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Sharia compliance and competitive advantage in Small and Medium Enterprises: The mediating role of digital payment usage

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Abstract

Research aims: This study aims to investigate the influence of religious knowledge, religious motivation, and Sharia compliance on competitive advantage among Small and Medium Enterprises (SMEs) in the coffee shop sector in Pekanbaru City, with digital payment system usage as a mediating variable.

Design/Methodology/Approach: Using a quantitative approach, data were collected from 147 coffee shop SMEs operating in Pekanbaru, Riau Province. Structural Equation Modeling (SEM-PLS) was employed to analyze the direct and indirect relationships among variables.

Research findings: The results indicate that religious knowledge, religious motivation, and Sharia compliance have a significant positive impact on both competitive advantage and the digital payment system usage. Furthermore, the digital payment system usage also significantly enhances competitive advantage. Sharia compliance also exerts an indirect effect on competitive advantage through the mediation of digital payment system usage.

Theoretical contribution/ Originality: This research extends the Resource-Based View (RBV) by positioning Sharia compliance as a unique, valuable, and inimitable resource that contributes to sustainable competitive advantage in the Islamic business context. It also highlights the strategic role of digital transformation in religiously motivated business ecosystems.

Practitioner/Policy implication: The findings provide valuable insights for policymakers and business practitioners on the importance of embedding religious and ethical values within strategic business practices, particularly in the halal food and beverage sector. Promoting digital adoption within a Sharia-compliant framework can enhance competitiveness among SMEs.

Research limitation/Implication: This study is limited to coffee shop SMEs in one city and does not account for variations in business scale or experience. Future research should explore other sectors and regions using mixed methods for deeper insights.

Keywords: Sharia compliance; Religious Knowledge; Religious Motivation; Competitive Advantage; Digital Payment Systems; SMEs

Introduction

ASEAN member countries collectively recognize the strategic role of the Small and Medium Enterprises (SMEs) sector in driving inclusive and financial institutions (Alharbi et al., 2022). In Indonesia, data from the

Ministry of Cooperatives and SME Statistics shows that in 2018 the number of SMEs reached 64.2 million units, or around 99.99% of the total national business actors. This shows that SMEs are the backbone of the national economy. However, despite their dominant role, the SMEs sector still faces various challenges, including limited access to financing, low technology adoption, and weak managerial capacity and competitiveness. To overcome these challenges and increase the contribution of SMEs to the national Gross Domestic Product (GDP), the Indonesian government is targeting an increase in the proportion of bank credit distributed to SMEs to reach 30% by 2024 (Qomaro et al., 2024).

Along with the development of digital technology, the financial sector is also undergoing significant transformation. The emergence of financial technology (fintech) has opened up new opportunities for SMEs to access financial services more easily, quickly, and efficiently (Ratmono et al., 2023). One important aspect of this progress is the increasing digital payment system usage, which play a role in driving transaction efficiency and expanding market access for SME players. In Indonesia, the volume of digital transactions is expected to continue to grow every year, especially in the digital banking sector.

Realizing the importance of developing a healthy and sustainable fintech ecosystem, the government has also taken regulatory steps through the issuance of Law No. 4 of 2023 concerning the Development and Strengthening of the Financial Sector. This regulation aims to create a comprehensive legal basis for regulating the digital financial sector, while encouraging inclusive financial innovation and oriented towards empowering SMEs.

SMEs has a strategic role in promoting Indonesian economic development, whether through job creation or contribution to gross domestic product (GDP). Despite this, access to SMEs for official financial services, particularly those based on Shariah, has grown significantly (Riza, 2021). Muslim business owners frequently require payment solutions that are compatible with Islamic law. A digital payment system based on Shariah emerged as a solution to this problem, taking into account the risks of *riba*, *gharar*, and non-halal transactions. Digital banking has the potential to provide a solution to this problem by providing ethical and efficient financial services to support SMEs activities. The use of digital banking services by SMEs is critical in increasing their cash flow and improving their access to capital, which is critical for their growth and development (Khayer et al., 2020).

Related to the SMEs growth, competitive advantage is a crucial factor for SMEs seeking sustainability and long-term growth. The implementation of Sharia compliance in digital payment systems not only ensures adherence to Islamic financial principles but also enhances SMEs' competitive positioning in the market. Sharia compliance fosters consumer trust, particularly among Muslim customers, which results in increased customer loyalty and brand differentiation (Nailul, 2024). Furthermore, ethical business practices aligned with Sharia principles strengthen SMEs' reputations and set them apart from conventional competitors (Haq & Huo, 2023).

The integration of Sharia-compliant digital payment systems gives SMEs a competitive edge by allowing them to reach a larger consumer base, especially in Muslim-majority areas. Digital financial inclusion not only improves transaction efficiency and lowers

operational costs, but it also improves financial performance, allowing SMEs to compete more effectively. Furthermore, using fintech advances that adhere to Islamic banking principles allows SMEs to provide specialised financial services that meet consumers' ethical and religious needs, giving them a particular competitive advantage and differentiating them in the market (Kılıç & Türkan, 2023).

Ali et al. (2023) emphasizes the importance of clear and practical understanding when it comes to achieving results and using sharia principles. This concept was developed by Jafari Sadeghi and Biancone (2017), who discovered that the success of an Islamic-based business is heavily reliant on understanding the concepts of regulation and Islam. Other research has found that companies who can assure Muslim customers about the quality of their services significantly improve customer retention, which leads to increased sales (Amron, Usman, & Ali Mursid, 2018). Satisfied customers then become loyal customers and help spread a positive image of the company. Furthermore, research shows that Sharia compliance also has a significant impact on stock market valuations in Muslim-majority countries (Jaballah et al., 2018).

The purpose of this study is to analyze how beliefs in sharia principles, subjective norms, and perceived behavioral control—as explained in the Theory of Planned Behavior (TPB)—influence the adoption of sharia-based digital payment services in SME business activities. By integrating the TPB approach, this study aims to theoretically and empirically explain how religious preferences and ethical values drive financial technology adoption behavior among SMEs. The findings of this study emphasize the importance of developing a Shariah-compliant digital payment system as a strategic approach to enhancing SMEs' competitive advantage by expanding financial inclusion and addressing the specific needs of Muslim business owners. This study SMEs in Pekanbaru City, Riau Province, especially those running their businesses with sharia principles, as the object of study to explore the factors that influence their intentions and behavior in using sharia-compliant digital payment systems. The contribution of this study lies in providing conceptual and practical insights for regulators, fintech service providers, and SMEs themselves in designing digital financial solutions that are not only efficient and inclusive, but also in line with sharia principles to encourage national economic competitiveness and sustainability.

Literature Review and Hypotheses Development

Theory of Planned Behavior

The Resource-Based View (RBV) provides a useful framework for understanding how businesses should strategically utilize their resources to create a competitive advantage (Wernerfelt, 1984). In the context of Islamic finance, including Sharia compliance as a strategic resource inside the RBV framework emphasizes its potential as a distinctive skill that offers unique value to customers and stakeholders.

Nagano (2019) emphasizes that attaining a competitive edge necessitates a consistent analytical model that determines the features of valuable resources in a thorough and

objective manner. Sharia compliance, which is based on Islamic principles, can be classified as a valuable, scarce, and irreplaceable resource—key elements that are consistent with the RBV framework. This resource helps Islamic banks build client trust and loyalty, especially in ethically and religiously aware markets.

Nonaka et al. (2018) underscore the necessity for Islamic banks to create new knowledge to ensure their long-term sustainability. Sharia compliance plays a critical role in this knowledge creation process, driving the development of innovative financial products and services that meet the ethical and religious needs of customers. Moreover, effective management of intellectual capital—as analyzed by Nawaz and Haniffa (2017) and Ousama et al. (2020)—such as Sharia scholars, advisory boards, and governance frameworks, strengthens the credibility and operational efficiency of Islamic banks. Thus, Sharia compliance becomes a key strategic resource under the RBV perspective, contributing to a sustainable competitive advantage by aligning operational excellence with ethical commitments.

This study focuses on Small, and Medium Enterprises (SMEs) that adopt a Sharia-compliant digital payment system in their business activities. The main objective of this study is to analyze the influence of religious knowledge and motivation on the competitive advantage of MSMEs through the mechanism of Sharia compliance and the digital payment system usage. The framework of this study is based on the Theory of Planned Behavior (TPB), which states that individual behavioral intentions are influenced by attitudes, subjective norms, and perceived behavioral control. In this context, religious knowledge and motivation reflect internal factors that influence the attitudes and intentions of MSMEs in adopting a digital payment system that is in accordance with Sharia principles. Compliance with Sharia principles is not only a manifestation of spiritual values, but is also positioned as a strategic resource that strengthens competitive advantage, in line with the Resource-Based View (RBV) approach. By integrating the TPB and RBV approaches, this study provides a theoretical contribution in explaining value-based financial behavior in the MSME sector as well as a practical contribution for regulators and providers of Sharia financial services in encouraging literacy and adoption of inclusive and ethical financial technology.

Technology Acceptance Model (TAM)

Fred Davis created TAM based on Fishbein and Ajzen's TRA (1975). The TRA defines attitude as something derived from belief (Piriyakul et al., 2015). Similarly, TAM provides two belief structures that influence attitudes toward technology use: PU and PEOU Davis (1986). This study will employ TAM as a theoretical foundation, with SC as an external variable, to assess the usage of information technology by SMEs in Indonesia, namely digital payments in financial transactions. From a theoretical standpoint, including SC into TAM is intended to boost predictive power. TAM, on the other hand, has been used in a variety of research projects, particularly those involving novel systems and technologies. Chuang, Liu, and Kao (2016) employed the TAM model, as well as attributes linked to trust and brand aspects, to understand customer behavior when using FinTech services. The

study demonstrated that TAM is the appropriate model for testing client acceptance of FinTech services, in addition to brand and trust criteria.

Sharia compliance is an important predictor of trust and perceived value in Islamic finance, both of which are key components of TAM's constructs: perceived usefulness and perceived ease of use. By applying TAM to Sharia-compliant digital payment systems, companies can identify key drivers of user acceptance and design systems that effectively combine technological innovation with ethical adherence. This approach ensures that Sharia-compliant digital payment platforms meet both practical and spiritual needs, fostering trust, loyalty, and widespread adoption in the Islamic finance market.

Sharia Compliance to Competitive advantage in SMEs

Amrullah et al. (2024) conducted a study on how the application of Sharia compliance standards affects the Islamic fintech industry and its contribution to the competitiveness of the digital economy. By constantly enhancing the implementation of Sharia compliance requirements, Islamic fintech can become a more inclusive and sustainable alternative to traditional financial services. The growth of Islamic financial technology in Indonesia has the potential to significantly improve the competitiveness of the national digital economy. Furthermore, Qomaro et al. (2024) show that Sharia compliance improves financial stability, enables ethical investment diversification, and develops community trust. It is a strategic asset for firms that want to thrive in competitive conditions.

Religious principles are seen as a distinct resource equivalent to intellectual property in the commercial competition (Santoso et al., 2023; Sudarti & Fachrunnisa, 2024). Religion-centered business performance enhancement solutions might be based on distinct spiritual ideals (Santoso et al., 2023). According to Ramashar and Muhammad (2024), Sharia compliance includes two indicators: religious knowledge and religious motivation. Stronger persons' religions are more likely to follow religious ideas and ethical rules (Fesharaki, 2019). Religion is a screening tool for financial literacy, which directly affects business success (Prakoso et al., 2023). Therefore, the following hypothesis proposed:

H₁: Sharia Compliance knowledge has positive impact to Competitive advantage in SMEs.

H_{1a}: Religious knowledge has positive impact to Competitive advantage in SMEs.

H_{1b}: Religious Motivation has positive impact to Competitive advantage in SMEs.

Sharia Compliance to Digital payment system usage in SMEs

According to (AL-Haija & Syed, 2021), finTech growth in the Islamic finance industry remains limited, owing to a small number of participants, insufficient investment, and a lack of global Sharia criteria (Jafari Sadeghi & Biancone, 2017). Digital payment systems, as a type of FinTech, can benefit Islamic finance by adhering to the identical ethical norms as traditional Islamic commerce. Muryanto (2023) notes that, in addition to technological

innovation, Islamic banking and FinTech must conform to Sharia principles, follow rules, and operate within established governance structures, which include Sharia Supervisory Boards. Sharia-compliant fintech is distinguished by its adherence to Islamic economics' fundamental tenets: supporting halal behaviors, aiming towards social welfare, balancing financial and spiritual requirements, and avoiding riba (usury), gharar (uncertainty), and maysir (gambling). It is used in a variety of industries, including Islamic banking, capital markets, social finance, microfinance, and the halal business.

Fianto et al. (2021) emphasize the potential for Islamic fintech to serve a critical role in the worldwide financial sector and contribute considerably to the growth of Islamic finance. Thus, in the SME context, adopting Sharia-compliant digital payment systems demonstrates not only a commitment to ethical standards, but also an alignment of strategy with Islamic finance rules, which create trust, compliance, and market competitiveness.

According to Ramashar and Muhammad (2024), Sharia compliance consists of two components: religious knowledge and religious motivation. When SME owners as well as stakeholders have a thorough awareness of religious concepts, particularly those related to Sharia compliance, they are more inclined to use digital payment systems that meet ethical and spiritual criteria. Then, motivation inspired by faith or an urge to follow religious teachings motivates SMEs to implement Sharia-compliant digital payment solutions. This motivation ensures that their financial transactions are consistent with their moral and spiritual ideals, which builds confidence among religiously oriented clients. Therefore, the following hypothesis proposed:

H₂: Sharia Compliance has positive impact to Digital Payment System usage in SMEs.

H_{2a}: Religious knowledge has positive impact to Digital Payment System usage in SMEs.

H_{2b}: Religious Motivation has positive impact to Digital Payment System usage in SMEs.

Use of Digital Payment System to Competitive Advantage in SMEs

Technological innovation occurs across various sectors and industries, including the financial sector (Mustapha, 2018). The digital payment system is considered one of the most recent developments, especially in many developing countries. Technological advancements have shifted the payment paradigm from paper-based systems to digital payment systems. In developing countries, this transformation is further supported by government and managerial initiatives (AlBar & Hoque, 2019). found that mobile money services have a significant impact on the performance of SMEs in Kenya. Similarly, Scott et al. (2017) investigated the effects of SWIFT adoption on bank performance. However, there is still limited research examining the influence of digital payment systems on SME performance, particularly in terms of enhancing their competitive advantage. Therefore, the following hypothesis is proposed:

H₃ : Digital payment system usage has positive impact to Competitive Advantage in SMEs

Sharia Compliance & Use of Digital Payment System to Competitive Advantage in SMEs

By integrating Sharia principles into financial operations, SMEs demonstrate ethical commitment, which fosters trust among stakeholders, particularly within Muslim-majority markets. This trust enhances customer loyalty and strengthens brand reputation, setting SMEs apart from competitors (Qomaro et al., 2024). Furthermore, the digital payment system usage streamlines financial transactions, improves operational efficiency, and provides SMEs with access to broader markets, including the growing segment of digitally-savvy consumers (Kwabena et al., 2019). When combined, Sharia compliance ensures alignment with Islamic financial principles such as being free from *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling) while digital payment systems enable seamless and scalable financial operations (Fianto et al., 2021). Together, these elements not only enhance SMEs' ethical and operational profiles but also position them strategically in a competitive marketplace by appealing to both religiously motivated and technology-oriented customers. Therefore, the following hypothesis proposed:

H₄: Sharia compliance has positive impact on competitive advantage with digital payment system usage as mediator.

Research Method

The study used quantitative approach with distributing questionnaire to the SME's manager located in Pekanbaru City, Riau Province. Dillman (1978) suggested that mailed questionnaires survey was an effective method to obtain the maximum possible responses. The questionnaire will be distributed to 147 SME in Coffee Shop interst at Pekanbaru City. Respondents in this study were coffee shop owners or managers who were directly involved in decision making that could increase competitive advantage. Pekanbaru City was chosen as the research location because it aligns with the topic of study. It has earned the distinction of being the first Halal, Safe, and Healthy Culinary Zone in Sumatra. Serving as a catalyst for the growth of small, and medium enterprises (SMEs), it plays a pivotal role in driving future economic progress. Its adherence to Sharia compliance principles and competitive ecosystem make Pekanbaru City an ideal setting for analyzing competitive advantages among SMEs operating in this environment.

The selection of coffee shops as the focus of the study was based on the consideration that this sector is one of the rapidly growing SME sub-sectors and is very responsive to the digitalization trend and lifestyle values of young consumers. Coffee shops not only sell beverage products, but also offer experiences and social values that make them a strategic space to observe the integration between religious values (such as sharia compliance) and technology (such as digital payment systems). Amid increasing consumer awareness of halal and ethical products, coffee shops are at the forefront of implementing sharia principles in real terms, both in terms of products, processes, and transactions. In

addition, coffee shop business actors tend to have higher technological literacy and innovative motivation compared to other sub-sectors, allowing for a sharper test of the concept of competitive advantage based on knowledge and religious motivation. Thus, coffee shops provide a relevant and dynamic empirical context to explore the relationship between sharia knowledge, religious motivation, digital payment systems, and competitive advantage.

The data by studies were collected through an online survey using a structured questionnaire with a five-point Likert scale ranging from "strongly disagree" to "strongly agree." The acquired data was examined using Partial Least Squares Structural Equation Modeling (PLS-SEM), a strong statistical method suitable for exploratory experiments and predictive modeling. This method allows for the simultaneous analysis of several variables and their interactions, making it excellent for analyzing complex models. PLS-SEM was chosen because it can handle small sample sizes and non-normal data distributions, which are typical in social science research (Amalia & Pratolo, 2024; Nazaruddin et al., 2024).

Before conducting a structural test, a model measurement test is first conducted by looking at the validity and reliability results or commonly called the outer model test. Next, the structural model was evaluated by determining the significance of each hypothesis using path coefficients and t-statistics generated from a bootstrapping technique.

Tabel 1 Variable measurement

Variables	Items	Sources
Sharia Compliance (SC)		(Ramashar & Muhammad, 2024)
Religious Knowledge (RK)	1. Not only the Qur'an, which guides Muslims in living life in the world. 2. Zakat, infaq, and alms are very important for Muslims who can afford it. 3. I know who is entitled to receive zakat 4. I believe in Giving to charity will increase my fortune. 5. I understand that what is included in riba is all additional principal in debt.	
Religious Motivation (RM)	1. I like to read books or literature about Islam 2. I watch or listen to religious programs on TV or radio. 3. I always listen to or follow religious da'wah in the masjid. 4. I try to bring my religion into the affairs of life, including in financial matters. 5. I do not imitate the nature of the Prophet Shalallaahu 'Alaihi Wassalam in running a business.	
Competitive Advantage (CA)	1. My business has brand recognition. 2. The company establishes a distinctive brand identity in the competitive process. 3. Provides superior quality service compared to competitors. 4. Implements significant innovation in service provision. 5. The company's product or service quality is better than competitors. 6. Our costs are far below those of competitors. 7. We minimize general costs. 8. The company demonstrates excellent cost control compared to competitors. 9. Efforts are made to achieve economies of scale by maximizing start-up performance.	(Pereira-Moliner et al., 2016; Phangestu et al., 2020)
Use of Digital Payment (UAD)	1. I use digital payment systems for my transactions. 2. I intend to increase my usage of digital payment systems in the future 3. I will recommend digital payment systems to others.	(Ly & Ly, 2024)

Table 1 provides a detailed breakdown of the measurement variables associated with Sharia Compliance, categorized into two key components: Religious Knowledge (RK) and Religious Motivation (RM). Then, the Competitive Advantage (CA) as a dependent variable, and Use of Digital Payment (UAD) as a mediating factor within SMEs. Religious Knowledge (RK) pertains to the level of awareness and understanding of Sharia principles among SME owners or managers, which influences their ability to implement compliance in their operations (Ramashar & Muhammad, 2024). Religious Motivation (RM) reflects the intrinsic drive to adhere to Islamic values, driven by ethical, spiritual, and moral obligations, which serve as a foundation for decision-making in business practices (Ramashar & Muhammad, 2024). Competitive Advantage (CA) represents the strategic benefits gained from adopting Sharia-compliant principles, such as enhanced brand reputation, superior product quality, cost control, and market positioning. Use of Digital Payment (UAD) act as a mediating variable, bridging the gap between Sharia compliance and business competitiveness by facilitating efficient, ethical, and transparent financial transactions.

Result and Discussion

Demographic Respondents

Based on Table 2, the demographic analysis sheds light on the traits of respondents working for Pekanbaru City's coffee shop SMEs. 38.09% of participants are female, whereas 61.90% of responders are male. This implies that, although a sizable percentage of female entrepreneurs also operate coffee shops in Pekanbaru, men manage or own the majority of these firms.

Table 2 Demographic Respondents Profile

Characteristic Respondents		Frequency	Percentage (%)
Gender	Male	91	61.90
	Female	56	38.09
	Total	147	100
Age	18-25 years old	19	12.93
	26-35 years old	33	22.45
	36-45 years old	54	36.73
	>45 years old	41	27.89
	Total	147	100
Level of Education	Senior High School	94	64.00
	Diploma	9	5.00
	Degree	36	24.00
	Master	5	20.00
	Doctor	3	20.00
	Total	147	100
Business Experience (years)	1-2 years	13	8.84
	2-5 years	53	36.05
	>5 years	81	55.10
	Total	147	100

The majority of respondents (36.73%) are in the 36–45 age range, with those over 45 coming in second (27.89%), suggesting that seasoned business owners predominate in this market. Younger entrepreneurs between the ages of 18 and 25 (12.93%) and 26 and 35 (22.4%) are also present, although in smaller numbers. This implies that operating a coffee shop may call both significant financial stability and experience, both of which older respondents most likely possess.

Senior high school graduates make up the majority of respondents (64%), followed by degree holders (24%), diploma graduates (5%), and a lesser percentage with master's (2%) and doctoral (2%) degrees. Given that the majority of coffee shop owners in Pekanbaru are high school graduates, it is possible that they rely more on real-world experience than on official higher education in company management.

Many SMEs in this industry are run by seasoned business owners, as evidenced by the fact that more than half of the respondents (55.10%) have more than five years of business experience. In contrast, only 8.84% have 1-2 years of experience, while 36.05% have 2-5 years. Given that a sizable percentage of business owners in Pekanbaru have extensive experience in the field, this distribution emphasises the sustainability of coffee shop SMEs there.

Statistic Descriptive

Based on Table 3, Descriptive statistics were calculated for the main variables of the study, which included religious knowledge, religious motivation, competitive advantage, and the use of digital payment. The results show that religious knowledge had the highest mean score (Mean = 3.989, Std Deviation = 0.036), followed closely by religious motivation (Mean = 3.933, Std Deviation = 0.017) and competitive advantage (Mean = 3.928, Std Deviation = 0.031). Meanwhile, the use of digital payment had a slightly lower mean (M = 3.598) with the highest standard deviation (Std Deviation = 0.219), indicating greater variability in responses. All variables were measured on a Likert scale from 1 to 5, and the total number of respondents (N) was 147.

Table 3 Statistic Descriptive

Variables	Minimum	Maximum	Mean	Std. Deviation
Religious Knowledge	1.00	5.00	3.989	0.036
Religious Motivation	1.00	5.00	3.933	0.017
Competitive Advantage	1.00	5.00	3.928	0.031
Use of Digital Payment	1.00	5.00	3.598	0.219
N	147			

Assessing the measurement model

In testing using SEM-PLS, the first is the measurement model test with statistical provisions to see the quality of data from validity and reliability (Hair et al., 2019). Validity in SEM-PLS results includes convergent validity and discriminant validity. Convergent validity can be seen from the results of outer loading and average variance extracted

(AVE) (Hair et al., 2021). According to Hair, the outer loading and AVE values must be more than 0.5, from Table 4 it can be concluded that the convergent validity value is met.

Table 4 Convergent Validity

Construct	Measurement Item	Loading Factor	AVE
Religious Knowledge	RK1	0.846	0.681
	RK2	0.787	
	RK3	0.836	
	RK4	0.867	
	RK5	0.788	
Religious Motivation	RM1	0.822	0.662
	RM2	0.771	
	RM3	0.830	
	RM4	0.843	
	RM5	0.800	
Competitive Advantage	CA1	0.772	0.682
	CA2	0.812	
	CA3	0.822	
	CA4	0.815	
	CA5	0.813	
	CA6	0.847	
	CA7	0.844	
	CA8	0.856	
	CA9	0.848	
Use of Digital Payment	UDP1	0.926	0.846
	UDP2	0.930	
	UDP3	0.903	

Next is the value of discriminant validity that can be seen from the results of Fornell-lacker (Fornell & Larcker, 1981; Hair et al., 2019). The results of Fornell-lacker have a provision that the square root of the AVE value must have a greater result in relation to itself, than the results of the relationship with other variables. So it can be concluded that from Table 5 the discriminant validity is met.

Table 5 Discriminant Validity of Construct (Fornell-Larcker)

	CA	RK	RM	SC	UDP
CA	0.826				
RK	0.769	0.825			
RM	0.764	0.814	0.814		
SC	0.659	0.751	0.653	0.780	
UAD	0.463	0.429	0.387	0.429	0.820

Note: RK = Religious Knowledge; RM = Religious Motivation; CA = Competitive Advantage; UAD = Use of Digital Payment System; SC = Sharia Compliance

Next is the result of the reliability test. In SEM-PLS, reliability can be determined by looking at the results of the Cronbach alpha and Composite reliability values (Hair et al., 2019). The results of Cronbach alpha and composite reliability must be greater than 0.6. From the results of Table 6, it can be concluded that reliability is met, all variables are declared reliable.

Table 6 Result Of Reability Measure

Construct	Cronbach's Alpha	Composite Reability
Religious Knowledge	0.883	0.914
Religious Motivation	0.872	0.907
Competitive Advantage	0.942	0.951
Use of Digital Payment System	0.910	0.943

Assesing the structure model

Lastly is to look at the results of assessing the structure model to answer the hypothesis. The hypothesis testing results indicate that all proposed relationships in the model are statistically supported. Religious knowledge (RK) has a significant positive effect on competitive advantage (CA) ($\beta = 0.447$, $t = 22.215$, $p < 0.001$), as does religious motivation (RM) ($\beta = 0.455$, $t = 26.997$, $p < 0.001$) and sharia compliance (SC) ($\beta = 0.859$, $t = 30.925$, $p < 0.001$). Furthermore, RK ($\beta = 0.223$, $t = 4.830$, $p < 0.001$), RM ($\beta = 0.228$, $t = 5.069$, $p < 0.001$), and SC ($\beta = 0.428$, $t = 4.902$, $p < 0.001$) also positively influence the use of digital payment (UDP). Additionally, UDP has a significant influence on CA ($\beta = 0.117$, $t = 2.671$, $p = 0.008$), suggesting its mediating role. The indirect effect of SC on CA through UDP is also statistically significant ($\beta = 0.050$, $t = 2.110$, $p = 0.035$), confirming the mediation effect. These results confirm that both direct and indirect relationships among variables are meaningful in enhancing competitive advantage.

Table 7 Hypotheses testing

Hypotheses	Coefficient (β)	T-Statistics (t)	P-Values (p)	Conclusion
RK \rightarrow CA	0.447	22.215	0.000	Supported
RM \rightarrow CA	0.455	26.997	0.000	Supported
SC \rightarrow CA	0.859	30.925	0.000	Supported
RK \rightarrow UDP	0.223	4.830	0.000	Supported
RM \rightarrow UDP	0.228	5.069	0.000	Supported
SC \rightarrow UDP	0.428	4.902	0.000	Supported
UDP \rightarrow CA	0.117	2.671	0.008	Supported
SC \rightarrow UDP \rightarrow CA	0.050	2.110	0.035	Supported

Note: RK = Religious Knowledge; RM = Religious Motivation; CA = Competitive Advantage; UAD = Use of Digital Payment System; SC = Sharia Compliance

The study provides empirical evidence that the use of digital payment systems and adherence to Sharia principles contribute to the competitive advantage of SMEs in Pekanbaru's coffee shop industry. These results align with previous research by AlBar and Hoque (2019), Nyaga (2013), Scott et al. (2017), and Kwabena et al. (2019), which emphasize that financial technology and Sharia-compliant financial practices play a significant role in improving organizational performance and competitiveness in Islamic market settings. The findings also underscore the importance of financial technology, intrinsic motivation, and religious knowledge in enhancing business outcomes.

The study demonstrates that competitive advantage is positively impacted by Sharia conformity (supported H_1). This is consistent with Amrullah et al. (2024), who contend that Islamic financial institutions' competitiveness is enhanced by their adherence to

Sharia compliance criteria. The findings also support the idea that religious knowledge (supported H_{1a}) and religious motivation (supported H_{1b}) boost the competitiveness of SMEs. This supports the claims made by Sudarti and Fachrunnisa (2024) and Hendar et al. (2018) that religious values are strategic advantages in business competitiveness. SMEs stand out from the competition and gain the trust of Muslim customers by implementing business strategies based on Sharia compliance (Qomaro et al., 2024).

The results validate the premise that SMEs' use of digital payment solutions is strongly influenced by Sharia compliance (supported H_2). This result is in line with earlier research that emphasises the small but expanding significance of Islamic FinTech (Al-Haija & Syed, 2021; Biancone et al., 2019). Business owners who have a solid grasp of Sharia law are likely to adopt ethical financial technology, according to the substantial influence of religious knowledge (supported H_{2a}) and religious motivation (supported H_{2b}) on the adoption of digital payments (Ramashar & Muhammad, 2024). SMEs maintain compliance and gain from technological efficiency since digital payments are in line with Islamic economic principles (Muryanto, 2023).

Additionally, the results confirm that digital payment solutions contribute to enhancing SMEs' competitive advantage (supported H_3). This finding is supported by AlBar and Hoque (2019), who emphasize that technological innovation in financial services significantly improves organizational performance. Digital payments provide SMEs with a competitive edge by streamlining transactions, increasing operational efficiency, and improving financial transparency (Nyaga, 2013; Scott et al., 2017).

Additionally, the study supports the notion that digital payment systems mediate the relationship between Sharia compliance and competitive advantage (supported H_4). This finding aligns with Qomaro et al. (2024), who emphasize the synergy between financial technology and ethical commitment in driving business success. Sharia compliance enhances SMEs' reputation among Muslim consumers, while digital payment systems increase market reach and operational efficiency Kwabena et al. (2019). Together, these factors create a competitive advantage by ensuring both technological adaptability and ethical alignment.

Overall, the study reinforces the significance of digital payment systems and Sharia compliance in enhancing SME competitiveness (Khayer et al., 2020). The findings offer valuable insights for SME owners, policymakers, and financial institutions aiming to promote ethical and innovative business practices in Islamic markets. The study's findings highlight a critical strategic intersection between Sharia compliance and digital payment adoption as drivers of competitive advantage for SMEs, particularly in the context of coffee shops operating within Islamic markets. The mediating role of digital payment systems suggests that technological innovation not only facilitates operational efficiency but also amplifies the market appeal of ethically grounded businesses (Alharbi et al., 2022).

The combination of religious knowledge, motivation, and Sharia compliance provides a more in-depth and context-specific understanding of how digital payment systems are

embraced and used to gain a competitive advantage among SMEs in Muslim-majority environments (Alharbi et al., 2022). This viewpoint underlines that Sharia compliance serves not just as a regulatory need, but also as a distinct and strategic value. Within the framework of the Resource-Based View (RBV), Sharia compliance emerges as a unique and non-replicable resource that mediates the impact of religious values on technology adoption, positioning it as a critical enabler of innovation and long-term competitiveness in Islamic business environments.

For SMEs owners in the coffee shop sector, integrating digital payment platforms—such as Quick Response code payments, mobile wallets, or contactless systems—offers more than just transactional convenience. These technologies allow for better customer data tracking, inventory management, and seamless service experiences, which are particularly attractive to younger, tech-savvy, and ethically conscious consumers. When combined with a strong commitment to Sharia principles (e.g., ensuring halal ingredients, ethical sourcing, and transparent financial practices), coffee shop owners can establish a distinctive market position that appeals to the growing segment of Muslim consumers seeking businesses that reflect their values.

These findings have strategic significance for governments in designing regulatory frameworks that foster digital transformation while also ensuring respect to ethical and Sharia standards, notably in the food and beverage (F&B) industry. Initiatives such as fintech adoption incentives, digital infrastructure development, and halal certification schemes can help SMEs—particularly tiny and micro-scale coffee shops—digitize faster, becoming more contemporary, Sharia-compliant, and competitive.

On the other hand, financial institutions and fintech providers have a great opportunity to deliver Sharia-compliant financial solutions that are tailored to the sector's specific needs. Islamic microfinance for point-of-sale (POS) systems and digital payment apps that interface with halal certification databases are two examples. These innovations not only promote the establishment of ethical and sustainable firms, but they also broaden the market for Islamic financial services (Haq & Huo, 2023).

The rapid rise of fintech in Indonesia, particularly with the establishment of the Quick Response Code Indonesian Standard (QRIS), emphasizes the importance of this synergy. QRIS is now widely used throughout the country and has begun to gain traction in other countries, opening up new options for SMEs, especially coffee shops, to provide more efficient, accessible, and Sharia-compliant digital payment services. This development directly improves their competitiveness in home and international markets.

Furthermore, coffee consumption has become an integral element of daily life, not only in major cities but also in smaller communities. The act of drinking coffee has become a social culture that drives the growth of the coffee shop industry. As a result, combining digital innovation and Sharia compliance into this ecosystem becomes increasingly important. Coffee shop owners can leverage on this trend by stressing trust, operational efficiency, and religious beliefs in order to gain a competitive advantage and expand their customer base.

Conclusion

This study examines the role of religious knowledge, religious motivation, and sharia compliance in increasing the competitive advantage of coffee shops included in the category of small, and medium enterprises (SMEs) in Pekanbaru City, Riau Province. This study also tests the mediating role of digital payment system usage as mediator. The results of the analysis show that religious knowledge and religious motivation have a positive and significant effect on competitive advantage, and encourage the digital payment system usage by business actors. Sharia compliance has also been shown to be a strategic factor that not only influences competitive advantage directly, but also through the mediation of the digital payment system usage. These findings confirm that religious values and sharia principles can be unique resources that provide competitive differentiation for coffee shops, especially in areas that have a halal ecosystem and high religious awareness such as Pekanbaru which has been designated as a Halal, Safe, and Healthy Culinary Zone. The integration of religious values, sharia compliance, and the use of digital technology can create sustainable competitive advantages for MSME coffee shops.

This study has several limitations. First, the scope of the study is limited to SMEs in the coffee shop sector in Pekanbaru City, so the results cannot necessarily be generalized to MSMEs in other business sectors or in other regions with different market characteristics. Second, the quantitative approach used does not capture in depth the subjective experiences of business actors related to the application of religious values and the adoption of digital systems in managing coffee shop businesses. Third, this study does not differentiate the level of business scale or the length of time the business has been established, which has the potential to influence technology adoption patterns and competitive strategies. Further research is recommended to expand the focus to various types of businesses in the sharia culinary sector or other sectors in the halal industry to test the validity of the model in a more diverse context. In addition, a mixed methods approach can be used to explore a deeper understanding of how SME coffee shop actors interpret and apply religious principles and sharia compliance in daily business practices. Comparative studies between cities or provinces can also provide a broader perspective on the dynamics of competitive advantage based on sharia values in the SME sector.

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Conflicts of Interest

The author declares no conflict of interest. The funders had no role in the design of the study; in the collection, analyses, or interpretation of data; in the writing of the manuscript, or in the decision to publish the results.



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