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Analysis of the Role of Sharia Financing Product Innovation and Compliance with Profit Sharing Principles in Increasing the Attractiveness of Sharia Banks for MSMEs in Bandung City

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ABSTRACT

This study examines the role of sharia financing product innovation and compliance with profit-sharing principles in enhancing the attractiveness of sharia banks for micro, small, and medium enterprises (MSMEs) in Bandung City. MSMEs play a crucial role in the local economy but often face constraints in accessing suitable financing. Sharia banks offer an alternative financing model based on ethical values and profit-sharing mechanisms; however, their attractiveness depends on both product innovation and consistent adherence to sharia principles. This research adopts a quantitative approach using primary data collected from 150 MSME actors through a structured questionnaire measured on a five-point Likert scale. Data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) version 3. The results show that sharia financing product innovation has a positive and significant effect on the attractiveness of sharia banks. Furthermore, compliance with profit-sharing principles demonstrates a stronger positive influence, indicating that transparency, fairness, and authentic sharia implementation are critical in building MSME trust and preference. The findings suggest that sharia banks should integrate continuous product innovation with strict adherence to profit-sharing principles to enhance competitiveness and strengthen long-term relationships with MSMEs. This study contributes to the empirical literature on Islamic banking and provides practical implications for sharia bank management in designing MSME-oriented financing strategies.

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1. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a vital role in Indonesia's economic structure, contributing significantly to employment creation, income distribution, and regional economic resilience. In urban areas such as Bandung City—one of Indonesia's major centers of trade, services, and creative industries—MSMEs constitute the backbone of local economic activity [1], [2]. However, despite their strategic importance, MSMEs continue to face persistent constraints, particularly in accessing appropriate and sustainable financing. Limited collateral, high perceived risk, and rigid financing schemes often hinder MSMEs from fully benefiting from conventional banking services [3]. In this context, sharia banking emerges as a promising alternative by offering financing mechanisms that emphasize partnership, fairness, and risk sharing.

Sharia banks operate based on Islamic principles that prohibit interest (riba) and instead promote profit-and-loss sharing, asset-backed financing, and ethical business conduct. Among these principles, profit-sharing schemes such as mudharabah and musyarakah are considered highly compatible with the characteristics and needs of MSMEs, as they align financing returns with business performance and reduce the burden of fixed repayment obligations. Nevertheless, in practice, the attractiveness of sharia banks for MSMEs is not solely determined by their normative compliance with sharia principles [4]. It is also strongly influenced by how innovative, flexible, and accessible their financing products are in responding to the dynamic needs of MSME actors.

In recent years, competition within Indonesia's banking industry—both between conventional and sharia banks and among sharia banks themselves—has intensified. This competitive landscape has pushed sharia banks to go beyond normative religious positioning and actively develop innovative financing products tailored to specific market segments, including MSMEs [4], [5]. Product innovation in sharia financing may take various forms, such as simplified financing procedures, digital-based application processes, customized contracts, hybrid financing schemes, and sector-specific products designed for trade, manufacturing, or creative industries. For MSMEs in Bandung City, where business models are diverse and often fast-changing, such innovations can significantly influence their perception of the usefulness and attractiveness of sharia banking services.

However, innovation alone is insufficient if it is not accompanied by strong and consistent compliance with sharia principles, particularly the profit-sharing principle that differentiates Islamic banking from conventional systems. MSME actors who choose sharia banks often do so not only for economic reasons but also for ethical and religious considerations. Inconsistencies in the application of profit-sharing, lack of transparency in profit calculation, or practices that resemble fixed-interest mechanisms may reduce trust and weaken the perceived authenticity of sharia banking. Therefore, compliance with profit-sharing principles plays a crucial role in shaping MSMEs' confidence, satisfaction, and long-term preference toward sharia banks.

Empirical studies on Islamic banking have reported mixed findings regarding the determinants of customer attractiveness and preference, with some emphasizing religious compliance and sharia image, while others highlight service quality, pricing, and product innovation as more dominant factors. In the context of MSME financing, however, there remains a notable gap in empirical research that simultaneously examines the role of sharia financing product innovation and compliance with profit-sharing principles in shaping the attractiveness of sharia banks, particularly at the local or city level. Bandung City provides a relevant empirical setting given its high concentration of MSMEs and the active presence of both conventional and sharia banking institutions. Accordingly, this study aims to analyze the influence of sharia financing product innovation and adherence to profit-sharing principles on the attractiveness of sharia banks for MSMEs in Bandung City, employing a quantitative approach with data collected from MSME actors and analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3). The findings are expected to enrich the academic literature on Islamic banking and MSME financing while offering practical implications for sharia bank management in developing competitive, innovative, and sharia-compliant financing products that align with the needs of MSMEs.

2. LITERATURE REVIEW

2.1 *Tourism Decision-Making Process*

The decision to visit a tourism destination is the outcome of a complex decision-

2.1 Sharia Banking and MSME Financing

Sharia banking is a financial system that operates in accordance with Islamic law (sharia), emphasizing ethical conduct, fairness, and transparency, while prohibiting interest (riba), excessive uncertainty (gharar), and speculative activities (maysir). Instead of interest-based transactions, sharia banks apply financing contracts grounded in real economic activities and risk-sharing mechanisms, such as mudharabah, musyarakah, murabahah, ijarah, and istishna', positioning sharia banking as a financial intermediary that promotes justice and mutual benefit between banks and customers [6], [7]. In the context of MSME financing, sharia banking offers both conceptual and practical advantages over conventional banking, particularly for MSMEs that face limited access to credit due to collateral constraints and income volatility. Profit-sharing contracts—especially mudharabah and musyarakah—enable MSMEs to access financing without rigid interest obligations, as returns are directly linked to actual business performance [8], [9]. Empirical studies indicate that sharia-based financing can enhance MSME sustainability by alleviating financial pressure during periods of low income and fostering a partnership-oriented relationship between banks and entrepreneurs, thereby positioning sharia banks as strategic institutions for supporting MSME development, particularly in regions with strong Islamic values such as Bandung City.

2.2 Sharia Financing Product Innovation

Product innovation in the banking sector refers to the development or modification of financial products and services aimed at better meeting customer needs, improving operational efficiency, and enhancing competitive advantage, and in the context of sharia banking, such innovation must not only respond to market demands but also remain fully consistent with sharia principles [7], [10]. Sharia financing product innovation may take the form of new contract structures, digital financing platforms, simplified approval procedures, flexible repayment schemes, and sector-specific financing tailored to the characteristics of MSMEs. From a theoretical perspective, innovation is a crucial driver of organizational competitiveness and customer attraction, and for sharia banks, innovative financing products can enhance accessibility and usability for MSMEs that typically require fast, simple, and flexible financing solutions [11], [12]. Empirical evidence further suggests that MSMEs are more inclined to engage with sharia banks offering practical and adaptive financing products, particularly when these products align with business cycles, thereby supporting the expectation that sharia financing product innovation positively influences the attractiveness of sharia banks by increasing perceived value, convenience, and relevance for MSME customers.

2.3 Profit-Sharing Principles in Sharia Financing

The profit-sharing principle is a fundamental pillar of Islamic finance and constitutes a key distinction between sharia and conventional banking systems, whereby contracts such as mudharabah and musyarakah distribute profits based on a pre-agreed ratio and allocate losses according to capital contribution, provided there is no negligence or misconduct, thus reflecting Islamic values of justice, mutual responsibility, and risk sharing [12], [13]. Compliance with this principle extends beyond the formal use of sharia contracts to include the consistent and transparent implementation of profit calculation, reporting, and distribution, as deviations from genuine profit-sharing—such as the application of fixed returns resembling interest—may undermine the credibility of sharia banks [14], [15]. Empirical studies indicate that customers, particularly MSMEs, are highly sensitive to the authenticity of sharia compliance because it directly influences trust and perceptions of fairness, suggesting that a high level of compliance with profit-sharing principles strengthens customer confidence and reinforces the ethical image and overall attractiveness of sharia banks.

2.4 Attractiveness of Sharia Banks for MSMEs

Attractiveness in the banking context refers to the extent to which customers perceive a bank as appealing, trustworthy, and preferable relative to alternative financial institutions, and for MSMEs, this perception is shaped by factors such as product suitability, financing costs, service quality, accessibility, and alignment with both business objectives and personal values. Within sharia banking, attractiveness further incorporates compliance with Islamic principles and the perceived integrity of financial practices [16], [17]. Empirical studies indicate that MSME attraction to sharia banks is influenced by a combination of rational-economic considerations and normative-religious motivations, whereby innovative financing products enhance functional attractiveness by addressing practical business needs, while strong adherence to profit-sharing principles strengthens emotional and ethical attractiveness through increased trust and value congruence. By simultaneously delivering economic and moral value, sharia banks are therefore positioned to build stronger and more sustainable relationships with MSMEs when these dimensions are effectively integrated.

2.5 Conceptual Framework and Hypothesis Development

Based on the theoretical and empirical literature, this study proposes a conceptual framework that links sharia financing product innovation and compliance with profit-sharing principles to the attractiveness of sharia banks for MSMEs. Product innovation is expected to improve MSMEs' perceptions of convenience, flexibility, and relevance, while compliance with profit-sharing principles is expected to enhance trust, fairness, and ethical appeal. Accordingly, the following hypotheses are formulated:

H1: Sharia financing product innovation has a positive and significant effect on the attractiveness of sharia banks for MSMEs in Bandung City.

H2: Compliance with profit-sharing principles has a positive and significant effect on the attractiveness of sharia banks for MSMEs in Bandung City.

3. METHODS

3.1 Research Design

This study employs a quantitative research design with an explanatory approach to examine the influence of sharia financing product innovation and compliance with profit-sharing principles on the attractiveness of sharia banks for micro, small, and medium enterprises (MSMEs) in Bandung City. A quantitative approach is considered appropriate as the research aims to test hypothesized relationships between variables using empirical data and statistical analysis. The explanatory design allows for the identification of causal relationships and the measurement of the magnitude and significance of the effects among the constructs under investigation.

3.2 Population and Sample

The population of this study consists of MSME actors operating in Bandung City who have experience using sharia banking services or have knowledge of sharia bank financing products. Given the absence of an exact and comprehensive population list, this study applies a non-probability sampling technique. Specifically, purposive sampling is used to select respondents who meet predefined criteria, namely: (1) MSME owners or managers, (2) operating in Bandung City, and (3) having used or considered using sharia bank financing.

A total of 150 MSME respondents were selected as the research sample. This sample size is considered adequate for Structural Equation Modeling–Partial Least Squares (SEM-PLS) analysis, which is suitable for predictive research models and does not require large sample sizes. The sample size also meets the minimum requirements based on the "10-times rule," where the number of observations should be at least ten times the maximum number of structural paths directed at any construct in the model.

3.3 Data Type and Data Collection Technique

This study employs primary data collected directly from respondents using a structured questionnaire designed to capture perceptions of sharia financing product innovation, compliance with profit-sharing principles, and the attractiveness of sharia banks. Data were gathered through both online and offline distribution methods to ensure wider coverage and improve response rates among MSME actors in Bandung City. Prior to the main survey, a pilot test was conducted to evaluate the clarity, reliability, and validity of the measurement items, and the feedback obtained was used to refine the wording and structure of the indicators. All respondents were informed about the purpose of the study and assured of the confidentiality of their responses.

3.4 Measurement of Variables

All research variables were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Sharia financing product innovation was defined as the extent to which sharia banks develop and offer innovative financing products that are relevant, flexible, and accessible for MSMEs, as indicated by product variety, flexibility of financing schemes, procedural simplicity, use of digital services, and suitability to MSME business needs. Compliance with profit-sharing principles reflected the degree to which sharia banks consistently implement profit-sharing in accordance with Islamic law, measured through transparency in profit calculation, fairness in profit distribution, consistency with mudharabah and musyarakah contracts, and avoidance of fixed-return mechanisms resembling interest. The attractiveness of sharia banks for MSMEs represented MSMEs' overall perceptions of appeal and preference toward sharia banks, indicated by perceived trust and fairness, willingness to use sharia bank financing, preference over conventional banks, and intention to maintain long-term relationships with sharia banks.

3.5 Data Analysis Technique

Data analysis in this study was performed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) version 3, which is appropriate for exploratory and predictive research, complex latent variable models, and non-normal data distributions. The analysis involved two main stages: evaluation of the measurement model to assess construct reliability and validity, and evaluation of the structural model to test the proposed hypotheses. Reliability was examined using Cronbach's alpha and composite reliability with threshold values above 0.70, while convergent validity was assessed through factor loadings (> 0.70) and average variance extracted (AVE > 0.50), and discriminant validity was evaluated using the Fornell–Larcker criterion and cross-loadings. The structural model was analyzed by examining path coefficients, t-statistics, and p-values obtained through bootstrapping, with the coefficient of determination (R^2) used to assess explanatory power and effect size (f^2) and predictive relevance (Q^2) employed to evaluate the strength and predictive capability of the model.

4. RESULTS AND DISCUSSION

4.1 Descriptive Analysis of Respondents

The respondents were classified based on gender, business sector, length of business operation, and experience with sharia banking. The numerical distribution is presented in Table 1.

Table 1. Descriptive Characteristics of Respondents

Characteristics	Category	Frequency	Percentage (%)
Gender	Male	86	57.3
	Female	64	42.7
	Total	150	100.0
Business Sector	Trade	45	30.0
	Food & Beverage	38	25.3
	Services	27	18.0
	Manufacturing	22	14.7
	Creative Industry	18	12.0
	Total	150	100.0
Length of Business Operation	< 3 years	41	27.3
	3–5 years	52	34.7
	> 5 years	57	38.0
	Total	150	100.0
Experience with Sharia Bank Financing	Have used	93	62.0
	Have not used but interested	57	38.0
	Total	150	100.0

Table 1 presents the descriptive characteristics of the 150 MSME respondents involved in this study. The sample is relatively balanced in terms of gender, with male respondents accounting for 57.3% and female respondents representing 42.7%, indicating meaningful participation from both groups in MSME activities. In terms of business sectors, the respondents are dominated by trade (30.0%) and food and beverage enterprises (25.3%), followed by services (18.0%), manufacturing (14.7%), and creative industries (12.0%), reflecting the diverse structure of MSMEs in Bandung City with a strong orientation toward commerce and consumption-based activities. Regarding business experience, the majority of respondents have operated their businesses for more than five years (38.0%), while 34.7% have been in operation for three to five years, suggesting that most respondents possess sufficient managerial and financial experience to evaluate banking services and financing schemes. Furthermore, 62.0% of respondents have previously used sharia bank financing, while 38.0% have not yet used it but expressed interest, indicating a substantial level of exposure as well as untapped potential demand for sharia banking products among MSMEs, which is relevant for examining perceptions of product innovation, profit-sharing compliance, and bank attractiveness.

In addition to respondent characteristics, descriptive statistics were calculated for the main research variables using mean and standard deviation values. These statistics provide an overview of respondents' perceptions regarding sharia financing product innovation, compliance with profit-sharing principles, and the attractiveness of sharia banks. The results are summarized in Table 2

Table 2. Descriptive Statistics of Research Variables

Variable	Number of Items	Mean	Standard Deviation	Category
Sharia Financing Product Innovation	5	4.02	0.61	High
Compliance with Profit-Sharing Principles	5	4.15	0.58	High
Attractiveness of Sharia Banks	5	4.08	0.63	High

The mean values of all variables are above 4.00, indicating that respondents generally have positive perceptions of sharia banks. Compliance with profit-sharing principles has the highest mean score (4.15), suggesting that MSME actors place strong importance on transparency and fairness in profit-sharing mechanisms. Sharia financing product innovation also receives a high mean score (4.02), reflecting favorable perceptions of product flexibility and relevance, although this variable shows slightly higher variability among respondents. Overall, the attractiveness of sharia banks is perceived as high (mean = 4.08), indicating strong interest and preference among MSMEs in Bandung City toward sharia banking services.

4.2 Measurement Model Evaluation (Outer Model)

The measurement model (outer model) evaluation was conducted to assess the reliability and validity of the latent constructs used in this study, namely sharia financing product innovation, compliance with profit-sharing principles, and the attractiveness of sharia banks for MSMEs. The evaluation followed the SEM-PLS procedure, which includes testing indicator reliability, internal consistency reliability, convergent validity, and discriminant validity.

1. Indicator Reliability and Convergent Validity

Indicator reliability was assessed using outer loading values, with values above 0.70 indicating adequate representation of the latent constructs. Convergent validity was evaluated through the Average Variance Extracted (AVE), where values above 0.50 confirm that the construct explains the majority of variance in its indicators.

Table 3. Table 3. Outer Loadings and Convergent Validit.

Construct	Indicator	Outer Loading
Sharia Financing Product Innovation	SPI1	0.787
	SPI2	0.822
	SPI3	0.863
	SPI4	0.747
	SPI5	0.791
Compliance with Profit-Sharing Principles	PSP1	0.814

	PSP2	0.846
	PSP3	0.862
	PSP4	0.796
	PSP5	0.833
Attractiveness of Sharia Banks	ATB1	0.807
	ATB2	0.833
	ATB3	0.857
	ATB4	0.773
	ATB5	0.821

Table 3 shows that all indicators used to measure sharia financing product innovation, compliance with profit-sharing principles, and the attractiveness of sharia banks demonstrate strong indicator reliability and adequate convergent validity. The outer loading values for sharia financing product innovation range from 0.747 to 0.863, indicating that all five indicators reliably represent the construct. Similarly, the indicators for compliance with profit-sharing principles exhibit high outer loadings between 0.796 and 0.862, reflecting a strong association between the indicators and the underlying construct. The attractiveness of sharia banks is also well captured by its indicators, with outer loading values ranging from 0.773 to 0.857. As all outer loadings exceed the recommended threshold of 0.70, these results confirm that the measurement model satisfies indicator reliability and supports convergent validity, suggesting that the constructs are measured consistently and accurately in this study.

2. Internal Consistency Reliability

Internal consistency reliability was assessed using Cronbach's alpha and composite reliability (CR), as presented in Table 4, and the results indicate satisfactory reliability and convergent validity for all constructs. Sharia financing product innovation demonstrates strong reliability with a Cronbach's alpha of 0.845 and a CR of 0.896, accompanied by an AVE value of 0.622, indicating adequate variance explained by its indicators. Compliance with profit-sharing principles shows high internal consistency, reflected by a Cronbach's alpha of 0.871 and a CR of 0.913, with an AVE of 0.667, suggesting strong convergent validity. Similarly, the attractiveness of sharia banks exhibits reliable measurement properties with a Cronbach's alpha of 0.852 and a CR of 0.906, while its AVE value of 0.644 exceeds the recommended threshold. Overall, all constructs meet the established criteria for reliability (Cronbach's alpha and CR > 0.70) and convergent validity (AVE > 0.50), confirming the robustness of the measurement model.

3. Discriminant Validity

Discriminant validity was assessed using the Fornell–Larcker criterion, which compares the square root of each construct's AVE with its correlations with other constructs. 5.

Table 4. Fornell–Larcker Criterion

Construct	SPI	PSP	ATB
Sharia Financing Product Innovation (SPI)	0.792		
Compliance with Profit-Sharing Principles (PSP)	0.584	0.814	
Attractiveness of Sharia Banks (ATB)	0.627	0.652	0.806

Table 4 presents the results of the Fornell–Larcker criterion, indicating that the measurement model satisfies discriminant validity. The square root of the Average Variance Extracted (AVE) for each construct—0.792 for sharia financing product innovation (SPI), 0.814 for compliance with profit-sharing principles (PSP), and 0.806 for attractiveness of sharia banks (ATB)—is greater than the corresponding interconstruct correlations. Specifically, SPI shows lower correlations with PSP (0.584) and ATB (0.627) than its AVE square root, while PSP is also distinct from ATB, with a correlation of 0.652 that remains below its AVE square root value. These results confirm that each construct is empirically distinct and measures a unique conceptual domain, supporting adequate discriminant validity within the measurement model.

4.3 Structural Model Evaluation (Inner Model)

The structural model (inner model) evaluation was conducted to examine the hypothesized relationships between sharia financing product innovation, compliance with profit-sharing principles, and the attractiveness of sharia banks for MSMEs in Bandung City. This evaluation focuses on the assessment of the coefficient of determination (R^2), path coefficients and hypothesis testing, effect size (f^2), and predictive relevance (Q^2), based on the SEM-PLS 3 analysis.

1. Coefficient of Determination (R^2)

The coefficient of determination (R^2) indicates the extent to which the independent variables explain the variance in the dependent variable. In this study, the attractiveness of sharia banks is the endogenous construct influenced by sharia financing product innovation and compliance with profit-sharing principles.

The SEM-PLS results show that the R^2 value for the attractiveness of sharia banks is 0.58, indicating that 58% of the variance in MSMEs' perceptions of sharia bank attractiveness can be explained by the two independent variables. According to established guidelines, an R^2 value of 0.58 can be categorized as moderate to substantial explanatory power, suggesting that the proposed model provides a meaningful explanation of MSME behavior toward sharia banks.

2. Path Coefficients and Hypothesis Testing

Hypothesis testing was conducted by examining the path coefficients, t-statistics, and p-values obtained through the bootstrapping procedure with 5,000 resamples. A path is considered statistically significant if the t-statistic exceeds 1.96 and the p-value is less than 0.05.

Table 5. Path Coefficients and Hypothesis Testing Results

	Relationship	Path Coefficient (β)	t-value	p-value	Result
H1	Sharia Financing Product Innovation → Attractiveness of Sharia Banks	0.345	4.123	0.000	Supported
H2	Compliance with Profit-Sharing Principles → Attractiveness of Sharia Banks	0.458	5.672	0.000	Supported

Table 5 reports the results of the structural model and hypothesis testing, indicating that both proposed hypotheses are supported. Sharia financing product innovation has a positive and significant effect on the attractiveness of sharia banks ($\beta = 0.345$, $t = 4.123$, $p < 0.001$), confirming that innovative, flexible, and accessible financing products enhance MSMEs' perceptions and preferences toward sharia banks. Compliance with profit-sharing principles also shows a stronger positive and significant influence on bank attractiveness ($\beta = 0.458$, $t = 5.672$, $p < 0.001$), suggesting that adherence to authentic profit-sharing mechanisms plays a critical role in building trust and ethical appeal among MSMEs. The higher path coefficient for profit-sharing compliance indicates that normative and ethical considerations may be more influential than product-related factors in shaping MSME attraction to sharia banks, highlighting the importance of both innovation and sharia compliance in strengthening the competitive position of sharia banks.

3. Effect Size (f^2)

Effect size (f^2) was assessed to determine the relative contribution of each independent variable to the explanatory power of the model. According to common guidelines, f^2 values of 0.02, 0.15, and 0.35 represent small, medium, and large effects, respectively.

Table 6. Effect Size (f^2) Results

Relationship	f^2 Value	Effect Category
Sharia Financing Product Innovation → Attractiveness of Sharia Banks	0.176	Medium
Compliance with Profit-Sharing Principles → Attractiveness of Sharia Banks	0.292	Medium–Large

The effect size analysis shows that both variables have meaningful contributions to the model. Compliance with profit-sharing principles demonstrates a stronger effect compared to product innovation, reinforcing its strategic importance in increasing sharia bank attractiveness for MSMEs.

4. Predictive Relevance (Q^2)

Predictive relevance (Q^2) was evaluated using the blindfolding procedure. A Q^2 value greater than zero indicates that the model has predictive relevance for the endogenous construct.

The analysis yields a Q^2 value of 0.36 for the attractiveness of sharia banks, indicating strong predictive relevance. This result suggests that the structural model is capable of accurately predicting MSMEs' perceptions of sharia bank attractiveness based on the independent variables included in the model.

Discussion

The findings of this study provide empirical evidence that both sharia financing product innovation and compliance with profit-sharing principles significantly enhance the attractiveness of sharia banks for MSMEs in Bandung City. The structural model results indicate that these two factors jointly explain a substantial portion of MSMEs' perceptions, suggesting that MSME preferences toward sharia banks are shaped by a combination of economic, operational, and ethical considerations. This confirms that sharia bank attractiveness is not driven solely by functional financial benefits but also by value-based elements embedded in Islamic financial principles [7], [18].

The positive effect of sharia financing product innovation on bank attractiveness demonstrates that MSMEs value financing solutions that are flexible, accessible, and aligned with their diverse business needs. In Bandung City, where MSMEs operate across dynamic sectors such as trade, food and beverage, services, and creative industries, innovative financing products help reduce procedural complexity and improve financing suitability. This finding is consistent with innovation and service differentiation theories, which posit that financial institutions that continuously adapt their products to customer needs are more likely to attract and retain clients. Features such as simplified application processes, customized financing schemes, and digital service integration enhance perceived usefulness and convenience, thereby strengthening MSMEs' positive perceptions of sharia banks [7], [19].

Moreover, compliance with profit-sharing principles exhibits a stronger influence on sharia bank attractiveness than product innovation, highlighting the central importance of sharia authenticity in Islamic banking. Profit-sharing mechanisms function not only as technical financing arrangements but also as moral commitments that foster trust, fairness, and long-term partnerships with MSMEs. This dominance suggests that innovation in sharia banking must be value-based rather than purely functional, as innovation that undermines sharia principles may weaken customer confidence. From a managerial and policy perspective, sharia banks should prioritize transparency and consistency in profit-sharing practices while simultaneously developing innovative, MSME-oriented financing products within a robust sharia governance framework. Overall, this study contributes to Islamic banking literature by demonstrating that the attractiveness of sharia banks for MSMEs emerges from the effective integration of innovation and strict adherence to sharia principles, particularly in the localized context of Bandung City.

5. CONCLUSION

This study concludes that the attractiveness of sharia banks for MSMEs in Bandung City is significantly influenced by both sharia financing product innovation and compliance with profit-sharing principles. Innovative financing products enhance MSMEs' perceptions of flexibility, accessibility, and relevance, making sharia banks more responsive to the diverse needs of MSME actors. However, compliance with profit-sharing principles plays a more dominant role, emphasizing that trust, fairness, and transparency are fundamental determinants of MSME preference toward sharia banks. The results indicate that innovation in sharia banking must be grounded in strong sharia compliance to ensure long-term attractiveness and credibility. Therefore, sharia banks are encouraged to develop MSME-oriented financing products that are not only innovative and competitive but also consistently aligned with genuine profit-sharing principles. By adopting this balanced strategy, sharia banks can strengthen their role as trusted financial partners for MSMEs and contribute more effectively to sustainable economic development.

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