The performance of MSMEs in Gresik based on Maqasid Sharia

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ABSTRACT

MSMEs have fundamental problems mainly on internal and external issues such as limited capital, human resources, business network, and market penetration, business climate, facilities and infrastructure, short lifetime product, market access, and free trade. To alleviate these problems, it is necessary for them to analyse the performance from other perspective following the purpose of this research. The purpose of this research is to analyse the performance and activity of MSMEs in Gresik, East Java from maqasid sharia perspective. This research uses mix method conducted in three stages. The first phase of the exploration aims to provide initial insight, research design, and theoretical framework through pilot study on MSMEs Gresik. The second phase is a survey of MSMEs Gresik to form the basis of MSMEs Gresik performance through religion, self, intellect, heredity, and wealth variables.

1. INTRODUCTION

Micro, small and medium enterprises (MSMEs) have a very important role to improve the country economy. Besides that, they can also maintain the stability of the country’s economy. For example, when especially Indonesia experienced economic crisis in 1998 (Nugroho, F.A, 2015). Moreover, SMEs have an active role in absorbing the employment recruitment and creating the jobs. In 2005, they could absorb 96.77 percent of the workforce. SMEs empowerment is held both from central and local government. The expansion of the role of SMEs is included in the Presidential Decree no 17 of 2006 on KP3R on the agenda of economic reform acceleration (Mokhamad T and Hartono, 2011). The development of MSMEs is also happened in the Middle East countries and southeast countries such as South Korea, Taiwan, Hongkong, and Singapore showing the most successful cases in the development of SMEs that directly support trade and adopt an export oriented strategy in which SMEs can compete effectively in both domestic and international markets (Musfialdi, 2013). The existence of MSMEs has and impact on the decrease in demand for imported goods where domestic prices are rapidly transmitted throughout the wider community from rural to urban in order to stimulate domestic demand for domestic potentially high domestic and export growth (Sasono dan Rahmi, 2014)

On the other hand, the problems that are often and still faced by MSMEs are low productivity which is related to low quality of human resources,
low entrepreneurial competence, limited access to capital, market access, information on resources and technology, facilities and infrastructure, short life time, and free trade implications (Susilo, 2010). Regarding to the problem of limited capital, MSMEs need support from financial institutions including banks or other financial institutions. However, with the business profile of MSMEs that do not meet the requirements of the banking financing, so that it becomes an obstacle for the proposed financing by MSMEs. This problem leads to the use of personal or third party capital, which is a very high interest rate of loan (Nugroho, 2013).

Comparison of the development of Indonesian SMEs with other Asian countries is that the development of MSMEs Indonesia is slower due to the limitations of MSMEs in technology mastery, lack of managerial aspects, decisions, financial supervision, and business failure (Musfialdi, 2013). The development of SMEs in some areas have experienced rapid progress that led to the increasingly tight competition climate implications. It brings MSMEs bankruptcy (Machmud dan Sidharta, 2013). Other factors that challenge MSMEs are uncertain income, loss, hard work and long time (Satria, 2015).

The district government of Gresik empowers the people’s economy into a priority program in the form of MSMEs sector in 2016. In Gresik City, there are about 186,000 MSMEs from all sectors, from micro, small, medium to large scale SMEs. Some of them are already in international scale such as kopyah (Indonesian Muslim hat) industry having the production exported to Malaysia. Fish crackers are also exported to Saudi Arabia, Sarong exported to Asian regions. Banana midrib craft can penetrate the export to America and Europe, tambourines are also exported to Asian countries, and rattan industry can penetrate the Chinese market, Korea and Japan. Not only in the international area of UMKM Gresik, at the national level also has an important role. So far, MSMEs have constrains, especially their weak product standard, intellectual property rights, and weak in using technology (Taufik, 2016).

To overcome these constrains, it is not enough for the SMEs with the role of government policy. Operational performance related to the effectiveness of the use of each resource used by SMEs need to be measured and researched. Operational performance, in this case, can increase turnover and customer, no difficulty in credit repayment, able to increase profits, capital development, careful in decision and reading opportunities, and keep the stability of business competition. There are the aspects that need to be researched. They are human resources, finance, production techniques, operations, markets and marketing, government policy, socio-cultural and economic, and the role of related institutions. Based on Ismail Y, Sarif S M, and Azan Z (2017) research, maqasid sharia approach will make the organization or entrepreneur attain sustainable competitive advantage for profit end as well as social welfare end. The model of maqasid sharia is applied in the vision, mission, goals and strategy of the entrepreneur. Also the research of Asutay M (2015) having the maqasid sharia index can enhance the performance of the organization or entrepreneur also giving the solution of the entrepreneur problems in their operational and business through five pillars of maqasid sharia.

For that reason, this research measurement is using the maqasid sharia model in order to know the performance of MSMEs and the correlation with five parameters of maqasid sharia. Maqasid sharia is the goal of sharia (Islamic religious law) which includes the benefit (prosperity) of man in the world and the hereafter and in the shade of Islamic law. Viewed from the aspect of the substance, maqasid sharia is divided into 1) ḍharririjat that is maslahat (prosperity) is primary, 2) ḥajiyat is maslahat is secondary; 3) ṭahsinijat is maslahat moral guidance of goodness and glory. If viewed from the aspect of its coverage is divided into 1) maslahat kulliyat that is universal and 2) maslahat juziyat that is partial or individual (Shidiq, 2009). The parameters of maqasid sharia for welfare are 1) al-aql (mind), 2) addien (religion), 3) nasl (descendant), 4) nafs (humanity), 5) maal (property) in the annual book of BMT (Baitul Maal wa Tamwil) venture members in the form of aspects of education, spirituality, health, social and financial (Lasmiatun, 2013).

2. THEORETICAL FRAMEWORK AND HYPOTHESES
MSMEs are the driving force in economic development, employment of 96.77% of total workforce in 2005, also an added value in gross domestic product (GDP) (Susilo, 2010). The role of MSMEs is in line with the evidence on countries in eastern and southern Asia, such as south Korea, Taiwan, Hongkong, and Singapore which show the most successful cases in the development of MSMEs that directly support trade and export oriented strategies. MSMEs is able to compete effectively in domestic and international market (Musfialdi, 2013). MSMEs also play an important role in bringing potential buyers and sellers together and dissemi-
nating information on product quality, direct absorption of resources in the economic activity of declining demand for imported goods, and improving people’s living standards (Sasono and Rahmi, 2014). The development of MSMEs is also in line with the policy direction of economic development with the National Medium Term Plan 2010 – 2014 which guides the government (Hapsari, 2014).

The government program in the formation of the chamber of small and medium enterprises established since 15 June 2005 has a role as a place of community economy with structured at provincial, district / city and sub district level according to Law no. 1 year 1987. The purpose of formation of chamber of small and medium enterprises is to overcome the classical problems of MSMEs. Also through president instruction no 6 year 2009 in the development of creative industries to 28 central and local government agencies for the development of SMEs in 2009 – 2015 in order to develop economic activities based on creativity, skills, individual talents of economic value and welfare of the people of Indonesia (Wicaksono and Nivriasari, 2012). On the other hand, the central government has also helped to reduce the classical problems faced by MSMEs in terms of taxes, which the Directorate General of Tax (DJP) enacted government regulation no. 46 year 2013 is the tax base used in gross profit every month with a final rate of 1% tax on MSMEs (Ilmiyah, 2014).

The difficulties faced by MSMEs are related to the capital, raw material procurement, marketing, and other difficulties (Bayu and Sulistiyo, 2012). Still, there are other factors such as the low commitment of SMEs in fulfilling customer orders, the lack of management system implemented, the limited facilities and infrastructure. Laso, they have problems with the low quality of human resources, the limited capital, the weakness of communication and information networks, the low ability of research and development, unstable supply and price of raw materials, high level, and lack of conducive government regulations. They have problems with low access to markets, low access to financing sources, the emergence of stealth costs, difficulties in fulfilling patent procedures of product (Deputy of MSME Resources Assessment, 2006). Low productivity, micro scale entrepreneurship competence, limited access to capital, market access, access to information on resources and technology, limited capital, business networks and market penetration, less conducive business climate, the nature of products with short life time, and the impact of free trade (Susilo, 2010). Short time to complete business needs, tight control over budget and financing, and lack of experts (Saragih and Suragia, 2015). Another obstacle that arises in SMEs is the cadre and management of single (Lestari, 2010).

The performance of MSMEs can be seen through the indicator variables. They are (1) the use of technology consisting of indicators technology, human ware, human info ware, and organization ware; (2) the ability of technological innovation consisting of research and development, innovation in decision making, marketing, production, and capital; (3) human resources consisting of knowledge, abilities, and skills; (4) information technologies consisting of effectiveness, efficiency, confidentiality, integrity, compliance and accuracy of information; (5) leadership consisting of change, communication, leadership in work, and developers for others; and (6) increased productivity consisting of capital, labor, energy and raw materials (Astuti, et al, 2014).

Research by Munawir (2010) on the performance of SMEs viewed from the aspects of production, marketing, management, and the calculation of costs and revenue and business profits with R/C ratio of total revenue divided by total costs. While the study by Tambunan (2008) is seen from the expertise of workers, employers, organizational and management expertise, capital, technology, information, and other inputs in the form of product competitiveness with inputs of export market share, export and production volume, product price and customer satisfaction.

The Gresik regency government established a priority program in 2016 by empowering the people’s economy with MSME sector. In Gresik regency, there are about 181,000 MSMEs from all sectors, from small, medium to large scale SMEs. Some of them are already in international scale such as koputah industry already production to Malaysia, fish crackers are exported to Saudi Arabia, export of sarong to Asian area, banana stem craft to penetrate America and Europe, tambourines are also exported to Asian country, and rattan industry penetrate the Chinese market, Korea and Japan. Not only in the international arena of MSMEs Gresik, at the national level also has an important role. However, as far as MSMEs has constraints, especially the weak product standardization, intellectual property rights, and weaknesses in the use of technology (Taufik, 2016).

The district government Gresik provide convenience and prepare a number of licensing services for MSMEs for free to strengthen capital and
encourage economic growth of people in the region. The granting of such facilities is done by the Cooperative and Trade Service (Diskoperindag) of Gresik SME, and the National Defense Agency of Gresik and the East Java Bank for the provision of access to capital. The district government Gresik facilitate the issuance of Trade Business License (SIUP), home industry licensing (SIUP PIRT) as well as ease of land certificate so that people clearly own the land used for capital (Entry, 2015). SMEs in the district of interest known as the village of songkok and spread throughout the village grow in line with the development of Gresik regency which is one of the religious tourism destinations both domestic and regional. In term of the success of MSMEs performance is always analyzed through physically persepective. In the other side of analysis which is non physically is rarely conducted the research. Thus in this research is having the purpose of analysis the performance of MSMEs through maqasid sharia persepective.

Maqasid sharia includes several things in the form of the main purpose of the Sharia is the benefit of human beings in the world and the hereafter, the sharia as something to be understood, the sharia as the law to be executed, and the sharia brings people always under the auspices of the law. In the achievement of maslahat divided into several levels namely dharuriyat, hajiyat, and tahsiniyat. Dharuriyat level is the primary maslahat like keeping religion, while hajiyat is maslahat is secondary, and tahsiniyat is maslahat which is moral demand for goodness and glory. If viewed from the aspect of its coverage is divided into 1) maslahat kulliyat that is universal and 2) maslahat juziyat that is partial or individual (Shidiq, 2009).

The parameters of maqasid sharia for welfare are 1) al-aql (mind), 2) addien (religion), 3) nasl (descent), 4) nafs (humanity), and 5) maal (property) in the annual booklet of BMT venture in the form of aspects of education, spirituality, health, social and financial (Lasmitatun, 2013). Based on contemporary maqasid, dividing maqasid into three levels namely 1) maqasid amah (general purpose) such as justice, freedom, and ease. 2) maqasid khasah (special purpose) such as not endangering the community, eliminating gharar (not clear) and give a deterrent effect on the law. 3) maqasid juz iyah (partial purpose) such as eliminating difficulties on the law such as allowing fasting for the sick. Yet, maqasid is based on classical scholars, (Imam al ghazali) is like the five maqasid perimeter namely mind, religion, heredity, humanity, and property. Prioritizing the stronger priority is to give priority to the maintenance of the religion of the soul, the mind and the other. Based on al-syatibi, the fulfillment of maqasid to obtain maslahat with the scale of priority maslahat into three order that is daruriyatt, hajiyat, and tahsiniyat (Galuh, N.K.M.R and Hasni Noor, 2014).

3. RESEARCH METHOD

This research uses mix method approach method that combine qualitative and quantitative approach in all stages of research process (Sugiyono, 2013). In this study, the method of collecting the data is based on three steps such as exploration, survey, and the relationship. The result of interviews and questionnaires with informants who are micro and small entreprenur in Gresik having 78 people. With this method, research will aim at understanding the social realities of seeing the world from what it is and comprehensively. With qualitative and quantitative descriptive approach, the researcher has confidence to reveal more facts, circumstances, phenomena, variables and circumstances that occur when the research runs and presents what is and is supported by the approach, thus obtaining more comprehensive, valid, reliable and objective data. Quantitative methods are used to find measurable information about the performance of MSMEs in Gresik from the view of maqasid sharia, while qualitative methods are used to obtain information about maqasid sharia index to MSMEs in Gresik.

4. DATA ANALYSIS AND DISCUSSION

Based on the analysis method approach, the following is the steps describing the result of the research.

Step one – Research Design

Based on the pilot study analysis through theoretical framework, it has the result of research design framework. The framework describes the performance of MSMEs Gresik from five parameters of maqasid sharia having the indicators as described in the figure 1 above.
**Figure 1**
Research Design

**Table 1**
MSMEs Performance Indicators from maqasid sharia (maqasid sharia index)

| Maqasid       | Activities                                                                 | Action |
|---------------|-----------------------------------------------------------------------------|--------|
| Religion      | Alms (zakat)                                                                | Valid  |
|               | Read Quran                                                                  | Valid  |
|               | Increase the faith                                                          | Valid  |
|               | Five times of prayers                                                       | Valid  |
|               | Sunnah prayers                                                              | Valid  |
|               | Sunnah fasting                                                              | Valid  |
|               | Ramadhan fasting                                                            | Valid  |
|               | Intend to do pilgrimage                                                     | Valid  |
|               | Intend to do umrah                                                          | Valid  |
|               | Believing the here after                                                    | Valid  |
|               | Believing prophet                                                          | Valid  |
|               | Believing the angel                                                         | Valid  |
|               | Believing the God (Alloh)                                                   | Valid  |
|               | Believing Quran                                                            | Valid  |
|               | Believing destiny                                                           | Valid  |
|               | Professional services                                                      | Valid  |
|               | Refrain the anger caused by the customer                                    | Valid  |
|               | Be greatful of the earnings                                                  | Valid  |
|               | Friendly and smiling to the customer                                        | Valid  |
| Self          | Implementing Quran content for the successful                               | Valid  |
|               | Implementing Quran content for the business security                        | Valid  |
|               | Implementing the sunnah content                                             | Valid  |
|               | Report to authorities who do crime                                           | Valid  |
|               | Family basic necessity is halal                                              | Valid  |
|               | Entertainment increase passion of business                                  | Valid  |
|               | Entertainment increase the value of business                                | Valid  |
|               | Entertainment create the positive environment                               | Valid  |
| Intellect     | Concern of good and bad things                                              | Valid  |
|               | Sharing the business knowledge                                              | Valid  |
|               | Have a care of decision                                                     | Valid  |
|               | Do learning                                                                 | Valid  |
|               | Do participate in discussion                                                 | Valid  |
|               | Do religion learning                                                        | Valid  |
Forbid of hoarding harts Valid
Measure fairly Valid
Do training Valid
Searching for halal knowledge Valid
Searching any knowledge Valid
Business problems are kind of test Valid

Heredity
Cooperation with other Valid
The customer Valid
Safeguards the customer right and obligation Valid
Never cheat the customer Valid
Increasing the family relationship Valid
Learning to the family Valid
Avoid the speak harshly to customer Valid
There is no deal by customer and buyer Valid
Invalid transaction if there is no good and services Valid
Doing the business to help family and other Valid
Always do pay the employee justly Valid

Wealth
Saving help life and business Valid
Saving reduces business risk Valid
Saving increase the profit Valid
Prefer conventional financial institution Valid
Prefer sharia financial institution Valid
Do financial planning Valid
Do business plan Valid
Do market share analysis Valid
Can compete with competitors Valid
Do the business legally Valid
Do the testament Valid
Do halal business Valid
Do the inovation Valid
Need Islamic financial institutions Valid
Pay off debt Valid
Clean from usury Valid

Step two – Survey of maqasid sharia parameters
In this step, the result of MSMEs Gresik performance of maqasid sharia received the data from informants have the result that the MSMEs Gresik have implemented the maqasid sharia parameter in their business activities to enhance their business performance. However, most of the Gresik MSMEs still neglect the role of religion and lack of business knowledge to enhance their business performance. It will clearly visible in the next step of the research process.

Step three – the relationship and model
In this step, the maqasid sharia index from previous step is connected by quantitative method in order to determine the correlation and relationship of Gresik MSMEs Performance. The result of this step also creates the model of MSMEs Performance through maqasid sharia perspective by following model;

\[
Y = 2.012 - 0.114 X1 + 0.377 X2 - 0.008 X3 + 0.242 X4 + 0.0076 X5.
\]

Y = MSMEs Performance
X1 = Religion
X2 = Self
X3 = Intellect
X4 = Heredity
X5 = Wealth

The result of the model indicates that the relationship of religion and intellect to the performance of MSMEs has negative correlation showed by X1 and X3 relation. It indicates that the more enterpreneur increases the religion and intellect activities, the more performance reduces. Meanwhile the relationship of performance to self, heredity and wealth variables indicates positive
correlations. It indicates that the more entrepreneur increases the self, heredity, and wealth activities, the more increase business performance.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The result of this research analysis indicates that Gresik MSMEs performance is still mostly influenced by the physical indicators. It can be seen clearly through the model that the Gresik entrepreneur mostly neglects the role of religion and lack of intellect in their business activities showing by negative relationship of the correlation. Even though there are other variables that support their business performance indicated by positive correlation in the model. Those variables are self, heredity and wealth.

It implies that Gresik MSMEs lack of religion and intellect activities in their business. The study suggests that the government and Islamic financial institutions and other institutions have to enhance the literation and education activities to Gresik entrepreneurs in order to reduce and close their lack. It is also suggested to the next researcher to enhance the number of informant to make the result more comprehensively where this research only gain 78 entrepreneur as informants.

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