims to examine the influence of Islamic production ethics on the growth of micro, small, and medium enterprises (MSMEs) in the food and beverage sector in Surabaya. Specifically, this study analyzes the moderating role of Islamic Work Ethics (IWE) in strengthening the relationship between Islamic production ethics and MSME growth. A quantitative approach is employed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method. Data were obtained through a survey of 106 purposively selected MSME owners. The results indicate that Islamic production ethics has a positive and significant impact on MSME growth. Islamic work ethics also shows a direct positive influence on business growth. However, as a moderating variable, Islamic work ethics weakens the positive influence of Islamic production ethics on MSME growth. These findings suggest that among entrepreneurs with a high level of Islamic work ethic, the influence of external ethical systems becomes less dominant because these values have been internalized in their daily work behavior. This research contributes both theoretically and practically to the development of contextual Islamic business ethics.

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## INTRODUCTION

Micro, small, and medium enterprises (MSMEs) make a substantial contribution to economic growth in many nations, including Indonesia (Fitriadi et al., 2024; Hardiyanti & Si, 2022; Saputra & Darmawan, 2023; Tambunan, 2023). Amid market competition and increasing consumer demands, MSME owners face the challenge of running their businesses ethically and sustainably. In the context of Muslim-majority countries, Islamic principles serve not only as a spiritual foundation but also as practical guidelines for conducting business. Several studies have indicated that the application of Islamic values in business positively impacts MSME performance. Buyondo (2024) emphasizes that Islamic finance principles such as ethics, halal investment, and the prohibition of usury have a positive impact on MSME performance, explaining up to 16.4% of the variance in performance. Raza et al. (2025) build on this by developing a model of Islamic entrepreneurship that combines economic values such as honesty and trust with spiritual elements such as taqwa and intention for Allah, demonstrating that both dimensions significantly improve the competitive advantage of MSMEs. This holistic approach fosters social responsibility among entrepreneurs and cultivates a loyal customer base that values ethical business practices, contributing to sustainable growth and long-term success. By prioritizing ethical business practices and aligning their goals with the greater good, MSMEs position themselves as leaders in their communities, inspiring other businesses to adopt more responsible and purpose-driven approaches. This ripple effect enhances the overall business ecosystem and fosters a culture of accountability and transparency, contributing to a

stronger and more resilient economy. Kareem et al. (2025) further underline the importance of Islamic Work Ethics (IWE) as an internal factor that can mediate the influence of corporate culture on business success, finding that IWE strengthens the relationship between organizational culture and performance and indicating that Islamic work values have a significant contextual impact. In a related study, Hasan et al. (2022) found that IWE does not always amplify the relationship between primary variables, as entrepreneurs with strong IWE already hold deeply internalized personal values, which diminishes the relative influence of formal external ethics.

In the context of production, research related to Islamic production ethics remains limited. The MSME business cycle revolves around production, particularly in the food and beverage sector, where halal-thayyib considerations play a significant role. The predominant focus of existing research has been on labor ethics or Islamic leadership rather than on the production process itself. There is also a paucity of studies investigating how Islamic work ethics may influence the relationship between Islamic production ethics and business success, particularly within local contexts such as food and beverage MSMEs in Surabaya.

Islamic entrepreneurship is a concept that integrates Sharia values into business practice, emphasizing not only economic profit but also spiritual and social dimensions. According to Raza et al. (2025), Islamic entrepreneurship is grounded in values such as taqwa, honesty, trustworthiness, justice, and adherence to halal-haram principles. This view is reinforced by Udin et al. (2022), who assert that entrepreneurship in Islam also aims for societal welfare, not merely material gain. Okan (2024) adds that Islamic business practices encompass production, distribution, and consumption in accordance with Sharia principles, while Hasan et al. (2022) emphasize that ethics and morality in entrepreneurship are crucial foundations for ensuring that business activities remain consistent with Islamic values.

Islamic production ethics derives from business ethics grounded in the Qur'an and Sunnah, with principles such as honesty, halal compliance, product responsibility, and justice forming the foundation of the production process. Beekun (1997) identifies five core principles in Islamic business ethics: tawhid, justice, ihsan, trustworthiness, and responsibility. Dusuki and Abdullah (2007) argue that this ethical framework aims to shape ethical business behavior and promote the common good. Kamil & Huda (2020) further assert that the consistent application of Islamic production ethics can enhance consumer trust and loyalty while serving as a competitive advantage, particularly in predominantly Muslim markets.

The Theory of Planned Behavior (TPB), developed by Ajzen (1991), holds that behavioral intention is determined by attitudes toward the behavior, subjective norms, and perceived behavioral control. Buyondo (2024) argues that the TPB is relevant in explaining Sharia-based business decision-making among Muslim entrepreneurs, as Islamic values shape entrepreneurial intentions and behaviors. Ashraf (2019) extended the TPB by incorporating religious dimensions such as faith and spiritual responsibility, while Hasan et al. (2022) and Okan (2024) demonstrate that social norms and behavioral control shaped by Islamic values also influence Islamic business decisions.

The Triple Bottom Line (TBL) theory evaluates business success across three dimensions: economic (profit), social (people), and environmental (planet). From an Islamic perspective, all three dimensions must conform to Sharia. Profit must be halal and free from elements of riba, gharar, and maysir (Hartanto et al., 2023). The social dimension encompasses

justice, worker welfare, and contributions to society (Hasan et al., 2022), while the environmental dimension reflects the responsibility of khalifah on earth (Sari et al., 2024). Buyondo (2024) adds that zakat and charity are tangible expressions of social responsibility in Islamic business. TBL in an Islamic framework thus emphasizes sustainable justice and blessings.

Islamic Work Ethics (IWE) refers to work values derived from Islamic teachings, including honesty, diligence, trustworthiness, and responsibility, which encourage Muslims to work with the intention of worship, avoid dishonesty, and contribute benefit to others. Several studies have demonstrated that IWE positively influences business performance. Kareem et al. (2025) find that IWE improves company performance and strengthens the relationship between organizational culture and business outcomes, while Raza et al. (2025) emphasize that qualities such as honesty, piety, and trustworthiness are critical for Muslim entrepreneurs in building successful businesses. However, Hasan et al. (2022) found that the moderating effect of IWE is not always significant, as deeply internalized work values can render entrepreneurs less responsive to external ethical systems such as production standards. Buyondo (2024) further notes that Islamic work ethics contribute to MSME performance by promoting transparency, Sharia compliance, and social responsibility, helping entrepreneurs work professionally and ethically in ways that build customer trust and support sustainable business growth.

The novelty of this research lies in several aspects. First, it focuses specifically on Islamic production ethics — a relatively underexplored dimension of Islamic business ethics — rather than the more commonly studied topics of Islamic finance or leadership. Second, it examines IWE as a moderating variable in the relationship between production ethics and MSME growth, addressing the mixed findings in previous literature regarding IWE's moderating role. Third, it focuses on food and beverage MSMEs in Surabaya, a context with distinctive cultural, economic, and religious characteristics that has not been extensively studied in the Islamic business ethics literature. Fourth, it employs PLS-SEM, a method well-suited for complex models with moderating effects and appropriate for the sample size of 106. Fifth, it tests the potential substitution effect between internalized work ethics and external ethical systems, contributing to theoretical development in Islamic business ethics.

### **Islamic Production Ethics and SME Growth**

Islamic production ethics emphasizes producing goods and services that are halal, safe, clean, honest in content disclosure, and socially responsible. In the context of food and beverage SMEs, especially in Muslim-majority markets like Indonesia, compliance with Islamic production principles fosters consumer trust, product differentiation, and long-term loyalty. Studies have shown that ethical production enhances brand reputation and contributes to sustainable business growth (Hasan et al., 2022). Therefore, we posit that:

**H1:** Islamic production ethics has a positive effect on SME growth.

### **Islamic Work Ethics and SME Growth**

Islamic work ethics (IWE) reflect individual work behavior grounded in Islamic teachings—such as working sincerely for the sake of Allah, being trustworthy and disciplined, and avoiding unethical gains. Prior research (Zeb et al., 2023; Zubairu et al., 2025) consistently finds that IWE improves job performance, fosters employee commitment, and strengthens overall organizational performance. In small businesses where the owner's values are central, IWE can directly translate into business success. Thus:

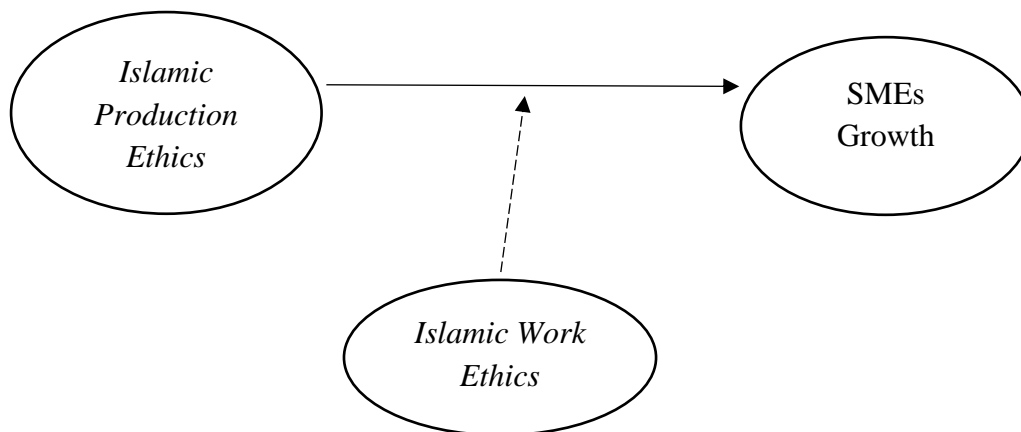
**H2:** Islamic work ethics has a positive effect on SME growth.

### **The Moderating Role of Islamic Work Ethics**

While Islamic Production Ethics addresses structural and operational ethics, Islamic Work Ethics focuses on internalized individual values. It is possible that for entrepreneurs with high Islamic work ethics, the influence of external ethical systems (like production standards) becomes less critical, as ethical behavior is already internalized. Hasan et al. (2022) found that in some contexts, IWE acts as a substitute rather than a complement to external ethical systems. However, in other cases, IWE can amplify the impact of ethical systems by reinforcing them through personal conduct (Zubairu et al., 2025). Given this theoretical ambiguity, we propose the following hypothesis:

**H3:** Islamic work ethics moderates the relationship between Islamic production ethics and SME growth.

Figure 1. presents the research model based on the literature review and hypothesis formulation.



**Figure 1:** Framework Research

## **METHOD**

This study employed a quantitative approach with an explanatory research design, aiming to examine the effect of Islamic Production Ethics on SME growth, with Islamic Work Ethics serving as a moderating variable. The research was conducted among micro, small, and medium enterprise (SME) actors in the food and beverage sector in Surabaya, involving a sample of 106 respondents selected through purposive sampling. The respondent criteria included SME owners who had been operating their businesses for at least one year and declared that they managed their enterprises in accordance with Islamic principles.

Data were collected through a questionnaire using a five-point Likert scale, constructed based on validated indicators from previous studies. The variables used in this study include Islamic Production Ethics (X) as the independent variable, SME Growth (Y) as the dependent variable, and Islamic Work Ethics (Z) as the moderating variable. Data analysis was performed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method with the SmartPLS software, incorporating assessments of validity, reliability, direct effects, and moderating effects.

**Tabel 1.** Internal consistency, convergent validity, composite reliability, AVE and cronbach's Alpha

Construct	Code	Indicator	Loading Factor	Composite Realibity	AVE	Cronbach' Alpha				
Etika Produksi	HP1	Halal and Thayyib Produk	0.852	0.967	0.725	0.962				
	HP2		0.829							
	HP3		0.864							
	KP1	Higienitas Produksi	0.849							
	KP2		0.867							
	KP3		0.858							
	KP4		0.872							
	KP5		0.842							
	TJB1	Tanggung Jawab	0.835							
	TJB2		0.843							
	TJB3		0.854							
	Kesuksesan UMKM	KB1	Keberlanjutan Bisnis				0.843	0.975	0.721	0.972
		KB2					0.819			
		KB3					0.884			
		KB4					0.850			
KK1		Kepuasan Konsumen	0.841							
KK2			0.841							
KK3			0.839							
LP1		Loyalitas Pelanggan	0.885							
LP2			0.858							
LP3			0.826							
PP1		Profit	0.869							
PP2			0.840							
PP3			0.855							
PP4			0.861							
PP5			0.822							
Islamic Work Ethic	KD1	Keadilan	0.831	0.960	0.726	0.953				
	KD2		0.851							
	KD3		0.857							
	KJR1	Kejujuran	0.875							
	KJR2		0.850							
	KJR3		0.843							
	NB1	Niat Ibadah	0.828							
	NB2		0.874							
	NB3		0.860							

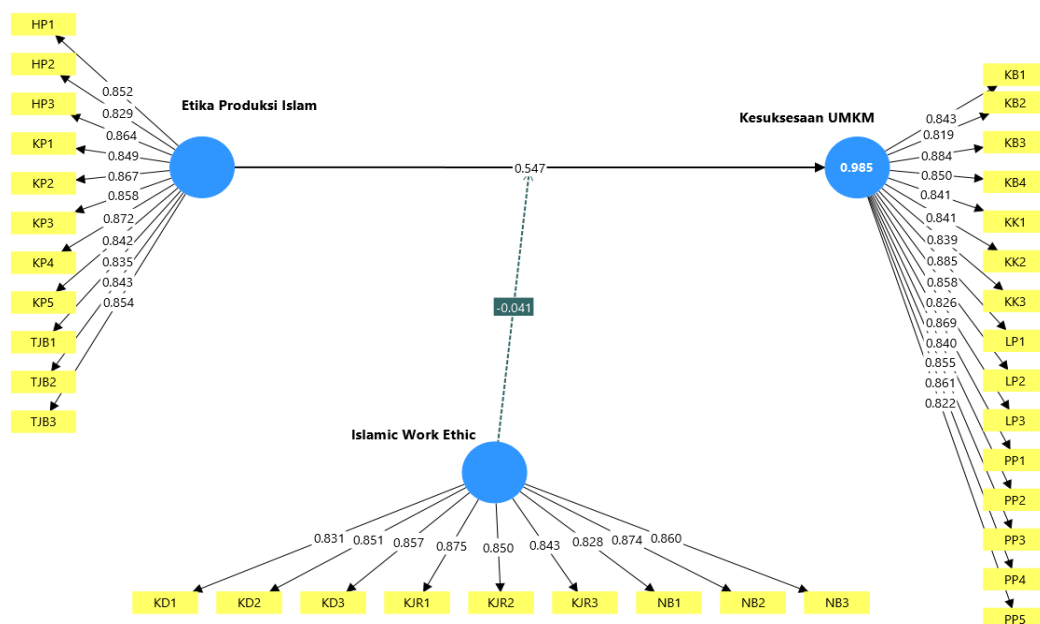
**Tabel 2.** Structural Model Assessment

Hypothesis	Path	Coefficient ( $\beta$ )	t-value	p-value	Result
H1	IPE $\rightarrow$ SME Success	0.547	9.410	0.000	Supported
H2	IWE $\rightarrow$ SME Success	0.409	6.935	0.000	Supported

Hypothesis	Path	Coefficient ( $\beta$ )	t-value	p-value	Result
H3	IPE $\times$ IWE $\rightarrow$ SME Success (Moderating)	-0.041	3.053	0.002	Supported (Neg.)

## RESULTS AND DISCUSSION

The structural model was evaluated using path coefficients, t-statistics, and p-values derived from the bootstrapping procedure. The analysis revealed that Islamic Production Ethics (IPE) has a positive and significant effect on SME success ( $\beta = 0.547$ ;  $t = 9.410$ ;  $p < 0.001$ ), supporting H1. Similarly, Islamic Work Ethics (IWE) also exerts a positive and significant influence on SME success ( $\beta = 0.409$ ;  $t = 6.935$ ;  $p < 0.001$ ), validating H2. Interestingly, the interaction term between IPE and IWE yielded a negative and significant coefficient ( $\beta = -0.041$ ;  $t = 3.053$ ;  $p = 0.002$ ), which supports H3 and indicates a negative moderating effect. This suggests that higher levels of internalized IWE weaken the strength of the relationship between IPE and business success. The  $R^2$  value for SME success was 0.985, indicating that 98.5% of the variance in SME success can be explained by the independent and moderating variables in the model. This demonstrates a very strong explanatory power of the structural model.



**Figure 2.** Structural Model

The analysis results using the PLS-SEM approach reveal that Islamic Production Ethics (IPE) significantly and positively influences MSME success ( $\beta = 0.547$ ;  $t = 9.410$ ;  $p < 0.001$ ). This confirms that Sharia-based production values such as honesty, halal compliance, cleanliness, and product accountability contribute meaningfully to business growth. These findings support Raza et al. (2025) and Udin et al. (2022), who emphasized that Islamic business principles help build trust and loyalty among customers — important determinants of long-term MSME success. The Islamic Work Ethic (IWE) construct also demonstrates a significant positive direct effect on MSME success ( $\beta = 0.409$ ;  $t = 6.935$ ;  $p < 0.001$ ), indicating that values such as diligence, sincerity, responsibility, and trustworthiness embedded in Islamic

teachings positively affect business performance. Kareem et al. (2025) similarly concluded that IWE enhances productivity and aligns organizational behavior with ethical standards.

However, the study reveals a notable finding regarding the moderating role of IWE in the relationship between IPE and MSME success. The interaction term shows a significant negative coefficient ( $\beta = -0.041$ ;  $t = 3.053$ ;  $p = 0.002$ ), suggesting that as IWE increases, the positive effect of Islamic production ethics on MSME success decreases. This result is consistent with the findings of Hasan et al. (2022), who argue that high internalization of ethical values may reduce the perceived need for formal external ethical systems such as production standards, indicating a potential substitution effect whereby IWE — when deeply rooted in an entrepreneur's behavior — may replace the need for external adherence to production ethics. Thus, while both IPE and IWE independently enhance MSME success, their interaction reveals that formal production ethics become less influential when Islamic ethical values are already strongly internalized by the individual.

The findings of this study affirm the importance of Islamic values in promoting MSME success. The significant influence of IPE on business growth supports the assertions of Beekun (1997) and Dusuki & Abdullah (2007), who emphasized that Islamic business ethics — centered on values such as tawhid, justice, trust, and responsibility — guide ethical behavior and accountability in economic activity. This aligns with Kamil & Huda (2020), who found that the consistent application of Islamic ethics in production builds consumer loyalty and adds value, particularly in Muslim-majority markets. The significant impact of IWE on MSME performance further echoes the arguments of Rice (1999) and Buyondo (2024), who demonstrated that religiously inspired work ethics — including diligence, sincerity, and a sense of divine accountability — enhance both personal and organizational productivity. Kareem et al. (2025) further validate this by showing how IWE reinforces organizational culture and contributes positively to enterprise performance, a finding particularly relevant in small-scale businesses where personal behavior strongly shapes outcomes.

The negative moderating role of IWE in the relationship between IPE and MSME success highlights a substitution effect. As demonstrated by Hasan et al. (2022) and supported by Zeb et al. (2023), strong internalization of Islamic values may reduce the incremental value of external ethical systems such as formal production standards, rendering external enforcement mechanisms redundant when ethical conduct is already deeply internalized. This also supports the insights of Sari et al. (2024), who emphasized the need for customized interventions that account for entrepreneurs' ethical mindsets when promoting halal value chain adoption. These findings carry a critical implication: ethical training and interventions for MSMEs should be tailored to the internal ethical orientation of business owners. As suggested by Hartanto et al. (2023), integrating ethical behavior and Sharia compliance into MSME development strategies requires consideration of behavioral intentions and spiritual motivations. While promoting Islamic production ethics remains important, its implementation will be most effective when aligned with the moral maturity and Islamic consciousness of the entrepreneurs themselves.

Furthermore, this study strengthens and complements the findings of Hasan et al. (2022), which explored the moderating role of IWE in the relationship between innovation and entrepreneurial orientation on both entrepreneurial behavior and business performance. Their findings suggest that while IWE has the potential to reinforce positive business behavior, its

moderating effect may vary depending on the depth of value internalization. Consistent with the present study, Hasan et al. also observed that when ethical principles are strongly embedded in entrepreneurial conduct, the direct impact of external factors such as innovation strategies or ethical systems becomes less pronounced. This consistency supports the notion that Islamic ethical internalization may serve as a powerful behavioral compass for entrepreneurs.

## CONCLUSION

This study concludes that both Islamic Production Ethics (IPE) and Islamic Work Ethics (IWE) play significant roles in enhancing the success of small and medium enterprises (SMEs) in the food and beverage sector in Surabaya. IPE contributes positively to SME growth through ethical business conduct aligned with Islamic principles, while IWE fosters internal values that support productivity, trust, and sustainable performance.

However, the study also reveals that IWE negatively moderates the relationship between IPE and SME success. This suggests that in contexts where Islamic work values are already deeply internalized, the influence of formal external ethical systems like production codes becomes less impactful. This finding highlights the importance of understanding the ethical disposition of SME actors when designing interventions.

Practically, this research recommends that SME development programs incorporate assessments of ethical internalization to better tailor support and training. Ethical education based on Islamic values should be contextualized and consider the existing spiritual maturity of entrepreneurs. Additionally, future studies are encouraged to explore the moderating role of IWE in different sectors and regional contexts to enrich generalizability and practical application of Islamic ethical frameworks in business development.

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