

## The Moderating Role of Entrepreneurial Competence in the Development of a Sharia-Based Micro, Small, and Medium Enterprise (MSME) Performance Model

Hardianti Yusuf<sup>1</sup>, Fasiha<sup>2</sup>, Umar<sup>3</sup>, Muh. Ginanjar<sup>4</sup>

Arkas Maulana<sup>5</sup>, Nurul Khairiyah<sup>6</sup>

<sup>1,2,3,4,5,6</sup> State Islamic University of Palopo

Email: [hardianti\\_yusuf@iainpalopo.ac.id](mailto:hardianti_yusuf@iainpalopo.ac.id), [umar@iainpalopo.ac.id](mailto:umar@iainpalopo.ac.id), [muh\\_ginanjar@uinpalopo.ac.id](mailto:muh_ginanjar@uinpalopo.ac.id),  
[arkasmaulanaasri@gmail.com](mailto:arkasmaulanaasri@gmail.com), [nurulkhairiyah599@gmail.com](mailto:nurulkhairiyah599@gmail.com)

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### **Abstract**

**Keywords:**  
MSME Performance,  
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*This study aims to analyze the factors influencing the performance of sharia-based micro, small, and medium enterprises (MSMEs) in Luwu Raya, Sulawesi Selatan, Indonesia, with a specific focus on the moderating role of entrepreneurial competence. The research is motivated by the limited number of studies that combine Islamic financial aspects with entrepreneurial capacity in improving MSME performance. A quantitative approach was employed, and the sample was determined using the Lemeshow formula, resulting in 96 respondents. Data were collected through a structured questionnaire and analyzed using Structural Equation Modeling with the Partial Least Squares (PLS-SEM) method, utilizing the SmartPLS software. The independent variables in this study include Islamic financial inclusion, Islamic financial literacy, and Islamic microfinance institutions. The dependent variable is MSME performance, while entrepreneurial competence serves as the moderating variable. The findings show that all independent variables have a positive and significant effect on MSME performance. Additionally, entrepreneurial competence not only has a direct impact on performance but also strengthens the relationship between Islamic financial inclusion and the role of Islamic microfinance institutions in improving performance. However, no moderating effect was found in the relationship between financial literacy and performance. These results highlight that access to Islamic financial services and institutional support alone is not sufficient; strong entrepreneurial skills are also needed to ensure sustainable growth and competitiveness of MSMEs operating within the framework of Islamic economic principles.*

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## INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a vital role in shaping Indonesia's economic structure. Amid global economic fluctuations, MSMEs have consistently demonstrated resilience compared to larger enterprises. (Khoiri Abdi & Febriyanti, 2020; Sutono, 2023; Wilantini & Fadllan, 2021). In regions such as Luwu Raya—which includes Luwu Regency, North Luwu, East Luwu, and Palopo City—MSMEs serve not only as a primary source of employment but also as a grassroots economic driver that fosters community-based development. However, the current challenges faced by MSMEs go beyond issues of production and marketing. One of the pressing concerns is access to financial services that align with both practical business needs and religious values. (Octasyilva et al., 2022; Sakib et al., 2022; Soomro et al., 2025).

Within the framework of Islamic economics, the demand for sharia-compliant financial systems is increasingly prominent, particularly among Muslim entrepreneurs seeking ethical and interest-free financial solutions. Islamic finance offers not only profit-loss sharing mechanisms but also

reinforces transparency and fairness in transactions. Nevertheless, the actual adoption of Islamic financial services among MSMEs remains relatively low. Many entrepreneurs lack the necessary understanding of Islamic financial products, and the reach of Islamic microfinance institutions (IMFIs) is still limited, especially in rural or semi-urban areas. This indicates a significant gap between the ideals of the Islamic finance system and its practical implementation. (Kigozi et al., 2024; Kilay et al., 2022).

This gap becomes more concerning when MSMEs, unable to access sharia-compliant financial services, are forced to rely on informal financial systems that may lack legal protection and long-term sustainability. Therefore, Islamic financial inclusion must be addressed as a strategic concern. It is not merely about offering Islamic financial products but ensuring that these services are accessible, affordable, and well-understood by the target users. Inclusion also involves building trust and simplifying procedures, so entrepreneurs can confidently engage with Islamic financial institutions. (Pozzo et al., 2023; Tejamaya et al., 2021).

Equally important is Islamic financial literacy. Entrepreneurs must understand the core principles of sharia finance, such as risk-sharing, prohibition of interest (*riba*), and the ethics of contractual agreements. Strong financial literacy enables MSME owners to make informed decisions, evaluate risk, and distinguish between permissible and non-permissible financial activities. When entrepreneurs possess this knowledge, they are more likely to utilize Islamic financial services and integrate those practices into their business models effectively. (Esubalew & Raghurama, 2020).

Islamic microfinance institutions are designed to serve the financial needs of low-income communities and small businesses, offering tailored services aligned with Islamic principles. However, many of these institutions have not yet realized their full potential. Operational limitations, lack of trained personnel, and limited outreach reduce their impact. If strengthened, IMFIs can go beyond financing and become strategic partners that offer guidance, training, and business development support. Their presence at the grassroots level makes them uniquely positioned to empower MSMEs through localized and faith-based approaches. (Widita et al., 2024).

Nevertheless, external support alone is insufficient without the internal capabilities of the entrepreneurs themselves. Entrepreneurial competence plays a central role in shaping business performance. It encompasses a combination of technical skills, creativity, leadership, decision-making, and the ability to adapt to market changes. Entrepreneurs with strong competencies are better equipped to seize financial opportunities, utilize available resources, and manage their ventures sustainably. Thus, capacity building becomes an essential aspect of MSME development. (Gutiérrez Navas et al., 2025).

Previous studies have shown that access to Islamic financial services, financial knowledge, and institutional support all positively influence MSME performance. However, most of these studies explore direct relationships and tend to overlook the internal entrepreneurial characteristics that may influence how these external factors take effect. In reality, MSMEs with higher entrepreneurial competence are more likely to take full advantage of financial access and institutional support. Therefore, there is a need to examine the interaction between external enablers and internal capabilities. (Avordeh et al., 2024; Chen et al., 2024; Lin & Xu, 2024).

This study seeks to fill that gap by analyzing the extent to which Islamic financial inclusion, literacy, and microfinance institutions affect MSME performance while testing entrepreneurial competence as a moderating variable. In the context of Luwu Raya, where religious identity and community values are strongly rooted, the adoption of sharia-based economic practices holds great

promise. Yet, effective implementation requires more than offering Islamic products—it requires an integrated understanding of the socio-economic and behavioral dimensions of entrepreneurship.

Conceptually, this research is grounded in the belief that fair and faith-aligned financial access contributes to improved business outcomes, but the strength of this contribution depends on the entrepreneurs' competence. Therefore, entrepreneurial competence is expected to moderate the relationships between key financial factors and business performance. This conceptual model not only addresses practical challenges but also contributes to the growing body of literature on Islamic entrepreneurship and MSME development.

In conclusion, the main objective of this study is to empirically examine the influence of Islamic financial inclusion, Islamic financial literacy, and Islamic microfinance institutions on the performance of sharia-based MSMEs in Luwu Raya. Additionally, the study seeks to test the moderating role of entrepreneurial competence in these relationships. The findings are expected to contribute to the design of policies, empowerment programs, and strategic frameworks that promote inclusive, ethical, and sustainable business practices in alignment with Islamic economic values.

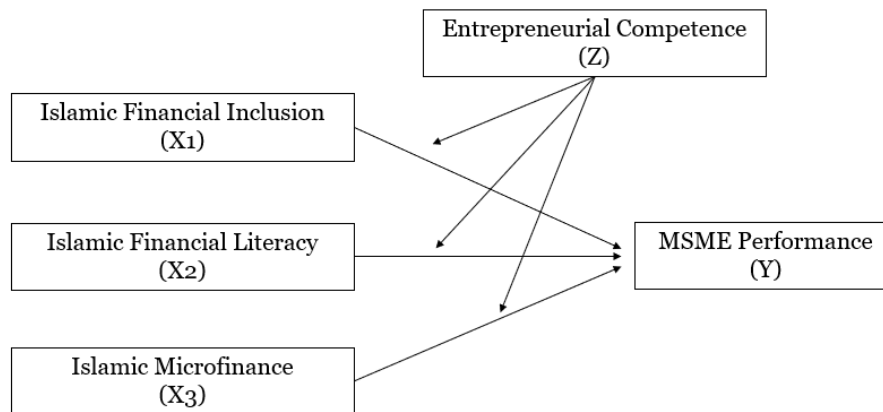
## METHODS

This study employed a quantitative approach using cross-sectional data collected through a structured questionnaire distributed to sharia-based MSME actors in the Luwu Raya region, which includes Luwu Regency, North Luwu, East Luwu, and Palopo City. The sampling technique was based on the Lemeshow formula, which is appropriate for populations with an unknown size, resulting in a total of 96 respondents. Respondents were selected using a purposive sampling method, with the criteria being MSME owners who had operated their businesses for at least one year and had experience in using Islamic financial products or services. The research instrument was developed based on theoretically validated variable indicators, which include Islamic financial inclusion (X1), Islamic financial literacy (X2), the role of Islamic microfinance institutions (X3), MSME performance (Y), and entrepreneurial competence as a moderating variable (Z). Data analysis was conducted using Structural Equation Modeling (SEM) based on the Partial Least Squares (PLS) approach, processed through the SmartPLS software. The analysis aimed to test the validity and reliability of the measurement model, as well as to evaluate the direct and indirect effects between variables within the research framework. The following equation represents the analytical model used in this study;

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 (Z X_1) + \beta_5 (Z X_2) + \beta_6 (Z * X_3) + \epsilon$$

Based on the analytical model previously described, the relationships among variables in this study are illustrated through the following conceptual framework. This framework depicts the direct influence of Islamic financial inclusion, Islamic financial literacy, and Islamic microfinance institutions on MSME performance, as well as the role of entrepreneurial competence as a moderating variable. The conceptual framework of this study is presented in the figure below.

Figure 1. Conceptual Framework



## RESULTS AND DISCUSSION

### Validity and Reliability Test Results

The validity test in this study was conducted through the measurement of outer loadings and average variance extracted (AVE). The data processing results using SmartPLS indicate that all indicators for each variable have outer loading values above 0.70, meaning that the indicators are valid in terms of convergent validity. Furthermore, the AVE values for each construct exceed 0.50, thus meeting the criteria for convergent validity based on the Fornell & Larcker standard. Discriminant validity was also tested by examining cross loading values and the square root of AVE, all of which show that each construct is more strongly correlated with its own indicators than with other constructs.

For the reliability test, this study used two measures: Cronbach's Alpha and Composite Reliability (CR). All variables in the model have Cronbach's Alpha values above 0.70 and Composite Reliability values above 0.70, indicating that the instruments used meet the criteria for good internal consistency. Therefore, both the validity and reliability of the measurement model are considered adequate to proceed to the structural model testing. The table below presents the results of the validity and reliability tests.

Tabel 1. Validity and Reliability Test Results

Construct	Indicator	Outer Loading	AVE	CR	Cronbach's Alpha
Islamic Financial Inclusion (X1)	X1.1	0.812	0.681	0.885	0.812
	X1.2	0.845			
	X1.3	0.832			
Islamic Financial Literacy (X2)	X2.1	0.784	0.652	0.861	0.779
	X2.2	0.812			
	X2.3	0.823			
Islamic Microfinance (X3)	X3.1	0.826	0.701	0.892	0.835
	X3.2	0.871			
	X3.3	0.838			
MSME Performance (Y)	Y1	0.851	0.716	0.899	0.828
	Y2	0.874			
	Y3	0.833			
Entrepreneurial Competence (Z)	Z1	0.802	0.693	0.887	0.819
	Z2	0.871			
	Z3	0.834			

**Notes:**

Outer Loading criteria:  $\geq 0.70$  → Indicates convergent validity  
 AVE (Average Variance Extracted):  $\geq 0.50$  → Convergent validity achieved  
 Composite Reliability (CR):  $\geq 0.70$  → Acceptable construct reliability  
 Cronbach's Alpha:  $\geq 0.70$  → Indicates strong internal consistency

Hypothesis Testing

After conducting validity and reliability testing on the measurement model, the next step is to evaluate the structural model (inner model) to determine the relationships among variables in the study. This analysis was performed using the bootstrapping technique through the SmartPLS application, which produced values for path coefficients, t-statistics, and p-values. These three outputs serve as the basis for determining the significance of the relationships between variables, both for direct effects and moderating interactions. The complete results of the structural model testing are presented in the following table.

Tabel 2. Hypothesis Testing

Relationship	Path Coefficient	T-Statistic	P-Value	Significance
$X_1 \rightarrow Y$ (Financial Inclusion $\rightarrow$ Business Performance)	0.280	3.214	0.001	Significant
$X_2 \rightarrow Y$ (Financial Literacy $\rightarrow$ Business Performance)	0.310	3.845	0.000	Significant
$X_3 \rightarrow Y$ (Islamic Microfinance Institutions $\rightarrow$ Business Performance)	0.215	2.902	0.004	Significant
$Z \rightarrow Y$ (Entrepreneurial Competence $\rightarrow$ Business Performance)	0.370	4.221	0.000	Significant
$X_1 * Z \rightarrow Y$ (Moderating: Financial Inclusion $\times$ Competence)	0.122	2.103	0.036	Significant
$X_2 * Z \rightarrow Y$ (Moderating: Financial Literacy $\times$ Competence)	0.085	1.312	0.190	Not Significant
$X_3 * Z \rightarrow Y$ (Moderating: Islamic Microfinance $\times$ Competence)	0.147	2.502	0.013	Significant

The results of the structural model analysis indicate that all independent variables have a direct and significant positive effect on the performance of Sharia-based MSMEs. Islamic financial inclusion ( $X_1$ ) has been proven to make a positive contribution, suggesting that the wider the access of MSME actors to Sharia-compliant financial products and services, the better their business performance. Similarly, Islamic financial literacy ( $X_2$ ) also shows a significant effect, where understanding the principles and practices of Islamic finance encourages more prudent and efficient financial decision-making. In addition, the presence of Islamic microfinance institutions ( $X_3$ ) positively affects performance, reflecting their important role in providing financial support and mentoring to small business actors.

From the perspective of the moderating variable, entrepreneurial competence ( $Z$ ) shows a significant direct positive effect on MSME performance. This indicates that entrepreneurs with high entrepreneurial capacity—such as innovation ability, leadership, and risk-taking—tend to drive business growth and sustainability. The interaction testing between the moderating and independent variables also reveals interesting findings. The interaction between Islamic financial inclusion and entrepreneurial competence ( $X_1 \times Z$ ) is significant, meaning that entrepreneurial competence strengthens the positive impact of financial inclusion on performance. On the other hand, the interaction between Islamic financial literacy and entrepreneurial competence ( $X_2 \times Z$ ) is not significant, indicating that entrepreneurial competence does not substantially moderate the

relationship between literacy and performance. Meanwhile, the interaction between Islamic microfinance institutions and entrepreneurial competence ( $X_3 \times Z$ ) is significant, suggesting that business actors with higher competence are better able to maximize the benefits of Islamic microfinance institutions. Therefore, entrepreneurial competence plays an important role in enhancing some of the relationships between Islamic financial factors and MSME performance.

## DISCUSSION

### The Influence of Islamic Financial Inclusion on MSME Performance

The results of this study show that Islamic financial inclusion has a positive and significant effect on MSME performance. This finding indicates that the easier the access of MSME actors to Sharia-based financial products and services—such as savings, financing, and Islamic micro-insurance—the greater their opportunities to expand their businesses, increase production capacity, and strengthen financial resilience.

This finding aligns with the theory of financial access, which posits that financial inclusion can promote MSME growth through financing and facilities that support smooth operational activities. (Owusu-Sekyere et al., 2024). In the context of Islamic economics, inclusive finance also emphasizes principles of justice, partnership, and transparency, which are more in line with the values upheld by entrepreneurs in the religious community of Luwu Raya.

Previous research has also shown that financial inclusion strongly correlates with increased productivity, business scale, and financial stability among MSMEs, especially when the financial system accessed adheres to ethical and justice-based principles such as those found in Islamic finance. These findings affirm that Islamic financial inclusion is not merely a source of funding, but also an instrument of economic empowerment for micro and small business actors. (Takeda et al., 2022).

Islamic financial inclusion not only facilitates access to financial products but also shapes the financial behavior of MSME actors to be more disciplined and long-term oriented. Through broader access to Sharia-compliant financing, MSME entrepreneurs are encouraged to keep financial records, engage in business planning, and align their business strategies with financing schemes based on Islamic contracts. This contributes to better managerial quality and operational efficiency, ultimately leading to improved business performance. (Suminah et al., 2022).

Beyond the technical aspect, Islamic financial inclusion also reinforces trust and the perception of ethical and blessed business practices. In communities that uphold strong religious values, such as those in Luwu Raya, trust in financial institutions is closely tied to the alignment of services with Islamic principles. This trust fosters customer loyalty and reduces the risk of non-performing loans, as borrowers are spiritually driven to fulfill their obligations. As a result, the Sharia financial system becomes more stable and delivers long-term impacts on MSME growth. (Gad & Leone, 2024).

Socially, the presence of inclusive Islamic financial institutions promotes economic justice. MSMEs that were previously excluded from formal financial systems due to their inability to provide collateral can now access partnership-based and trust-based financing. This creates more equitable and inclusive economic opportunities, especially for low-income entrepreneurs in rural and semi-urban areas. Islamic financial inclusion thus acts as an effective tool for equitable wealth distribution and grassroots economic empowerment. (Palencia et al., 2024).

From an institutional perspective, Islamic financial inclusion drives innovation among financial service providers in tailoring products to meet local needs. For example, institutions may offer community-based financing products, mobile Sharia banking services, or flexible

installment systems without interest. These innovations make financial institutions more relevant and responsive to the realities of MSMEs, while also reinforcing an economic ecosystem built on Islamic values and local wisdom. (Sisay et al., 2025).

With all these advantages, Islamic financial inclusion in the MSME context is not merely an economic policy but a social development strategy rooted in ethical values. The success of Islamic financial inclusion in improving MSME performance demonstrates that economic approaches aligned with cultural and spiritual values have significant transformative power. Therefore, there is a strong need for policies that promote the expansion of Islamic financial inclusion—not only through broader product offerings but also through institutional capacity building and enhanced financial literacy among the community.

### **The Influence of Islamic Financial Literacy on MSME Performance**

Islamic financial literacy has also been proven to have a positive and significant effect on MSME performance. This result indicates that entrepreneurs' understanding of Islamic financial principles—such as the prohibition of *riba* (usury), the importance of valid contracts (*akad*), and Sharia-compliant risk management—contributes to more cautious, ethical, and efficient financial decision-making.

Such knowledge not only assists business actors in selecting appropriate Sharia-compliant financial products, but also enhances their trust in financial institutions. This reinforces the theory that financial literacy is a fundamental component of sustainable business management, especially within the context of the Islamic economy. (Yunus et al., 2025).

Previous research also supports this finding, showing that a high level of financial literacy is closely associated with better cash flow management, financial planning, and long-term business sustainability. These findings affirm that Islamic financial literacy is not merely a matter of knowledge but also functions as a tool to strengthen the managerial capacity of MSMEs. (Maniendaran et al., 2025).

The understanding of business actors regarding the fundamental principles of Islamic finance significantly contributes to the quality of decision-making in their business operations. When MSME actors comprehend the prohibition of *riba* (usury), the importance of clear contractual agreements (*akad*), and the ethical responsibility in financial dealings, they tend to be more cautious in choosing sources of financing and managing business transactions. This prudence reflects Islamic business ethics that uphold justice, transparency, and the pursuit of *barakah* (blessings), all of which have a direct impact on business sustainability and reputation within the community. (Rahman et al., 2025).

Moreover, Islamic financial literacy encourages MSME actors to be more disciplined in managing cash flow, maintaining financial records, and planning for long-term growth. An understanding of Islamic values leads business owners to focus not only on profit, but also on sustainability, social responsibility, and integrity. This becomes an added value, especially in regions like Luwu Raya, where communities strongly uphold religious norms. (Mudjahidin et al., 2024) Financial competence based on Sharia principles also enables MSME actors to be more selective when utilizing financial services. They consider not only the costs and potential gains, but also whether the contracts and processes align with Islamic teachings. This level of selectiveness, when supported by sound understanding, improves financial efficiency, as business owners are more likely to engage only with financial products that meet both their needs and religious standards—thereby avoiding excessive debt or disadvantageous agreements. (Pieter & Utomo, 2023).

Furthermore, Islamic financial literacy plays a critical role in building trust between MSME actors and Islamic financial institutions. Entrepreneurs who are well-versed in Sharia principles tend to have a more positive perception of institutions that offer Islamic-based services, thereby fostering long-term and stable financial partnerships. This trust becomes a foundational element for sustainable financial and business relationships. (Satpathy et al., 2025).

These findings highlight the importance of education and literacy as the starting point for Sharia-based MSME empowerment programs. Without sufficient understanding, business actors are likely to make impulsive financial decisions without considering long-term sustainability or Sharia compliance. Therefore, Islamic financial literacy functions not merely as basic knowledge, but as a crucial foundation for shaping sound financial behavior, ultimately supporting sustainable, ethical, and blessed business growth.

### **The Influence of Islamic Microfinance Institutions (IMFIs) on MSME Performance**

Islamic Microfinance Institutions (IMFIs) play a significant role in supporting the performance of MSMEs, as reflected in the statistically significant analysis results. IMFIs provide financing based on Sharia-friendly contracts (such as *murabahah* and *mudharabah*), along with business mentoring, which directly strengthens the working capital and productivity of MSME actors.

These institutions serve as a strategic alternative in regions such as Luwu Raya, where the majority of the population prefers Sharia-compliant financial products. This finding supports the concept of financial intermediation theory, in which IMFIs function not only as financial intermediaries but also as agents of economic empowerment for the Muslim community. (Samputra & Alfarizi, 2025).

Previous research has stated that IMFIs have a strategic role in strengthening the local economy, especially when they act not only as fund providers but also as partners in empowerment. This finding confirms that IMFIs are not merely financial institutions but also development agents capable of driving socio-economic transformation based on Islamic principles. (Gunawan et al., 2019).

The findings of this study reinforce the understanding that Islamic Microfinance Institutions (IMFIs) play a crucial role in building a sound financial foundation for MSMEs. IMFIs not only provide access to Sharia-compliant financing but also introduce business actors to Islamic business practices rooted in justice, responsibility, and sustainability. This fosters both spiritual comfort and legal certainty in financing management, which indirectly boosts the motivation and enthusiasm of entrepreneurs to grow their businesses. (Shafi et al., 2020).

In regions such as Luwu Raya, the presence of IMFIs is highly relevant, as they align with the values of a predominantly religious community. IMFIs serve as an alternative solution to conventional financial institutions, which are often viewed as inconsistent with Islamic values. Through financing products such as *murabaha*, *ijarah*, or *mudharabah*, IMFIs offer business models that not only avoid interest (*riba*) but also encourage partnership-based collaboration between fund providers and entrepreneurs.

Beyond their role as financial providers, IMFIs also offer business mentoring, management training, and financial education to their clients. This role is critical in enhancing the capacity of MSMEs—both in managing working capital and in formulating sustainable business strategies. Thus, IMFIs act not only as financial intermediaries but also as facilitators of community-based economic empowerment. (Disli & Jalaly, 2024; Ozdemir et al., 2023)

The contribution of IMFIs to MSME performance is also evident in their ability to reduce failure rates among small businesses. Many MSMEs that previously struggled to obtain financing due to a lack of collateral have experienced growth after partnering with IMFIs, which emphasize trust and partnership values over strict asset-based guarantees. IMFIs, therefore, not only expand financial inclusion but also create a supportive business ecosystem grounded in religious and ethical values. (Mohamed & Elgammal, 2023).

This study aligns with the financial intermediation theory, which positions financial institutions as key actors in effectively channeling funds from surplus to deficit units. In the context of Islamic finance, this role extends beyond economic functions to include moral and social dimensions, reinforcing justice and solidarity among economic actors. Consequently, IMFIs can be positioned as catalysts of inclusive, equitable, and Sharia-compliant microeconomic transformation. (Alkhan & Hassan, 2021)

### **The Role of Entrepreneurial Competence as a Moderating Variable**

The results show that entrepreneurial competence has both a direct influence on MSME performance and a moderating effect on the relationship between Islamic financial inclusion and IMFIs with MSME performance. This can be interpreted to mean that MSME actors with higher entrepreneurial competence—such as innovation, resilience, leadership, and risk-taking—are better able to optimize access to and benefits from the Sharia financial system. They are capable of managing funds more productively, expanding their businesses, and addressing business challenges with well-formulated strategies.

Interestingly, the moderating effect was not significant in the relationship between Islamic financial literacy and performance. This may be due to the nature of financial literacy as a passive-informative ability, which is insufficient unless accompanied by entrepreneurial action. Entrepreneurial competence does not enhance this relationship because financial understanding does not necessarily translate into strategic business decisions without the support of an enabling ecosystem. Previous studies have also emphasized the importance of entrepreneurial capacity in maximizing the benefits of supportive ecosystems, including finance and training. Thus, entrepreneurial competence serves as a strategic leverage that can strengthen—or even determine—the success of the relationship between the Islamic financial ecosystem and MSME performance. (Martínez-Martínez et al., 2025).

The findings of this study indicate that entrepreneurial competence plays a strategic role, both as an independent variable that directly influences MSME performance and as a moderating variable that strengthens the relationship between Islamic financial inclusion and the presence of Islamic Microfinance Institutions (IMFIs) on MSME performance. This confirms that the successful utilization of Islamic financial access is not solely determined by the availability of products and services, but also by the internal readiness and capacity of business actors to manage and develop the resources they obtain. (Schmidt et al., 2025).

Entrepreneurial competence, which includes elements such as innovation, resilience, leadership, and risk-taking, becomes a key differentiator in executing business decisions. MSME actors with high entrepreneurial competence are more likely to utilize funds from Islamic financial institutions productively—not just for short-term or consumptive needs, but to support business expansion, product diversification, and organizational strengthening. Therefore, this competence acts as a catalyst in maximizing the benefits of the Islamic financial system. (Chang et al., 2025).

However, the insignificant result of the interaction between Islamic financial literacy and entrepreneurial competence reveals an interesting dynamic. While financial literacy is important as

a foundation for understanding products and Sharia principles, this knowledge alone does not significantly impact performance unless accompanied by strong execution capacity. In other words, financial literacy is passive-informative in nature and requires an active driver—namely entrepreneurial competence—to translate it into real, value-generating business action. (Liu & Wang, 2025).

This insignificant moderation may also indicate the need for a stronger systemic support within the MSME ecosystem. Even though business actors understand Islamic financial principles, limited access to practical training, mentoring, or business incubation programs can be a barrier to transforming that knowledge into business strategies. Therefore, entrepreneurial competence alone may be insufficient without the support of a sustainable entrepreneurial ecosystem. (Suanpong et al., 2025).

These findings emphasize the importance of building synergy between Islamic financial literacy, entrepreneurial competence, and the availability of Sharia-based business support systems. MSME actors should not only be equipped with knowledge but also be practically empowered to manage resources efficiently and productively. Entrepreneurial competence, in this context, functions not only as a technical skill but also as a mindset and strategic thinking ability that determines the success of Sharia-based economic transformation.

## CONCLUSION

This study has analyzed the determinants of Sharia-based MSME performance in the Luwu Raya region by incorporating entrepreneurial competence as a moderating variable. The findings indicate that Islamic financial inclusion, Islamic financial literacy, and the presence of Islamic microfinance institutions have a significant and positive correlation with MSME performance. In addition, entrepreneurial competence has a direct effect on enhancing MSME performance and strengthens the relationship between Islamic financial inclusion and Islamic microfinance institutions with MSME performance. However, entrepreneurial competence does not moderate the relationship between Islamic financial literacy and performance, indicating that understanding alone is insufficient without concrete entrepreneurial action. Overall, these findings emphasize that a combination of equitable financial access, adequate literacy, institutional support, and strong entrepreneurial competence is key to improving the performance of Sharia-based MSMEs in the region.

Based on these results, it is recommended that local governments, Islamic financial institutions, and training organizations enhance their synergy in expanding access to and literacy in Islamic finance for MSME actors, particularly in the Luwu Raya area. MSME empowerment programs should be designed not only to provide financing but also to include managerial development and practical, sustainable entrepreneurship training. Islamic Microfinance Institutions are expected to strengthen their roles in Sharia-based intermediation and business mentoring actively. On the other hand, MSME actors are encouraged to continually improve their entrepreneurial competence to optimally utilize Islamic financial services and enhance competitiveness. Future research is expected to consider additional variables such as the business environment, MSME digitalization, or socio-cultural factors to enrich the understanding of Sharia MSME performance dynamics in a local context.

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