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DETERMINANTS OF MSMEs' ADOPTION OF ISLAMIC BANKING PRODUCTS: THE ROLE OF HALAL LIFESTYLE, ISLAMIC FINANCIAL LITERACY, AND TRUST

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INFORMATION	ABSTRACT
<p>Article History:</p> <p>Received : 20.04.2026 Revised : 06.05.2026 Published : 30.06.2026</p> <p>Keywords: Halal Lifestyle; Islamic Financial Literacy; Trust; MSMEs; Islamic Banking.</p>	<p><i>Micro, Small, and Medium Enterprises (MSMEs) play an important role in supporting Indonesia's economic growth; however, the market share of Islamic banking remains relatively small compared to conventional banking, particularly among MSME actors. This indicates that MSMEs' use of Islamic banking products remains limited and may be influenced by behavioral and cognitive factors. Previous studies tend to examine financial literacy or trust separately, leaving a limited understanding of how halal lifestyle, Islamic financial literacy, and trust simultaneously influence MSMEs' decisions to use Islamic banking products. This study aims to analyze the influence of halal lifestyle, Islamic financial literacy, and trust on MSMEs' decisions to use Islamic banking products in Central Java. This study employs a quantitative approach, collecting primary data from 100 MSME actors via questionnaires and analyzing them using multiple linear regression. The results show that a halal lifestyle and trust have a positive and significant effect on MSMEs' decisions to use Islamic banking products, whereas Islamic financial literacy has a significant negative effect, suggesting that higher literacy may encourage MSME actors to be more critical and selective in their choice of financial institutions. The three variables simultaneously explain 62.7% of the variation in MSME decisions, with trust identified as the most dominant factor. These findings contribute to the consumer behavior perspective in Islamic finance by integrating halal lifestyle, Islamic financial literacy, and trust to explain MSME financing decisions in Islamic banking.</i></p>



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A. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in supporting Indonesia's economic growth (Yolanda & Hasanah, 2024). MSMEs are not only drivers of regional economic activity but also the largest absorbers of labor. Data from the Ministry of Cooperatives and SMEs shows that the number of MSMEs in Indonesia has reached more than 65 million business units, absorbing around 97% of the national workforce and contributing more than 60% to the Gross Domestic Product (GDP) (Kholifah & Andini, 2024). This significant contribution indicates that MSMEs represent a strategic sector in strengthening the national economy and supporting inclusive economic development.

Along with the development of MSMEs, the Islamic banking industry in Indonesia has also experienced continuous growth. According to the Indonesian Sharia Finance Development (Perkembangan Syariah, 2024), (Mustaidah and & Sadiyah, 2025) the Islamic banking network comprises 14 Sharia Commercial Banks, 19 Sharia Business Units, and more than 174 Sharia People's Financing Banks spread across various regions. However, despite this development, Islamic banking's market share remains relatively small compared to conventional banking. As of August 2025, Islamic banking assets reached IDR 976 trillion with a market share of only 7.44%. This condition indicates that the large potential of MSMEs has not yet been optimally utilized by Islamic banking institutions.

In Islamic economics, financial decisions are influenced not only by economic considerations but also by ethical and religious values, such as justice, transparency, and compliance with sharia principles. These values reflect the concept of value-based finance, which emphasizes financial activities that promote welfare, fairness, and ethical responsibility in accordance with Islamic principles. Therefore, financial decisions in Islamic economics involve not only rational economic calculations but also moral and religious considerations.

One factor that is frequently associated with the decision to use Islamic banking products is Islamic financial literacy. Islamic financial literacy reflects an individual's understanding of Islamic financial principles, contracts, and financial products. The National Survey of Financial Literacy and Inclusion (SNLIK) conducted by OJK shows that the level of Islamic financial literacy in Indonesia remains relatively low at 43.42%, compared to conventional financial literacy, which reaches 66.45% (OJK, 2025). This gap indicates that a large proportion of the population still lacks an adequate understanding of Islamic financial services, which may influence their financial decisions and preferences.

In addition to literacy, the growing trend toward a halal lifestyle has also shaped people's preferences for products and services that comply with Islamic principles. A halal lifestyle is not only reflected in food consumption but also in financial decisions, including the selection of financial institutions that operate in accordance with sharia principles (Mustaidah & Sadiyah, 2025). Furthermore, trust in Islamic banking institutions also plays an important role in shaping customers' decisions, particularly

in financial transactions involving uncertainty and long-term commitments (Jubaidi et al., 2025).

Several previous studies have examined the factors influencing the use of Islamic banking products. (Murwaningsari & Rachmawati, 2023) and (Amalia & Setyono, 2023) found that Islamic financial literacy positively affects the decision to use Islamic banking services. Similarly, Jubaidi et al. (2025) emphasized that trust is an important determinant of customer adoption of Islamic banking services. However, not all studies show consistent findings. (Ruslia, 2023) found that Islamic financial literacy influences MSME financial behavior but is not the dominant factor, while (Mufida et al., 2024) reported that halal lifestyle and Islamic literacy simultaneously influence financial decisions, but do not always show significant partial effects.

These inconsistent findings indicate an empirical gap regarding how halal lifestyle, Islamic financial literacy, and trust influence MSMEs' decisions to use Islamic banking products. In addition, most previous studies tend to focus on interest or intention rather than on MSMEs' actual decisions to use Islamic banking products. Empirical studies that simultaneously examine halal lifestyle, Islamic financial literacy, and trust in explaining MSME decisions at the regional level, particularly in Central Java, remain limited.

Central Java is one of the provinces with a large number of MSMEs and has significant potential for the development of Islamic financial services. However, empirical studies examining the simultaneous influence of a halal lifestyle, Islamic financial literacy, and trust on MSME decisions in this region remain limited. Therefore, this study aims to analyze the influence of halal lifestyle, Islamic financial literacy, and trust on MSMEs' decisions to use Islamic banking products in Central Java. This study contributes to the literature on Islamic finance by providing empirical evidence on the role of halal lifestyle, Islamic financial literacy, and trust in shaping MSMEs' decisions to use Islamic banking products in Central Java.

B. LITERATURE REVIEW

Consumer behavior

Consumer behavior theory refers to the study of how individuals select, purchase, use, and evaluate goods or services to satisfy their needs (Syh, Anwar, and Riqqoh, 2024). In economic theory, consumers are assumed to behave rationally by allocating their limited resources to maximize satisfaction or utility (Putri et al., 2023). In addition, the assumption of information availability suggests that consumers rely on knowledge and information when making decisions regarding products or services (Badu, 2024).

In the context of Islamic finance, consumer behavior is not only influenced by economic considerations but also by religious values, ethical awareness, and trust in financial institutions. Previous studies indicate that factors such as Islamic financial literacy, halal lifestyle, and trust play an important role in shaping consumer preferences and decisions to use Islamic banking services (Syh et al., 2024). Therefore, consumer behavior theory provides a relevant framework for explaining how internal factors, including religious lifestyle, financial knowledge, and trust in Islamic institutions, influence MSME actors' decision-making when choosing Islamic banking products.

Decision to Choose Sharia Banking Products

The decision to use Islamic banking products reflects a consumer's evaluation process that involves attitudes, knowledge, beliefs, and external influences. (Syh et al., 2024) explain that internal factors, such as perceptions, religiosity, and perceived benefits, tend to play a more dominant role than external influences in shaping consumer preferences toward Islamic banking. For MSME actors, the decision to choose Islamic banking products is closely related to their understanding of Islamic financial principles, their lifestyle orientation toward halal values, and their trust in the credibility and compliance of Islamic financial institutions. These factors collectively shape behavioral intentions and ultimately influence the decision to utilize Islamic banking services.

Halal Lifestyle

Halal lifestyle refers to a way of life that reflects adherence to Islamic principles in various aspects of daily activities, including consumption patterns and financial decisions (Miswanto & Fatimah, 2025). Jailani and Adinugraha (2022) state that a halal lifestyle emphasizes compliance with Islamic rules in personal, social, and economic behavior.

In the context of financial behavior, individuals who adopt a halal lifestyle tend to prefer financial products that align with Islamic values, including the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). As a result, a stronger halal lifestyle orientation may increase the likelihood of choosing Islamic banking services.

Previous studies also highlight that Islamic economic values play an important role in shaping individual economic behavior. Research conducted by Muyassarrah (2021) explains that the internalization of Islamic values such as gratitude, moderation, and social responsibility influences how individuals make economic and financial decisions. These values encourage individuals to adopt financial practices consistent with Sharia principles and to avoid economic activities that contradict Islamic teachings. Therefore, the adoption of Islamic financial services can also be understood as a manifestation of value-based economic behavior rooted in Islamic ethical principles.

Previous studies support this argument. Mustaidah and Sadiyah (2025) found that a halal lifestyle has a positive and significant influence on the intention to use Islamic financial products. Similarly, Firdausi and Mubarok (2024) shows that a halal lifestyle strengthens MSME decisions to choose Islamic banking services.

Recent studies also emphasize that religious values and halal-oriented lifestyles significantly influence Muslim consumer behavior in selecting halal products and financial services (Setiawan & Mauluddi, 2024). In the context of Islamic banking, consumer acceptance is also influenced by behavioral factors such as trust, attitudes, and perceived compatibility with Islamic principles (Jubaidi et al., 2025). These perspectives indicate that a halal lifestyle functions as an important behavioral determinant that shapes financial decision-making among Muslim consumers, including MSME actors who seek financial services consistent with their religious values.

Islamic Financial Literacy

Islamic financial literacy refers to an individual's knowledge, understanding, and ability to manage financial resources based on Islamic principles (Salsabila & I I Mursidin 2025). This includes understanding Islamic financial contracts, risk-sharing principles, and the prohibition of interest. A higher level of Islamic financial literacy enables individuals to better understand the differences between conventional and Islamic banking systems, thereby influencing their financial preferences and decision-making processes.

Previous research confirms that Islamic financial literacy significantly influences the adoption of Islamic financial services (Handida & Sholeh, 2018). Individuals with better financial knowledge tend to have greater confidence in choosing Islamic financial institutions because they understand the benefits and compliance of these products with Islamic principles.

Trust

Trust refers to an individual's confidence in the reliability, integrity, and credibility of a particular institution (Yusmelia, Suryadi, and Nasrah, 2024). In financial services, trust plays a critical role because transactions often involve uncertainty and risk.

In the context of Islamic banking, trust is closely related to perceptions of sharia compliance, transparency, and institutional credibility. When consumers believe that Islamic banks operate in accordance with Islamic principles and maintain ethical standards, their willingness to use these services increases.

Empirical studies indicate that trust significantly influences customer decisions to adopt Islamic banking products (Jalil & Hamzah, 2020). Therefore, higher trust in Islamic financial institutions is expected to encourage MSME actors to choose Islamic banking products.

MSMEs (Micro, Small, and Medium Enterprises)

Micro, Small, and Medium Enterprises (MSMEs) represent productive economic activities carried out by individuals or business entities with varying scales of operation. According to Nasution, Lathief, and Nasution (2025) MSMEs are categorized into micro, small, and medium enterprises based on asset ownership and annual sales value, as regulated by national laws.

MSMEs play a crucial role in economic development by creating employment opportunities, increasing income distribution, and supporting local economic growth. In Indonesia, MSMEs also represent a significant segment of potential users of Islamic banking financing products.

However, MSME actors' decision to use Islamic banking services is influenced by several behavioral factors, including their lifestyle orientation, financial literacy, and trust in Islamic financial institutions.

Several studies suggest that adoption of Islamic banking services is influenced by a range of behavioral and cognitive factors. A halal lifestyle reflects alignment of individual behavior with Islamic values; Islamic financial literacy represents the level of knowledge and understanding of Islamic financial principles; and trust reflects confidence in the credibility and integrity of financial institutions. The interaction of these factors plays an important role in shaping individuals' decisions to choose

Islamic banking products, particularly among MSME actors who require reliable and sharia-compliant financial services (Rohmania, A. S., Sholihah, E., & Nurhapsari n.d.; Sulaiman et al., 2018; Rohmania, A. S., Sholihah, E., & Nurhapsari 2023)

Based on the theoretical discussion above, the relationships between variables can be formulated as follows:

- H1 : A halal lifestyle has a positive and significant effect on the decision of MSMEs to use Islamic bank products
- H2 : Islamic financial literacy has a positive and significant effect on the decision of MSMEs to use Islamic bank products
- H3 : Trust has a positive and significant effect on the decision of MSMEs to use Islamic bank products

Conceptual Framework

This study integrates consumer behavior theory with several key factors that influence MSMEs' decision-making regarding Islamic banking products. In Islamic finance, consumer decisions are driven not only by economic considerations but also by religious values, knowledge of Islamic financial principles, and trust in financial institutions. Therefore, this study proposes three main determinants that may influence MSMEs' decisions to use Islamic banking products, namely halal lifestyle, Islamic financial literacy, and trust.

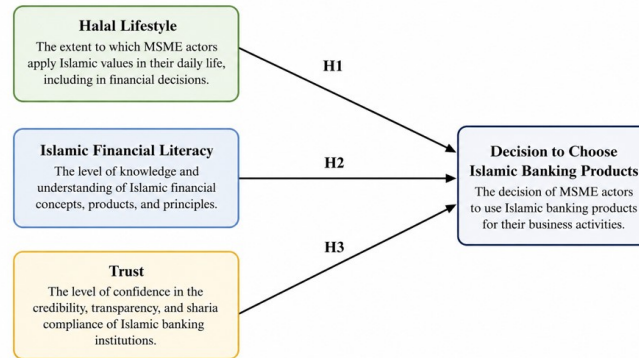
A halal lifestyle reflects the extent to which individuals apply Islamic values in their daily activities, including in financial decision-making. Individuals who adopt a halal lifestyle tend to prefer financial products and services that comply with Islamic principles. This preference encourages MSME actors who prioritize halal values to choose Islamic banking products for their financial activities.

Islamic financial literacy represents the level of knowledge and understanding of Islamic financial concepts, contracts, and products. A higher level of Islamic financial literacy enables individuals to better understand the differences between conventional and Islamic banking systems. As a result, individuals with higher literacy are more likely to make informed financial decisions and choose Islamic banking products that align with their financial and religious considerations.

Trust reflects MSME actors' confidence in the credibility, transparency, and Sharia compliance of Islamic banking institutions. In financial transactions involving uncertainty and long-term commitments, trust becomes an essential factor in consumer decisions. Higher levels of trust in Islamic banking institutions are expected to increase the likelihood that MSME actors will choose Islamic banking products.

Based on these theoretical perspectives, halal lifestyle, Islamic financial literacy, and trust are expected to influence MSMEs' decisions to choose Islamic banking products.

Figure 1. Conceptual Framework



C. METHODOLOGY

This study uses a quantitative, descriptive research approach, and the data are primary, collected from respondents. Data collection was conducted by distributing questionnaires to MSME actors in Central Java. The dissemination of this questionnaire aims to identify and analyze the influence of a halal lifestyle, Islamic financial literacy, and trust on MSMEs' decisions to use Islamic bank products. The research instrument was prepared as a closed-ended statement using a five-point Likert scale: strongly disagree (1), disagree (2), neutral (3), agree (4), and strongly agree (5). The population in this study comprises all MSME actors in Central Java, but the exact number is unknown. Therefore, the sampling technique used in this study is random sampling.

The sampling in this study follows the guidelines put forward by Roscoe, which state that the appropriate sample size ranges from 30 to 500 respondents. In addition, in studies that use multivariate analysis, the number of samples is determined at least 10 times the total number of variables studied, both independent and dependent variables (Sigh, 2021). This study involved four variables consisting of three independent variables, namely halal lifestyle, Islamic financial literacy, and trust, and one dependent variable, namely the decision of MSMEs to use Islamic bank products. Thus, the minimum number of samples required is 10×4 variables, yielding 40 respondents. However, during field data collection, 100 respondents from MSMEs in Central Java were collected. This amount is still within the sample size range recommended by Roscoe, so all data collected meet the eligibility criteria and are used in the research analysis.

The variables in this study include halal lifestyle, Islamic financial literacy, and trust as independent variables, and the decision of MSMEs to use Islamic bank products as the dependent variable. The data analysis technique used in this study is multiple linear regression, which is carried out through a series of data tests to obtain accurate, scientifically accountable research results. Therefore, before hypothesis testing is carried out, the data must meet the test requirements, including validity and reliability tests, as well as classical assumptions such as normality, multicollinearity, and heteroscedasticity. Furthermore, hypothesis testing was conducted to determine the influence of each independent variable on the dependent variable, either partially or simultaneously. The entire data analysis in this study was conducted using SPSS.

D. RESULT AND ANALYSIS

Based on the questionnaire results, this study involved 100 MSME actors in Central Java. The characteristics of the respondents in this study were described based on several aspects, namely gender, age, highest level of education, type of business, length of business, number of employees, and monthly income.

Table 1 Respondent Demographics

Characteristics	Category	Frequency	Presentation
Type Sex	Man	38	38%
	Woman	62	62%
Age	20-30 years	26	26%
	31-40 years	39	39%
	41-50 years	26	26%
	>50 years	9	9%
Level of Education	Elementary School	9	9%
	Junior High School	26	26%
	High School/ Vocational School	39	39%
	Diploma	13	13%
	Bachelor's/ Postgraduate	13	13%
Type Business fields	Goods (Food and Beverages)	60	60%
	Goods (Non- Food and Beverage)	20	20%
	Services	20	20%
Length of Business	< 5	26	26%
	5 -10	39	39%
	11 - 20	26	26%
	> 20	9	9%
Amount Employee	< 6	64	64%
	6 - 19	36	36%
Income per Month	< 1,000,000	21	21%
	1,000,000 - 5,000,000	43	43%
	5,000,000 - 10,000,000	27	27%
	> 10,000,000	21	21%

Source: Primary Data (processed, 2026)

Based on Table 1, it can be seen that from the number of 100 respondents, most of them are women (62%), have a high school/vocational education (39%), have an age range of 31 to 40 years (39%), are engaged in the food and beverage business (60%), have a business period of 5-10 years (39%), the number of employees is less than 6 people (64%), and the average monthly income is between IDR 1,000,000 to IDR 5,000,000 (43%).

Validity and Reliability Test

The questionnaire used in this study comprised 20 statements, 15 for independent variables and 5 for dependent variables. The independent variables include halal lifestyle (X1), 5 statements; financial literacy (X2), 5 statements; and trust (X3), 5 statements, while the dependent variable, namely decision (Y), consists of 5 statements. The validity test was carried out to determine whether each statement in the questionnaire actually measured the variables studied, by checking whether the calculated value was > the r table; the r table was 0.248. A reliability test is then used to assess the data's reliability. Each instrument is measured using Cronbach's alpha. If Cronbach's alpha is > 0.60, the data are considered reliable or trustworthy. Based on Table 2, the entire calculation value is > r table (0.248), so the data is valid. If the entire Cronbach's alpha is > 0.60, the research instrument can be considered reliable.

Table 2 Results of Validity and Reliability Tests

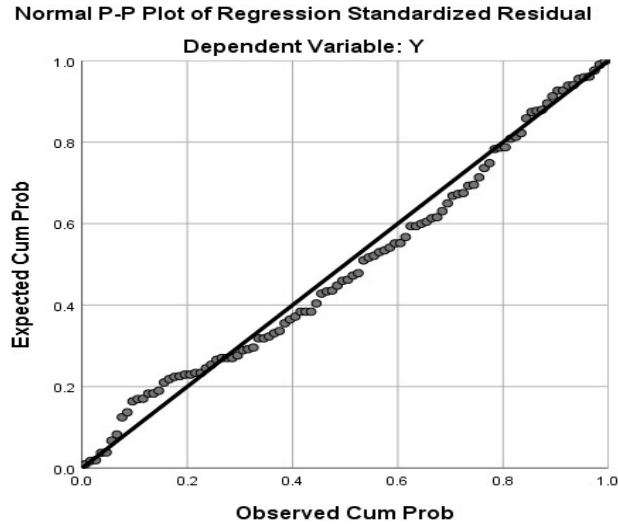
Variables	r count	Cronbach's Alpha
X1.1	0.563	0.854
X1.2	0.668	0.849
X1.3	0.577	0.853
X1.4	0.665	0.850
X1.5	0.618	0.851
X2.1	0.598	0.852
X2.2	0.328	0.864
X2.3	0.348	0.864
X2.4	0.322	0.864
X2.5	0.341	0.863
X3.1	0.314	0.864
X3.2	0.552	0.854
X3.3	0.618	0.851
X3.4	0.642	0.850
X3.5	0.629	0.851
Y1.1	0.580	0.853
Y1.2	0.561	0.854
Y1.3	0.547	0.854
Y1.4	0.560	0.854
Y1.5	0.548	0.854

Source: primary data (processed, 2026)

Normality Test

The normality test is used to determine whether the residuals are normally distributed. The results of the normality test can be displayed using a normal probability plot (P-P Plot). Based on Figure 1, the points are spread around the line and follow a diagonal pattern, indicating that the data are normally distributed.

Figure 1 Normality Test Results



Source: Primary Data (processed, 2026)

Multicollinearity Test

The Multicollinearity test is used to determine whether variables are correlated. Table 3 shows that the variables of halal lifestyle, financial literacy, and trust each have a tolerance value greater than 0.1 and a VIF (Variation Inflation Factor) value less than 10. Thus, it can be stated that this study is free of multicollinearity, or that there is no correlation among the variables used.

Table 3 Multicollinearity Test Results

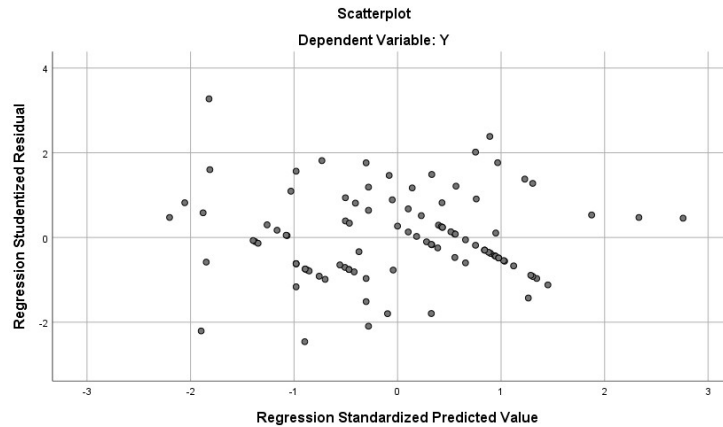
Variables	Tolerance	VIF
Halal Lifestyle	0.932	1,073
Literacy Finance	0.881	1,136
Trust	0.943	1,060

Source: primary data (processed, 2026)

Heteroscedasticity Test

The heteroscedasticity test is used to determine the variance disparity from the residual from one observation to another. Based on Figure 2, the results of the heteroscedasticity test show that the dots do not form a specific pattern and also spread above or below the zero on the y-axis. Thus, it means that heteroscedasticity does not occur or in other words it is called homoscedasticity.

Figure 2 Heteroscedasticity Test Results



Source: primary data (processed, 2026)

Robustness Check

To ensure the robustness of the regression results, additional diagnostic checks were conducted to assess the stability of the regression coefficients and the consistency of significance levels across the model. The results indicate that the estimated coefficients remain stable and statistically significant across the estimation process. This suggests that the regression model used in this study provides consistent estimates in explaining the relationship between halal lifestyle, Islamic financial literacy, trust, and MSMEs' decisions to use Islamic banking products. Therefore, the regression results are robust and reliable for further interpretation.

Hypothesis Testing

Multiple regression analysis aims to measure the extent to which independent variables, halal lifestyle, Islamic financial literacy, and trust affect dependent variables, namely the decision to use Islamic bank products. The following is the result of the equation:

$$Y = 3,342 + 0,447X_1 - 0,540X_2 + 0,680X_3$$

Based on the results of the multiple linear regression test that has been carried out, a constant value of 3.342 was obtained, which shows that even though the variables of halal lifestyle, Islamic financial literacy, and trust are not taken into account, MSME actors still have a basic tendency to use Islamic bank products. The analysis also showed that the halal lifestyle had a positive coefficient of 0.447, indicating that the stronger the implementation of halal practices in business activities, the greater the tendency for respondents to choose Islamic banks as their financial institutions. On the other hand, Islamic financial literacy shows a negative coefficient of -0.540, indicating that greater understanding is not always associated with increased use of Islamic financial products. This can be explained by the fact that MSME actors with higher literacy tend to be more critical and rational in considering various aspects, such as cost efficiency and service quality, leading to more selective decision-making. Meanwhile, the trust variable had the greatest influence with a coefficient of 0.680, which confirms that a sense of security, confidence in compliance

with sharia principles, and bank reputation are the main factors that drive MSMEs' decisions to use Islamic bank products.

Table 4 Multiple Linear Regression Results

Model	Coefficient	Std. Error	Beta	t	Sig
(Constant)	3,342	0.627	-	2,117	0.037
Halal Lifestyle	0.447	0.062	0.460	7,229	0,000
Literacy in Islamic Finance	-0.540	0.067	-0.524	-8,009	0,000
Trust	0.680	0.067	0.644	10,186	0,000
F				56,502	0,000
R Square				0.638	
Adjusted R-Square				0.627	

Source: Processed primary data (2026)

Based on the table above, the F-statistic value of 56.502 was obtained with a significance value of $0.000 < 0.05$ and an Adjusted R-Square value of 0.627. This shows that the variables of halal lifestyle, Islamic financial literacy, and trust simultaneously have a significant effect on MSMEs' decision to use Sharia bank products in Central Java. The Adjusted R-Square of 0.627 indicates that 62.7% of the variation in MSME decisions can be explained by these three variables, while the remaining 37.3% is influenced by other variables outside the research model.

This result indicates that the regression model has relatively strong explanatory power in explaining MSME decisions to use Islamic banking products. An Adjusted R^2 of 0.627 suggests that a halal lifestyle, Islamic financial literacy, and trust are important behavioral determinants of MSME financial decision-making. However, the remaining unexplained variance (37.3%) indicates that other factors such as service quality, perceived benefits, accessibility of Islamic banking services, and Halal lifestyle has a coefficient value of 0.447, t count (7.229) > t table (1.984) and a significance of $0.000 < 0.05$, so H1 is accepted, meaning that halal lifestyle has a positive and significant effect on the decision of MSMEs to use Sharia bank products in Central Java. Islamic financial literacy has a coefficient value of -0.540, t count (-8.009) > t table (1.984), and a significance of $0.000 < 0.05$; thus, H2 is accepted, indicating that Islamic financial literacy has a significant negative effect on MSME decision-making in Central Java. Trust has a coefficient value of 0.680, t count (10.186) > t table (1.984) and a significance of $0.000 < 0.05$, so H3 is accepted, meaning that trust has a positive and significant effect on the decision of MSMEs to use Sharia bank products in Central Java.

The Influence of Halal Lifestyle on the Decision of MSMEs to Use Sharia Banking Products

The results of the study show that halal lifestyle has a positive and significant effect on the decision of MSMEs to use Islamic bank products in Central Java. Halal lifestyle is a lifestyle that reflects individual compliance with sharia values and principles in daily life, including in economic activities and the selection of financial services. A halal lifestyle is not only limited to the consumption of food and clothing, but also includes the selection of financial institutions that are free from the elements

of usury, *gharar*, and *maysir*. The higher the level of halal lifestyle implementation among MSME actors, the greater their tendency to use Islamic bank products. This shows that religious awareness and consistent practice of Islamic principles are important factors in economic decision-making. MSME actors who have a halal lifestyle orientation tend to view Islamic banks as an option that is more in line with their values and beliefs. The results of this study are in line with the research of (2025), which states that a halal lifestyle has a positive and significant effect on interest in using Islamic financial products. In addition, research by (2025) confirms that awareness of halal values in daily life contributes to the preference for Islamic financial products. Thus, it can be concluded that a halal lifestyle is an internal factor that shapes MSMEs' awareness and preferences in their choice of financial institutions.

From a behavioral perspective, the influence of a halal lifestyle on financial decision-making can also be explained through consumer behavior theory. Individuals who internalize religious values in their daily consumption patterns tend to seek financial services that are consistent with their beliefs. For MSME actors, adopting Islamic banking products is not only an economic decision but also a reflection of value congruence between personal beliefs and financial practices. Therefore, a halal lifestyle functions as a behavioral driver that aligns religious commitment with financial choices.

The Influence of Islamic Financial Literacy on MSMEs' Decisions to Use Sharia Banking Products

The study's results show that Islamic financial literacy has a significant negative effect on MSMEs' decision to use Islamic bank products in Central Java. Sharia financial literacy is a person's ability to understand, manage, and make financial decisions based on Sharia principles in order to achieve financial prosperity in accordance with Islamic teachings Salsabila and Mursidin (2025). These findings indicate that high or low levels of Islamic financial literacy do not necessarily increase the likelihood of using Islamic bank products. MSME actors with higher literacy tend to be more rational and critical in evaluating various aspects, such as financing margins, contract transparency, cost efficiency, and service quality. Thus, literacy does not necessarily encourage usage decisions; rather, it increases selective attitudes in choosing financial institutions. Although normatively Islam encourages its people to engage in *halal muamalah* and avoid the practice of usury, in practice, the economic decisions of MSME actors are still influenced by rational and pragmatic considerations. The results of this study are not in line with the research of Handida & Sholeh (2018) and Nasir & Prihatin (2022) which stated that Islamic financial literacy has a positive and significant effect on the decision to use Islamic bank products. However, these findings have similarities with the research of Mufida et al., (2024) which states that literacy does not always have a partial effect on usage decisions. In addition, Ruslia (2023) also stated that literacy does affect the financial behavior of MSMEs, but it is not the dominant factor in determining financing decisions.

The negative relationship between Islamic financial literacy and the decision to use Islamic banking products can be interpreted from the perspective of behavioral finance and MSME business rationality. MSME actors with higher financial literacy tend to evaluate financial products more critically by comparing costs, profit-sharing

schemes, administrative procedures, and service efficiency between Islamic and conventional banks. In practice, MSME actors often prioritize operational efficiency and financial flexibility to sustain their business activities. As a result, even when they understand Islamic financial principles, they may still choose financial institutions that offer more practical or economically advantageous services. This finding reflects the tension between religiosity and business rationality in MSME decision-making. In other words, financial literacy does not automatically translate into the adoption of Islamic banking products but may instead lead to more selective and pragmatic financial choices.

Influence Trust Regarding the Decision of MSMEs to Use Sharia Banking Products

The study finds that trust has a positive and significant effect on MSMEs' decision to use Islamic bank products in Central Java. Trust is the belief of MSME actors in the integrity, transparency, security, and compliance of banks with Sharia principles. The higher the level of trust in Islamic banks, the more likely MSME actors are to use their products. In financial transactions involving uncertainty, trust is an important factor because it fosters a sense of security and confidence in fund management and in the contract's adherence to Islamic principles. In this study, trust is the most dominant variable. This shows that, in the context of MSMEs, confidence in the institution's reputation and credibility matters more than knowledge or lifestyle. The results of this study are in line with Ulya (2020) Research that finds that trust has a positive, significant effect on MSME customers' preferences for sharia financing. Jubaidi et al., (2025) also emphasized that trust is the main driver of Islamic banking service use. In addition, Jalil and Hamzah (2020) found that trust significantly influences the decision to use Sharia bank products. These findings are also supported by Yuningrum and Astuti (2020), who explain that trust plays an important role in strengthening customer confidence and satisfaction in Islamic banking services. Their study highlights that institutional credibility and reliable service quality significantly contribute to the development of long-term customer relationships with Islamic banking institutions.

The strong influence of trust also highlights the importance of institutional credibility in Islamic banking adoption. In financial services, trust reduces perceived risk and uncertainty, especially for MSMEs that rely heavily on external financing to support business operations. Therefore, strengthening transparency, service reliability, and clear communication regarding Sharia compliance becomes essential for Islamic banks. Building long-term trust can significantly increase MSME participation in Islamic financial services.

Practical and Policy Implications

These findings provide several important implications for Islamic banking institutions and policymakers. First, Islamic banks need to strengthen public trust by improving transparency, service quality, and the credibility of sharia compliance mechanisms. Second, financial literacy programs should not only focus on increasing knowledge but also on demonstrating the practical advantages of Islamic banking products for MSME operations. Third, regulators and financial authorities should design policies that enhance MSME access to Islamic financing by simplifying

procedures, offering competitive profit-sharing schemes, and enabling digital banking services. Strengthening these aspects can increase MSME participation in Islamic banking and support the development of Indonesia's Islamic financial ecosystem.

E. CONCLUSION

This study examines the influence of halal lifestyle, Islamic financial literacy, and trust on MSMEs' decisions to use Islamic banking products in Central Java. The results indicate that a halal lifestyle, Islamic financial literacy, and trust simultaneously have a significant effect on MSMEs' decisions. Partially, a halal lifestyle and trust have a positive and significant influence, while Islamic financial literacy shows a significant negative effect. These findings suggest that MSME decisions are not only influenced by religious values and halal-oriented lifestyles, but are also strongly shaped by trust in the integrity, transparency, and credibility of Islamic banking institutions. Among the variables examined, trust emerges as the most dominant factor influencing MSMEs' decisions to use Islamic banking products.

Theoretically, this study contributes to the literature of Islamic economics and Islamic banking behavior by highlighting the important role of trust and lifestyle values in shaping MSME financial decisions. In addition, the finding that Islamic financial literacy has a negative effect provides an interesting insight into the behavioral dynamics of MSMEs. Higher financial literacy may encourage MSME actors to be more critical and selective in evaluating financial products, leading to more rational decision-making when choosing banking services.

From a practical perspective, the findings imply that Islamic banks need to strengthen strategies that build and maintain customer trust, particularly through improving transparency, service quality, and product reliability. Regulators and policymakers should also design more targeted Islamic financial literacy programs that not only increase knowledge but also strengthen confidence in Islamic financial institutions. Furthermore, expanding access to Islamic banking services and improving digital banking infrastructure can help increase MSME participation in Islamic banking products.

Despite these contributions, this study has several limitations. The sample size is limited to 100 MSME respondents in Central Java, which may not fully represent the broader MSME population in Indonesia. In addition, this study only examines three explanatory variables. Future research is therefore recommended to involve larger, more diverse samples and to include additional variables, such as service quality, accessibility, religiosity, promotion, and risk perception, to provide a more comprehensive understanding of MSMEs' decisions to use Islamic banking products.

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