Journal of Oeconomia Syariah et Civitas
Volume 1, Number 2, 2025
E-ISSN : 3124-2529
Open Access: https://ejournal.grafindoscience.com/josc

The Application of Sharia Accounting in Micro, Small, and Medium Enterprises to Enhance Financial Performance

Zahra Puspita Sari [1], Zulfa Aulia [2] Fadlan Hakim [3]
[1] Universitas Muhammadiyah Jakarta
[2] Universitas Muhammadiyah Jakarta
[3] Universitas Islam Malang
Correspondence: fadlanhakim@gmail.com

Article Info

Article history:
Received Jun 12th, 20xx
Revised Aug 20th, 20xx
Accepted Aug 26th, 20xx

Keyword:
sharia accounting, MSMEs, financial performance, Islamic accounting, qualitative study

ABSTRACT

This study aims to analyze the implementation of sharia accounting in Micro, Small, and Medium Enterprises (MSMEs) and its role in improving financial performance. A qualitative research approach was employed using a descriptive case study design, as this design allows for an in-depth exploration of accounting practices, perceptions, and contextual factors underlying sharia-based financial management. The research was conducted in an Indonesian region with a strong Islamic economic environment and a high concentration of MSMEs. Data were collected through in-depth interviews, observation, and document analysis involving twelve MSME actors and five key informants selected purposively due to their direct involvement in accounting practices and expertise in Islamic accounting and MSME development. The findings indicate that the implementation of sharia accounting enhances financial transparency, accountability, and managerial discipline, which positively contributes to MSME financial performance. However, the study also reveals that implementation remains partial due to limited technical capacity and institutional support. The study recommends the development of simplified sharia accounting guidelines and targeted capacity-building programs to support broader adoption among MSMEs.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in driving economic growth, employment creation, and income distribution in many developing and emerging economies (Mahyudin et al., 2025). In countries with a significant Muslim population, MSMEs not only function as economic agents but also as entities that reflect ethical, social, and religious values in business practices (Chanifah et al., 2023). Despite their resilience and contribution to economic stability, many MSMEs continue to face structural challenges, particularly in financial management and accounting practices (Tucker & Hoque, 2025). Weak financial recording systems, limited managerial capacity, and low literacy in accounting standards often hinder MSMEs from accurately measuring financial performance and making informed strategic decisions (Agustina & Hadi, 2024). These limitations have direct implications for business sustainability, access to financing, and long-term competitiveness (Berakon et al., 2024).

In response to these challenges, the adoption of accounting systems that are both technically sound and value-based has become increasingly important (Reksadini et al., 2025). Sharia accounting, which is grounded in Islamic principles such as justice, transparency, accountability, and prohibition of riba (interest), offers an alternative framework that aligns financial reporting with ethical and religious considerations (Okpala, 2024). Unlike conventional accounting, sharia accounting emphasizes not only profit measurement but also social responsibility, fairness in transactions, and compliance with Islamic law. For MSMEs operating within a sharia-compliant ecosystem, the implementation of sharia accounting has the potential to strengthen trust among stakeholders, improve financial discipline, and enhance overall financial performance (Tripalupi, 2023).

The state of the art in existing literature shows that research on sharia accounting has largely focused on Islamic financial institutions, such as Islamic banks, takaful companies, and zakat management organizations (Putriana, 2023). These studies have examined compliance with sharia standards, disclosure practices, and governance mechanisms. However, empirical research addressing the implementation of sharia accounting in MSMEs remains limited and fragmented (Sumarni et al., 2024). Most MSME-related studies emphasize conventional accounting adoption, financial literacy, or digital bookkeeping, with relatively little attention given to the integration of sharia accounting principles at the micro and small business level (Zatadini et al., 2025). This indicates that the discourse on sharia accounting has not yet sufficiently captured the realities and needs of MSMEs, particularly in relation to financial performance improvement (P. M. M & Anisyah, 2024).

The main problem addressed in this study arises from the gap between the normative framework of sharia accounting and its practical application among MSMEs (Flinkman et al., 2024). Although sharia accounting standards have been developed to support Islamic economic activities, their implementation among MSMEs is often constrained by limited knowledge, lack of technical guidance, and the perception that sharia accounting is complex and only relevant to large institutions (Kateb et al., 2025). As a result, many MSMEs that claim to operate based on Islamic values still rely on informal or conventional accounting practices that do not fully reflect sharia principles (Hettler & Stevens, 2024). This mismatch raises concerns regarding the effectiveness of sharia accounting in supporting MSME financial performance and business sustainability (Andriany et al., 2023).

The research gap becomes evident when examining prior empirical studies. Existing research has not adequately explored how the implementation of sharia accounting affects the financial performance of MSMEs in a comprehensive and measurable manner (Zafar, 2024). Moreover, there is a lack of integrated analysis that connects accounting practices, compliance with sharia principles, and financial performance indicators within the MSME context (Pragita, 2025). Most studies tend to examine these variables separately, leaving unanswered questions about their interrelationships. This gap highlights the need for research that empirically investigates the role of sharia accounting as a managerial tool capable of improving MSME financial outcomes (Mahyudin et al., 2025).

This study offers novelty by positioning sharia accounting not merely as a compliance mechanism, but as a strategic instrument for enhancing MSME financial performance. The research contributes new insights by empirically linking the implementation of sharia accounting principles with financial performance indicators such as profitability, efficiency, and financial transparency (Cahyawati et al., 2023). Furthermore, the study contextualizes sharia accounting within the operational realities of MSMEs, thereby extending the scope of sharia accounting research beyond formal Islamic financial institutions. This approach provides a more inclusive understanding of Islamic accounting practices within the broader Islamic economic ecosystem (Chanifah et al., 2023).

Based on the identified problems and research gap, this study is guided by several key research questions. The primary question seeks to understand how the implementation of sharia accounting influences the financial performance of MSMEs (Lamidi et al., 2025). Additional questions explore the extent to which MSMEs adopt sharia accounting principles in their financial practices and identify the challenges they face in implementation. These questions are designed to generate empirical evidence that can inform both academic discourse and practical policy development (Tucker & Hoque, 2025).

The main objective of this study is to analyze the implementation of sharia accounting in MSMEs and its impact on financial performance improvement. Specifically, the study aims to examine the level of sharia accounting adoption among MSMEs, assess its influence on financial performance, and identify enabling and inhibiting factors in its implementation (Rohali et al., 2025). By achieving these objectives, the study seeks to provide a comprehensive understanding of the role of sharia accounting in supporting MSME sustainability and growth (Agustina & Hadi, 2024).

The theoretical contribution of this research lies in enriching the literature on Islamic accounting by extending its application to MSMEs (Riswandi & Zulfikri, 2024). The study contributes to the development of Islamic accounting theory by demonstrating how sharia principles can be operationalized in small-scale business environments (Mudhofar & Wibison, 2024). Academically, the findings provide empirical evidence that can serve as a reference for future research on Islamic economics, accounting, and MSME development. The study also offers a conceptual framework that integrates sharia accounting practices with financial performance analysis (Reksadini et al., 2025).

From a practical perspective, the findings of this research are expected to benefit MSME owners and managers by providing insights into how sharia accounting can be implemented in a simple and effective manner (Sanjaya & Prabawa, 2023). Policymakers and regulatory bodies may use the results to design supportive policies, training programs, and simplified sharia accounting guidelines tailored to MSMEs. Additionally, Islamic financial institutions may leverage the findings to develop MSME financing schemes that are aligned with sharia accounting practices (Okpala, 2024).

Despite its contributions, this study acknowledges several limitations. The research may be limited by the scope of the sample, which could affect the generalizability of the findings. Differences in business sectors, levels of financial literacy, and regional characteristics may also influence the implementation of sharia accounting (Setiawati et al., 2025). Furthermore, the study primarily focuses on financial performance indicators and does not fully capture non-financial performance aspects such as social impact and spiritual outcomes (Putriana, 2023).

Future research is encouraged to address these limitations by expanding the sample size, incorporating longitudinal data, and exploring non-financial performance dimensions. Further studies may also examine the role of digital sharia accounting systems and the interaction between sharia accounting and Islamic financial inclusion (Arifin et al., 2024). By building on the findings of this research, future studies can contribute to a more holistic understanding of sharia accounting implementation within MSMEs and its broader implications for Islamic economic development (Sumarni et al., 2024).

LITERATURE REVIEW

The literature on sharia accounting and MSME financial performance is grounded in interdisciplinary perspectives that combine accounting theory, Islamic economics, and organizational performance studies (Gusmao, 2025). To comprehensively explain how sharia accounting can enhance MSME financial performance, this study draws upon three core theoretical frameworks: Stakeholder Theory, Institutional Theory, and Islamic Accountability Theory (Juliansyah et al., 2025). These theories provide complementary lenses to understand the ethical, structural, and performance-related dimensions of sharia accounting implementation in MSMEs (Zatadini et al., 2025).

Stakeholder Theory was popularized by Edward R. Freeman in 1984 while he was a professor at the University of Virginia, United States, through his seminal work *Strategic Management: A Stakeholder Approach* (Ananda et al., 2023). Freeman argued that organizations are not solely responsible to shareholders but to a broader group of stakeholders, including employees, customers, suppliers, creditors, and society at large (Zhang et al., 2025). According to this theory, organizational success and performance depend on the ability to balance and satisfy diverse stakeholder interests. In the context of MSMEs, financial reporting serves as a key mechanism for communicating accountability and performance to stakeholders (Utama et al., 2024). Sharia accounting aligns strongly with Stakeholder Theory because it emphasizes transparency, fairness, and ethical responsibility, which are central to maintaining stakeholder trust and legitimacy (Flinkman et al., 2024).

Further elaboration of Stakeholder Theory in accounting contexts has been provided by R. Edward Freeman, Jeffrey S. Harrison, and Andrew C. Wicks (2010) from the University of Virginia, United States, who emphasized value creation as the core objective of organizations (Khamisu et al., 2025). From their perspective, accounting systems should not merely measure profits but also reflect how value is distributed among stakeholders (Thahirah & Kasri, 2023). Sharia accounting supports this framework by incorporating ethical screening, prohibition of unjust enrichment, and equitable profit-sharing (Aprilia et al., 2024). The conceptual framework derived from this theory suggests that MSMEs implementing sharia accounting can improve financial performance by enhancing stakeholder confidence, reducing agency conflicts, and strengthening long-term business relationships (Kateb et al., 2025).

Institutional Theory represents the second theoretical foundation of this study. This theory was significantly developed by Paul J. DiMaggio and Walter W. Powell in 1983 at Yale University and Stanford University, United States, through their work on institutional isomorphism. Institutional Theory posits that organizational practices are shaped by regulatory pressures, social norms, and cognitive beliefs within institutional environments (Zakiy et al., 2023). Organizations adopt certain practices not only for efficiency but also to gain legitimacy and social acceptance. In the case of MSMEs operating in Islamic economic environments, sharia accounting can be viewed as an institutional response to religious, regulatory, and cultural expectations (Hettler & Stevens, 2024).

The institutional perspective has been further refined by W. Richard Scott (2014) from Stanford University, United States, who identified three pillars of institutions: regulatory, normative, and cognitive (Asien, 2023). Sharia accounting operates across all three pillars by complying with Islamic financial regulations, aligning with societal norms rooted in Islamic ethics, and shaping business actors' beliefs about ethical financial management (Akmal, 2023). From this theoretical lens, MSMEs may adopt sharia accounting to legitimize their operations within Islamic markets, thereby improving access to Islamic financing and enhancing financial performance. This framework explains why the adoption of sharia accounting among MSMEs varies and why institutional support is critical for successful implementation (Zafar, 2024).

The third theoretical foundation is Islamic Accountability Theory, which originates from Islamic economic thought and was extensively articulated by Syed Nawab Haider Naqvi in 1981 at University of Cambridge, United Kingdom, and later developed by Muhammad Akram Khan (1994) from the International Institute of Islamic Thought, Pakistan (Hardian & Vendy, 2023). This theory asserts that accountability in Islamic organizations is multidimensional, encompassing responsibility to God (Allah), society, and individuals (Penman, 2025). Financial reporting is not merely a technical activity but a moral obligation aimed at achieving justice (*'adl*), trust (*amanah*), and social welfare (*maslahah*) (Pragita, 2025).

Islamic Accountability Theory was further advanced by Abdul Rahman (2010) from the International Islamic University Malaysia, who emphasized that Islamic accounting must reflect both financial and ethical performance (P. N. & U. C., 2025). According to this perspective, financial performance is considered meaningful only when achieved through sharia-compliant means (Omolaye, 2025). The theoretical framework highlights that sharia accounting promotes discipline, honesty, and transparency, which in turn improve financial performance by minimizing fraud, inefficiency, and unethical practices (Itang et al., 2023). For MSMEs, this theory provides a strong normative justification for adopting sharia accounting as a pathway to sustainable financial success (Cahyawati et al., 2023).

The development of these theories shows a gradual shift from purely economic performance toward ethical, institutional, and value-based perspectives. Contemporary developments in Stakeholder Theory emphasize sustainability and integrated reporting, aligning with the objectives of sharia accounting. Institutional Theory has evolved to consider hybrid organizations that combine economic and religious logics, which is particularly relevant for MSMEs in Islamic economies (Relifra et al., 2025). Islamic Accountability Theory has also progressed to incorporate practical accounting standards such as AAOIFI and Islamic Financial Reporting frameworks, making it increasingly applicable to MSME contexts (S. A. M et al., 2023).

When connected to the main research problem, these three theories collectively explain why MSMEs struggle with financial performance despite operating within Islamic value systems (Meiryani, 2024). Stakeholder Theory highlights the consequences of weak transparency for stakeholder trust (Evans & Ngozi, 2023). Institutional Theory explains the lack of adoption of sharia accounting due to insufficient regulatory and normative support. Islamic Accountability Theory reveals the gap between Islamic ethical ideals and actual accounting practices among MSMEs (Ahmed et al., 2025). Together, these theories clarify the research gap concerning the limited empirical understanding of how sharia accounting affects MSME financial performance (Lamidi et al., 2025).

The theories are also directly linked to the formulation of research questions. Stakeholder Theory informs questions regarding how sharia accounting improves transparency and stakeholder trust. Institutional Theory supports inquiries into the environmental and structural factors influencing sharia accounting adoption (Davison & Parsley, 2025). Islamic Accountability Theory underpins questions related to ethical compliance and its relationship with financial outcomes (Rahman, 2024). Furthermore, these theories guide the research objectives by framing sharia accounting as a strategic, institutional, and ethical tool for enhancing financial performance (Rohali et al., 2025).

In terms of research benefits, the theoretical contribution lies in integrating conventional organizational theories with Islamic accounting principles. Academically, this study extends the application of these theories to MSMEs, a context that has received limited attention (Nurlina & Paramitha, 2024). Practically, the theories provide a foundation for designing sharia accounting frameworks that are feasible for MSMEs. The integration of these perspectives also supports the novelty of the study by offering a multidimensional explanation of sharia accounting implementation and its impact on financial performance (Riswandi & Zulfikri, 2024).

In conclusion, the literature review demonstrates that Stakeholder Theory, Institutional Theory, and Islamic Accountability Theory provide a robust theoretical foundation for analyzing the implementation of sharia accounting in MSMEs (Manurung et al., 2025). The synthesis of these theories addresses the main research problem, clarifies the research gap, supports the formulation of research questions, and underpins the study's objectives and contributions (Merdianto & Sartika, 2025). By integrating ethical, institutional, and performance-based perspectives, this study offers a novel approach to understanding how sharia accounting can enhance MSME financial performance within Islamic economic systems (Mudhofar & Wibison, 2024).

RESEARCH METHODS

This study employs a qualitative research methodology to examine the implementation of sharia accounting in Micro, Small, and Medium Enterprises (MSMEs) and its role in improving financial performance. A qualitative approach is considered appropriate because the research seeks to explore processes, perceptions, experiences, and contextual factors that shape how sharia accounting is understood and practiced by MSME actors. Unlike quantitative methods that emphasize measurement and statistical relationships, qualitative research allows for an in-depth understanding of meaning, interpretation, and behavior, which is essential when investigating value-based accounting systems grounded in Islamic principles.

The research design adopted in this study is a qualitative descriptive case study. This design enables the researcher to capture detailed and contextualized insights into real-life accounting practices within MSMEs operating in a sharia-oriented environment. The case study approach is particularly relevant because sharia accounting implementation is not a standardized or uniform process among MSMEs; rather, it is influenced by business scale, owner knowledge, religious commitment, institutional support, and local economic conditions. By using a case study design, the research can holistically analyze how sharia accounting principles are interpreted, applied, and linked to financial performance outcomes in specific MSME settings.

The choice of a qualitative descriptive design is further justified by the exploratory nature of the study. Existing empirical research on sharia accounting in MSMEs remains limited, especially with respect to practical implementation and performance implications. Therefore, this study does not aim to test hypotheses but rather to generate rich empirical evidence that can contribute to theory development and practical understanding. The qualitative design allows flexibility in data collection and analysis, enabling the researcher to adapt to emerging findings and deepen the investigation of relevant themes.

The research was conducted in a region with a strong presence of MSMEs operating within an Islamic socio-economic context. The selected research location is a metropolitan and semi-urban area in Indonesia where MSMEs constitute a significant portion of economic activity and where Islamic economic practices, including sharia-compliant financing and halal business operations, are actively promoted. The selection of this location is based on several considerations. First, the region has a high concentration of MSMEs that self-identify as operating according to Islamic values. Second, the area benefits from institutional support for Islamic economics, including access to Islamic financial institutions, cooperatives, and training programs. Third, the diversity of MSME sectors in the region provides a rich context for examining variations in sharia accounting implementation.

The research subjects consist of MSME owners, financial managers, and individuals directly responsible for accounting and financial decision-making within the enterprises. In qualitative research, the selection of participants is guided by purposive sampling, which focuses on information-rich cases that are relevant to the research objectives. Participants were selected based on specific criteria, including the active operation of the MSME for at least three years, engagement in routine financial recording, and expressed commitment to applying Islamic principles in business practices. These criteria ensure that participants possess sufficient experience and knowledge to provide meaningful insights into sharia accounting implementation.

A total of twelve respondents were involved in the study. To maintain confidentiality and ethical research standards, all respondents are identified using pseudonyms. Among the respondents, “Mr. Ahmad” is the owner of a small halal food manufacturing enterprise and is responsible for overall financial management. “Ms. Aisyah” serves as a finance administrator in a retail MSME and manages daily bookkeeping activities. “Mr. Hasan” is the owner-manager of a micro trading business who independently prepares financial records based on sharia principles. “Ms. Khadijah” acts as an accounting staff member in a medium-sized MSME operating in the fashion sector. Additional respondents include “Mr. Yusuf,” “Ms. Fatimah,” “Mr. Ali,” and “Ms. Zainab,” each representing MSMEs from different sectors such as services, agribusiness, and home industries.

The selection of these respondents is justified by their direct involvement in accounting practices and financial decision-making processes. MSME owners and financial managers are particularly well-positioned to explain the motivations, challenges, and perceived benefits of implementing sharia accounting. Their perspectives provide firsthand evidence of how accounting practices influence financial performance, transparency, and business sustainability. The diversity of roles and business sectors among respondents enhances the credibility and richness of the findings.

In addition to respondents, this study also involves key informants who provide contextual and expert perspectives on sharia accounting implementation in MSMEs. Informants were selected using purposive and snowball sampling techniques, focusing on individuals with professional expertise and institutional roles related to Islamic accounting and MSME development. A total of five informants participated in the study. “Dr. Rahman” is an academic specializing in Islamic accounting and a lecturer at a public university. “Mr. Fikri” is a sharia compliance officer at an Islamic microfinance institution. “Ms. Salma” is a trainer and consultant in MSME financial management with experience in sharia-based accounting systems. “Mr. Hidayat” represents a local cooperative that supports MSMEs through sharia financing schemes, while “Ms. Nur” is a policymaker involved in MSME development programs.

The inclusion of informants is essential to triangulate data obtained from MSME respondents and to provide broader institutional and theoretical insights. Informants contribute expert opinions on sharia accounting standards, regulatory frameworks, and best practices, thereby enhancing the analytical depth of the study. Their perspectives help contextualize MSME experiences within the wider Islamic economic ecosystem.

Data collection was carried out using in-depth semi-structured interviews, direct observation, and document analysis. Semi-structured interviews were chosen to allow flexibility while ensuring that key research themes were consistently addressed. Interview guides were developed based on the research objectives and theoretical framework, covering topics such as understanding of sharia accounting, implementation practices, perceived impact on financial performance, and implementation challenges. Interviews were conducted face-to-face and, where necessary, through online platforms, each lasting between 60 and 90 minutes.

Observation was conducted to gain firsthand insight into daily accounting practices, financial record-keeping systems, and the use of accounting documents within MSMEs. This method allows the researcher to validate interview data and capture practices that may not be fully articulated by participants. Document analysis involved reviewing financial records, transaction notes, and internal reports, where available, to understand how sharia principles are reflected in accounting practices. All data collection methods were conducted in accordance with ethical research standards, including informed consent and confidentiality.

Data analysis followed a qualitative thematic analysis approach. Interview transcripts, observation notes, and documents were systematically coded to identify recurring patterns, themes, and relationships. The analysis process involved data reduction, data display, and conclusion drawing. Initial coding focused on descriptive categories such as accounting practices, sharia compliance, and financial performance indicators. These categories were then refined into analytical themes that reflect the interaction between sharia accounting implementation and financial performance outcomes.

To ensure the credibility and trustworthiness of the findings, this study applied several qualitative validation strategies, including data triangulation, member checking, and prolonged engagement in the field. Triangulation was achieved by comparing data from multiple sources and methods. Member checking involved sharing preliminary findings with selected participants to verify interpretations. These strategies enhance the reliability and validity of qualitative research outcomes.

The technique for drawing research conclusions is inductive and interpretive. Conclusions are derived from empirical patterns and themes identified in the data, rather than from predefined hypotheses. The inductive approach allows the findings to emerge organically from participant experiences and contextual realities. The conclusions are then linked back to the theoretical framework to explain how sharia accounting implementation contributes to MSME financial performance improvement. This approach ensures that the conclusions are grounded in empirical evidence while contributing to theoretical and practical understanding.

Through this methodological approach, the study provides a comprehensive and credible analysis of sharia accounting implementation in MSMEs. The qualitative design enables the research to capture the complexity, context, and values underlying accounting practices, offering meaningful insights for academics, practitioners, and policymakers within the field of Islamic economics and accounting.

RESULTS AND DISCUSSION

The findings of this study reveal that the implementation of sharia accounting among Micro, Small, and Medium Enterprises (MSMEs) is strongly associated with improvements in financial performance, although the extent and consistency of implementation vary considerably across enterprises. This variation reflects the diverse capacities, resources, and institutional environments in which MSMEs operate. The empirical evidence indicates that MSMEs that apply sharia accounting principles more systematically tend to demonstrate better financial organization, clearer cash flow management, and stronger business sustainability. However, the findings also show that sharia accounting has not yet been fully institutionalized within most MSMEs, resulting in uneven outcomes across different business contexts.

Table 1. Summary of Research Findings on the Implementation of Sharia Accounting in MSMEs and Its Impact on Financial Performance

Key Aspect	Empirical Findings	Theoretical Linkage	Implications for Financial Performance
Level of Sharia Accounting Implementation	Sharia accounting is implemented partially; most MSMEs apply basic principles such as avoiding interest and ensuring fair transactions, but lack systematic recording and formal reporting	Islamic Accountability Theory (Naqvi; Abdul Rahman)	Partial implementation improves ethical awareness but limits the full potential of financial performance enhancement

Key Aspect	Empirical Findings	Theoretical Linkage	Implications for Financial Performance
Financial Transparency and Record-Keeping	MSMEs adopting sharia-based bookkeeping show clearer cash flow records and better expense control	Stakeholder Theory (Freeman)	Improved transparency strengthens stakeholder trust and supports more accurate financial decision-making
Stakeholder Trust and Legitimacy	Sharia-compliant practices increase trust among customers, suppliers, and Islamic financial institutions	Stakeholder Theory	Higher trust facilitates long-term relationships and improves access to sharia-compliant financing
Institutional Support and Environment	MSMEs with access to Islamic cooperatives, training, and guidance implement sharia accounting more consistently	Institutional Theory (DiMaggio & Powell; Scott)	Strong institutional support accelerates adoption and indirectly enhances financial performance
Managerial Discipline and Ethical Control	Ethical accountability motivates prudent financial behavior and reduces opportunistic practices	Islamic Accountability Theory	Ethical discipline contributes to financial stability and sustainable performance
Implementation Constraints	Limited accounting literacy, lack of MSME-oriented sharia accounting standards, and perceived complexity	Institutional Theory	These constraints create an implementation gap that weakens the performance impact of sharia accounting
Overall Financial Performance Outcome	MSMEs with stronger sharia accounting practices report better cash flow stability and financial sustainability	Integration of three theories	Sharia accounting functions as a strategic and ethical tool for improving MSME financial performance

Table 1 presents a synthesized overview of the main empirical findings derived from the results and discussion of the study. The table demonstrates how the implementation of sharia accounting in MSMEs influences financial performance through multiple dimensions, including transparency, stakeholder trust, ethical discipline, and institutional support. Each finding is analytically connected to the three theoretical frameworks used in the study Stakeholder Theory, Institutional Theory, and Islamic Accountability Theory highlighting their explanatory relevance. The table also illustrates that while sharia accounting contributes positively to MSME financial performance, its impact is moderated by implementation constraints and institutional gaps. Overall, the table reinforces the study's conclusion that sharia accounting can enhance MSME financial performance when supported by adequate knowledge, simplified standards, and a conducive institutional environment.

The primary research problem identified in this study namely the limited and inconsistent application of sharia accounting principles among MSMEs is clearly reflected in the empirical data. While the majority of MSME owners express a strong commitment to Islamic values, such as fairness, honesty, and the avoidance of prohibited transactions, these values are often implemented informally rather than translated into structured accounting systems. This gap highlights a fundamental challenge in the practical application of sharia accounting: the difficulty of operationalizing normative Islamic principles into standardized financial recording and reporting practices suitable for small-scale enterprises. The findings confirm that resistance to sharia accounting is not ideological in nature, but rather rooted in practical constraints such as limited accounting knowledge, lack of technical guidance, and insufficient institutional support.

From the perspective of Stakeholder Theory, the results demonstrate that MSMEs implementing sharia accounting practices experience increased levels of trust and legitimacy among their key stakeholders. Customers, suppliers, employees, and Islamic financial institutions respond positively to transparent financial practices and ethical business conduct. Respondents emphasized that clear financial records, the avoidance of interest-based financing, and transparent profit-sharing arrangements contributed significantly to stakeholder confidence. This enhanced trust translated into stronger and more stable business relationships, which are critical for MSMEs that rely heavily on relational capital rather than formal contracts.

These findings are consistent with Freeman's assertion that organizational performance improves when the interests of multiple stakeholders are acknowledged and managed effectively. Sharia accounting, by emphasizing transparency, justice, and accountability, serves as a communication tool that signals ethical commitment and financial reliability to stakeholders. In practical terms, MSMEs that adopted sharia accounting were better positioned to articulate their financial conditions when engaging with Islamic banks and cooperatives. This improved communication facilitated access to sharia-compliant financing schemes, reduced information asymmetry, and strengthened customer loyalty. As a result, financial performance improved not only through internal efficiency gains but also through enhanced external support and market credibility.

Institutional Theory provides further insight into the observed variation in sharia accounting implementation among MSMEs. The findings reveal that enterprises operating within supportive institutional environments are more likely to adopt sharia accounting in a consistent and structured manner. Such environments include access to Islamic cooperatives, training programs in sharia-based financial management, and regulatory frameworks that encourage or recognize sharia compliance. MSMEs benefiting from these institutional supports reported greater confidence in implementing sharia accounting practices and demonstrated higher levels of financial discipline and reporting accuracy.

In contrast, MSMEs operating in weaker institutional contexts relied predominantly on informal accounting practices, even when they expressed strong adherence to Islamic principles. These enterprises often lacked exposure to formal sharia accounting standards and received minimal guidance from regulatory or professional bodies. This finding reinforces DiMaggio and Powell's argument that organizational practices are shaped by normative, regulatory, and cognitive pressures within institutional environments. In the absence of clear standards and enforcement mechanisms, MSMEs tend to prioritize operational survival over formal accounting compliance. The lack of standardized and MSME-friendly sharia accounting guidelines therefore represents a critical institutional gap that constrains broader adoption and limits the potential impact of sharia accounting on financial performance.

Islamic Accountability Theory offers a normative and ethical explanation for the findings related to financial discipline and ethical awareness. The study finds that MSMEs that internalize the concept of accountability to God (Allah) and society demonstrate greater caution in financial decision-making. These enterprises are more likely to avoid speculative transactions, exercise prudence in debt management, and allocate resources responsibly. Respondents from such MSMEs reported fewer instances of financial mismanagement, reduced liquidity problems, and more stable cash flows.

These findings support the arguments advanced by Naqvi and subsequent scholars, who emphasize that Islamic accounting fosters ethical self-regulation by integrating moral responsibility into economic behavior. Unlike conventional accounting systems that primarily focus on profit maximization, sharia accounting embeds ethical considerations within financial practices. The study confirms that sharia accounting functions not merely as a technical reporting system but as a moral framework that shapes managerial behavior and decision-making. This ethical orientation contributes indirectly to improved financial performance by reducing opportunistic behavior, enhancing internal control, and promoting long-term sustainability.

When examining the implementation gap identified in the literature, the study finds that MSMEs often apply sharia principles selectively rather than comprehensively. For instance, while most respondents consciously avoid interest-based loans, many do not systematically record profit-sharing transactions, zakat obligations, or other sharia-specific financial components. This selective adoption reflects a pragmatic approach in which MSMEs prioritize easily observable sharia principles while neglecting more complex accounting requirements. The result is a fragmented implementation that limits the overall effectiveness of sharia accounting.

Stakeholder Theory explains this gap as a consequence of limited stakeholder pressure for formalized accounting systems. Many MSME stakeholders prioritize ethical conduct and product halalness over formal financial disclosures, reducing incentives for comprehensive accounting adoption. Institutional Theory further attributes the gap to the absence of enforceable standards and accessible technical support. Islamic Accountability Theory highlights that ethical awareness alone is insufficient without adequate knowledge and skills to translate values into practice. Together, these theoretical perspectives provide a holistic explanation for the persistence of the implementation gap.

In relation to the research questions, the findings provide clear and consistent empirical answers. The study confirms that the implementation of sharia accounting positively influences MSME financial performance by enhancing transparency, accountability, and stakeholder trust. However, the magnitude of this influence is contingent upon the level of implementation and the strength of institutional support. MSMEs with partial implementation experience limited benefits, while those with more structured adoption demonstrate more significant performance improvements. The findings also reveal persistent challenges related to limited accounting literacy, the absence of MSME-oriented sharia accounting standards, and perceptions of complexity associated with sharia accounting systems.

These challenges reaffirm the relevance of the identified research gap and underscore the need for context-specific sharia accounting models tailored to MSMEs. Such models should balance compliance with simplicity and practicality, ensuring that MSMEs can adopt sharia accounting without excessive administrative burden. The study's findings thus provide a strong empirical foundation for future policy and institutional interventions aimed at improving sharia accounting adoption among MSMEs.

The research objectives are largely achieved through these findings. The study successfully identifies the current state of sharia accounting implementation among MSMEs, demonstrates its impact on financial performance, and explains the factors that facilitate or hinder adoption. By integrating Stakeholder Theory, Institutional Theory, and Islamic Accountability Theory, the study offers a comprehensive analytical framework that captures the ethical, relational, and structural dimensions of accounting practices. This theoretical integration represents a significant contribution to Islamic accounting literature and MSME research.

The theoretical contributions of this study are evident in its extension of established organizational and accounting theories into the MSME and Islamic accounting context. The findings reinforce the argument that ethical and value-based accounting systems can enhance financial performance when supported by appropriate stakeholder engagement and institutional frameworks. Academically, the study contributes original empirical evidence to an area that remains underexplored, particularly with respect to small-scale enterprises. Practically, the findings provide actionable insights for MSME owners, policymakers, and Islamic financial institutions seeking to promote sustainable, ethical, and performance-oriented business practices through the adoption of sharia accounting.

The discussion of these findings in relation to previous studies substantially strengthens their academic and practical significance. Earlier research on sharia accounting has predominantly concentrated on Islamic banks, takaful institutions, and other large-scale Islamic financial organizations, with a primary focus on regulatory compliance, financial disclosure, and governance structures. These studies have contributed significantly to the development of Islamic accounting standards and the formalization of sharia-compliant reporting frameworks. However, their emphasis on large institutions has implicitly positioned sharia accounting as a complex system that requires substantial organizational resources, advanced expertise, and formal regulatory oversight. As a result, the relevance of sharia accounting for Micro, Small, and Medium Enterprises (MSMEs) has remained underexplored and, in some cases, underestimated.

In contrast, the present study demonstrates that sharia accounting is not exclusively applicable to large organizations but can also function as an effective tool for enhancing financial performance in small-scale enterprises. This finding directly challenges the prevailing assumption in much of the literature that sharia accounting is too sophisticated or burdensome for MSMEs. By providing empirical evidence from MSMEs that have adopted sharia-based accounting practices albeit in simplified forms this study expands the scope of Islamic accounting research and shows that its core principles are adaptable to different organizational scales. This contribution is particularly important in economies where MSMEs constitute the backbone of economic activity and where Islamic values play a central role in shaping business behavior.

The findings are broadly consistent with earlier studies that emphasize the role of ethical accounting in improving transparency, accountability, and organizational performance. Previous research has shown that ethical accounting frameworks encourage disciplined financial behavior, reduce information asymmetry, and foster trust among stakeholders. However, most of these studies have been conducted within conventional ethical or corporate social responsibility frameworks. This study extends those insights by situating ethical accounting within a sharia framework, thereby demonstrating that Islamic ethical principles can serve as a powerful foundation for financial performance improvement in MSMEs. By doing so, the study bridges the gap between ethical theory and practical financial management in Islamic business contexts.

With regard to the main research problem, the discussion confirms that the limited implementation of sharia accounting among MSMEs is not primarily caused by a lack of commitment to Islamic values. On the contrary, the findings reveal that most MSME owners and managers possess a strong normative commitment to conducting business in accordance with sharia principles. This commitment is reflected in their avoidance of interest-based transactions, emphasis on fairness in pricing, and concern for ethical conduct. However, these values are often not translated into systematic accounting practices due to structural and technical barriers. These barriers include limited accounting literacy, lack of simplified sharia accounting guidelines tailored to MSMEs, and insufficient institutional support in the form of training and advisory services.

Previous studies on MSME accounting adoption have identified similar challenges, particularly in relation to conventional accounting systems. Many MSMEs struggle with limited financial knowledge, resource constraints, and the perception that formal accounting systems are costly and time-consuming. However, few studies have examined these challenges through a sharia perspective. By incorporating sharia principles into the analysis, this study provides a more nuanced understanding of why MSMEs may selectively adopt certain Islamic practices while neglecting formal sharia accounting procedures. The findings suggest that ethical intention alone is insufficient to ensure effective implementation; it must be supported by appropriate knowledge, tools, and institutional frameworks.

The integration of theoretical insights with empirical findings further enhances the explanatory power of the discussion. Stakeholder Theory helps explain why MSMEs that adopt sharia accounting practices experience improved relationships with customers, suppliers, and Islamic financial institutions. Transparent and ethically grounded financial reporting signals trustworthiness and reduces perceived risk among stakeholders. This, in turn, can lead to increased customer loyalty, more favorable trade relationships, and improved access to sharia-compliant financing. These outcomes reinforce the argument that accounting systems play a strategic role in value creation beyond mere financial reporting.

Institutional Theory provides additional insight into the uneven adoption of sharia accounting among MSMEs. The findings indicate that MSMEs operating in environments with stronger institutional support such as access to Islamic cooperatives, training programs, and regulatory guidance are more likely to implement sharia accounting practices consistently. In contrast, MSMEs operating in less supportive environments tend to rely on informal accounting methods, even when they express a strong commitment to Islamic values. This observation supports the institutional argument that organizational practices are shaped by regulatory, normative, and cognitive pressures. Without adequate institutional reinforcement, sharia accounting remains an aspirational ideal rather than an operational reality for many MSMEs.

Islamic Accountability Theory further enriches the discussion by highlighting the moral and spiritual dimensions of accounting practices. The findings suggest that MSMEs that internalize the concept of accountability to God and society demonstrate greater financial discipline and ethical awareness. This moral orientation encourages cautious decision-making, responsible resource use, and a long-term perspective on business sustainability. Unlike conventional accounting frameworks that emphasize efficiency and profitability alone, Islamic accountability introduces an intrinsic motivation for ethical conduct. This motivation plays a critical role in shaping financial behavior and contributes indirectly to improved financial performance.

The discussion of the research gap further underscores the novelty and contribution of this study. Much of the existing literature has treated accounting practices and financial performance as separate or loosely connected variables. Studies often examine accounting adoption as a technical issue and financial performance as an outcome influenced by market conditions, managerial skills, or access to capital. This study, however, demonstrates that accounting practices and financial performance are deeply interdependent within a sharia framework. Sharia accounting influences not only how financial information is recorded and reported but also how business decisions are made and how stakeholders perceive the enterprise.

The findings indicate that sharia accounting enhances financial performance through multiple pathways. Improved record-keeping enables MSME owners to monitor cash flows, control costs, and evaluate profitability more effectively. At the same time, adherence to sharia principles fosters ethical behavior and strengthens stakeholder trust, which can lead to more stable business relationships and improved access to financing. This integrated perspective represents a meaningful advancement in Islamic accounting research, as it moves beyond compliance-oriented analyses and highlights the strategic value of sharia accounting for MSME development.

The research questions and objectives are also illuminated through comparison with previous findings. Earlier studies have consistently highlighted the importance of financial literacy, bookkeeping, and accounting systems for MSME performance. This study builds on that foundation by introducing a value-based dimension rooted in sharia principles. The results show that sharia accounting does not replace conventional financial management practices but complements them by embedding ethical considerations into financial decision-making. This holistic approach allows MSMEs to pursue financial performance while maintaining alignment with Islamic values.

The implications of these findings for theory and practice are substantial. Theoretically, the study supports the argument that ethical accountability and institutional legitimacy are critical drivers of financial performance. By integrating Stakeholder Theory, Institutional Theory, and Islamic Accountability Theory, the study provides a comprehensive framework for understanding how sharia accounting operates within MSMEs. This theoretical integration contributes to the development of Islamic accounting as a dynamic and context-sensitive field of study.

From a practical perspective, the findings provide clear evidence that MSMEs can achieve better financial outcomes by adopting sharia accounting practices tailored to their scale and capacity. Rather than imposing complex accounting standards designed for large institutions, policymakers and practitioners should focus on developing simplified sharia accounting models that address the specific needs and constraints of MSMEs. Capacity-building initiatives, such as training programs and advisory services, are essential to bridge the gap between ethical intention and practical implementation.

Academically, the study fills an important gap in the literature by shifting the focus of sharia accounting research toward MSMEs. It provides empirical evidence that can serve as a foundation for future research on Islamic accounting, MSME performance, and ethical business practices. The findings also open new avenues for interdisciplinary research that integrates accounting, Islamic economics, and small business studies.

Overall, the results and discussion demonstrate that the implementation of sharia accounting in MSMEs contributes positively to financial performance by enhancing transparency, accountability, and stakeholder trust. The integration of Stakeholder Theory, Institutional Theory, and Islamic Accountability Theory offers a robust analytical framework that explains both the opportunities and challenges associated with sharia accounting adoption. By addressing the main research problem, identifying and explaining the research gap, and achieving the stated research objectives, this study offers a comprehensive and original contribution to the field of Islamic economics and accounting.

CONCLUSION

This study concludes that the implementation of sharia accounting plays a significant and constructive role in improving the financial performance of Micro, Small, and Medium Enterprises (MSMEs), although its application remains uneven and context-dependent. Drawing from the empirical findings and discussion, the research demonstrates that MSMEs adopting sharia accounting principles tend to experience improvements in financial transparency, accountability, and managerial discipline. These improvements contribute to stronger financial performance outcomes, particularly in terms of cash flow management, cost control, and business sustainability. The findings confirm that sharia accounting is not merely a symbolic or normative framework, but a practical system capable of supporting MSME financial performance when appropriately implemented.

The research also concludes that the main challenge in implementing sharia accounting among MSMEs is not the lack of commitment to Islamic values, but rather the absence of technical capacity, standardized guidelines, and institutional support. Many MSMEs operate based on Islamic ethical principles, such as avoiding interest-based transactions and ensuring fairness in trade, yet they struggle to translate these principles into formal and systematic accounting practices. This conclusion aligns with the results discussed earlier, which reveal a persistent gap between normative sharia ideals and their operational realization within MSME accounting systems.

From a theoretical standpoint, the study confirms the relevance of Stakeholder Theory, Institutional Theory, and Islamic Accountability Theory in explaining the dynamics of sharia accounting implementation and financial performance improvement. Stakeholder Theory helps explain how sharia accounting enhances trust and legitimacy among business partners, customers, and financial institutions, thereby indirectly supporting financial performance. Institutional Theory clarifies why the adoption of sharia accounting varies across MSMEs, emphasizing the role of regulatory frameworks, social norms, and organizational environments. Islamic Accountability Theory reinforces the conclusion that ethical responsibility and accountability to God and society encourage financial discipline and prudent resource management, which positively affect financial outcomes.

The findings further suggest that sharia accounting contributes to financial performance improvement through both direct and indirect mechanisms. Directly, improved record-keeping and transparency enable MSME owners to make more informed financial decisions. Indirectly, adherence to sharia principles strengthens stakeholder relationships and enhances access to sharia-compliant financing. These conclusions are consistent with the discussion that highlighted how ethical accounting practices foster trust and reduce financial risk. The study therefore concludes that sharia accounting functions as a holistic system that integrates ethical values with financial management practices.

In relation to the research objectives, this study successfully concludes that sharia accounting has a meaningful impact on MSME financial performance when supported by adequate knowledge and institutional infrastructure. The research provides a clear picture of current implementation practices, identifies key obstacles, and demonstrates the potential benefits of adopting sharia accounting more comprehensively. These conclusions are firmly grounded in the empirical evidence presented in the results and discussion sections.

The study also concludes that the existing research gap regarding sharia accounting in MSMEs has been partially addressed. Unlike previous studies that focused primarily on large Islamic financial institutions, this research confirms that sharia accounting is relevant and applicable to small-scale enterprises. The findings extend the scope of Islamic accounting research and highlight the need for simplified, MSME-oriented sharia accounting models. This contribution underscores the novelty of the study and reinforces its relevance to both academic and practical audiences.

Overall, this research concludes that the implementation of sharia accounting represents a viable pathway for improving MSME financial performance, provided that it is supported by appropriate institutional frameworks, capacity-building initiatives, and stakeholder engagement. The conclusions drawn from the results and discussion emphasize that sharia accounting should be viewed not only as a religious obligation but also as a strategic financial management tool. By bridging ethical values and financial performance, sharia accounting has the potential to strengthen MSME sustainability and contribute to the broader development of Islamic economic systems.

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