

Entrepreneurial Orientation and Digital Capability Shaping Islamic Work Ethic

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Abstract

Research Originality: This study develops an integrated framework explaining Islamic work ethic through entrepreneurial orientation, digital capability, knowledge sharing, and work engagement, while positioning environmental dynamism as a contextual moderator in Indonesian fashion SMEs.

Research Objectives: This study examines the effects of entrepreneurial orientation, digital capability, knowledge sharing, and environmental dynamism on Islamic work ethic, the mediating role of work engagement, and the moderating role of environmental dynamism.

Research Method: A quantitative survey was conducted among 300 fashion SME owners and managers in Indonesia. Data were analyzed using Partial Least Squares Structural Equation Modeling.

Empirical Results: The findings show that all direct relationships are positive and significant. Work engagement significantly mediates the effects of entrepreneurial orientation, digital capability, and knowledge sharing on Islamic work ethic. Environmental dynamism strengthens the effects of digital capability, entrepreneurial orientation, and work engagement, but does not significantly moderate knowledge sharing.

Implications: The findings highlight the importance of integrating organizational capabilities, knowledge sharing, employee engagement, and Islamic ethical values to support sustainable SME development.

Keywords:

Islamic work values; entrepreneurial mindset; digital competence; work engagement; environmental dynamism; fashion.

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INTRODUCTION

The rapid expansion of the digital economy has fundamentally transformed the competitive landscape for small and medium-sized enterprises (SMEs) in the fashion industry. According to Cesar et al. (2026), business sustainability increasingly depends on firms' ability to combine innovation with strategic capabilities. This aligns with Aracil et al. (2025), who argued that digital transformation enhances transparency and trust, making it a strategic resource rather than merely a technological asset. In Muslim-majority economies like Indonesia, this transformation demands business practices that integrate technology with Islamic ethical values. Digital business requires high accountability and honesty to sustain stakeholder trust (Rakibul et al., 2024; Clemente-Almendros et al., 2024).

This urgency is particularly evident in Indonesia's fashion SME sector. Wibowo et al. (2023) reported that the rapid growth of the modest fashion industry has intensified competition based on product innovation and digital marketing. Griep et al. (2025) highlighted that sustainable human resource management increasingly emphasizes ethical values as the foundation of organizational resilience. Furthermore, Ramos-Vecino et al. (2026) demonstrated that digital capability strengthens adaptability and responsible business practices when supported by ethical governance.

Entrepreneurial orientation is now recognized as a strategic capability enabling SMEs to achieve sustainable competitiveness. Pastwa et al. (2026) found that entrepreneurial orientation enhances organizational sustainability, innovativeness, and adaptability in challenging environments. Additionally, Hanoum et al. (2025) reported significant improvements in SME performance driven by digital business transformation rooted in entrepreneurial orientation. Simultaneously, digital capability has become crucial. Ramos-Vecino et al. (2026) and Aracil et al. (2025) asserted that digital capabilities integrated with ethical governance improve resilience and accountability. Qiao et al. (2025) showed that this capability facilitates knowledge integration, while Rakibul et al. (2024) emphasized the role of digital tools in fostering trustworthy and responsive online interactions.

Work engagement has been identified as a psychological bridge between organizational capabilities and behavior. Meyvanali et al. (2025) and Handayani et al. (2026) found that knowledge-oriented leadership and technological support in digital work environments significantly increase employee engagement. Highly engaged employees are shown to demonstrate more ethical work behaviors (Alshammari et al., 2025), alongside greater responsibility and integrity (Waruwu et al., 2025). Thus, Islamic Work Ethic (IWE) is not merely a reflection of individual religiosity but an organizational outcome shaped by employee engagement.

Despite the growing literature, empirical evidence regarding these variables remains inconsistent. On one hand, Al-Mamary & Alshallaqi (2022) and Yin et al. (2022) found that entrepreneurial orientation strengthens ethical behavior. On the other hand, Mlawu et al. (2025) and Kraus et al. (2021) reported weak effects when organizations face intense economic competitive pressure. Similar inconsistencies appear regarding digital capability; Alshammari et al. (2025) observed improved ethical behavior, whereas Puteh et al. (2024)

and Lyu et al. (2022) argued its effectiveness depends heavily on organizational culture. Regarding work engagement, Handayani et al. (2026) and Meyvanali et al. (2025) showed its positive impact on ethics. However, Nauman et al. (2025) warned that high engagement does not always lead to ethical behavior when excessive organizational pressure exists.

Conceptually, studies such as Al-Mamary & Alshallaqi (2022), Aracil et al. (2025), Qiao et al. (2025), Meyvanali et al. (2025), and Handayani et al. (2026) have primarily examined these variables in isolation and have not yet included environmental dynamism as a boundary condition (moderator). To address these gaps, this study examines the direct effects of entrepreneurial orientation and digital capability on Islamic Work Ethic (IWE), the mediating role of work engagement, and the moderating effect of environmental dynamism among fashion SMEs in Java, Indonesia. By employing Partial Least Squares Structural Equation Modeling (PLS-SEM), this research contributes theoretically by integrating strategic management and Islamic values within a single moderated mediation framework. Practically, the findings will help policymakers and SME owners design strategies for sustainable competitiveness in the digital economy.

To address these limitations, this study highlights two critical research gaps: the neglect of psychological mechanisms—specifically work engagement—that translate strategic capabilities into ethical behavior, and the omission of environmental dynamism as a vital boundary condition in volatile markets. This research is novel in proposing an integrated moderated-mediation framework that bridges Strategic Management, Organizational Behavior, and Islamic Business Ethics. Unlike prior fragmented models, this study uniquely positions environmental dynamism as a catalyst that amplifies or suppresses the translation of digital and entrepreneurial capabilities into Islamic Work Ethic (IWE). Accordingly, this research examines the direct effects of digital capability and entrepreneurial orientation on IWE, investigates the mediating role of work engagement, and evaluates the moderating effect of environmental dynamism on these direct and indirect relationships.

METHODS

This study employed a quantitative research design using a cross-sectional survey to examine the relationships among entrepreneurial orientation, digital capability, work engagement, environmental dynamism, and Islamic work ethic. A quantitative approach was selected because it enables the empirical testing of complex causal relationships among latent variables using Structural Equation Modeling (SEM). The research focused on fashion SMEs operating in Java, Indonesia, where digital transformation and Islamic business values have become increasingly important for sustaining competitiveness.

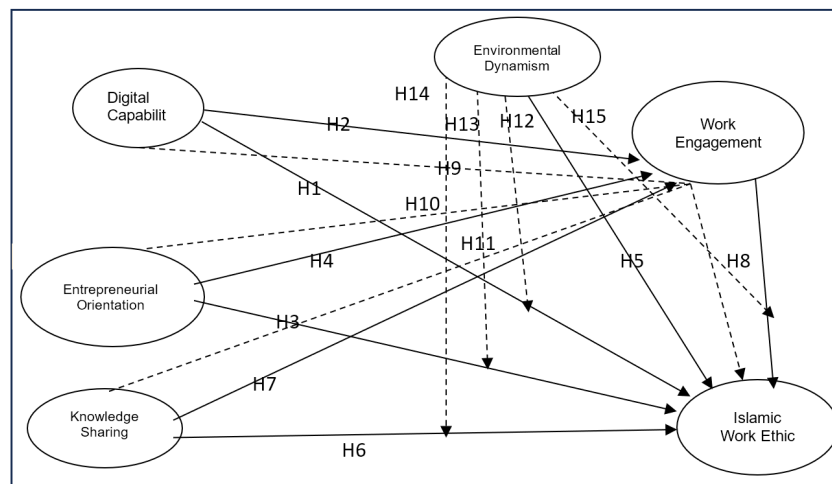
The population comprised owners and managers of fashion SMEs across Java, Indonesia, selected because they understand their firms' entrepreneurial orientation, digital capability, knowledge sharing, employee engagement, and ethical practices. Purposive sampling was employed with criteria that respondents owned or managed a fashion SME operating for at least three years, used digital technologies, and understood organizational and employee practices. A total of 300 valid respondents were included. Following the

ten-times rule for PLS-SEM, the minimum sample was determined by multiplying the 30 measurement indicators by 10, resulting in 300 respondents ($30 \times 10 = 300$). This sample meets the recommended minimum for PLS-SEM and is considered adequate for estimating the proposed direct, mediating, and moderating relationships (Hair & Alamer, 2022).

The research model consists of five latent variables. Entrepreneurial orientation, digital capability, and knowledge sharing serve as exogenous variables. Islamic work ethic is specified as the endogenous variable. Work engagement functions as the mediating variable, while environmental dynamism is incorporated as the moderating variable. All constructs were measured using previously validated measurement scales adapted from recent studies. Responses were collected using a five-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree"). Before data collection, academic experts reviewed the questionnaire, and it was pilot-tested to ensure content validity, clarity, and reliability.

The conceptual framework proposes that entrepreneurial orientation and digital capability directly influence Islamic work ethic while simultaneously enhancing work engagement. Work engagement is expected to mediate the relationships between organizational capabilities and Islamic work ethic. Furthermore, environmental dynamism is proposed to moderate the effects of entrepreneurial orientation, digital capability, and work engagement on Islamic work ethic by strengthening or weakening these relationships under different environmental conditions. This integrated framework combines organizational capabilities, psychological mechanisms, and external environmental factors to explain ethical work behavior among fashion SMEs (see Figure 1).

Figure 1. Research Framework



Source: Authors' compilation.

Primary data were collected through structured questionnaires distributed directly and electronically to fashion SME owners and managers across Java, Indonesia. Data collection was conducted over three months. Prior to statistical analysis, the returned

questionnaires were screened for completeness, missing values, and response consistency to ensure data quality. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. This analytical technique was selected because it is appropriate for simultaneously estimating measurement and structural models involving mediating and moderating relationships. The analysis followed the two-stage procedure recommended by Hair and Alamer (2022). The measurement model was evaluated using indicator loadings, Cronbach's alpha, composite reliability, average variance extracted (AVE), discriminant validity based on the Fornell-Larcker criterion and HTMT ratio, and multicollinearity using the variance inflation factor (VIF). Subsequently, the structural model was assessed using bootstrapping with 5,000 resamples to examine path coefficients, indirect effects, moderating effects, coefficients of determination (R^2), predictive relevance (Q^2), and effect size (f^2).

RESULTS AND DISCUSSION

The empirical findings demonstrate that entrepreneurial orientation, digital capability, work engagement, and environmental dynamism play complementary roles in strengthening Islamic work ethic among fashion SMEs. Entrepreneurial orientation and digital capability not only directly enhance Islamic work ethic but also foster stronger employee engagement, an important psychological mechanism linking organizational capabilities to ethical work behavior. Furthermore, environmental dynamism strengthens the effectiveness of organizational capabilities and employee engagement in promoting Islamic work ethic, indicating that firms operating in dynamic business environments require both strategic capabilities and ethical values to maintain sustainable competitiveness. Overall, the findings support the proposed conceptual framework by demonstrating that Islamic work ethic is shaped through the interaction of organizational capabilities, employee engagement, and external environmental conditions rather than by individual organizational factors alone.

The demographic and business characteristics of the 300 respondents. The majority were men (76.8%), while women accounted for 23.2%. Most respondents were aged 31–50 years (59.6%), followed by those aged ≤ 30 years (38.2%). Regarding education, secondary education represented the largest proportion (44.4%), followed by master's degrees (20.2%). In terms of business experience, most respondents had operated their businesses for 5–14 years (52.6%), indicating relatively established enterprises. Furthermore, 80.3% of respondents reported assets valued at IDR 50 million or more. Overall, the profile indicates that respondents were predominantly experienced SME owners with relatively established businesses and substantial asset ownership.

Table 1 shows that the measurement model demonstrates satisfactory reliability and validity. All constructs satisfy the recommended thresholds for indicator reliability, internal consistency, convergent validity, and discriminant validity. Therefore, the measurement model is considered appropriate for evaluating the structural relationships among the research variables. Table 2 presents the results of the discriminant validity assessment using the Fornell–Larcker criterion and the Heterotrait–Monotrait Ratio (HTMT).

Table 1. Measurement Model Testing: Convergent Validity, Composite Reliability, and Cronbach's Alpha

Variable	λ	Cronbach's α	rho_A	CR	AVE
Entrepreneurial Orientation		0.997	0.997	0.998	0.989
EO1	0.995				
EO2	0.994				
EO3	0.995				
EO4	0.995				
EO5	0.995				
Digital Capability		0.998	0.998	0.998	0.990
DC1	0.996				
DC2	0.995				
DC3	0.995				
DC4	0.995				
DC5	0.995				
Knowledge Sharing		0.998	0.998	0.999	0.993
KS1	0.996				
KS2	0.997				
KS3	0.997				
KS4	0.996				
KS5	0.996				
Work Engagement		0.997	0.997	0.998	0.990
WE1	0.995				
WE2	0.995				
WE3	0.994				
WE4	0.995				
WE5	0.995				
Environmental Dynamism		0.998	1.000	0.999	0.993
ED1	0.996				
ED2	0.996				
ED3	0.997				
ED4	0.997				
ED5	0.996				
Islamic Work Ethic		0.997	0.997	0.998	0.989
IW1	0.995				
IW2	0.994				
IW3	0.994				
IW4	0.995				
IW5	0.996				
Moderating ED*EO	0.947	1.000	1.000	1.000	1.000
Moderating ED*DC	1.151	1.000	1.000	1.000	1.000
Moderating ED*WE	0.932	1.000	1.000	1.000	1.000
Moderating ED*KS	0.976				

Source: Authors' calculations

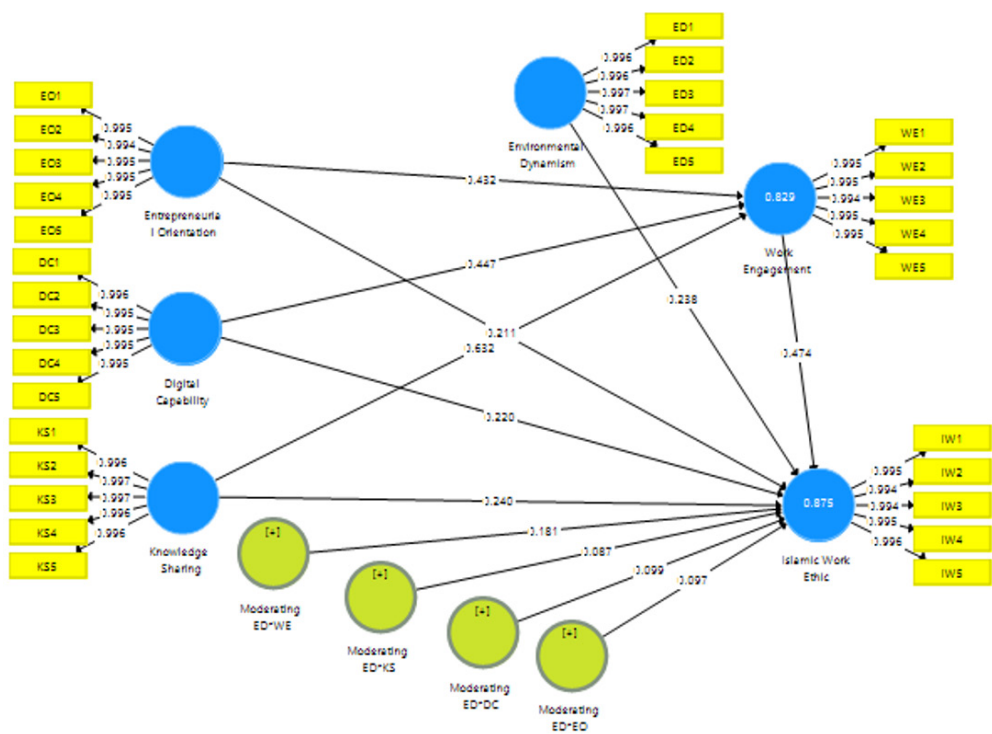
Table 2. Discriminant Validity

Variable	DC	EO	ED	IWE	KS	Moderating ED*DC	Moderating ED*EO	Moderating ED*KS	Moderating ED*WE	WE
Fornell-Larcker criterion										
Digital Capability	0.995									
Entrepreneurial Orientation	0.034	0.995								
Environmental Dynamism	-0.184	0.028	0.996							
Islamic Work Ethic	0.467	0.467	0.119	0.995						
Knowledge Sharing	0.036	0.018	-0.049	0.535	0.996					
Moderating ED*DC	0.082	0.066	-0.118	0.283	0.080	1.000				
Moderating ED*EO	0.080	0.074	0.080	0.216	-0.028	0.010	1.000			
Moderating ED*KS	0.094	-0.028	-0.118	0.120	-0.154	0.085	-0.081	1.000		
Moderating ED*WE	0.124	0.052	-0.098	0.347	-0.057	0.542	0.361	0.649	1.000	
Work Engagement	0.485	0.458	-0.085	0.836	0.655	0.100	0.051	-0.054	0.059	0.995
HTMT 0.90 Criterion										
Entrepreneurial Orientation	0.034									
Environmental Dynamism	0.185	0.028								
Islamic Work Ethic	0.468	0.468	0.119							
Knowledge Sharing	0.036	0.018	0.049	0.536						
Moderating ED*DC	0.082	0.066	0.118	0.284	0.080					
Moderating ED*EO	0.080	0.074	0.080	0.217	0.028	0.010				
Moderating ED*KS	0.094	0.028	0.118	0.120	0.154	0.085	0.081			
Moderating ED*WE	0.124	0.052	0.098	0.348	0.057	0.542	0.361	0.649		
Work Engagement	0.486	0.459	0.086	0.838	0.657	0.100	0.051	0.054	0.059	
Entrepreneurial Orientation	0.034									

Source: Authors' calculations

Figure 2 presents the results of the structural model testing. As shown in Figure 2, the structural model shows that entrepreneurial orientation, digital capability, and knowledge sharing positively influence work engagement and Islamic work ethic. Work engagement also positively affects Islamic work ethic. Environmental dynamism moderates several relationships, indicating that changing business environments can strengthen the effects of organizational capabilities and employee engagement on Islamic work ethic.

Figure 2. Structural Model



Source: Authors' calculations

Table 3 shows that the model explains 87.5% of the variance in Islamic Work Ethic and 82.9% in Work Engagement, indicating substantial explanatory power. The adjusted R^2 values remain high at 0.871 and 0.827. The f^2 values indicate meaningful effect sizes, while Q^2_{predict} values above zero (0.828 and 0.826) demonstrate the model's strong predictive relevance.

Table 3. Presents the outcomes for R Square, R Square Adjusted, f^2 , and Q^2_{predict} .

Variabel	R Square	R Square Adjusted	f Square	Q^2_{predict}
Islamic Work Ethic	0.875	0.871	0.172	0.828
Work Engagement	0.829	0.827	0.168	0.826

Source: Authors' calculations

Table 4 presents the results of the direct, indirect, and moderating effects. The direct-effect results show that digital capability, entrepreneurial orientation, environmental dynamism, knowledge sharing, and work engagement all significantly influence Islamic work ethic. Specifically, digital capability and entrepreneurial orientation significantly affect both Islamic work ethic and work engagement. Environmental dynamism also significantly influences Islamic work ethic, while knowledge sharing significantly affects both Islamic work ethic and work engagement. Additionally, work engagement significantly enhances Islamic work ethic. The indirect effects further demonstrate that work engagement significantly mediates the relationships between digital capability, entrepreneurial orientation, and

knowledge sharing and Islamic work ethic. Regarding moderation, environmental dynamism significantly strengthens the effects of digital capability, entrepreneurial orientation, and work engagement on Islamic work ethic. However, its moderating effect on knowledge sharing is not significant. Overall, the findings indicate that organizational capabilities, employee engagement, and environmental conditions collectively explain the development of Islamic work ethic.

Table 4. Hypothesis Testing

Path Coefficients	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Decision
Direct Effects						
Digital Capability -> Islamic Work Ethic	0.220	0.221	0.035	6.309	0.000	H1, Significant
Digital Capability -> Work Engagement	0.447	0.449	0.032	14.033	0.000	H2, Significant
Entrepreneurial Orientation -> Islamic Work Ethic	0.211	0.211	0.032	6.638	0.000	H3, Significant
Entrepreneurial Orientation -> Work Engagement	0.432	0.432	0.031	13.918	0.000	H4, Significant
Environmental Dynamism -> Islamic Work Ethic	0.238	0.238	0.032	7.452	0.000	H5, Significant
Knowledge Sharing -> Islamic Work Ethic	0.240	0.239	0.042	5.681	0.000	H6, Significant
Knowledge Sharing -> Work Engagement	0.632	0.632	0.028	22.840	0.000	H7, Significant
Work Engagement -> Islamic Work Ethic	0.474	0.474	0.055	8.622	0.000	H8, Significant
Indirect Effects						
Digital Capability -> Work Engagement -> Islamic Work Ethic	0.212	0.213	0.028	7.646	0.000	H9, Significant
Entrepreneurial Orientation -> Work Engagement -> Islamic Work Ethic	0.205	0.205	0.027	7.485	0.000	H10, Significant
Knowledge Sharing -> Work Engagement -> Islamic Work Ethic	0.299	0.300	0.039	7.709	0.000	H11, Significant
Moderating						
Moderating ED*DC -> Islamic Work Ethic	0.099	0.098	0.032	3.046	0.002	H12, Significant
Moderating ED*EO -> Islamic Work Ethic	0.097	0.095	0.032	3.033	0.002	H13, Significant
Moderating ED*KS -> Islamic Work Ethic	0.087	0.084	0.046	1.891	0.059	H14, Not Significant
Moderating ED*WE -> Islamic Work Ethic	0.181	0.184	0.061	2.944	0.003	H15, Significant

Source: Authors' calculations

The hypothesis testing results demonstrate that digital capability, entrepreneurial orientation, environmental dynamism, knowledge sharing, and work engagement significantly contribute to Islamic work ethic among fashion SMEs, while environmental dynamism does not significantly moderate the relationship between knowledge sharing and Islamic work ethic. These findings indicate that Islamic work ethic is shaped not only by individual values but also by organizational capabilities, employee psychological resources, knowledge processes, and environmental conditions.

This study confirms all direct hypotheses regarding the drivers of Islamic Work Ethic (IWE) and Work Engagement (WE) in fashion SMEs. Digital capability significantly enhances both IWE and WE. As a valuable resource, digital tools facilitate transparency and accountability, aligning with Islamic principles like *sidq* (honesty) and *adl* (fairness), while building customer trust (Aracil et al., 2025; Ramos-Vecino et al., 2026). Furthermore, by functioning as a critical job resource, digitalization improves task efficiency and boosts employee vigor and dedication. Handayani et al. 2026, Meyvanali et al. 2025). Similarly, entrepreneurial orientation positively impacts both outcomes. Extending the Resource-Based View, innovation and proactiveness drive SMEs to prioritize long-term stakeholder relationships and accountability. Hanoum et al., 2025). Promoting autonomy increases employees' psychological involvement.

Environmental dynamism also positively influences IWE. Consistent with Dynamic Capabilities Theory, rapid market and technological changes compel SMEs to reinforce their ethical principles to maintain trust amid uncertainty (Pastwa et al., 2026; M. Qiao et al., 2025). Meanwhile, knowledge sharing not only fosters IWE but also emerges as the strongest predictor of WE. Collaborative information exchange regarding products, customers, and values promotes ethical behavior and the deep psychological involvement necessary in the fast-paced fashion sector. Finally, WE positively drives IWE. Highly engaged employees exhibit profound responsibility and commitment (Alshammari et al., 2025; Waruwu et al., 2025). Unlike contexts where excessive pressure diminishes ethics (Nauman et al., 2025), the normative values within the Islamic business framework ensure that psychological engagement effectively translates into principled, ethical conduct.

This study confirms that work engagement partially mediates the relationship between organizational capabilities and Islamic Work Ethic (IWE) across three indirect hypotheses. Digital capability significantly influences IWE indirectly, as supportive digital environments strengthen employee engagement and positive work outcomes (Meyvanali et al., 2025; Handayani et al., 2026). Similarly, entrepreneurial orientation indirectly enhances ethical behavior by cultivating an organizational environment that fosters employee initiative and psychological involvement (Meyvanali et al., 2025). Knowledge sharing shows the strongest indirect effect, indicating that information exchange maximizes engagement, which in turn drives responsible and ethical workplace behavior (Alshammari et al., 2025; Waruwu et al., 2025; Meyvanali et al., 2025; Handayani et al., 2026). Because the corresponding direct effects remain significant, these relationships represent partial mediation. Theoretically, this integrates the Resource-Based View and Dynamic Capabilities Theory with organizational behavior perspectives. Practically, SMEs must

pair investments in digital, entrepreneurial, and knowledge capabilities with strategies that actively strengthen employee engagement.

This study demonstrates that environmental dynamism selectively moderates the pathways to Islamic Work Ethic (IWE). Specifically, highly dynamic environments significantly strengthen the positive effects of digital capability on IWE, as digital tools become crucial for maintaining accuracy, responsiveness, and transparency in rapidly changing markets (M. Qiao et al., 2025; Ramos-Vecino et al., 2026). Similarly, environmental dynamism amplifies the impact of entrepreneurial orientation on IWE. Proactivity and innovation help SMEs adapt, while Islamic principles ensure this adaptation avoids opportunism (Pastwa et al., 2026). Furthermore, a volatile environment enhances the influence of work engagement on IWE. Engaged employees are better equipped to balance changing demands with strict ethical responsibility (Handayani et al., 2026; Alshammari et al., 2025), challenging the notion that external pressure inherently undermines ethics (Nauman et al., 2025). Conversely, environmental dynamism does not significantly moderate the relationship between knowledge sharing and IWE, indicating that knowledge exchange functions as a stable internal resource providing consistent ethical benefits regardless of market volatility.

Overall, IWE is cultivated through a strategic alignment of capabilities, psychological engagement, and environmental adaptation, with work engagement acting as a vital mediating mechanism. Theoretically, this extends the Resource-Based View and Dynamic Capabilities Theory by proving that organizational capabilities yield ethical as well as strategic outcomes. Practically, fashion SME managers must integrate digital transformation, entrepreneurial initiatives, and knowledge sharing with Islamic values. In turbulent markets, this integration guarantees adaptability and competitiveness without compromising honesty, fairness, and accountability.

CONCLUSION

This study concludes that entrepreneurial orientation, digital capability, and knowledge sharing significantly enhance work engagement and the Islamic work ethic among Indonesian fashion SMEs. Work engagement serves as a vital partial mediator, translating these organizational capabilities into ethical behavior through increased employee dedication. Additionally, while highly dynamic environments amplify the positive effects of digital and entrepreneurial capabilities on ethical practices, the contribution of knowledge sharing remains consistently stable regardless of market volatility.

Consequently, policymakers and SME managers should implement strategies that integrate digital adoption and entrepreneurial initiatives with Islamic ethical values, ensuring that business competitiveness aligns with honesty and accountability. Internal policies must foster a collaborative culture of knowledge sharing to strengthen employee engagement, which is crucial for driving ethical resilience. Furthermore, providing targeted support for market adaptation will empower SMEs to remain innovative, proactive, and ethical in a rapidly changing business landscape.

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