



# SME support for halal industry and sharia economy in Indonesia: SWOT analysis

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## Abstract

**Purpose** – This study aims to identify and analyze the strengths, weaknesses, opportunities, and threats as well as strategies related to micro, small, and medium enterprises (SME) support in the development of the halal industry and the Sharia economy in Indonesia.

**Methodology** – This study used a mixed-method approach in the form of a sequential exploratory design with strengths, weaknesses, opportunities, and threats (SWOT) analysis.

**Findings** – This study highlights the vast number of SMEs and their workforce as significant strengths. However, the lack of digital technology integration among SMEs is a weakness. Opportunities include a large Muslim population and availability of institutions willing to provide loans. However, threats emerge from low awareness among Indonesian Muslims regarding halal products. The proposed strategies include enhancing financing facilities, government subsidy programs, awareness campaigns, ecosystem strengthening, and socialization efforts.

**Implications** – The findings offer practical insights for supporting SMEs, including improving access to financing and increasing awareness among Indonesian Muslims. Socially, the study suggests potential benefits such as fostering economic growth, creating employment opportunities, and promoting the production and consumption of halal products. Overall, this study provides valuable guidance for policymakers and stakeholders interested in enhancing SME support in Indonesia's halal industry and Islamic economy, with implications for economic and social development.

**Originality** – The study's original contribution lies in its comprehensive analysis of SMEs in Indonesia within the context of the halal industry and Islamic economy.

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## Introduction

Micro, small, and medium enterprises (SMEs) play an important role in a country's economic structure (Halim, 2020; Kadani, 2020; Windusancono, 2021). In Indonesia, attention to SMEs is a top priority in order to strengthen economic foundations, create jobs, and support the distribution of goods and services (Badan Kebijakan Fiskal, 2022; Najoan et al., 2022; Syuhada et al., 2023). In recent years, an increase in SMEs has also been observed to be significant. According to data from the ministry of cooperatives and SMEs, the number of SMEs reached 65.47 million in 2019 and contributed 60.5% of the country's Gross Domestic Product (GDP). SMEs have also succeeded in absorbing up to 96.9% of the workforce in total, creating 99.9% of jobs and contributing up to

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60.0% of the total national investment (Kemenkopukm, 2023). With these achievements, SMEs have become a strong pillar of the Indonesian economy.

In facing crisis challenges such as the Covid-19 pandemic, some SMEs were able to survive and even recover (Sumarni, 2020), although quite a few end up going bankrupt or out of business (Noor & Fadhaillah, 2022). The success of SMEs in the midst of the crisis was largely supported by the use of domestic commodities in their production processes, which helped avoid the negative impact of rupiah depreciation on production costs that depend on imported goods (Noor & Fadhaillah, 2022). In addition, the unique and distinctive products produced by SMEs provide added value and a strong market (Bastomi & Sholehuddin, 2022; Heryani et al., 2020; Kasim et al., 2021). Even though it has achieved many achievements and made significant contributions, the SME sector is also faced with a number of problems that generally have not been resolved, such as constraints in terms of capital, supply of raw materials, skills, and the use of digital technology (Ardiansyah et al., 2023; Damuri et al., 2020; Nursanty et al., 2023).

The importance of financial inclusion for SMEs is still a major issue because the majority of SMEs still depend on their own internal capital (71%), with access to the banking sector being only around 18% (Ardiansyah et al., 2023; Damuri et al., 2020; Nursanty et al., 2023). Financial inclusion itself, according to The World Bank (2023), is a condition in which individuals and businesses have access to useful and affordable financial products and services according to their needs, such as transactions, payments, savings, credit, and insurance, which are delivered in a responsible and sustainable manner. According to Badan Kebijakan Fiskal (2022), in the Indonesian context, the aim of financial inclusion is to overcome the problem of poverty by supporting and advancing local businesses and community self-help initiatives to achieve harmony with current developments. One important focus is to ensure that SME players can easily access capital funds to increase their economic activities. Therefore, it is hoped that the growth of Sharia financial institutions, whether in formal forms such as banking or informal forms such as *Bait al-Mal wa al-Tamwil* (BMT), will provide positive impetus for the development of SMEs. However, in the era of digitalization, the level of SME involvement in the digital sector in 2021 is still not significant—only around 25.6% or around 16.4 million operators (Kominfo, 2021).

Recognition of halal certification is also a key factor supporting the development of SMEs (Salam, 2022). The halal status of SME products can be a competitive advantage for Indonesia in the global market, especially because the halal status of products is a major concern in the international market (Muhamad, 2020; Rahmayati, 2018). However, there are different views on the importance of halal certification. Some business actors feel that halal certification is not very important because customer awareness of the halal label is still low, and this certification may not have a significant impact on sales (Bappenas, 2018).

Another obstacle is the lack of adequate human resources (HR) to support the halal industry (Zulfikri 2023). Most Islamic economics education graduates working in the Sharia industry, including SMEs, are driven by financial needs rather than passion. The lack of characteristics that can support the Sharia industry needs to be considered in education, and the existence of mentors or consultants who can help develop SME is important (Bappenas, 2018).

Considering the potential challenges of SMEs in developing the halal industry and the Sharia economy in Indonesia, it is necessary to design an effective strategy to increase the independence and competitiveness of SMEs. Therefore, an in-depth analysis of internal and external factors through the identification of strengths, weaknesses, opportunities, and threats to SMEs is necessary. To develop strategic policies and create a supportive ecosystem, it is necessary to further research how SMEs can contribute to the halal industry and Sharia economy in Indonesia.

Several studies and research projects have examined the roles, relationships, and development of SMEs and the halal industry in Indonesia from various perspectives, such as Karyani et al. (2021), Maisaroh et al. (2022), Viariani et al. (2022), and Febriyani and Elsa (2022). However, research examining strategic factors related to the halal industry and the Sharia economy, especially on internal aspects (strengths and weaknesses) and external aspects (opportunities and threats), has not been conducted. Therefore, based on the background description above, this study

was conducted with the aim of identifying and analyzing the strengths, weaknesses, opportunities, and threats, as well as strategies to support SMEs in the development of the halal industry and Sharia economy in Indonesia.

The remainder of this paper is organized as follows. Section 1 discusses the background and the empirical phenomena related to this study. Section 2 presents a discussion of the literature, previous studies, and several theoretical debates related to this topic. Section 3 describes the research methodology used in this study. Section 4 presents the results, findings, and discussion. Section 4 summarizes the results and key points of the study, limitations of policy recommendations, and weaknesses of the research for the development of future studies.

## Literature Review

Previous studies have explored various aspects of SME involvement in halal and sharia industries. For instance, [Karyani et al. \(2021\)](#) conducted a study to describe the views of various interested parties on how halal products from SMEs can continue to develop, especially in the era of digitalization, and how the public can better appreciate halal products. The method used in this study involves experts through online seminars (webinars), in-depth interviews, and mentoring with SME owners to explore digital transformation practices in business. The results of this study conclude that digital transformation is an urgent need for large manufacturers such as Wardah, Kanzania Bakery, Mega Motor, and Kostbalai 41. This is necessary to ensure that the industrial sector remains sustainable, especially when facing future challenges.

[Aziz et al. \(2021\)](#) analyzed the halal supply chain in small and medium enterprises (UKM) in Bandung. Quantitative research using an associative-descriptive approach was conducted in this study. The sampling technique was conducted randomly, with a total sample of 94 food SMEs in Bandung. The results show that the factors that influence the success of the Halal Supply Chain have a positive and significant impact on the implementation of the Halal Supply Chain in food SMEs in Bandung. Approximately 63.8% of the contribution was explained by these factors, and the remaining 36.2% was influenced by other factors that have not been studied.

[Maisaroh et al. \(2022\)](#) analyzed the influence of market orientation and product innovation on the business performance of SMEs in Lampung Province, with the halal supply chain as a moderating variable. Using a quantitative approach and a survey method, data were collected through questionnaires distributed to local SME actors. The results show that market orientation and product innovation positively and significantly affect the business performance of SMEs and that the halal supply chain strengthens this relationship. The implementation of the halal supply chain as a moderating variable enhances the effectiveness of market orientation and product innovation in improving the business performance.

[Viariani et al. \(2022\)](#) analyzed the factors that influence the resilience of SMEs during the COVID-19 pandemic, with the hope that the results of this research can be used to ensure the survival of SMEs, especially in the midst of a pandemic. The data for this research were obtained through a series of interviews with 100 SME actors in the food and beverage sector of Banda Aceh City. Subsequently, SMEs are grouped into two groups, namely those that show a level of resilience and those that do not show resilience, for further analysis. The analytical methods used in this study included descriptive and logistic regression analysis. The research results show that there are factors that have a positive and significant influence on the resilience of SMEs during the COVID-19 pandemic, namely, entrepreneurial characteristics and support from the government.

[Febriyani and Elsa \(2022\)](#) examine the reasons for strengthening SMEs in the development of the halal industry in Indonesia. This study used a qualitative descriptive approach, relying on secondary data obtained from previous research results and articles relevant to the research theme. The results show that, to advance Indonesia's position as a key player in the global halal industrial market, Sharia-based SMEs must provide solid support. SMEs that want to compete on a global scale must prioritize strengthening their halal certification, in accordance with Law No. 33 of 2014. In addition, the need for capital support from Sharia banking institutions and developing the quality of human resources among business actors is very important so that they can always innovate and adapt to ongoing changes in the business world and technological developments.

Several studies have highlighted the importance of digital transformation and innovation in the sustainability in the halal industry. [Karyani et al. \(2021\)](#) and [Aziz et al. \(2021\)](#) show that digital transformation and halal supply chain management are important for the success of SMEs. Other studies, such as [Maisaroh et al. \(2022\)](#) and [Febriyani and Elsa \(2022\)](#), underline the importance of market orientation and product innovation, as well as support from Islamic financial institutions, in strengthening the position of SMEs in the global market. This study confirms that government support is essential. This was confirmed by [Viariani et al. \(2022\)](#), who found that entrepreneurial characteristics and government support have a significant positive influence on the resilience of SMEs during the Covid-19 pandemic. On the other hand, [Febriyani and Elsa \(2022\)](#) use a qualitative approach to identify the urgent needs of SMEs to obtain stronger support from the Islamic banking sector and human resource development, which is different from the quantitative approach used in other research.

Further research is needed to explore the long-term impact of digital transformation on SMEs in the halal industry, including longitudinal studies that can track changes over time. In addition, there is still a lack of research on how various external factors such as policy changes and global market fluctuations influence SMEs' halal supply chains. The study of SME strategies to support the halal industry is also important for further exploration, including its relation to recent developments, including the introduction of government policies that support the growth of SMEs in the halal sector, such as easier halal certification and financial incentives, and the emergence of e-commerce platforms, which specifically for halal products, opens up new market opportunities for SMEs.

## Methods

This research adopts a mixed approach, or a combination of qualitative and quantitative methods (mixed method), in the form of an exploratory sequential design ([Saifuddin, 2013](#)), using the SWOT analysis technique. The qualitative approach method in this research was used to draw deductive and inductive conclusions, as well as to analyze the dynamic interactions between observed phenomena using scientific logic. In this context, a qualitative approach is used to identify strengths, weaknesses, opportunities, and threats through SWOT analysis ([Ab Talib and Wahab 2021](#)). On the other hand, quantitative methods in this research were used to calculate weights, determine matrix positions, and create strategic steps based on SWOT analysis.

The data collection method used in this research employed observation and documentation methods, as explained by [Sugiono \(2011\)](#). Observations were carried out by directly observing the development of SMEs in Indonesia through the relevant official government and private websites. On the other hand, the documentation approach involves collecting and analyzing documents, literature, and other sources of information relevant to the research object, especially the Indonesian Sharia Economic Master Plan document issued by [Bappenas \(2018\)](#). The collected data were analyzed to provide a descriptive explanation. in various forms such as text, images, and symbols related to the research object, in line with the methodology described by [John \(2013\)](#).

In this study, data analysis was conducted in three main stages: data reduction, data categorization, and data verification. The data reduction process involves selecting and simplifying the data relevant to the research focus. The reduced data were then categorized based on existing themes or research topics. The final step was data verification, which aimed to produce conclusions based on the researcher's interpretation of the collected data. The triangulation method is used in verification efforts, which involves comparing data from various sources in line with the principles stated by [Djamba \(2002\)](#).

To improve and deepen the analysis, this study applies the SWOT analysis method. SWOT analysis was used to identify the structured factors to formulate strategies. This approach emphasizes exploiting strengths and opportunities while simultaneously reducing weaknesses and facing threats, in accordance with the concepts proposed by [Palazzo \(2024\)](#) and [Rangkuti \(2015\)](#). SWOT analysis helps organizations face changes and emerging challenges in maintaining stability and increasing productivity, as found by [Ifediora and Nzekwe \(2014\)](#). The SWOT analysis method is used to compare external factors, such as opportunities and threats, with internal factors, such

as strengths and weaknesses, to produce strategic choices (Bianchi et al., 2023; Febriana et al., 2022; Harisudin et al., 2022; Jain et al., 2022; Puyt et al., 2020; Syamsuri and Moka, 2021).

SWOT analysis has proven to be an effective tool in strategic analysis, especially in maximizing the role of strengths and opportunities, while minimizing weaknesses and reducing the impact of threats, as explained by Rangkuti (2015). In this study, the data analysis method involves the use of internal factor analysis summaries (IFAS) and external factor analysis summaries (EFAS), where the final value is calculated through a weighting and assessment process. The next step is to determine the position of the digital economy in the internal-external SWOT matrix (IE SWOT matrix) to formulate various alternative strategy options (Febriana et al., 2022; Harisudin et al., 2022; Jain et al., 2022; Meza et al., 2022; Osita et al., 2014; Puyt et al., 2020).

		Internal Factors		
		High (3,0-4,0)	Medium (2,0-2,99)	Low (1,0-1,99)
External Factors	High (3,0-4,0)	I Growth: Concentration through Vertical Integration	II Growth: Concentration through Horizontal Integration	III Retrenchment: Turn-round Strategy
	Medium (2,0-2,99)	IV Stability	V Growth: Concentration through Horizontal or Stability Profit Strategy	VI Retrenchment: Divesment Strategy
	Low (1,0-1,99)	VII Growth Concentric Diversification	VIII Growth: Conglomerate Diversification	IX Liquidation

**Figure 1.** IE SWOT Matrix

Source: Authors' own work

In the process of analyzing these data, weights were assigned based on the level of importance, significance, or urgency, using a scale from 1 to 5 (with 1 indicating not important and 5 indicating very important) (see Figure 1). The weights for the strengths and weaknesses were then added, which became the basis for calculating the relative weights for each indicator in the strength and weakness categories. This was performed to ensure that the total weight reached 1 or an equivalent of 100%. In the same process, the weights and relative weights were calculated for each indicator contained in the opportunity and threat categories.

The next stage was to determine the ratings. This rating evaluates possible short-term events, such as the following year. The strength variable is given a value from 1 to 5, where the higher the rating value, the better the performance of the indicator compared to the main competitors. However, the weakness variable is assigned a value from 1 to 2, and a lower rating value indicates that the indicator has more weaknesses than the main competitor, as explained previously. The rating assessment for the weakness and threat variables was the opposite of that for the strength and opportunity variables. The total score was calculated by multiplying the weight value by rating. The total score for each variable becomes the coordinate point used in the internal-external SWOT matrix (IE SWOT matrix), which is then used to select the appropriate strategy.

## Results and Discussion

### Strengths and weaknesses

The development of SMEs in Indonesia shows several positive factors that can strengthen the growth of the halal industrial sector and the economy of Sharia. However, on the opposite side, there are several negative aspects that have the potential to hamper the development of the halal industry and Sharia economy in Indonesia. Table 1 details the strengths and weaknesses of the study.

**Table 1.** Identification of Internal Factors

Internal Factors	
Strengths	Weaknesses
1. In Indonesia, a significant portion of the economy, approximately 64.2 million SME units, contributes around 61.07% to the overall GDP.	1. Digital technology adoption remains limited among a considerable portion of Indonesian SMEs.
2. Nearly all business entities in Indonesia, around 99.99%, consist of micro- and small-scale enterprises.	2. The predominant funding preference among SMEs still centers around traditional banking.
3. The emergence of digital platforms has enabled numerous pioneers in the halal industry to kickstart their ventures.	3. Access to mentorship and support for business development remains challenging for certain SMEs.
4. Various online platforms facilitate connections between SME entrepreneurs and potential financiers.	4. The export capacity of SMEs in Indonesia is yet to reach significant levels.
5. Many SMEs opt for transactions within the Sharia financial sector, thus aiding in the expansion of its market share.	5. A major obstacle in SME development stems from a lack of individuals with entrepreneurial skills, often exacerbated by the necessity to prioritize financial stability over passion or interest in their work.

Source: Data processing result

As shown in [Table 1](#), the strength of Indonesian SMEs from an internal perspective lies in the large number of SME, the large proportion of SMEs in GDP, and the large number of workers. In addition, the presence of several SMEs pioneering the halal industry, which started in the digital economy; the presence of e-commerce websites that can bring together SMEs and entities capable of financing; and the presence of several SMEs that transact through the Sharia financial industry are the strengths of Indonesian SMEs, especially in supporting the development of the halal industry and Sharia economy. This is in line with research conducted by [Jamaluddin and Abdullah \(2019\)](#), which explains how Sharia-compliant financial institutions contribute to the empowerment of Small and Medium Enterprises (SMEs).

Although they have strengths from an internal perspective, SMEs in Indonesia, in relation to the development of the halal industry and Sharia economy, also have several weaknesses. As shown in [Table 1](#), the weaknesses of SMEs in Indonesia lie in the large number of SMEs in Indonesia that are not yet based on digital technology, the mindset of the majority of SME players who are still focused on banking, and the relative difficulty in finding mentors for mentoring and business development. In addition, the low export capability of SMEs and the lack of good human resources, where the majority do not work because of passion but financial needs, are weaknesses of SMEs that must be overcome. This is underscored in research by [Adomako and Ahsan \(2022\)](#), who emphasize the importance of passion in entrepreneurial efforts and highlight the significant roles of financial resource availability and flexibility in enhancing SME performance.

### Opportunities and threats

Apart from their strengths and weaknesses, from an external perspective, SMEs also face various potential possibilities for the growth of the halal industry and Sharia economy in Indonesia as well as various challenges that need to be overcome. [Table 2](#) provides the details of these opportunities and barriers.

In the external context, as seen in [Table 2](#), there are significant opportunities for Indonesian SMEs to become potential marketing targets. These opportunities include a large Muslim population, the availability of several banking institutions willing to provide loans to SMEs, and regulations and laws that support the development of SMEs, particularly in the halal sector. In addition, the presence of Sharia Financial Institutions (LKS), especially in the form of BMT with murabahah, musyarakah, and mudharabah schemes, in an effort to advance the real sector, including SMEs, has the potential to be exploited, as stated by [Kamaruddin and Soemitra \(2022\)](#) and [Maulana \(2022\)](#).

However, on the other hand, SMEs also face certain challenges and threats. Some of these include low awareness and understanding of Indonesian Muslims about halal products, the high costs of obtaining halal certification for all SMEs, and limited funds allocated to the SME sector. Other challenges include inadequate business infrastructure, unavailability of integrated digital platforms (Anatan & Nur, 2023; Salam et al., 2018), and minimal access to research and development (R&D) results that use technology to increase SME productivity (Efendi et al., 2020). In facing these threats and challenges, strategic action is needed to overcome these obstacles, while still taking advantage of existing opportunities to strengthen the contribution of SMEs to the national economy.

**Table 2.** Identification of External Factors

External Factors	
Opportunities	Threats
1. The substantial Muslim demographic presents a promising market segment for marketing initiatives.	1. Awareness and understanding of halal products among Indonesian Muslims remain relatively low.
2. Countries within the Middle East region are potential targets for the export of halal SME goods.	2. The cost associated with obtaining halal certification poses a significant financial burden for many SMEs.
3. Several banking institutions extend credit facilities to SMEs.	3. The outreach efforts for the halal certificate subsidy program are lacking.
4. Government regulations pertaining to SME funding distribution are deemed satisfactory.	4. The allocated funds for SMEs are still modest.
5. Legislation concerning Halal Product Certification outlines necessary requirements, including those applicable to SMEs, aiming to bolster halal industry compliance.	5. Business infrastructure inadequacies persist, encompassing sluggish permit processes, skills shortages, tax incentives scarcity, and limited access to innovation facilities.
6. The recent enactment of the Job Creation Law seeks to foster the growth of halal SMEs.	6. A centralized digital platform to collate information on halal SMEs, facilitating financial connections, is absent.
7. The Ministry of Cooperatives and SMEs, alongside certain provincial governments, offer subsidies for halal certification to SMEs.	7. Technology-driven research and development outcomes to enhance SME products encounter accessibility constraints.
8. Local Financial Institutions (LFIs), particularly those adopting murabahah, musyarakah, and mudharabah models, show promise in bolstering the real sector, including SMEs.	

Source: Data processing result

### Positioning strategy

After identifying internal and external factors in the environmental analysis of SMEs in Indonesia, including strengths, weaknesses, opportunities, and threats to the development of the halal industry and the Sharia economy, the next step is to conduct a quantitative analysis to assign weights and ratings to these strategic factors. The goal is to determine positions and strategic choices that can be made. The details of the weighting and assessment processes for these strategic factors are presented in Tables 3 and 4.

**Table 3.** Strengths and Weaknesses Analysis

No.	Internal Factor Analysis Summary (IFAS)	Weight	Rating	Score
	Strengths (S)			
1	In Indonesia, a significant portion of the economy, approximately 64.2 million SME units, contributes around 61.07% to the overall GDP.	0,09	5	0,44
2	Nearly all business entities in Indonesia, around 99.99%, consist of micro- and small-scale enterprises.	0,11	5	0,56
3	The emergence of digital platforms has enabled numerous pioneers in the	0,11	4	0,44

No.	Internal Factor Analysis Summary (IFAS)	Weight	Rating	Score
	halal industry to kickstart their ventures.			
4	Various online platforms facilitate connections between SME entrepreneurs and potential financiers.	0,09	4	0,36
5	5. Many SMEs opt for transactions within the Sharia financial sector, thus aiding in the expansion of its market share.	0,09	4	0,36
Total of Score (S)		0,49		2,16
Weaknesses (W)				
1	Digital technology adoption remains limited among a considerable portion of Indonesian SMEs.	0,11	1	0,11
2	The predominant funding preference among SMEs still centers around traditional banking.	0,11	2	0,22
3	Access to mentorship and support for business development remains challenging for certain SMEs.	0,09	2	0,18
4	The export capacity of SMEs in Indonesia is yet to reach significant levels.	0,09	2	0,18
5	A major obstacle in SME development stems from a lack of individuals with entrepreneurial skills, often exacerbated by the necessity to prioritize financial stability over passion or interest in their work.	0,11	1	0,11
Total of Score (W)		0,51		0,80
Total of Score (S + W)				2,96

Source: Data processing result

**Table 4.** Opportunities and Threats Analysis

No.	External Factor Analysis Summary (EFAS)	Weight	Rating	Score
Opportunities (O)				
1	substantial Muslim demographic presents a promising market segment for marketing initiatives.	0,07	5	0,37
2	Countries within the Middle East region are potential targets for the export of halal SME goods.	0,06	4	0,24
3	Several banking institutions extend credit facilities to SMEs.	0,07	5	0,37
4	Government regulations pertaining to SME funding distribution are deemed satisfactory.	0,07	4	0,29
5	Legislation concerning Halal Product Certification outlines necessary requirements, including those applicable to SMEs, aiming to bolster halal industry compliance.	0,07	4	0,29
6	The recent enactment of the Job Creation Law seeks to foster the growth of halal SMEs.	0,07	4	0,29
7	The Ministry of Cooperatives and SMEs, alongside certain provincial governments, offer subsidies for halal certification to SMEs.	0,06	4	0,24
8	Local Financial Institutions (LFIs), particularly those adopting murabahah, musyarakah, and mudharabah models, show promise in bolstering the real sector, including SMEs.	0,07	4	0,29
Total of Score (O)		0,56		2,38
Threats (I)				
1	Awareness and understanding of halal products among Indonesian Muslims remain relatively low.	0,07	1	0,07
2	The cost associated with obtaining halal certification poses a significant financial burden for many SMEs.	0,06	2	0,12
3	The outreach efforts for the halal certificate subsidy program are lacking.	0,06	2	0,12
4	The allocated funds for SMEs are still modest.	0,07	1	0,07
5	Business infrastructure inadequacies persist, encompassing sluggish permit processes, skills shortages, tax incentives scarcity, and limited access to innovation facilities.	0,06	2	0,12
6	A centralized digital platform to collate information on halal SMEs, facilitating financial connections, is absent.	0,06	2	0,12
7	Technology-driven research and development outcomes to enhance SME products encounter accessibility constraints.	0,06	2	0,12
Total of Score (I)		0,44		0,74
Total of Score (O+I)		1,00		3,12

Source: Data processing result



The results of the analysis of the internal environmental factors are presented in [Table 3](#). Based on the IFAS matrix table, it can be seen that the position of SME support in developing the halal industry and Sharia economy is not very good (medium) in managing the internal environment, namely with a total score of 2.96. This means that, in terms of development strategy, Indonesian SMEs have not optimally utilized their strengths to reduce existing weaknesses.

The results of the analysis of the external environmental factors are presented in [Table 4](#). Based on the EFAS matrix in this table, it can be seen that the support position of SMEs in the development of the halal industry and Sharia economy is relatively good in facing the external environment, namely with a total value of 3.12. This means that Indonesian SMEs have developed their development strategies optimally by taking advantage of existing opportunities to face external threats, as stated by [Kurnia et al. \(2023\)](#).

Next, based on the internal (strengths and weaknesses) and external (opportunities and threats) factor analysis tables in [Table 3](#) and [4](#), the position coordinate points can be created on the IE SWOT matrix in [Figure 2](#).

		Internal Factors		
		High (3,0-4,0)	Medium (2,0-2,99)	Low (1,0-1,99)
External Factors	High (3,0-4,0)	I Vertical Growth Integration	II Horizontal Growth Integration	III Retrenchment: Turn-round Strategy
	Medium (2,0-2,99)	IV Stability	V Growth: Concentration through Horizontal Integration or Stability Profit Strategy	VI Retrenchment: Divestment Strategy
	Low (1,0-1,99)	VII Growth Concentric Diversification	VIII Growth: Conglomerate Diversification	IX Liquidation

**Figure 2.** IE SWOT Matrix Position Coordinates

Source: Authors' own work

An analysis of the SME environment in Indonesia in the context of the development of the halal industry and the Sharia economy shows a position in the medium-high category (2.96:3.12), which is located in cell II in coordinates. Based on this position, the recommendation to support SMEs in developing the halal industry and Sharia economy is through a horizontal integration growth strategy. In this case, SMEs can take strategic steps to carry out horizontal integration with other entities to strengthen their positions on national and global scales. The main goal of horizontal integration is to spur SME growth, increase product differentiation, achieve economies of scale, reduce competition, and open new market opportunities ([Badowi 2023](#)).

### Strategy and program

As previously explained, the results of positioning and strategic choices are horizontal growth integration strategies. Therefore, several strategies and program options can be implemented as follows.

First, the enhancement of financing facilities and mentoring for SMEs. This step aims to expand access to financing, particularly that based on Sharia principles. Efforts include aligning microfinance programs across various Islamic Financial Institutions (IFIs), educating microentrepreneurs about Sharia-compliant financing schemes, and encouraging Islamic banks (IFIs) to provide financing along the halal SME value chain ([Rosyadi et al., 2020](#)).

Second, government financing subsidy programmes should be strengthened. This strategy focuses on financial support for SMEs, from both the IFIs and the government. The goal is to ensure that government financing subsidy programs, especially those from local governments, are

implemented effectively and synchronized with existing peer-to-peer lending activities (Taneo, 2022).

Third, increasing support for productive waqf for SMEs involves leveraging the Islamic charitable endowment system to provide financing for small and medium-sized enterprises. This initiative recognizes the potential of waqf, which has traditionally been used for social welfare and religious purposes, as a powerful tool for economic development when applied productively. The core idea is to use waqf funds to support SMEs, thereby creating a sustainable financial model that benefits both the donor community and the entrepreneurial ecosystem (Laila et al., 2022; Sukmana & Hosen, 2020).

Fourth, raising awareness among SMEs about the importance of halal products. This strategy focuses on increasing halal lifestyle literacy among SME. Approaches involve socialization through SME communities, collaboration with mass media to change public perceptions of the importance of halal certification, and encouraging SMEs to obtain halal certification (Arifin et al., 2020).

Fifth is support for enhancing halal certification from local governments and related institutions. This action aims to strengthen halal infrastructure through subsidies or funding for halal certification, the availability of halal infrastructure such as halal auditors, and policy requirements for business permits related to halal certification (Muttaqien & Dewi, 2024; Naznii, 2023).

Sixth, the halal SME ecosystem should be strengthened to encourage the development of competitive SMEs and to play a role in the global halal value network. This approach involves coordinated intersector cooperation between various government and private institutions that are willing to collaborate for the progress of SMEs in Indonesia. This ecosystem consists of various sub-ecosystems including capacity building and incubation, digital empowerment, market access, logistics, halal assurance, financing, export financing, and partnerships (Amalia et al., 2023; Rahmah et al., 2023). Efforts to increase capacity and provide guidance are carried out through partnerships with various institutions or incubator institutions, both from the public and private sectors, as well as universities. This study aimed to create a training and mentoring system that supports the halal certification process for SME products in Indonesia. In addition, this strategy is implemented by strengthening the role of Halal Industrial Zones as an important part of the halal value network, which will provide support to SMEs so that they can achieve a higher level of competitiveness and be ready for export.

Seventh, increasing socialization is carried out through various platforms, such as websites, social media, and other communication channels, with the aim of allowing existing SMEs to access the basic modules for Halal Industry SMEs in video or other forms (Rozak et al., 2021; Yulianti et al., 2023). This approach is intended to change the paradigm and increase the understanding of Sharia economics, so that SME players are inspired to manage their businesses in accordance with Sharia principles and obtain halal certification. By adopting these strategies, it is hoped that SMEs in Indonesia can take advantage of the opportunities that exist in developing the halal industry and the Sharia economy, as well as increase their contribution to the national and global economies.

## Conclusion

Indonesian SMEs possess significant strengths from an internal perspective, such as their large numbers, substantial contribution to the GDP, and high employment rates. Several SMEs have pioneered the halal industry and digital economy, utilizing e-commerce platforms to connect with financiers and transacting through the Sharia financial industry. These elements position Indonesian SMEs as vital players in the development of halal and Sharia industries. However, there were notable internal weaknesses. Many Indonesian SMEs are yet to adopt digital technology, and the prevailing mindset among SME operators remains bank-centric. In addition, finding mentors for business development and assistance is challenging. SMEs also face limited export capabilities and a lack of quality human resources, with many individuals working out of financial necessity rather than genuine interests. Externally, there are significant opportunities. The large Muslim population represents a substantial market, and several banking institutions are willing to provide

loans to SMEs. Regulatory support for SMEs, particularly in the halal sector, is advantageous. Sharia Financial Institutions (LKS), including BMTs (Bait al-Māl wa al-Tamwīl) offering murabahah, musyarakah, and mudharabah schemes, provide additional opportunities for SME growth in the real sector. Despite these opportunities, SMEs are facing external challenges and threats. Awareness and understanding of halal products among Indonesian Muslims is low. Obtaining halal certification is costly and limited funds are allocated to the SME sector. Business infrastructure is inadequate, integrated digital platforms are scarce, and access to research and development (R&D) results that could enhance productivity is minimal. Several strategies and programs have been implemented to address these issues. Enhancing financing facilities and mentoring SMEs are crucial. Government financing subsidy programs should be strengthened and productive waqf support for SMEs should be increased. Raising awareness among SMEs about the importance of halal products is essential, as is boosting support for halal certification from regional governments and related institutions. Strengthening the ecosystem and enhancing socialization efforts are vital strategies.

This study has several limitations. The SWOT analysis method provides only a single stage in policy planning, indicating the need for more comprehensive research for better decision making in complex situations. The analysis is subjective, focusing on strengths, weaknesses, opportunities, and threats, while other crucial aspects such as macroeconomic conditions and global market uncertainties are not addressed. Future research should involve empirical and objective analyses using statistical or econometric approaches to understand the impact and role of SMEs in the development of the Sharia and Halal industries in Indonesia.

### Author contributions

Conceptualization: Azwar

Data curation: Azwar

Formal analysis: Azwar

Investigation: Azwar, Mohd Musa Bin Sarip

Methodology: Azwar, Mohd Musa Bin Sarip

Project administration: Azwar

Supervision: Mohd Musa Bin Sarip

Validation: Mohd Musa Bin Sarip

Visualization: Azwar

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