Trust as a Mediator in MSMEs' Adoption of Sharia Microfinance

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ABSTRACT

In Indonesia, micro, small, and medium enterprises (MSMEs) continue to face limited access to Sharia microfinance, despite their high-profile contribution to national GDP and employment. The study examines the determinants of MSMEs' intention to adopt Sharia microfinance in the city of Malang, assuming that trust is a mediating variable, defined as the perceived integrity, reliability, and confidentiality of Sharia microfinance institutions. Using a causal explanatory survey of 248 MSME owners and managers, the data were analyzed with partial least squares structural equation modeling (PLS-SEM) and bootstrapped mediation tests. The results have shown that the notion of Islamic financial literacy has a strong impact on the intention to adopt and trust. Sharia attitude and technology readiness, though not directly affecting intention, had significant boosts in trust, which in turn increased adoption intention. The mediation analysis showed that trust was a good mediator of the influence of Sharia attitude and technology readiness, but the indirect influence of literacy through trust was insignificant. The implications of these insights are the need to strengthen useful Islamic financial literacy and institutional trust to enable more MSMEs to participate in Sharia microfinance.

Keywords: *Behavioral intention; Islamic financial literacy; PLS-SEM; Sharia microfinance; Technology Readiness; Trust*

IQTISHADIA
Vol. 19 (7) 2026
PP. 111 - 131
P-ISSN: 1979 - 0724
E-ISSN: 2502 - 3993
DOI : 10.21043/iqtishadia.v19i1.39141

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are key components of Indonesian economic development and are active at national and regional levels. They contribute around 61 percent of a country's gross domestic product and absorb almost 97 percent of the labor force; hence, they are a pillar of economic resiliency and inclusive growth. A similar trend is observed in Malang City, where MSME development has grown alongside local government empowerment and entrepreneurial support programs. Although they make a significant contribution to the economy, MSMEs are frequently hindered by structural barriers in securing financing, especially for schemes that adhere to Islamic tenets.

Sharia microfinance has emerged as an alternative financial instrument, which is aimed at fostering inclusive and equitable financing of MSMEs. In contrast to traditional financing, Sharia microfinance focuses on contracts such as Mudarabah and Musyarakah, in which risk sharing, fairness, and ethical economic relations are prioritized. However, empirical data show that the share of Sharia-based financing available to MSMEs is relatively low compared with conventional financial schemes. Similar constraints appear among SMEs in Cameroon, Morocco, and Oman, where awareness, attitudes, cost perceptions, and Sharia-compliance motives shape the uptake of Islamic financing (Haruna et al., 2024; Miah et al., 2024; Rhoudri & Ougoujil, 2024). This gap between the economic importance of MSMEs and the comparatively low utilization of Sharia microfinance indicates behavioral, informational, and institutional obstacles that influence MSMEs' financing choices.

The first aspect that has commonly been cited as a determinant factor of financial decision-making is Islamic financial literacy. Islamic financial literacy describes how individuals understand the principles, contracts, and the working mechanisms of Sharia financial products and, in the process, can compare the appropriateness and risk of financing options. An increase in literacy levels can reduce information asymmetry and enhance MSME actors' ability to evaluate financial products, thereby increasing their intention to use Sharia financial services (Majid and Nugraha, 2022; Hasan et al., 2025). Such literacy also fosters Islamic financial inclusion and MSME performance (Masrizal et al., 2025), although its effect on intention may operate only indirectly (Albaity & Rahman, 2019). In addition to cognitive ability, evaluative aspects, such as attitudes towards Sharia principles, can also shape attitudes towards Sharia-compliant financial services. A favorable attitude towards justice, openness, and adherence to Islamic ethical principles can motivate MSMEs to consider Sharia financing as a viable option (Trisanty et al., 2024; Majid, 2024). Yet the attitude–intention link remains inconsistent (Hamadou et al., 2025; Ibrahim et al., 2024).

In addition to cognitive and evaluative aspects, technological capability has become increasingly relevant to the digital financial ecosystem. The rapid digitization of financial services has expanded the range of mobile banking, electronic payment gateways, and web financing, including mobile financing services offered by Islamic financial institutions. In that case, the Technology Readiness concept, the tendency of an individual to embrace and use new technologies, is essential in achieving access to digital financial services (Ibrahim et al., 2024; Parasuraman, 2000). The more technologically ready MSME actors are, the more likely they are to adopt financial innovations, as digital technology will lower transaction costs and enhance operational efficiency. Innovativeness, a core readiness dimension, drives acceptance of Islamic FinTech (Shaikh et al., 2020), and trust mediates readiness to adopt Shariah-compliant FinTech (Kurniawati et al., 2024).

The adoption of financial services, especially Sharia financial services, is driven not only by literacy levels, attitudes, and technological prowess. There is a perception of risk, information asymmetry, and uncertainty inherent in financial transactions;

therefore, trust remains a crucial mechanism that influences the relationship between financial institutions and users. Trust denotes belief in the integrity, reliability, and transparency of financial institutions, as well as their adherence to Sharia principles (Morgan & Hunt, 1994; Hasyim et al., 2022). Trust becomes of paramount importance in the context of Islamic finance, as one must not only trust the technical reliability of the financial services but also trust the authenticity of Sharia compliance. Notably, Sharia issues did not predict Islamic microfinance customers' satisfaction (Rokhman & Abduh, 2019), implying that Sharia labels alone do not secure confidence.

Prior studies on Islamic financial services adoption have mostly focused on Islamic banking or Islamic fintech and have usually treated trust as a direct predictor of adoption intention. Within Islamic microfinance, studies have addressed satisfaction and loyalty (Rokhman & Abduh, 2019) or TPB-based acceptance (Effendi et al., 2021; Novianto et al., 2025; Umar et al., 2022), but have not incorporated trust or technology readiness. Thus, little research has been conducted on how cognitive variables like Islamic financial literacy, evaluative variables like Sharia attitudes, and technological capacity can act together to influence the intention to adopt in the context of Sharia microfinance and among MSMEs. Also, the mediating role of trust between these factors and adoption intention in the urban MSMEs ecosystem is not well covered by empirical evidence.

The current study will fill this gap by examining the determinants of MSMEs' intention to adopt Sharia microfinance by incorporating Islamic financial literacy, Sharia attitude, and Technology Readiness into a behavioral adoption model, and by treating trust as a mediating factor. Using empirical evidence of MSME actors in Malang City and a Partial Least Squares Structural Equation Modeling (PLS-SEM) approach, this study aims to determine the effect of cognitive capability and value orientation on technological readiness in the context of institutional trust to influence financing decisions. This study is relevant to the literature in several ways. First, it extends behavioral adoption models in Islamic finance by treating trust not only as a direct predictor but also as an institutional process that mediates the relationship between cognitive, evaluative, and technological variables and adoption intention. Second, it provides empirical data on the MSME segment, which is a much-needed yet understudied part of the Islamic microfinance ecosystem. Third, this study combines behavioral finance, technology adoption, and Islamic economic principles, providing a more holistic view of the adoption of Sharia microfinance in emerging economies.

LITERATURE REVIEW

Behavioral Theory of Adoption: Theory of Planned Behavior (TPB)

Models of behavioral intention often shed light on individuals' or organizations' decisions to adopt financial services. The best of them is the Theory of Planned Behavior (TPB) (1991) by Ajzen, which argues that three main factors influence behavioral intention: attitude toward the behavior, subjective norms, and perceived behavioral control. Behavioral intention is considered the nearest precursor of actual behavior. TPB is widely used in the financial-service adoption field to explain how individuals consider benefits, risks, and the compatibility of values before deciding to engage with financial products. In the case of micro, small, and medium-sized enterprises (MSMEs), financing decisions are business strategies that combine the evaluation of economic attributes with attitudes towards institutional reliability and operational feasibility. This can therefore mean that the MSMEs' interaction with Sharia microfinance is a behavioral intention that is developed through cognitive understanding, evaluative perception, and the perceived ability to utilize financial services.

Many studies have extended TPB by adding new constructs specific to certain conditions, including financial literacy, technological capability, and trust (Ali et al., 2021; Shah et al., 2023). These extensions enable behavioral models to better reflect the complexity of financial decision-making in modern digital financial ecosystems. In the context of Sharia microfinance, behavioral intention indicates the willingness and intended behavior of MSME actors to use Sharia-compliant financing tools. Recent findings indicate that TPB variables are not always predictive of adoption of Islamic financial services. Ibrahim et al. (2024) found that attitude, subjective norms, and perceived behavioral control did not significantly influence Indonesian MSMEs' intention to use Islamic fintech, whereas Islamic religiosity and Technology Readiness did, with the latter showing the strongest effect. Conversely, these TPB variables strongly predicted takaful adoption (Raza et al., 2019), Islamic microfinance acceptance among micro-entrepreneurs (Umar et al., 2022), and Islamic financing adoption among Indonesian MSMEs (Novianto et al., 2025). Accordingly, this study extends TPB by incorporating Islamic financial literacy, attitude toward Sharia microfinance, Technology Readiness, and trust.

Islamic Financial Literacy and Adoption Intentions

Islamic financial literacy refers to individuals' ability to understand the principles, contracts, and operational mechanisms of Islamic financial products. This includes knowledge of Sharia principles such as the prohibition of riba, risk-sharing arrangements, and the contractual structures commonly used in Islamic finance, including mudarabah and musyarakah (Dinc et al., 2021). Financial literacy plays an important role in reducing information asymmetry between financial institutions and users. MSME actors who possess higher levels of financial literacy are more capable of evaluating financing alternatives, understanding contractual obligations, and assessing whether to adopt financial services (Majid & Nugraha, 2022)

Within the Islamic finance context, literacy also contributes to strengthening trust in Sharia-compliant financial institutions, as individuals who understand the principles and operational mechanisms of Islamic finance are less likely to perceive uncertainty regarding Sharia compliance and contractual fairness. Empirical studies show that Islamic finance significantly influences both financial decision-making and the intention to adopt Islamic financial services (Hasan et al., 2025), and fosters Islamic financial inclusion among MSMEs (Masrizal et al., 2025). Therefore, higher levels of Islamic financial literacy are expected to increase MSMEs' intention to adopt Sharia microfinance.

Islamic financial literacy, however, could serve as both a direct antecedent and a condition that reinforces other mechanisms of adoption. Mahmoud et al. (2025) found that it directly increased Islamic fintech adoption and moderated the effects of perceived usefulness and trust among Muslim entrepreneurs. Its effect may also be indirect: literacy increased Islamic banking intention only through attitude (Albaity & Rahman, 2019), and Sharia product knowledge was not significant for Islamic rural bank use (Effendi et al., 2021). In this way, literacy can make the adoption of contracts less uncertain and more confident and make the user more critical of opaque contracts or of a lack of Sharia compliance. This study therefore suggests that Islamic financial literacy has direct and indirect effects on the intention to adopt, with the latter mediated by trust.

Attitude Toward Sharia Microfinance and Adoption Intention

Attitude toward behavior represents an individual's positive or negative evaluation of performing a particular action. Within the TPB framework, a more favorable attitude toward a behavior increases the likelihood that an individual will develop an intention to perform that behavior (Ajzen, 1991). In this study, "Sharia attitude" is more specifically conceptualized as attitude toward Sharia microfinance.

In Islamic finance, attitude toward Sharia reflects individuals' perceptions regarding the ethical values, fairness, transparency, and compliance of financial institutions with Islamic principles. MSME actors who perceive Sharia financial institutions as having Islamic ethical values may develop stronger preferences for Sharia-based financial services (Trisanty et al., 2024). However, positive attitudes alone may not always translate directly into adoption decisions. In many cases, individuals require assurance that financial institutions genuinely implement Sharia principles in practice. If skepticism about Sharia claims exists, attitudes may indirectly influence adoption through other psychological mechanisms, such as trust. Thus, Sharia attitude may contribute to both the formation of trust and the development of adoption intention.

The results on the impact of attitude remain mixed. Trisanty and Sugiarto (2025) found that attitude contributed to consumers' intention to adopt Sharia banking in Indonesia, whereas Ibrahim et al. (2024) found no significant effect on the use of Islamic fintech among Indonesian MSMEs. Attitude was likewise decisive for SMEs in Cameroon and Morocco (Haruna et al., 2024; Rhoudri & Ougoujil, 2024) and mediated intention toward Islamic banking products (Hamadou et al., 2025). This inconsistency suggests an attitude–intention gap, whereby support for Islamic-finance values may not translate into intention to use a particular service. Trust may therefore explain how favorable attitudes toward Sharia microfinance become adoption intention.

Technology Readiness and Adoption of Financial Services

The rapid development of digital financial services has radically transformed the financial ecosystem, including Islamic finance. The Technology Readiness concept, as suggested by Parasuraman (2000), describes a person's tendency to accept and use new technologies. Technology Readiness summarizes psychological inclinations toward technology, including optimism, innovativeness, discomfort, and insecurity. People with higher Technology Readiness are more willing to accept technological innovations because they view technology as beneficial and manageable. Thus, Technology Readiness needs to be differentiated from technological capability. Technological capability refers to technical skills and resources, whereas Technology Readiness represents a psychological propensity to embrace and use new technology.

For MSMEs, technological readiness has become central, as financial transactions, financing applications, and payment systems are increasingly integrated into online platforms. Actors in the MSMEs sector that are more technologically ready will be able to implement digital financial services more efficiently, thus making financial products more accessible. SMEs increasingly weigh technology-enabled services when choosing banks (Miah et al., 2024), and innovativeness drives acceptance of Islamic FinTech (Shaikh et al., 2020). Ibrahim et al. (2024) found that Technology Readiness significantly increased Indonesian MSMEs' intention to use Islamic fintech and had the strongest direct effect in their model. It also found that the relationship between perceived usefulness and intention strengthened, indicating that psychological readiness helps MSMEs recognize and leverage the benefits of Islamic financial technology.

However, in the financial industry, technological preparedness might not be sufficient to spur adoption. Financial services do have perceived risks regarding security, confidentiality, and institutional credibility. Technological capability therefore often interacts with psychological factors such as trust before it affects adoption intention. In Indonesian Islamic banks, organizational trust mediated managers' readiness to adopt Shariah-compliant FinTech (Kurniawati et al., 2024). Findings from mobile banking suggest that security, risk, and trust should be embedded in technology adoption models (Apau et al., 2025). Therefore,

technological readiness does not always guarantee adoption if the provider is not considered secure, reliable, and consistent with Sharia. This study therefore suggests that Technology Readiness has direct and indirect effects on adoption intention, with the latter mediated by trust.

Trust in Sharia Financial Institutions

Trust is one of the key pillars of financial relationships because financial dealings are inherently uncertain and risky. In the relationship marketing theory developed by Morgan and Hunt (1994), in their Commitment Trust Theory, trust represents belief in the reliability of the partners in the interaction and their integrity. Regarding financial services, the term "trust" refers to users' confidence that financial institutions are transparent and reliable and will operate in accordance with the agreed contractual terms. In the context of Islamic finance, trust encompasses the belief that institutions fully adhere to Sharia principles and execute contracts in a just and ethical manner.

The concept of trust takes on greater significance in Sharia microfinance. A cause-and-effect, partnership-based contract involves mutual risk, and the financial institutions and clients of the MSMEs must cooperate. Introducing financial institutions that are perceived as honest and open will decrease the perceived risk of financing among MSME actors, thus increasing the likelihood of uptake. Empirical research has consistently shown that trust has a significant impact on financial services adoption and customer intention in both traditional and Islamic financial environments (Ali et al., 2021; Apau et al., 2025). Mahmoud et al. (2025) specifically found that trust directly increased Islamic fintech adoption among Muslim entrepreneurs. In line with this, it is expected that trust will positively influence MSMEs' intention to adopt Sharia microfinance.

Previous studies have positioned trust as a direct predictor, moderator, or outcome of security and institutional quality. Apau et al. (2025) integrated security, risk, and trust into UTAUT2, while Mahmoud et al. (2025) examined Islamic financial literacy as a moderator of the trust–adoption relationship. These differing approaches indicate that trust connects financial literacy, attitude, and Technology Readiness with Sharia microfinance remains insufficiently examined.

Trust as an Intermediary Process

In addition to being a direct determinant of adoption intention, trust may also mediate between cognitive and evaluative variables and behavioral intention. Psychological assurance is usually needed in financial decision-making, as a person must first translate knowledge, attitudes, or technological capability into specific behavioral intentions. Trust can be strengthened through Islamic financial literacy to reduce information asymmetry and improve knowledge of financial contracts. Similarly, positive sentiments toward Sharia values can enhance people's confidence in Islamic financial institutions, as they view these institutions as supporters of their moral and religious beliefs. The level of technology readiness can also support trust; when people are confident, they can use digital financial systems safely and efficiently. In this sense, trust plays a psychological role in facilitating the translation of cognitive evaluations and technological capability into the intention to adopt.

These relationships should not be assumed to be automatic. Islamic financial literacy can raise critical awareness and skepticism if institutional practices conflict with Sharia rules. Positive attitudes also do not guarantee user adoption if they don't trust the provider, and Technology Readiness doesn't guarantee trust in security, institutional reliability, and Sharia compliance (Apau et al., 2025). Thus, the contrasting results of Ibrahim et al. (2024) and Trisanty and Sugiarto (2025) suggest exploring trust as both a mediator and a direct predictor. In line with this, positioning trust as a mediator provides a more detailed view of how the various aspects of

disparate behavior interact to influence MSMEs' intention to embrace Sharia microfinance.

Research Framework

Based on the intersection of the Theory of Planned Behavior, Technology Readiness Theory, and Commitment-Trust Theory, this paper proposes a model of behavioral adoption in which Islamic financial literacy, attitude toward Sharia microfinance, and Technology Readiness influence the predictive intent of MSMEs' adoption, both directly and indirectly through trust. Islamic financial literacy is expected to increase intention to adopt by enhancing financial knowledge and decision-making ability. Attitude toward Sharia microfinance refers to the degree of congruence with Islamic financial principles and may affect trust and intention to adopt it. Technology Readiness refers to the psychological propensity to embrace and use digital financial services. Trust is conceptualized as both a direct predictor of adoption intention and a mediating process through which cognitive, evaluative, and technological factors affect adoption decisions.

The proposed model differs from previous models in three respects. First, it builds on the original TPB by adding Islamic financial literacy and Technology Readiness as context-specific antecedents, reflecting evidence that the original TPB factors are not always sufficient to explain MSMEs' acceptance of Islamic fintech (Ibrahim et al., 2024). Second, unlike TAM- and UTAUT-based studies that emphasize technological acceptance, this study treats Sharia microfinance as a financial relationship involving technological, contractual, institutional, and religious uncertainty. Third, this study considers trust as a parallel mediator between Islamic financial literacy, attitude toward Sharia microfinance, and Technology Readiness and adoption intention, whereas previous studies place it as a mediator, moderator, or consequence of security and risk (Apau et al., 2025; Mahmoud et al., 2025). Thus, the model explains not only whether these antecedents affect adoption but also how they are translated into intention through institutional and Sharia-based trust. Therefore, the following hypotheses are proposed.

Research Hypothesis

Based on the theoretical arguments and empirical evidence discussed above, the following hypotheses are proposed:

H1: Islamic financial literacy positively influences adoption intention.
H2: Islamic financial literacy positively influences trust.
H3: Attitude toward Sharia microfinance positively influences adoption intention.
H4: Attitude toward Sharia microfinance positively influences trust.
H5: Technology Readiness positively influences adoption intention.
H6:Technology Readiness positively influences trust.
H7: Trust positively influences adoption intention.
H8: Trust mediates the relationship between Islamic financial literacy and adoption intention.
H9: Trust mediates the relationship between attitude toward Sharia microfinance and adoption intention.
H10: Trust mediates the relationship between Technology Readiness and adoption intention.

RESEARCH METHOD

The current research uses a quantitative, causal-explanatory approach to examine the interrelations among variables that determine MSMEs' intention to embrace Sharia microfinance. The design is highly appropriate for dissecting the causal relationships among latent constructs and testing the mediating role of trust

in a behavioral adoption model. The empirical context of the study is the adoption of Sharia microfinance by micro and small enterprises in Malang City, Indonesia, whereby the MSMEs do business in an environment that is characterized by accelerated digitalization of financial services.

This study focused on business owners or managers as the unit of analysis because they were directly involved in financing decisions. Purposive sampling was employed, using two eligibility criteria: respondents had to be active owners or managers of MSMEs in Malang City, and their businesses had to be operational during the data collection period. Screening questions were used to verify these criteria before respondents completed the questionnaire. However, there is a possibility of selection bias as purposive sampling may include more accessible and digitally engaged MSMEs. Therefore, the findings should be generalized with caution beyond MSMEs with characteristics similar to those represented in the sample.

The sample size was determined based on Hair et al. (2021) recommendations for PLS-SEM, which state that the minimum number of measurements should be at least 10 times the number of constructs. Having seventeen indicators used, the lower limit was 170 respondents. The total number of valid responses was 248, exceeding the minimum and thereby increasing the statistical power, parameter stability, and reliability of the structural model analysis. The data collection was done using a structured questionnaire that was completed by respondents independently. Items were measured on a five-point Likert scale ranging from strongly disagree to strongly agree (Revilla et al., 2014). The measurement scale comprised five latent constructs: Islamic financial literacy, attitude to Sharia, technology readiness, trust, and intention to adopt Sharia microfinance. Measurement items were made in accordance with previous empirical research to maintain conceptual validity and contextual relevance.

Because all constructs were measured using the same self-administered questionnaire, procedural measures were applied to reduce potential common method bias. Respondents were assured of anonymity, informed that there were no right or wrong answers, and provided with clearly worded, neutral items. Common method bias was also assessed using the full-collinearity approach. The resulting VIF values ranged from 1.761 to 2.851, below the conservative threshold of 3.3, indicating that common method bias was unlikely to substantially affect the structural estimates (Kock, 2015).

The method of analysis employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS. The analysis comprised measurement-model and structural-model assessments. Indicator reliability, internal consistency, and convergent validity were evaluated using outer loadings, composite reliability (CR), and average variance extracted (AVE) (Hair et al., 2021). Indicators with outer loadings between 0.40 and 0.70 were considered for deletion only if their deletion increased CR or AVE and did not reduce the construct's conceptual coverage, whereas indicators below 0.40 were deleted due to low indicator reliability (Hair et al., 2021). The structural model was evaluated using collinearity statistics, path coefficients, the coefficient of determination (R^2), and predictive relevance (Q^2). Bootstrap resampling was used to assess statistical significance using the criteria of $t > 1.96$ and $p < 0.05$ (Hair et al., 2021).

The mediating role of trust was examined by testing the specific indirect effects of Islamic financial literacy, attitude toward Sharia microfinance, and Technology Readiness on adoption intention through trust. Bootstrapping was used to determine the significance of the indirect effects without assuming normality of their sampling distribution (Preacher & Hayes, 2008; Hair et al., 2021). The research process involved ethical considerations to ensure respondents' privacy and limit the use of data to academic activities (Mulyani et al., 2025). The operationalization of constructs

made sure that the theoretical model, measurement indicators, and PLS-SEM analytical processes were congruent. Table 1 includes the detailed operationalization of variables and measurement items.

Table 1. Operational Variables

Variable	Indicator	Measurement (Question Item)
Islamic Financial Literacy (Dinc et al., 2021)	Islamic Financial Behavior (IFL1)	I try to use financial products that comply with Sharia principles.
	Islamic Financial Knowledge (IFL2)	I understand the basic principles of Islamic finance (e.g., prohibition of riba).
	Islamic Financial Attitude (IFL3)	I believe Islamic financial products are better for my financial activities.
	Islamic Financial Awareness (IFL4)	I am aware of the importance of choosing Sharia-compliant financial services.
Attitude (Trisanty et al., 2024)	Belief in Sharia claims (ATT1)	I believe the Sharia claims made by Islamic financial institutions are truthful.
	Perception of Sharia claims (ATT2)	I think Sharia claims by Islamic financial institutions are realistic.
	Clarity and transparency of Sharia claims (ATT3)	Sharia claims are communicated clearly and transparently.
	Trust in Sharia implementation (ATT4)	I trust that Islamic financial institutions implement Sharia properly.
Technology Readiness (Ibrahim et al., 2024)	Technology improves quality of life (TR1)	Technology improves my quality of life.
	Preference for new technology (TR2)	I like to use the latest financial technology.
	Concern about technology risks (TR3)	I worry about the negative impacts of financial technology.
Trust (Apau et al., 2025)	Trustworthiness (T1)	I trust this financial service provider.
	Reliability (T2)	This financial service is reliable.
	Confidentiality (T3)	This service protects my personal and financial data.
Intention (Apau et al., 2025; Boubker et al., 2021)	Intention to use (INT1)	I intend to use Islamic financial services.
	Strong desire (INT2)	I strongly want to use Islamic financial services.
	Usage plan (INT3)	I plan to use Islamic financial services soon.

(Source: data processed by researchers, 2026)

Results

The demographic features of the 248 MSME respondents in Malang City reveal that most of the businesses are in the early to mid-life of business development. The gender distribution is quite even, with 52 percent female and 48 percent male, as shown in Table 2, indicating that both sexes are actively engaged in MSME activities. Regarding their educational levels, most of the respondents have attended Senior High School (50 0 percent) with the others assigning the percentages of 39 0 percent, diploma, postgraduate and junior high school. This dispersion indicates that most

actors in the MSME sector have a medium level of education, which may affect their capacity to learn about financial products and digital technologies.

In terms of business characteristics, the culinary sector (42%), trade (26%), and services (13%) dominate the respondents, whereas agriculture/plantation, handicrafts, and fisheries have low proportions. The length of years in which businesses were operating was 1-3 years (58%), followed by 4-6 years (30%), implying that most enterprises are just at the start of their development. Regarding the scale of business, most report monthly revenues of less than Rp5million (43%) and Rp5 - 10million (37%), and it should be noted that most of the respondents are within the category of micro-enterprises, with only 20% reported to be making more than Rp10million monthly.

In addition, the knowledge of Islamic financial institutions differs among the interviewees. The most familiar institutions are Sharia banks (60%), Sharia microfinance cooperatives (32%), fintech platforms (5%), and others (3%). Moreover, all respondents are smartphone users, and using the internet for banking and business transactions is quite common. This means the level of technological readiness is relatively high, which could facilitate the development of interest in adopting Sharia microfinance services among MSME actors.

Table 2. Characteristics of MSMEs Respondents

Variable/ Indicator	Category	Frequency (n=248)	Percentage
Gender	Male	120	48
	Female	128	52
Education Level	Junior High School	5	2
	Senior High School	125	50
	Diploma (D1/D3)	12	5
	Bachelor (S1)	97	39
	Postgraduate (S2/S3)	9	4
Business Sector	Services	33	13
	Handicrafts	12	5
	Culinary	103	42
	Trade	65	26
	Fisheries	11	4
	Agriculture/Plantation	24	10
Business Duration	1-3 years	143	58
	4-6 years	74	30
	7-10 years	18	7
	>10 years	13	5
Monthly business revenue	<Rp5 million	106	43
	Rp5-10 million	92	37
	Rp10 million and above	50	20
Most Recognized Sharia Financial Institutions	Sharia Bank	148	60
	Sharia Microfinance Cooperative	80	32
	Fintech	11	5
	Others	9	3
Frequency of internet use for banking/business transactions	Once a day	149	60

	Once a week	66	27
	Once a month	33	13

(Source: data processed by researchers, 2026)

Measurement Model Assessment

In assessing the measurement model, an indicator purification procedure was conducted to ensure optimal construct validity and reliability. In accordance with PLS-SEM guidelines, indicators with relatively low outer loadings were meticulously assessed to determine whether their removal would enhance composite reliability and average variance extracted (Hair et al., 2021). IFL3, with an outer loading of 0.660, was removed because its exclusion improved the CR and AVE of Islamic financial literacy without compromising its conceptual coverage. ATT2 and TR3 were removed because their outer loadings were below 0.40, indicating insufficient indicator reliability. Following these deletions, all constructs met the required reliability and convergent validity criteria. After removing these items, all retained constructs achieved Composite Reliability (CR) values above 0.70 and AVE values above 0.50, confirming satisfactory convergent validity and internal consistency for further structural model analysis. The detailed outer loading values and AVE results for all retained indicators are presented in Table 3.

Table 3 Results of Validity and Reliability Test

Variable	Code	Loading	CR	AVE
Islamic Financial Literacy	IFL 1	0.775	0.873	0.697
	IFL 2	0.894		
	IFL 4	0.832		
Attitude	ATT 1	0.799	0.825	0.612
	ATT 3	0.775		
	ATT 4	0.772		
Technology Readiness	TR 1	0.863	0.842	0.728
	TR 2	0.843		
Trust	TRUST 1	0.836	0.863	0.678
	TRUST 2	0.796		
	TRUST 3	0.838		
Intention	INT 1	0.858	0.856	0.665
	INT 2	0.810		
	INT 3	0.776		

(Source: data processed by researchers, 2026)

Next, discriminant validity ensures that each construct is distinct from other constructs in Table 4. The evaluation of discriminant validity can be conducted using the Fornell-Larcker criterion, which involves comparing the square root of AVE with the correlations between constructs, where the diagonal values are expected to be greater than the correlations.

Table 4. Results of Discriminant Validity Test (Fornell-Larcker)

	ATT	IFL	INT	TR	TRUST
ATT	**0.782**				
IFL	0.705	**0.835**			
INT	0.615	0.689	**0.815**		
TR	0.550	0.643	0.549	0.853	
TRUST	0.695	0.740	0.654	0.664	**0.823**

(Source: data processed by researchers, 2026)

The results of the discriminant validity test based on the Fornell-Larcker criteria show that the square root of the Average Variance Extracted (AVE) value for each construct (diagonal values) is greater than the correlation values with other constructs. The diagonal value for attitude toward Sharia is 0.782, which is higher than its correlation with adoption intention (0.615), Islamic financial literacy (0.705), and Technology Readiness (0.550). and trust (0.695). The adoption intention construct also has a diagonal value of 0.815, which is greater than its correlation with other constructs. The same pattern is observed in Islamic financial literacy (0.835), Technology Readiness (0.853), and trust (0.823). Thus, all constructs meet the criteria for discriminant validity, indicating that each latent variable has adequate conceptual discrimination and that there is no overlap between constructs in this research model.

The assessment of the structural model using the R-Square value indicates that trust possesses an R^2 of 0.649 (adjusted R^2 = 0.645), signifying that Islamic financial literacy, attitude toward Sharia, and Technology Readiness account for 64.9% of the variance in trust. The adoption intention exhibits an R^2 of 0.539 (adjusted R^2 = 0.529), signifying that Islamic financial literacy, attitude toward Sharia, Technology Readiness, and trust account for 53.9% of the variance in adoption intention, with the residual variance attributable to external variables not included in the model. Additionally, the Q-Square (Q^2) score indicates the model's predictive relevance. The R^2 scores for the endogenous constructs yielded Q^2 values of 0.632 for trust and 0.497 for adoption intention. The results exceed 0 but are less than 1. Consequently, it can be inferred that this study's model possesses substantial predictive power, with the exogenous factors serving as major predictors of the endogenous variables.

In addition, the prediction error values are also reflected in the indicators of Root Mean Square Error (RMSE) and Mean Absolute Error (MAE) in Table 5: Results of R^2 and Q^2 Predict Values. For the trust construct, RMSE and MAE were 0.620 and 0.440, respectively. Meanwhile, for the adoption intention construct, RMSE and MAE were 0.719 and 0.499, respectively. These values indicate that the model has an acceptable prediction error in explaining the endogenous construct.

Table 5. Results of R^2 and Q^2 Predict Values

Dependent Variable	Q^2 Predict	RMSE	MAE	R^2	R^2Adjusted
Trust	0.632	0.620	0.440	0.649	0.645
Intention	0.497	0.719	0.499	0.539	0.529

(Source: data processed by researchers, 2026)

The impact size (f^2) results in Table 6 illustrate the proportionate contribution of each predictor variable. The interpretation of the effect sizes follows the guideline proposed by Cohen, (1988), which classifies f^2 values of 0.02, 0.15, and 0.35 as small, medium, and large, respectively. Regarding the adoption intention, Islamic financial literacy exhibits an f^2 of 0.097, whereas attitude toward Sharia (0.025), Technology Readiness (0.007), and trust (0.037) contribute less. In terms of trust, Islamic financial literacy (0.152) shows a medium effect size, whereas attitude toward Sharia (0.118) and Technology Readiness (0.119) both indicate small effect sizes of similar magnitude. These results suggest that Islamic financial literacy provides the strongest relative contribution to trust, while attitude and Technology Readiness contribute to a lesser extent. Although several predictors are statistically significant, their practical effect sizes vary, with Islamic financial literacy having the most meaningful impact on trust among the variables.

Table 6. Results of Effect Size (f^2)

Construct Relationship	f^2 Value	Interpretation
Islamic Financial Literacy → Intention	0.097	Small
Islamic Financial Literacy → Trust	0.152	Medium
Attitude → Intention	0.025	Small
Attitude → Trust	0.118	Small
Technology Readiness → Intention	0.007	Very small
Technology Readiness → Trust	0.119	Small
Trust → Intention	0.037	Small

(Source: data processed by researchers, 2026)

Structural Model Assessment

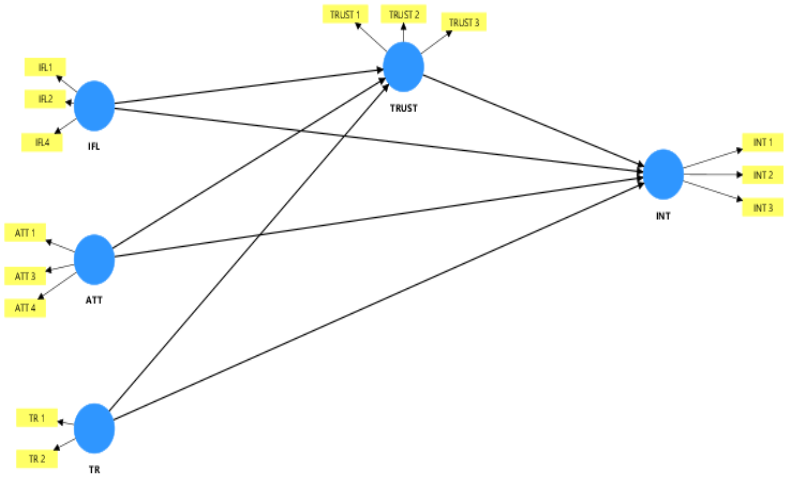

Figure 1. Path Diagram of the Structural Model

The structural model results (Figure 1) indicate that Islamic financial literacy significantly influences adoption intention (β = 0.355, p < 0.001) and significantly increases trust in Sharia microfinance institutions (β = 0.361, p < 0.001). Trust itself also positively affects the adoption intention (β = 0.222, p = 0.016), affirming its role as a key factor in the model (Table 7 Hypothesis Test Result - Direct Effect). On the contrary, attitudes toward Sharia principles and Technology Readiness do not have a significant direct impact on adoption intention (β = 0.165, p = 0.055; β = 0.082, p = 0.246). However, both significantly strengthen trust (Attitude → Trust) (β = 0.291, p < 0.001) and Technology Readiness (β = 0.271, p < 0.001), indicating that their influence on adoption is more indirect.

Advanced mediation analysis shows that trust significantly mediates the influence of attitude toward Sharia and Technology Readiness on adoption intention (β = 0.065, p = 0.028; β = 0.060, p = 0.036), while the indirect effect of Islamic financial literacy through trust is small and statistically insignificant (β = 0.080, p = 0.051). Overall, Islamic financial literacy more strongly influences the intention to adopt through the direct mechanism, while attitudes toward Sharia and Technology Readiness play a role by shaping trust (see Table 8, Hypothesis Test Results – Indirect Influence).

Table 7. Hypothesis Test Result (Direct Effect)

Hypothesis	Relationship	β	t-value	p-value	Decision
H1	IFL → INT	0.355	3.873	<0.001	Supported
H2	IFL → T	0.361	4.553	<0.001	Supported
H3	ATT → INT	0.165	1.918	0.055	Not supported
H4	ATT → T	0.291	4.358	<0.001	Supported
H5	TR → INT	0.082	1.160	0.246	Not supported
H6	TR → T	0.271	3.845	<0.001	Supported
H7	TRUST → INT	0.222	2.407	0.016	Supported

(Source: data processed by researchers, 2026)

Table 8. Hypothesis Test Result (Indirect Effect)

Hypothesis	Relationship	β	t-value	p-value	Decision
H8	IFL → TRUST → INT	0.080	1.952	0.051	Not supported
H9	ATT → TRUST → INT	0.065	2.199	0.028	Supported
H10	TR → TRUST → INT	0.060	2.097	0.036	Supported

(Source: data processed by researchers, 2026)

Overall, the hypothesis-testing results show that seven hypotheses are supported, whereas three are not. Islamic financial literacy emerges as the strongest direct predictor of adoption intention, while attitude toward Sharia and technology readiness influence adoption intention indirectly through trust. These findings provide the empirical basis for the subsequent discussion of how cognitive, attitudinal, technological, and institutional factors shape MSMEs' intention to adopt Sharia-compliant microfinance services

DISCUSSION

The research results make an empirical contribution to our understanding of the behavioral antecedents that inform the intention of micro-, small, and medium enterprises (MSMEs) to adopt Sharia-compliant microfinance services in Malang City. The fact is that such intention is primarily conditioned by competition in cognitive ability, institutional trust, and technological predisposition. Importantly, the statistics reveal that trust is the mediating variable connecting these antecedent variables to the final intention to adopt. The observation supports the argument that decision-making regarding financial matters, especially Sharia-compliant financing, is based not only on economic rationality but also on institutional credibility and perceived fairness in transactional operations.

Islamic Financial Literacy and Intention of Adoption

The empirical findings reveal that Islamic financial literacy has a strong impact on MSMEs' intention to adopt Sharia-based microfinance. The discovery highlights the need to understand the contractual mechanisms, benefits, and risks involved in Sharia-based financing arrangements. The greater the knowledge of Islamic financial principles and products, the more able the entrepreneur is to assess financing options and make a suitable decision regarding the financial services offered to them. This finding is theoretically consistent with the Theory of Planned Behavior, particularly the perceived behavioral control construct. The stronger the financial literacy, the greater people's confidence in their ability to fully use financial services, thereby increasing behavioral intention. This ability is particularly relevant in the MSME setting, where business owners are often forced to work in environments marked by scant financial data and limited resources. The finding is consistent with the existing

literature, particularly Mahmoud et al. (2025) and Majid and Nugraha (2022), and supports the argument that Islamic financial literacy is a key driver of financial behavior and adoption of Islamic financial services. In the Theory of Planned Behavior, literacy helps increase perceived behavioral control, which is MSMEs' confidence in assessing Sharia contracts and financing options.

Islamic Financial Literacy and Trust

Beyond its direct impact on adoption intention, Islamic financial literacy also goes a long way toward enhancing trust in Sharia microfinance institutions. This shows that trust in Islamic financial institutions is based not only on emotional confidence but also on cognitive knowledge. By understanding the working principles of Sharia financing contracts and the mechanisms of profit-sharing, uncertainty among MSME actors will decrease. Less uncertainty increases confidence in the equity and accountability of financial institutions, thereby strengthening trust. This connection highlights the importance of literacy as a tool that reduces information asymmetry between financial institutions and consumers. The results are consistent with the literature that states that knowledge of Islamic financial principles increases users' trust in the integrity and reliability of Sharia-compliant financial services (Usman et al., 2022). Financial literacy, therefore, not only enhances MSME actors' ability to evaluate financial products but also fosters institutional trust. From the perspective of Commitment–Trust Theory, financial knowledge enables MSMEs to assess whether institutions meet contractual and Sharia obligations. Trust is therefore formed through informed evaluation rather than emotional confidence alone.

Attitude Toward Sharia Microfinance and Adoption Intention

The relationship between attitude toward Sharia microfinance and intention to adopt was not significant at the conventional 5% level. However, its p-value of 0.055 approached significance, indicating a weak or inconclusive relationship rather than the complete absence of an attitudinal effect. MSMEs may uphold Sharia principles while prioritizing affordability, contractual clarity, service accessibility, and institutional reliability. Thus, normative approval of Sharia values does not necessarily result in a financing decision. This finding is consistent with Ibrahim et al. (2024), who found that attitude did not significantly predict Islamic fintech adoption among Indonesian MSMEs, but contrasts with Trisanty and Sugiarto (2025), who identified attitude as a determinant of Sharia banking adoption. The result suggests an attitude – intention gap, meaning that an attitude of favor must be accompanied by institutional assurance to become behavioral intention, as per the Theory of Planned Behavior.

Attitude Toward Sharia Microfinance and Trust.

Even though Sharia attitude does not directly affect adoption intention, the data demonstrate that it considerably promotes trust in Sharia financial institutions. This implies that a Sharia attitude can serve as a basis for value orientation that fosters trust. When subjected to this, MSME actors will be more willing to build confidence in Sharia financial institutions they perceive as conforming to Islamic ethical standards, including fairness, transparency, and justice. Such congruence in values may strengthen trust, although it may not immediately translate into intention to adopt. The outcome is consistent with previous studies confirming that trust occupies an intermediate position in Islamic financial relationships, as services provided by Islamic institutions are assessed not by economic performance but by perceived adherence to religious doctrines (Ali et al., 2021). In line with this, perspectives on Sharia can be defined as a morally oriented disposition that can be used to establish institutional trust. This finding relates to the Theory of Planned Behavior and Commitment Trust Theory: favorable attitudes lead to value congruence, and trust

indicates confidence in the institutions' ability to enact those values. Thus, attitude has a stronger relationship with adoption than with a direct relationship.

Technology Readiness and Adoption Intention

The results show that technology readiness has no significant direct impact on the adoption intention. This result can be attributed to the respondents' technological situation. According to the descriptive data, every participant is a smartphone user who frequently visits the internet to conduct business and financial operations. In this situation, access to technology is a fundamental operational requirement rather than a differentiating factor influencing adoption decisions.

Technological preparedness serves mainly as an enabling factor, not a predictor of behavioral intention, when technology penetration is already high. That is, MSME actors already have the technological potential to avail themselves of financial services, and therefore technology readiness is not a factor that can determine whether such actors take up Sharia microfinance. This result is consistent with research on technology adoption, which posits that in the widespread presence of digital infrastructure, psychological factors, including trust and perceived risk, can shape adoption decisions more profoundly than technological capability (Jadil et al., 2021). This result contrasts with Ibrahim et al. (2024), who found Technology Readiness to be a strong predictor of Islamic fintech adoption. The difference may reflect a saturation effect, as all respondents were already using smartphones and digital services. Technological readiness, therefore, is used as an enabling condition rather than as a sufficient motivation for adopting Sharia microfinance, according to Technology Readiness Theory.

Technology Readiness and Trust

Even though technology readiness does not directly affect adoption intention, it can play a significant role in boosting confidence in Sharia microfinance institutions. This implies that technological capability leads to users' confidence in digital financial systems. The more comfortable MSME actors are with digital technology, the more likely they are to view financial service platforms as secure, reliable, and efficient. Such a perception reduces fear of e-financial operations and increases confidence in the institutions that provide these services. The finding is similar to other studies suggesting that technological competence has the ability to strengthen belief in digital financial systems, especially where financial services are becoming more and more digitalized (Rahman et al., 2023). Reinforcing institutional trust, therefore, provides technological preparedness to adopt financial services indirectly. Technology Readiness Theory suggests that reduced discomfort and insecurity increase confidence in digital systems, and Commitment–Trust Theory demonstrates how this confidence, in turn, contributes to perceived institutional reliability. Trust is thus an indirect factor influencing adoption through Technology Readiness.

Trust and Adoption Intention

Statistics reaffirm the importance of trust in determining MSMEs' intention to adopt Sharia microfinance, underscoring its role in financial decision-making. Financial transactions are characterized by uncertainty about contract enforcement, institutional reliability, and service transparency. The perceived risk of financing that is linked to MSME actors is reduced when they trust financial institutions, making adoption decisions more likely. Trust becomes especially important in the context of Islamic finance, since financial market products must be aligned with both economic and religious values. As a result, MSME actors are compelled to have confidence that financial institutions truly apply Sharia principles in their financial methods. The finding can be explained by the Commitment-Trust Theory, which posits that trust is a core element of sustainable economic relations (Morgan & Hunt, 1994). Empirical

studies on Islamic banking and fintech also demonstrate that trust is a key motivator for using financial services (Ali et al., 2021; Apau et al., 2025). Consistent with Mahmoud et al. (2025), trust reduces both operational uncertainty regarding institutional reliability and religious uncertainty regarding substantive Sharia compliance. This dual function explains its central role in the adoption of Sharia microfinance.

The Mediating Role of Trust

The mediation analysis provides a nuanced understanding of the effect of the antecedent variables on the intention to adopt. The findings indicate that trust plays an important role in mediating the relationship between Sharia attitude and adoption intention and the other between technology readiness and adoption intention. Such results indicate that value orientation and technological capability must be assured at the institutional level prior to being converted into behavioral intent. Favorable perceptions of Sharia values provide moral consistency with Islamic financial institutions, but the decision to adopt is made only when MSMEs believe that the institutions have fulfilled their promise to apply Sharia principles in practice. Similarly, technological capability facilitates access to financial services but primarily affects adoption intention when a user has confidence in the financial system's reliability.

Trust did not significantly mediate the relationship between Islamic financial literacy and the intention to adopt. However, because the indirect effect approached statistical significance ($p = 0.051$), this finding should be interpreted with caution. The results of this direct effect are strong, meaning that MSMEs with financial literacy can assess contracts, financing implications, and Sharia without relying primarily on trust as an intermediary. Thus, trust complements literacy but does not transmit its principal effect on adoption. In contrast, attitude and Technology Readiness require institutional assurance before they are converted into adoption intention.

Theoretical, Practical, and Policy Implications and Future Research

Theoretically, the findings are consolidated and differentiated across the three theories: the Theory of Planned Behavior, the Technology Readiness Theory, and the Commitment–Trust Theory. Islamic financial literacy directly supports intention to adopt, whereas attitude and technology readiness are associated with intention primarily through trust. The absence of significant trust mediation in literacy further demonstrates that trust is a selective, rather than universal, mediator. In practice, Sharia microfinance institutions should build trust through transparent contracts, clear illustrations of financing costs, accessible complaint mechanisms, evidence of Sharia supervision, and secure digital services. Regulators need to standardize product disclosures, improve consumer and data protection, enhance monitoring of substantive Sharia compliance, and combine Islamic financial literacy with digital training for MSMEs. Future research should focus on longitudinal data analysis of intention and actual adoption, probability sampling and multi-regional sampling, and differences between operational and Sharia-based trust. Further explanation of the near-significant relationship between attitude and literacy may be observed in other variables such as perceived risk, financing affordability, service quality, and perceived Sharia authenticity.

CONCLUSION

The current study examines factors explaining MSMEs' intention to adopt Sharia microfinance by integrating Islamic financial literacy, attitude toward Sharia microfinance, Technology Readiness, and trust. The results indicate that there are two different paths to adoption. Islamic financial literacy directly enables informed financing decisions, whereas attitude and Technology Readiness become

consequential mainly when they generate institutional trust. Trust, therefore, complements rather than uniformly mediates the antecedents of adoption. The main contribution of this study is to demonstrate that the roles of cognitive capability and institutional assurance differ in the adoption of Sharia microfinance. MSMEs require sufficient knowledge to assess financing independently, while favorable values and technological preparedness alone do not guarantee adoption without confidence in the provider's integrity and Sharia implementation. This separation contributes to the behavioral adoption literature in the less-studied MSME microfinance environment. Therefore, the development of Sharia microfinance should be integrated with the strengthening of users' capabilities, the strengthening of credible institutional practices, and effective regulatory supervision. The results are context-specific, as they are derived from MSMEs in Malang City and are based on behavioral intention rather than actual adoption. Future studies should therefore validate the model across broader settings and examine whether the identified pathways persist in actual financing decisions.

LIMITATION

The research has several limitations that should be considered when interpreting the findings. Because the study focuses on MSMEs in Malang City, its findings may not be generalizable to other regional contexts. Moreover, the use of purposive sampling may overrepresent MSMEs that are more accessible and digitally engaged, thereby limiting population-level generalization. The cross-sectional design provides only a snapshot of adoption intention at a single time point and therefore cannot account for changes in trust, financial capability, and adoption behavior over time. As the study measures behavioral intention, it cannot say whether this intention will lead to actual use of financing. The use of self-reported data collected through a single questionnaire may also create common method bias, although the full-collinearity VIF results indicate that it is unlikely to substantially affect the estimates. Future research should address these limitations by using probability, multi-regional, longitudinal, and behavioral samples, and by comparing Islamic banks with BMT and Islamic fintech providers. Incorporating separate measures of operational and Sharia-based trust may further clarify how institutional confidence develops across different Sharia microfinance settings.

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