

Digital Transformation of Halal MSMEs: Sharia Compliance Practices within the Marketplace Ecosystem in Pacitan Regency

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ABSTRACT

Digital transformation presents both opportunities and challenges for halal MSMEs, particularly as marketing activities shift into marketplace ecosystems that operate with competitive mechanisms, promotional strategies, and algorithms different from conventional trading practices. This study aims to explain the experiences of halal MSME actors in Pacitan Regency in undertaking digitalization processes while maintaining Sharia compliance in digital marketing activities. Employing a qualitative phenomenological approach, data were collected through in-depth interviews, on-site and digital observations, and documentation, and then analyzed using the Miles, Huberman, and Saldaña model. The findings indicate that MSME actors utilize marketplaces such as Shopee and Tokopedia to expand market reach; however, varying levels of digital literacy lead to the use of platform features being largely limited to basic functions. From the perspective of Sharia compliance, some MSMEs strive to maintain transparency in product information and uphold the principle of amanah (trustworthiness), yet gaps remain between halal claims and formal certification, alongside ethical dilemmas arising from promotional pressures imposed by platforms. Key challenges include technological limitations, restricted access to certification, and limited understanding of Sharia values within the context of digital marketing. This study underscores the need for regional ecosystem support through Sharia-based digital training, facilitation of halal certification, and strategic collaboration among local governments, MSME facilitators, and marketplace providers. These findings contribute empirical evidence to strengthen the literature on the digitalization of halal MSMEs and its implications for Sharia business practices in non-metropolitan regions.

Keywords: Halal MSMEs, Digital Transformation, Marketplace, Sharia Compliance.

I. Introduction

The development of the digital economy over the past few years has created new opportunities as well as challenges for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. The era of digitalization including the use of marketplaces, social media, and digital payment services enables MSMEs to expand market access, improve marketing efficiency, and increase transaction volumes without relying on traditional retail infrastructure. However, the adoption of technology also requires changes in operational practices that affect ethical and compliance aspects, particularly for MSMEs that carry halal labels and uphold Sharia-based economic values (S. Purnomo et al., 2024).

As the country with the largest Muslim population in the world, Indonesia has enormous potential in the halal market. This opportunity encourages many MSMEs to build a halal identity as a source of competitive advantage. On the other hand, Sharia compliance requirements including product transparency, assurance of halal ingredients and production processes, and marketing practices aligned with Islamic principles pose significant challenges when business interactions shift into the digital sphere. Marketplace-based sales often generate practical dilemmas: how to ensure that product information is not misleading (avoiding *tadlis*), how to maintain the integrity of the halal supply chain, and how to select payment and promotional mechanisms that do not involve elements of *riba* or *gharar*. These conditions call for studies that explore the everyday practices of halal MSME actors in digital contexts (Sari, 2023).

Pacitan Regency exhibits distinctive economic dynamics in the trade and service sectors, which contribute significantly to regional Gross Regional Domestic Product (GRDP), while MSME capacity-building programs remain a key focus of local government agencies in supporting economic recovery and growth. Performance reports from the Office of Cooperatives, Micro Enterprises, and Industry of Pacitan Regency highlight ongoing efforts to enhance MSME capacity and provide business assistance. Nevertheless, challenges in accelerating digitalization and meeting standards including certification and compliance aspects remain evident at the grassroots level. The spatial conditions and business culture in non-metropolitan areas such as Pacitan have the potential to generate Sharia compliance practices and digital strategies that differ from those in major cities, making field research in Pacitan particularly relevant for capturing these variations.

The literature on MSME digitalization in Indonesia indicates that technology adoption is not merely about setting up online stores, but rather a comprehensive transformation involving digital literacy capacity, access to financing (including fintech), logistics networks, and policy support. Recent systematic studies emphasize that many MSMEs continue to face implementation barriers, such as limited knowledge of marketplace features, difficulties in adjusting business practices to quality standards, and access to financing that is not yet fully inclusive. These challenges affect their ability to uphold business values, including Sharia principles (H. Purnomo et al., 2024). From a Sharia economics perspective, compliance extends beyond merely possessing halal certification to include principles of honesty (*amanah*), justice (*‘adl*), and the avoidance of speculative or manipulative practices. . This situation opens space for research that reveals how local actors negotiate their halal identity in everyday digital business practices (Rahmatullah et al., 2025).

Although the literature on MSME digitalization and the halal market continues to grow, there remains a lack of qualitative studies that specifically examine Sharia compliance practices within marketplace contexts in non-metropolitan regions. Most existing studies rely on large-scale quantitative approaches or focus on case studies in major cities with different socio-economic contexts. Consequently, gaps remain in understanding: (1) how halal MSMEs in regions such as Pacitan articulate and translate Sharia principles into digital practices; (2) the local strategies they employ to cope with digital market pressures; and (3) the roles of local actors such as government agencies, MSME facilitators, and religious institutions in facilitating such compliance. This study seeks to address these gaps through a qualitative approach (phenomenology/case study) that places the experiences of halal MSME actors in Pacitan Regency at the center of analysis. The novelty of this research lies in integrating digital transformation analysis (marketplace features, digital marketing strategies, and fintech access) with an examination of Sharia compliance as reflected in the real practices of business actors in a non-metropolitan local context.

II. Literature Review and Hypothesis Development

2.1. MSME Digitalization and Marketplace Adoption in Indonesia

The digital transformation of MSMEs is no longer merely an option but a strategic necessity to sustain business continuity and expand market share. Systematic studies and cross-regional surveys indicate that MSME participation in digital ecosystems through marketplaces, social media, and fintech enhances market

reach and operational efficiency. Nevertheless, the adoption process faces tangible barriers, including limited digital skills, adaptation costs, logistics infrastructure constraints, and data security issues. Several studies also emphasize disparities between adoption in major cities and regency-level areas: MSMEs in non-metropolitan regions tend to encounter limited access to training, weaker distribution networks, and lower intensity of interaction with more mature digital ecosystems. Accordingly, field studies at the regency level, such as in Pacitan, are essential to capture contextual variations in digitalization practices (Wahyono & Anantyasari, 2023).

2.2. Marketplaces (Features, Competitive Pressures, and Ethics)

Marketplaces provide transaction-facilitating features (paid advertisements, flash sales, vouchers, and rating systems) while simultaneously generating strong competitive pressures, including aggressive discounting, price competition, and product visibility optimization through algorithms. In practice, these features encourage sellers to modify marketing practices to “perform” on platforms, potentially shifting priorities from information integrity to visibility strategies alone. In the context of halal MSMEs, this situation can trigger ethical dilemmas, such as the temptation to simplify or obscure information about ingredients or certification to gain a competitive edge. Studies on MSME digital marketing highlight the need to examine how technical platform features interact with business values (Putri et al., 2024).

2.3. Sharia Compliance, Halal Certification, and Implementation Challenges for MSMEs

Sharia compliance for halal products encompasses substantive dimensions (ingredients, production processes, and supply chains) and formal dimensions (certification by authorized institutions). Research shows that many MSMEs face barriers including certification costs, administrative complexity, and limited understanding of halal standards resulting in compliance that is often partial or based on informal claims. Moreover, national policies on halal labeling and certification (including enforcement efforts) increase the urgency for MSMEs to align their practices with increasingly stringent regulations (Syari et al., 2025). Studies of the national halal market highlight substantial economic potential alongside the need to enhance MSME participation in the halal value chain so that benefits are more evenly distributed. However, for MSMEs to genuinely leverage the halal market, targeted interventions are required to bridge gaps in knowledge, financing, and access to certification (Wibowo et al., 2023).

2.4. The Role of Local Government and Business Facilitation in Pacitan Regency

Performance reports from cooperative and MSME offices at the regency level indicate formal efforts to promote digitalization and capacity building among MSMEs ranging from training programs and collective marketing facilitation to microfinance initiatives. However, these documents also reveal resource constraints and uneven program coverage, leading to varying levels of intervention effectiveness across regions. In Pacitan Regency, institutional documents confirm the presence of MSME assistance programs, yet challenges in accelerating digitalization and meeting standards (including certification requirements) remain evident on the ground. This reinforces the relevance of empirical studies that explore the practices and experiences of local actors (Kinerja, 2022).

2.5. Sharia Economics and *Maqāṣid al-Sharī'ah* in Digital Practice

Analyzing halal MSME practices within marketplaces requires a framework that links Sharia economic principles (trustworthiness/*amanah*, honesty, and justice) and the concept of *maqāṣid al-sharī'ah* (the objectives of Sharia) with the mechanics of digital markets. These principles serve as normative benchmarks for assessing marketing practices, product information disclosure, and payment mechanisms. This study

conceptualizes compliance not merely as possession of a label, but as a continuous practice emerging from interactions among entrepreneurs' values, market pressures, and institutional support. Contemporary Sharia economics literature supports this perspective by emphasizing that Sharia compliance must be internalized in business practices to generate substantive impacts on product quality and consumer trust (Anam et al., 2023).

III. Research Method

This study employs a qualitative phenomenological approach aimed at understanding the lived experiences of MSME (Micro, Small, and Medium Enterprise) actors in implementing digital transformation and how they perceive and interpret sharia compliance within marketplace platforms. The phenomenological approach allows the researcher to explore subjective meanings, reflections, and strategies used by informants in responding to the dynamics of the digital market (John W. Creswell, 2014). The research was conducted in Pacitan Regency, which was selected due to its regional characteristics that offer varied conceptual insights into the digitalization processes of MSMEs. Informants were selected using purposive sampling, comprising halal MSME actors actively using marketplaces, as well as MSME facilitators and relevant government officials as supporting informants (Johnson et al., 2020).

Data were collected through in-depth interviews, field observation, digital observation, and documentation analysis. Semi-structured interviews were used to capture informants' personal experiences related to digitalization processes, sharia compliance practices, and the challenges they face on platforms such as Shopee and Tokopedia. Digital observation was conducted to examine how actors present products, formulate descriptions, utilize promotional features, and respond to customers in online spaces. This multiple data collection strategy follows the principle of methodological triangulation to enhance the depth and rigor of the findings (Manik et al., 2022). Documentation in the form of store screenshots, promotional materials, and business documents was used to strengthen interpretation.

Data analysis followed the interactive model proposed by Miles and Huberman (Matthew B. Miles, 2014), which includes data reduction, data display, and conclusion drawing conducted iteratively. Thematic analysis was applied to identify patterns related to digital strategies, forms of sharia compliance, ethical dilemmas, and the dynamics of interactions between actors and marketplace features. Data validity was ensured through source and technique triangulation, member checking, and audit trails, ensuring that the interpretations reflect not only the researcher's perspective but are genuinely grounded in the informants' experiences. Through this approach, the study is able to explain sharia compliance practices contextually within the digital landscape of halal MSMEs in Pacitan.

IV. Result and Discussion

4.1. Digital Transformation of MSMEs in Marketplaces

The findings indicate that halal MSMEs in Pacitan actively use marketplaces to expand their market reach. This aligns with previous studies showing that digitalization provides broader market access for MSMEs, particularly through platforms such as Tokopedia and Shopee. This implementation is not merely about displaying products online but also reflects entrepreneurs' intentions to integrate digital marketing strategies with business growth (Anisa Putri et al., 2025). However, the level of digital literacy among MSME actors remains varied. Most participants only utilize basic marketplace features (e.g., product uploads and simple promotions), while advanced optimization (such as paid advertising features and market analytics) is rarely employed. This confirms studies emphasizing the need for digital training to enhance MSME capacity in maximizing the potential of online platforms (Kurniasih & Mulyani, 2024).

4.2. Sharia Compliance in Marketplaces: Practices and Tensions

Regarding sharia compliance, the findings reveal a complex dynamic. Many MSME actors strive to provide honest information about the halal status of their products, including ingredient composition and production practices. This is consistent with the literature stating that information transparency is a crucial component of halal marketing in the digital era (Putri et al., 2024). Nevertheless, contradictions emerge. Despite the emphasis on transparency, several advertisements or product descriptions found on platforms indicate that actors sometimes make general halal claims without supporting them with official certification. This reflects a gap between the intention to comply with sharia principles and limitations in resources, access to certification, and understanding of formal procedures. Such gaps have also been identified in studies on the e-commerce readiness of sharia-based MSMEs, which stress the need to accelerate halal certification to strengthen market trust (Anisa Putri et al., 2025).

The disparity between verbal communication of sharia values and formal documentary support indicates that sharia compliance in digital contexts is not merely rhetorical but also institutional namely, the capacity to obtain recognized certification and clearly communicate that status to consumers. Furthermore, functional pressures from marketplace features such as large discounts, flash sales, and algorithm-driven strategies often encourage actors to adopt more “commercial” promotional language, which may conflict with sharia-based communication values emphasizing honesty (*amanah*). These pressures create dilemmas similar to those identified in the halal digital marketing literature, highlighting tensions between market demands and Islamic ethical principles (Anantyasari & Hamdani, 2021).

4.3. Challenges and Strategies of MSME Actors

The main challenges faced by halal MSME actors in Pacitan fall into two broad categories: technical and value-based. Technically, limited digital literacy remains a major barrier to optimizing the use of marketplace features. This finding is consistent with studies showing that low digital literacy negatively affects MSMEs’ ability to utilize e-commerce effectively (Wahyono & Anantyasari, 2023). From a value perspective, gaps are evident in the level of understanding of how sharia principles should be integrated into digital communication. Many MSMEs recognize the importance of halal labeling and transparency; however, awareness of the implications of aggressive promotions or commercially sensational marketing language has not yet been fully internalized as part of sharia compliance (Repelita et al., 2024).

The strategies adopted to address these challenges vary. Some actors rely on local communities for digital education, while others actively participate in online marketing training or collaborate with MSME facilitators. Nonetheless, disparities between self-initiated strategies and institutional support indicate the need for more systematic policy interventions, such as intensified digital training programs specifically for halal MSMEs, certification incentives, and marketplace feature options that more explicitly support the communication of sharia values (Wahyudi et al., 2024). The findings demonstrate that the digital transformation of halal MSMEs in Pacitan holds significant potential but is also characterized by tensions between market demands and sharia practices. These results reinforce the view that digitalization is not solely about technology adoption but also about integrating ethical values into marketing strategies. . A summary of the research findings is presented in the following table.

Table 1. Main Findings

Main Theme	Sub-theme	Key Findings
MSME Digital Transformation	Marketplace Adoption	The majority of MSMEs use marketplaces (Shopee, Tokopedia) to expand market reach and increase product visibility

Main Theme	Sub-theme	Key Findings
	Digital Literacy	Digital literacy levels vary: actors with smaller businesses tend to use only basic features
	Digital Strategy	Promotion is conducted through photos, descriptions, and limited discounts; marketplace features are used to attract buyers
Sharia Compliance in Marketplaces	Product Information Presentation	Most actors attempt to convey halal information transparently, although some content remains incomplete
	Halal Certification	Some actors possess official halal certification, but the majority still claim halal status without formal documentation
	Marketing Ethics	Promotional practices often follow platform-driven logic (discounts, flash sales), which at times conflict with sharia-based value communication
Challenges and Strategies	Technology & Access	Access to technology and literacy levels shape the limits of optimizing marketplace features
	Digital Sharia Awareness	There is a need to enhance understanding of the opportunities and threats to sharia values in digital marketing

V. Conclusion

This study confirms that the digital transformation undertaken by halal MSMEs in Pacitan Regency is not merely a technological process, but also a value-based process that involves adjustment between the demands of digital markets and commitments to Sharia compliance. MSME actors generally utilize marketplaces such as Shopee and Tokopedia to expand market reach, increase product visibility, and improve marketing efficiency. However, varying levels of digital literacy mean that most actors rely only on basic features, while more advanced features that could enhance business competitiveness remain underutilized. This condition indicates that digitalization requires sustained support through training and mentoring, particularly for business actors based in non-metropolitan areas such as Pacitan. From the perspective of Sharia compliance, this study finds strong efforts among MSME actors to uphold the principles of amanah (trustworthiness), honesty, and transparency in presenting halal products. Nevertheless, a gap persists between intention and practice: some actors make halal claims without being supported by formal certification documents, while pressure from marketplace algorithms encourages more aggressive promotional strategies that may conflict with ethical standards of Sharia-based marketing. This contradiction demonstrates that Sharia compliance in digital contexts is not solely a matter of certification, but also of moral discipline in managing narratives, promotions, and marketing communications in online spaces. These dynamics are consistent with national-level findings indicating that halal MSMEs often operate at the intersection between commercial pressures and the Sharia values they seek to maintain.

The study further identifies that the main challenges faced by MSMEs in digital transformation include limited technological literacy, restricted access to information on halal certification, and insufficient understanding of how Sharia values can be translated into digital marketing strategies. Mitigation efforts undertaken by business actors such as participating in training programs, collaborating with MSME facilitators,

or leveraging local communities reflect internal initiative, yet remain insufficient to address gaps in institutional support at the regional level. Therefore, this study emphasizes the need to strengthen the supporting ecosystem including local policies, affordable certification programs, Sharia-based digital education, and collaboration between relevant government agencies and marketplace providers to ensure that the digital transformation of halal MSMEs becomes more inclusive, sustainable, and firmly grounded in Sharia principles.

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