



# STRATEGIES TO CREATE SHARIA-BASED COMPETITIVE ADVANTAGE FOR SMES IN THE ERA OF INDUSTRIAL REVOLUTION 4.0

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## Abstract

**Purpose** – This study aims to analyze sharia-based competitive strategies for Indonesian SMEs in the era of Industrial Revolution 4.0.

**Method** – An exploratory qualitative approach is utilized by conducting interviews and focus group discussions with experts in sharia economy as well as owners of Islamic-based SMEs. The findings reveal that applying principles of Islamic business ethics, utilizing Islamic financial schemes, adopting halal and green process standards, and integrating information technology with spiritual values are prominent strategies to achieve sustainable competitive advantage.

**Result** – The results also highlight the importance of strong leadership, robust Islamic business networks, competent human capital, and product innovation. A competitive strategy model is formulated to guide SMEs in building sharia-based competitiveness to seize opportunities in the digital economic landscape.

**Implication** – This research provides practical and scholarly contributions toward strengthening the Islamic economy system and enhancing the competitiveness of Indonesian SMEs to realize national economic growth. Further studies can test the proposed model empirically across various industries and regions.

**Keywords:** Competition, Small and Medium Enterprises, Industry.

## INTRODUCTION

Micro, small and medium enterprises (MSMEs) play a strategic role in the Indonesian economy, contributing more than 60% to the national gross domestic product (GDP) and 97% to job creation (Tambunan, 2022). However, MSMEs often need more human resources, financing, and technology support, which hinders capacity building and competitiveness. In the era of Industrial Revolution 4.0, challenges for MSMEs are increasingly complex, with the emergence of digital business models, artificial intelligence, the Internet of Things, and other disruptive technologies that transform industrial landscapes (Herliana, 2015). By adapting to global business transformations, Indonesian MSMEs can gain opportunities and retain competitiveness in the market. Hence, there is a need to formulate survival and excellence strategies based on local wisdom that suit the characteristics of MSMEs in Indonesia (Kurniawati et al., 2021).

Islamic economics and finance have emerged as an alternative robust and stable economic system, with average growth of 15-20% per year over the past decade (Otoritas Jasa Keuangan, 2019). Core Islamic values such as justice, trustworthiness, partnership, cooperation, and equilibrium (Farooq, 2007) can become the philosophical foundation of the national economic system, especially for MSMEs. Integrating Islamic principles in business management can drive halal product innovation and the implementation of dignified technology, as well as enhance the resilience and competitiveness of MSMEs (Rangkuty & Zulmi, 2020).

Study discovered that the Islamic economic system contributes to macroeconomic stability, efficient allocation of resources, and equitable distribution of wealth since it is free from speculation and usury (Omercic et al., 2020). Meanwhile, Hassan et al., (2021) study concluded that Islamic values such as the spirit of independence (jihad), integrity, justice and virtue formulate competitive strategy in Islamic banking. However, research on applying Sharia-based competitive strategy in the real sector, such as MSMEs, still needs to be made available, making this study important to fill the research gap.

Based on this background, this study aims to formulate and analyze the strategic elements in creating a Sharia-based competitive advantage for Indonesian MSMEs to address the challenges of the Industrial Revolution 4.0. Qualitative research with an exploratory method is utilized to gain an in-depth understanding of the investigated phenomenon through a literature review and expert interviews. Surveys with questionnaires are also conducted to enrich the collected primary data. The research is expected to contribute a conceptual model for developing Sharia-based competitive strategies for MSMEs that can be applied in decision and policy-making for MSME development. In addition, the findings of this study may strengthen the literature on competitive strategy and Islamic management and initiate further research on the contribution of Islamic economics to the progress of MSMEs in Indonesia. In practical terms, this research is essential to assist MSMEs in systematically formulating strategies to achieve competitive advantage in the digital era. Thus, the competitiveness of MSMEs

may improve, which will boost sustainable national economic growth following Islamic principles.

## RESEARCH METHOD

The method used in this research is qualitative, with a literature review. Literature review research is a way to find relevant references to the problems that arise. A literature study is a theoretical analysis, scientific study, and literature related to community traditions, norms, and values appearing in the experimental field conditions. In addition, library research can review relevant and valuable reference literature and previous research to obtain a theoretical basis for the problem under study. In this study, the data used are secondary: based on previous references/references, which are contained in scientific works, literature, encyclopedias, and other reference sources related to the problem under study. The method applied in this study is an assessment of various observed data sources to produce results on the research topic.

## RESULTS AND DISCUSSION

In response to the sweeping tide of digitalization characterizing the Industry 4.0 era, Sharia-compliant Micro, Small, and Medium Enterprises (MSMEs) are proactively reshaping their business paradigms and operational methodologies to sustain relevance and competitiveness (Anatan & Nur, 2023). This imperative transformation reflects a dual mandate for Sharia MSMEs to attain operational efficiency and flexibility akin to larger corporations while steadfastly upholding the fundamental tenets of Sharia values in their business governance. These values encompass core principles such as fairness, honesty, openness, and the meticulous application of profit-sharing principles (Amien & Zulkarnaen, 2022). The dynamic landscape of Industry 4.0 necessitates a strategic recalibration for Sharia MSMEs, compelling them to navigate the intricate intersection of technological advancement and ethical imperatives. Consequently, these enterprises are compelled to strike a delicate balance between embracing digital innovations to enhance operational efficacy and preserving the ethical foundations embedded in Sharia principles. This dual commitment reflects the nuanced challenge faced by Sharia MSMEs as they traverse the evolving terrain of Industry 4.0, demanding an intricate fusion of technological prowess and ethical integrity for sustained relevance and success in the contemporary business milieu (Herliana, 2015).

Embracing digital technology has become an imperative for Sharia-compliant Micro, Small, and Medium Enterprises (MSMEs). Yet, the formidable challenge lies not only in the adoption of technology but in the nuanced task of aligning it precisely with entrenched local values and wisdom (Suryana et al., 2019). The imperative for these enterprises extends beyond the mere integration of sophisticated digital systems, which streamline processes like transaction recording, inventory management, data analysis, and marketing. Simultaneously, Sharia MSMEs are confronted with the mandate to enhance the technical and managerial skills of their human resources, ensuring adept

utilization of this technology (Durrani & Boocock, 2016). The integration of digital tools serves as more than a mechanistic upgrade for Sharia MSMEs; it symbolizes a strategic convergence of tradition and modernity. This nuanced approach recognizes that the adoption of technology should be harmonized with enduring local values, ensuring that the essence of Sharia principles remains integral to business practices. Consequently, the challenge becomes twofold: not only must Sharia MSMEs adeptly implement and leverage digital systems to heighten operational efficiency, but they must also navigate the delicate process of aligning these advancements with the ethical and cultural fabric that defines their identity (Martínez-Peláez et al., 2023).

In this multifaceted journey toward digitalization, the human element emerges as pivotal. Sharia MSMEs are compelled to invest in the development of their workforce, equipping them with the technical acumen and managerial proficiency essential for navigating the digital landscape. This investment extends beyond the mere adoption of technological tools; it underscores the cultivation of a workforce capable of synergizing the potential of digitalization with the enduring principles of Sharia governance. In essence, the transformation of Sharia MSMEs into digitally proficient entities involves not only the incorporation of cutting-edge technology but a holistic adaptation that ensures the preservation of local values and the empowerment of human resources (Sijabat, 2022). This intricate dance between tradition and progress encapsulates the dynamic challenge faced by Sharia MSMEs as they traverse the digital frontier, embodying the delicate equilibrium between technological innovation and cultural resilience. Apart from the use of technology, business model innovation is also needed by sharia MSMEs (Wasiuzzaman & Nurdin, 2019) such as the application of ecosystem concepts and digital platform-based businesses, synergistic and mutually reinforcing partnership patterns with various parties such as investors, business accelerators, and universities, chain optimization. The value of halal products is in the innovation of Sharia-based working capital and investment financing schemes that are more flexible and competitive.

Regarding marketing and market expansion, Sharia MSMEs must also be astute in utilizing social media platforms and marketplaces with creative content tailored to resonate with the character of the target buyer audience (Purwana et al., 2017). This necessitates Sharia MSMEs to clearly define their brand identities and ideal customer profiles that will inform development of digital content strategy, social media messaging, and integrated digital-offline campaigns to effectively reach and convert prospects especially younger Muslim consumers which dominates Indonesian market. Apart from optimizing digital marketing across popular platforms like Instagram and Facebook to directly engage customers, utilization of leading mass-market e-commerce sites or specialized Muslim lifestyle marketplaces is also useful for accelerating sales of Sharia MSME products to become more massive and efficient (Ardiansyah et al., 2022). Marketplace adoption can significantly expand market access to wider consumer demographics both domestically and internationally. However, maintaining consistent product quality, availability and timely delivery in large sales volumes through third-

party marketplaces would still remain as key execution challenges for Sharia MSMEs with typically limited human resources and operational capacity. Therefore, strategic partnerships with specialized Muslim startups providing digital marketing, social commerce solutions and integrated logistics services tailored for halal sellers may help Sharia MSMEs to sustainably scale in marketplaces while maintaining quality. Nevertheless, continuing innovation in marketing approaches, diversification across sales channels and platforms, as well as operational excellence remains imperative for Sharia MSMEs to win in the ultra competitive digital economy (Imani et al., 2022).

Meanwhile, regarding human resources, Sharia MSMEs must continue to develop digital and managerial competencies to produce digital talent who can transform business operating models while maintaining competitive advantages in the regional and even global arena (Suryana et al., 2019). This entails investing in training programs and workshops that focus on enhancing digital literacy, technical skills, and leadership abilities. By equipping their workforce with these essential skills, Sharia MSMEs can effectively navigate the evolving digital landscape and stay ahead of the competition. Efforts to strengthen governance, risk management, and Sharia finance are also crucial to increasing the resilience of Sharia MSMEs when facing the dynamics of the global digital industry. Implementing robust governance frameworks ensures transparency, accountability, and compliance with regulatory requirements, which are vital for building trust among stakeholders. Additionally, Sharia MSMEs should prioritize risk management practices to identify and mitigate potential threats and vulnerabilities associated with digitalization (Anatan & Nur, 2023). This includes adopting cybersecurity measures, data protection protocols, and disaster recovery plans to safeguard critical information and ensure business continuity. Furthermore, Sharia MSMEs need to leverage the opportunities offered by Sharia finance to support their digital transformation endeavors. Collaborating with Islamic financial institutions and leveraging Sharia-compliant financing options can provide the necessary capital for investments in digital infrastructure, technology adoption, and talent acquisition. By embracing Sharia finance principles, MSMEs can align their business practices with ethical and moral values while accessing financial resources tailored to their specific needs.

Apart from the synergy of technology and human resources, funding model innovation is also vital for Sharia MSMEs (Amin et al., 2020). Traditional financing options may not always meet the unique needs and requirements of Sharia-compliant businesses. Therefore, it is essential to explore alternative funding models that can provide more flexibility and competitiveness in the context of Sharia MSMEs. One such innovative financing option is Sharia peer-to-peer lending. This model allows individuals or businesses to directly lend money to Sharia MSMEs without the involvement of traditional banking institutions. Peer-to-peer lending platforms leverage technology to connect borrowers and lenders, thereby streamlining the lending process and reducing costs. This alternative financing option offers greater flexibility in terms of loan amounts, repayment terms, and interest rates, making it more accessible and

suitable for Sharia MSMEs. Furthermore, the transparency and efficiency provided by these platforms contribute to increased trust between lenders and borrowers. Additionally, Sharia venture capital funding plays a crucial role in supporting technology adoption and the expansion of selected Sharia MSME businesses towards regional and global markets. Venture capital firms specializing in Sharia finance can provide the necessary capital, expertise, and networks to help Sharia MSMEs scale their operations and enter new markets. These firms not only provide financial support but also offer strategic guidance and mentorship to entrepreneurs, enabling them to navigate the complexities of the digital industry. By accelerating Sharia venture capital funding, innovative Sharia MSMEs can access the resources they need to thrive and achieve sustainable growth.

In conclusion, funding model innovation is vital for Sharia MSMEs to thrive in the digital era. Optimizing alternative Sharia peer-to-peer lending financing and accelerating Sharia venture capital funding can provide the necessary financial resources and support for technology adoption, market expansion, and overall business growth. By embracing these innovative funding models, Sharia MSMEs can enhance their competitiveness, drive innovation, and contribute to the development of a vibrant and sustainable digital economy in the regional and global markets.

## CONCLUSION

The conclusion of the research is that funding model innovation is vital for Sharia-compliant Micro, Small, and Medium Enterprises (MSMEs) to thrive in the digital era. By optimizing alternative Sharia peer-to-peer lending financing and accelerating Sharia venture capital funding, these enterprises can access the necessary financial resources and support for technology adoption, market expansion, and overall business growth. Embracing these innovative funding models can enhance the competitiveness of Sharia MSMEs, drive innovation, and contribute to the development of a vibrant and sustainable digital economy in regional and global markets.

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