

# Chapter 8


## The Effects of Innovative Islamic Leadership on Business Performance Halal Food SMEs: The Role of Moderation in Competitive Advantage

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### **ABSTRACT**

*This study aims to examine the relationship between innovative Islamic leadership, competitive advantage, and the performance of small and medium-sized enterprises (SMEs) in Indonesia. The study focuses on the SMEs that produce food products in Cirebon, West Java. The study used a quantitative approach with a survey method to gather data from 110 Cirebon-typical culinary halal SMEs. The results of the research showed that there was a significant positive relationship between the innovation of Islamic leadership and the performance of SMEs, as well as the superiority of their resources and products. The findings imply that SME owners must apply innovative Islamist leadership models as a source of competitiveness in their business operations. Based on the moral values of honesty, the owners are expected to foster an innovative culture, thereby enhancing the company's competitiveness and*

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*sustainable growth. The research also suggests the importance of genuine, inspiring, and enthusiastic leaders to foster innovative behavior that becomes a competitive advantage among SME employees.*

## **INTRODUCTION**

Small and medium-sized enterprises (SMEs) in a country are better at dealing with a crisis than large ones. However, there are a few SMEs experiencing difficulties during the crisis. These enterprises are known to be able to adapt faster and more flexibly than large corporations to environmental factors or external changes. The presence of SMEs in Indonesia can significantly contribute to the Indonesian economy's growth, particularly in the aftermath of the 2017 and current economic crises (Munandar, 2016). This study is based on the resource advantage theory (RAT) of competition. According to the RAT hypothesis, a company's resources will determine its market position in the form of a competitive advantage, a competitive disadvantage, or a competitive average (Hunt & Morgan, 1997). Resource Advantage Theory (RAT) emphasizes the management of unique resources, such as innovative Islamic leadership and halal standards, by accommodating innovation and Islamic values as strategic elements and explaining how competitive advantage mediates the relationship between leadership and business performance. This approach is not only academically relevant but also provides practical insights for halal food SMEs to enhance their competitiveness and performance in both local and global markets.

The halal industry in Indonesia and the world is rapidly growing along with the increasing awareness of the importance of high-quality halal products. The interaction between digitization, the blue economy, and the global halal industry is key to the transformation of the modern economy. Digitization strengthens the blue economy by optimizing supply chains, mapping resources, and enhancing the transparency of halal products. (Asna Annisa & Indriyani, 2024). In this ecosystem, halal SMEs play a significant role as providers of quality products and drivers of local and global economies. The contribution of SMEs, especially in the halal food sector, is very significant to the national economy. However, the optimization of the halal industry still faces unique challenges that require strategic solutions to achieve sustainable economic and Sharia financial growth. (Amalia et al., 2023).

SMEs in the halal food industry confront significant obstacles in sustaining and enhancing their performance in the age of globalization and heightened competition. Halal food SMEs must use creative leadership techniques that promote efficiency and creativity while upholding moral principles if they hope to prevail in the marketplace. Fairness, integrity, and service are just a few characteristics underpinning Islamic

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