

Models of Sharia Governance and Maqashid Sharia for SMEs in Surabaya

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Models of Sharia Governance and Maqashid Sharia for SMEs in Surabaya

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Abstract

Purpose – The primary objective of the study is to develop sharia governance and maqashid sharia models in improving the performance of SMEs in Surabaya, Indonesia.

Design/methodology/approach – The sampling technique used in the study is the purposive sampling method, and the analysis model is conducted using the Structural Equation Model (SEM) with the WarpPLS 6.0 analysis tool.

Findings – The results of the research show that the variables of the creation of conducive pre-condition/situation, principles of sharia governance, ethics and code of conduct have insignificant influence on the SME performance. It is, however, only the variable of Maqashid sharia that has a significant influence on SME performance with the control variable of demographic factors consisting of business legality, gender and age. By entering the control variable as a moderating variable, the results show that gender factor can moderate the influence of ethics and code of conduct on SME performance, while age factor can moderate the influence of the creation of conducive pre-condition/situation and ethics and code of conduct on SME performance.

Originality/Value – This research focuses on sharia governance and maqashid sharia on SMEs performance that limited previous research discussed on the topic.

Keywords Sharia governance, Maqashid sharia, Good governance, SMEs, Surabaya, Indonesia

Paper type Research paper

Introduction

Small and Medium Enterprises (SMEs) currently play a huge role in economic development in Indonesia. In the context of SMEs in Indonesia, Bellefleur, Murad and Tangkau (2012) stated that Indonesia has a good portfolio of SMEs and 99% of all firm in Indonesia is SMEs. Also, SMEs also employ over 99 million people or over 97% of total employment in Indonesia. SMEs contribute 57% of the Indonesian Gross Domestic Product (GDP). The growing number of small and medium-sized business units will undoubtedly be able to open up significant employment opportunities. Small and medium enterprises (SMEs) are the business group that can best survive when the economic crisis hit the country. Also, SMEs also have a high ability to compete (Byrd and Megginson, 2009). However, SMEs are often seen as a

small business that is weak in performance due to limitations in obtaining capital resources and technology as well as lack of good corporate governance (Maury, 2006).

Good corporate governance (GCG) is a system that regulates and controls the relationship between management and those who have an interest in the company with the aim to create added value for all parties related to SMEs (Sutedi, 2012). Good corporate governance is necessary for the development of a healthy and competitive company. Also, the implementation of GCG will create healthy, better, accountable, transparent, independent, responsible and fair internal control system (Ramakrishnan, 2013). The application of GCG in a company has a positive effect on the company performance. The better the implementation of GCG in the company, the better the performance of the company (Al- Haddad, Alzurqan and Al_Sufy, 2011). Corporate governance is a set of extensive and complex social boundaries that can affect the desire to invest with certain expectations (Chapra and Ahmed, 2008). However, in practice, corporate governance has not been appropriately implemented (Chapra and Ahmed, 2014). Therefore, GCG is needed to maintain the survival of the company through the management that is based on transparency, accountability, responsibility, independence and justice principles (Committee, 1992). The importance of GCG for the sustainability of a company also applies to the businesses run by SMEs that are based on *Sharia* governance (Hafeez, 2013).

Sharia business governance guidelines consist of 3 (three) basic foundations: 1) based on *Sharia* principles and oriented to material and spiritual success; 2) based on the spiritual principles such as *halal* and *thoyib*, and an operational basis, that is, TARIF (Transparency, Accountability, Responsibility, Independence, Fairness); 3) based on business ethics as a moral reference consisting of the principles of honesty, fairness, trustworthiness and integrity (Binhadi *et al.*, 2006). *Sharia* governance provides comprehensive guidance, covering from economic transactions to moral behaviour, that is, fair and honest for all people involved in business transactions (Abu-Tapanjeh, 2009). According to Lewis (2005), accountability is the key to producing the right and fair procedure to all stakeholders through disclosure and transparency. Studies conducted by Sari and Marsono (2013); Janggu *et al.* (2014); Hashim, Mahadi and Amran (2015) and Ahmad (2015) show that good corporate governance has a significant positive effect on business continuity, while others show that GCG is not enough to prove that the company will continue to run its business (Aras and Crowther, 2008).

In addition to *Sharia* business governance, to achieve business goals must also realise *maqasid al-Sharia* because *maqasid al-Sharia* describes a holistic view of Islam and serves as a living guide for individuals and society (Dusuki and Abdullah, 2007), including business entities (Abdullah, 2012). The development of *maqasid al-Sharia* as a performance measurement has not been carried out comprehensively in non-financial industries. The concept of *maqasid al-Sharia* itself should be well understood. The absence of standards in *maqasid al-Sharia*-based guidelines for *Sharia* business operations is a significant problem for the business (Rahman *et al.*, 2015). So, a *Sharia* business institution must be able to guard the mind, religion, soul, descent and wealth (Chapra, 2001). Therefore, to be able to achieve *maqasid al-Sharia*,

a Sharia business institution must be able to guard *al-aql* (mind), *addien* (religion), *nafs* (soul), *nasl* (descendant), *maal* (wealth). In the practice of Sharia business, according to Mohammed and Taib (2015), the achievement of *maqashid shariah* can at least be seen from three dimensions: *tahdhib al-fard* (private education), *iqamah al-'adl* (creation of justice) and *jalb al-maslahah* (achieving public interest). Likewise, according to Jumansyah and Syafei (2013). *Maqashid Sharia* can be measured through the achievement of three dimensions: education, the creation of justice, and achieving public interests.

Based on the background stated above, it can be concluded that SMEs as business units need to implement the principles of *Sharia* governance and *maqashid Sharia* because by implementing these two principles it is expected that the business units (SMEs) can achieve performance both materially and spiritually based on *Sharia* rules.

Literature Review

Corporate Governance

Corporate governance is the principle of balancing and controlling both internal and external companies that guarantee the accountability of all their stakeholders and are responsible for business activities (Solomon, 2010). Corporate governance is a system and structure to manage a company with the aim of increasing shareholder value and accommodating various parties that have an interest in the company, such as creditors, suppliers, business associations, consumers, workers, government and society. Good corporate governance should pay attention to the company's strategy to innovate and develop transparency of information disclosure to avoid misuse and as a control for management in conducting business. Also, good corporate governance should pay attention to expectations of financial conditions, both short-term in the form of profitability and long-term in the form of return on investment and expansion (Abor and Adjasi, 2007).

Sharia Corporate Governance (SCG)

The purpose of *Sharia* corporate governance is to realise a business that is based on Islamic principles and has an orientation to material and spiritual success. Two basic foundations of the principles of *Sharia* corporate governance are *halal* and *thayib*, while the operational basis is transparency, accountability, responsibility, independence and fairness. The concept of managing a healthy business has existed since the time of the Prophet Muhammad, and his companion. It can be traced through existing *Sharia* provisions and the efforts that can support good governance and do not violate the *Sharia* provisions (Choudhury and Hoque, 2006).

Abu-Tapanjeh (2009) states that the principles of good governance according to the Organization for Economic Cooperation and Development (OECD) and *Sharia* principles include:

- a. Effective corporate frameworks, such as developing ethical and *Sharia*-compliant businesses, believing in profits and losses, and based on the principles of justice and welfare of the people and spiritual responsibility.

- b. The rights and functions of stakeholders that each decision must not conflict with the Divine rules, the structure of the market serves as a control of the corporate society, *accountability not only to stakeholders but also to God*.
- c. The roles of stakeholders in corporate governance, such as creating prosperity, employment, financial sustainability, Islamic accountability, and welfare of the people by paying attention to *haram / halal*.

Good corporate governance can help develop strategic planning so that companies can achieve effective and efficient performance (Ijeoma and Ezejiofor, 2013). Good corporate governance is essential for the development of a healthy and competitive company. Also, the implementation of good corporate governance will create healthy, better, accountable, transparent, independent, responsible and fair internal control system (Ramakrishnan, 2013).

Comprehensively, *Sharia* law not only functions as a religious ritual but also includes several social, economic, political, business and legal aspects. The principle of recommended *Sharia* corporate governance is to be fair and honest to every community, including in business transactions. Three decision makers determine the principle of *Sharia* corporate governance: a) with whom: the *Sharia* consultation board or advisory body; b) for whom: the ultimate goal of the company's activities is to obtain the benefits given by God and the trust of the strength given in making good decisions according to the expectations/wishes of the community; c) with whom and to whom: the determined corporate governance requires effective religious supervision to ensure the adjustment of all *Sharia* activities and procedures.

This is the same as western corporate governance which focuses on corporate transparency, adequate supervision, efficient management, internal supervision measurement system, risk management, the competence of a leader who is free from the interests of the problem, including the ability and experience in running a company fairly in a competitive environment (Hafeez, 2013).

Also, Rafiki and Wahab (2013) state that networking, *halal* branding, Islamic financing, Islamic motivation, Islamic business training, Islamic education, business experience, firm size, firm age and limited liability ownership are parts corporate performance governance conceptualised by sales growth. The results show that, in practice, Islam as *ad-din* (way of life) describes the value system established by the Al-Qur'an and al-Hadith in every aspect of life. The principle underlying the Islamic values is that human beings and nature (a company) are positively related to the company's performance with the government as a moderating variable. This means that the government is a policymaker for the performance of small companies that will improve its performance.

Research conducted by Abu-Tapanjeh (2009) examines conventional corporate governance practices which are compared to Islamic governance, where every economic activity in Islam is to provide a value of honesty and justice. Abdussalam's research aims to discuss the nature, application and comparison between the principles of Islamic corporate governance and the principles of general corporate governance concerning the Organization of Economic Co-operation and Development (OECD). The results show that the dimension of Islamic corporate

governance has a broader horizon and cannot separate between roles and responsibilities, where all actions and obligations are under the jurisdiction of the Islamic law, while the OECD principles implement tasks with six different problems and obligations.

The Islamic Corporate Governance (ICG) model of Bhatti (2009) shows that constituents place more emphasis on Islamic law because the scope of ICG is broader that includes stakeholders such as suppliers, customers, competitors and owners. Meanwhile, the concept of general corporate governance is only centred on shareholders as the owners of the company and not on stakeholders. Also, the strong focus of Islamic law is ethics, accountability and transparency allowing ICG to be consistent with OECD principles on corporate governance. The Islamic economic system is based on maintaining a just and harmonious social order in which the rights of all communities are protected through the Sharia Board, which ensures that the institution complies with the rules of Islamic / Sharia law. Theoretically, the ICG concept is quite stable and in line with various theorists who emphasise corporate social responsibility. A good corporate governance structure is also needed because of the emergence of Islamic institutions. The ICG model is expected to be applied practically in Muslim countries, especially in the third world countries that often rank high on the corruption index.

The research conducted by Abu-Tapanjeh (2009) aims to analyse the Islamic corporate governance from the perspective of OECD principles. It discusses the current conditions of corporate governance practices in conventional economics using good corporate governance measures at the functional level compared to the Islamic perspective. Like other civilisations and religions, Islamic culture has also been embedded in good corporate governance since the early days of Islamization. Islamic societies have their views and values that are different from the non-Islamic world. Strong belief in accountability in this world and beyond has strong implications in every Muslim's life and regulates a broader scope than the general governance principles. Therefore, success and prosperity are measured by moral and ethical, in which there are spiritual obligations and strong trust that accountability to Allah is the highest authority. So, OECD principles have long been recommended by Muslims, in which the implementation is controlled, directed and regulated by economic activities based on the Islamic perspective.

H1 : Sharia governance consisting of the Creation of Conducive Pre-condition/Situation; Principle of Sharia Governance; and Ethics and Code of Conduct positively influence the performance of SMEs.

Maqashid Sharia

Maqasid al-Sharia can be defined as the aim of Islamic law. Two primary sources that can be considered as the core of Islamic law are Al-Qur'an and *Sunnah*. The *Maqashid al-shariah* goal is based on the objectives of the constituent which are the reason for the legislation of Islamic rules. Imam Al-Ghazali (1997) classified the *maqashid* into five main categories, namely maintaining religion, soul, mind, descent and wealth. Details about the description of this goal are essential to achieve the study objectives and to support the objectives of Sharia for human welfare. *Maqashid al-*

Sharia is an important *Sharia* science. Today, in Muslim countries, *maqashid* has become the focus of attention that provides easy access to *Sharia*. It can be achieved by developing a framework that can help create a development index for *maqashid al-Sharia* financial institutions. This study aims to explore the measurement of *maqashid al-Sharia* by suggesting various indicators that find the relationship with the parameters of financial institutions and help develop a framework.

The existence of *maqashid al-Sharia* concept is to create *maslahah* for all human beings. The development of *maqashid al-Sharia* performance measurement for business is significant. It is only developed for the Islamic finance industry, while the *maqashid al-Sharia* performance measurement has not been carried out comprehensively in the non-financial industry (Rahman *et al.*, 2015). Islam helps companies to adapt to changes that encourage creativity, dynamism and flexibility (Al-Mubarak and Osmani (2010). Adaptation must be aimed at achieving the purpose of life, or in Islam referred to as *maqashid al-Sharia* (Ascarya, Rahmawati and Sukmana, 2016).

Maqashid is derived from the word *maqsud* which means demands, intentions or purposes. *Sharia* is a policy (wisdom) and the achievement of protection for everyone in the life in the world and the hereafter. The meaning of *maqashid al-sharia* is *al-ma'aani allati syuri'at laha al-ahkam* which means the values that are the goal of the establishment of the law. *Maqashid Sharia* serves to carry out two important things: 1) *tahsil*, means securing benefits (*manfaah*) and 2) *ibqa*, means achieving protection in life in the world and the hereafter (*madarrah*) as directed by the Law Giver. *Maslahah*, on the other hand, is a legal instrument used in Islamic legal theory to promote the public interest and prevent social crime or corruption (Dusuki and Abdullah, 2007).

Al-Zuhaili (1986) defines the *maqashid syari'ah* as meanings and purposes maintained by *syara'* in all its laws or most of the law, or the ultimate goal of the *shari'at* and the secrets put on by *shara'* in every law

The aim of the *Sharia* in the *maqashid al-Sharia* according to al-Syatibi can be viewed from two parts: 1) based on God's purpose as the maker of the *Sharia*; 2) based on the purpose of humans who are burdened with the *shari'at*. At the initial goal, God's purpose in establishing the principles of *Shari'at* is to be understood so that people who are burdened with the *Shari'at* can carry it out and understand the essence of the wisdom of the *Shari'at* (Asmuni, 2005).

Islamic law has three objectives: soul purification, upholding justice in society, and the realisation of benefit (*maslahah*) for human beings (Mohammed and Taib, 2015). Soul purification aims to enable humans to play a role as a source of goodness for the community and the environment, including paying *zakat*, as stated in the Al-Quran that *zakat* aims to cleanse human property. Upholding justice in society covers all areas of human life regarding law and economics. Next is to realise benefit (*maslahah*) for human beings (Zein, 2005).

According to Zahrah (1997), as cited in Mohammed and Taib (2015), in the *Sharia* business, the achievement of *maqashid Sharia* can at least be seen from three dimensions: *Tahdhib al-Fard* (private education), *Iqamah al-'Adl* (creation of justice) and *Jalb al-Maslahah* (achieving public interest). The first dimension reveals how

Islamic banking should spread knowledge and capabilities and instil values that support spiritual development. The second dimension reveals how Islamic banking must ensure that every business transaction is carried out fairly. In addition, Islamic banking should also ensure that every banking business is free from negative elements that can create injustice, such as usury. The third dimension reveals that Islamic banking should be able to create benefits or achieve the public interest by giving priority to business activities that produce prosperity for the community. This includes activities that cover the basic needs of society, such as clothing, food, and shelter.

H2 : Maqashid sharia positively influences the performance of SMEs.

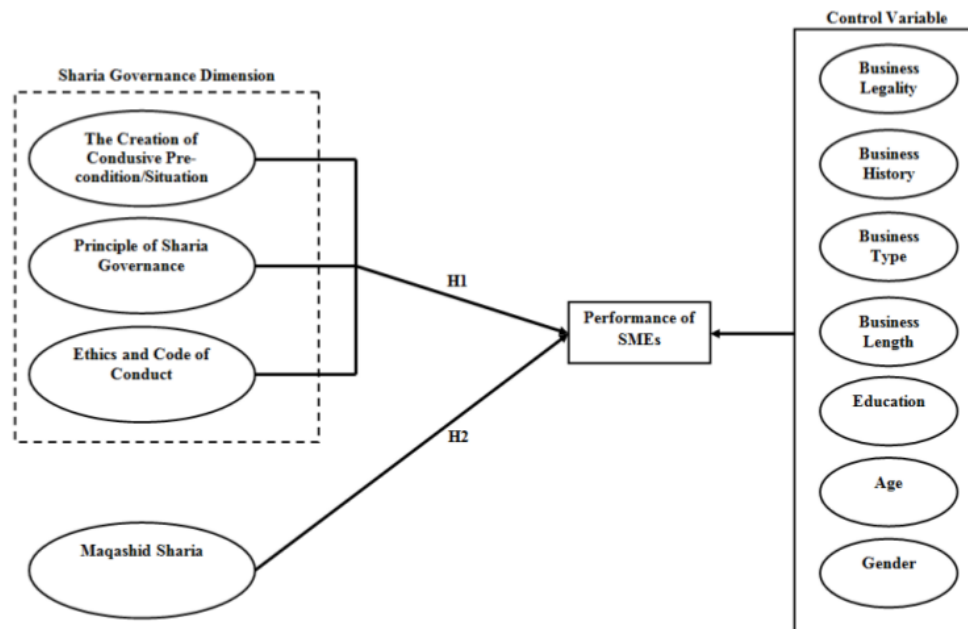


Figure 1
Conceptual Framework

Research Methodology

This research is based on a survey approach (Sekaran and Bougie, 2016) using a questionnaire as a tool to obtain data from respondents who run SMEs and live in Surabaya. The endogenous variable in this study is SME performance which is proxied by the growth of sales turnover, profit growth and the growth of the number of customers. The exogenous variables used in this study are guidelines for Sharia corporate governance proxied by three aspects of the creation of conducive pre-condition / situation, the principles of Good Governance, ethics and code of conduct, private education, the creation of justice, and the achievement of public interests.

The analytical technique used is PLS – SEM model approach. There are two stages in the PLS-SEM modeling process (Hair, Ringle and Sarstedt, 2011). First, the measurement model is evaluated in term of the consistency of reliability and internal validity. Second, the structural model is assessed to predict the relationship between endogenous and exogenous variables.

Base on the type of business, 60% of respondents have a business field in trading, while 40% in food and beverage. All respondents are Muslim. Based on gender, 19 respondents are male, and 107 respondents are female. Based on age, 81 respondents are over 40 years old, 35 respondents are between 30-40 years old and the rest under 30 years old. Based on the educational background, 63 respondents are Senior High School graduates. Based on the length of business, 85 respondents run their business less than ten years. Based on the number of employees, 100 respondents have 1 to 4 employees, and 26 respondents have more than five employees. Based on business history, 113 respondents start their businesses, and 13 respondents continue their parents' business. Based on the average total sales per year, 105 respondents have an average total sales of IDR 100,000,000 per year, and 21 respondents have above IDR 100,000,000. The sales turnover is 10% -25% per year, profit growth is 10%-30%, and customer growth is 10%-30%. Based on marketing area, 93% of respondents have the national marketing area, and 7% or about eight respondents can sell their goods or products out of the country. It means that SMEs in Surabaya have been able to sell and introduce their products to foreign countries, such as Malaysia, China, Taiwan, Singapore, and Australia.

Results

The reflective measurement model is used to test the reliability and validity of research indicators (Hair, Ringle and Sarstedt, 2011). Reliability test is used to test the composite reliability as an estimate of the internal consistency of the construction stated from the composite reliability. If the composite reliability value is between 0.60 - 0.70, the indicator in the study is declared reliable. Meanwhile, the validity test is used to evaluate the model indicated by the AVE (Average Variance Extraction) value above 5%. It can be shown in table 1 as follows:

Table 1
Results of Validity and Reliability Test

Variable	Composite Reliability	Average Variance Extracted (AVE)
<i>Sharia Business</i>	0.927	0.646
Governance	0.934	0.780
Ethics	0.824	0.611
Performance	0.784	0.259
<i>Maqashid Syariah</i>	0.918	0.585

Source: Processed data

From Table 1, it can be seen that all indicators are declared reliable as evidenced by the composite reliability value above 0.6. It can also be seen from the validity value above 5%, as measured by average variance extracted (AVE), which means that all indicators are declared valid.

Structural Model

The structural model is a model capable of predicting the relationship between endogenous variable (SME performance) and exogenous variables (the creation of conducive pre-condition / situation, the principles of Good Governance, ethics and code of conducts, and *maqashid Sharia*) with demographic factors as control variables. The control variables consist of business legality, gender, age, business history, education, length of business, and type of business. The test results using WrapPLS 6.0 can be seen in the following table 2:

Table 2
Test Results of the effect of *Sharia* Business Governance and *Maqashid Sharia* using Control Variables on Performance

Variable	P value	Alpha value	Conclusion
Creation of Conducive Pre-condition/Situation	0.485	0.05	Insignificant
Sharia Business Governance	0.379	0.05	Insignificant
Ethics and Code of Conducts	0.109	0.05	Insignificant
<i>Maqashid Syariah</i>	0.032	0.05	Significant
Business Legality	<0.001	0.05	Significant
Gender	0.028	0.05	Significant
Age	0.002	0.05	Significant
Business History	0.344	0.05	Insignificant
Education	0.086	0.05	Insignificant
Length of Business	0.372	0.05	Insignificant
Type of Business	0.162	0.05	Insignificant

Source: Processed data

Table 2 above shows that the variables of the creation of conducive pre-condition / situation, the principle of *Sharia* business governance, ethics and code of conduct have insignificant influence on performance as indicated by p-value that is greater than alpha 5%, while the variable of *maqashid Sharia* has a significant influence on performance, as indicated by p-value of 0.03 which is smaller than alpha 5%.

The results of this study are not the same as the results of the research conducted by Al- Haddad, Alzurqan and Al_Sufy (2011) which states that the implementation of Good Corporate Governance (GCG) in the company has a positive effect on company performance, the better the implementation of GCG in the company, the better the company's performance. The principle of the *Sharia* business governance recommended is to be fair and honest to every community including business transactions determined by three decision makers: a) with whom: the *Sharia* consultation board or advisory body; b) for whom: the ultimate goal of the company's activities to obtain the benefits given by God and the trust of the strength given in

making good decisions according to the expectations/wishes of the community; c) with whom and to whom: determined corporate governance requires effective religious supervision to ensure the adjustment of all *Sharia* activities and procedures (Hafeez, 2013). Thus, it can be said that good governance is essential for the development of a healthy and competitive company. Also, the implementation of good governance will create healthy, better, accountable, transparent, independent, responsible and fair internal control system (Ramakrishnan, 2013).

The implementation of good corporate governance in Indonesia must consider the role of Islamic law in which accountability is not only to stakeholders but also to God as the highest owner. The principles of corporate governance in Indonesia must pay attention to Islamic law so as not to fail in its implementation to achieve business performance (Widiyanti *et al.*, 2011).

The results of this study are not the same as the results of the research conducted by Hove-Sibanda, P., Sibanda, K., & Poee (2017) that the implementation of corporate governance as a company's ability is positively and significantly related to the SME performance. Bhatti (2009) also states that good corporate governance requires the principles of Islamic law, particularly in the Islamic financial sector and the corporate sector. Effective Islamic corporate governance is consistent with Islamic principles, such as preventing *gharar* (risk, uncertainty) and illegal business transactions. "Good corporate governance encourages capital formation, creates incentives to engage in behaviours that maximise value, reduces capital costs, and fosters strong markets" (Kablawi, 2008). Also, the structure and process require individuals to carry out their responsibilities with integrity, judgment and transparency, all of which are the main principles in Islamic law. However, Islamic institutions face various challenges in building effective corporate governance systems because they must strictly comply with Islamic law. However, the existence of Sharia Supervisory Board is necessary because: First, the majority of investors and clients from Islamic companies will lose confidence if bad management continues to violate Islamic law; second, the *Sharia* system emphasis on ethics which is believed to prevent Muslims from behaving unethically (Kablawi, 2008).

In addition to good corporate governance, the *maqasid al-Sharia* is a variable that is also used in this study which describes the holistic view of Islam as a way of life for individuals and society (Dusuki and Abdullah, 2007), including business entities (Abdullah, 2012). The results of this study are not the same as the results of the study conducted by Rahman *et al.* (2015), that the development of performance measurement based on *maqasid al-Sharia* in business and trade is significant. It is found that the development of *maqasid al-Sharia* as a performance measurement has not been carried out comprehensively in the non-financial sector. The concept of *maqasid al-Sharia* itself must be well understood before developing the standard and framework of *maqasid al-Sharia*. The absence of standard in *maqasid al-Sharia*-based guidelines for business operations is a significant problem, and at the same time, it can be an opportunity for a *halal* business and trade. To overcome this, it is necessary to develop standards of collective decisions from industry and practitioners. In addition, government policies and support are very important for industry or SMEs. This is indeed not in accordance with the results of this study that *maqashid*

Sharia with the measurement dimensions of *Tahdhib al-Fard* (individual education), *Iqamah al-'Adl* (creation of justice) and *Jalb al-Maslahah* (achieving public interest) has a significant influence on SME performance (Zahrah, 1997).

Furthermore, table 2 shows the influence of demographic factors as control variables (business legality, gender, business history, age, education, length of business, and type of business) on SME performance. The results show that business legality, gender, and age, as control variables, have a significant effect on performance as indicated by the p-value which is smaller than the alpha value 5%. Meanwhile, business history, education, length of business, and the type of business do not have a significant effect on performance because P-value is higher than alpha 5%. The explanation can be seen in the structural model in the following figure 1:

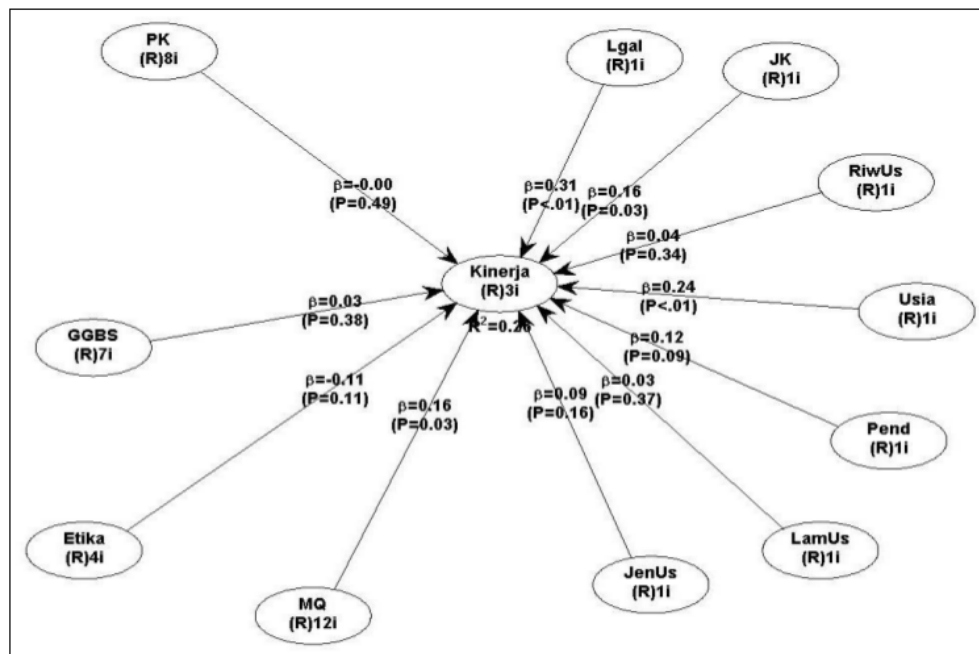


Figure 2

The Test Results of the Effect of *Sharia* Business Governance and *Maqashid Sharia* on SME Performance with Control Variable

Note:

PK (creation of conducive pre-condition / situation), **Lgal** (business legality), **JK** (gender), **RiWUs** (business history), **GGBS** (Sharia business governance), **Etika** (ethics and code of conduct), **MQ** (maqadish Sharia), **JenUs** (type of business), **LamUs** (length of business) **Pend.** (education), **Usia** (age), and **Kinerja** (performance)

Figure 1 shows that business legality as a control variable has a significant effect on SME performance, meaning that in running a business there is a need for legality or legal recognition of the establishment of the business. In addition to legality, gender as a control variable also affects SME performance, meaning that business success is determined by the gender of the person who runs the business, in which in this study women dominate the business. However, the results of this study are not the same as the study conducted by Aminul Islam *et al.* (2011) who states that age does not significantly influence the SME performance. Likewise, gender does not play an essential role in the success of a business in Bangladesh.

Reynolds, Camp and Autio (2001) state that individuals ranging in age from 25 years to 44 years are the most active individuals in entrepreneurship. Likewise, the results of the research conducted by Wahid, Furuhoft and Kristiansen (2006) show that there is a significant correlation between the age of entrepreneurs and business success. Entrepreneurs who are older (> 25 years) are more successful than entrepreneurs who are younger. Sinha (1996) also states that the success of an entrepreneur is at the age between 32 years and 44 years. Whereas according to Aminul Islam *et al.* (2011), age does not have a significant effect on SME performance, but Aminul Islam *et al.* (2011) states that the length of business has a significant effect on the success of SME business, meaning that SMEs that can operate longer are more successful in running their businesses. Also, Chua, Chrisman and Chang (2004) also state that the development of business performance is determined by the length of the business is established. The results of this study also show the same thing, in which the length of business has no significant effect on performance because the average length of the business of SMEs in Surabaya is less than 10 years.

After knowing that the control variables consisting of business legality, gender and age, based on the statistics test, have a significant effect on the endogenous variable (SME performance), the control variables are then functioned as moderating variables which can strengthen or weaken the influence of exogenous variables (the creation of conducive pre-condition / situation, ethics and code of conduct, *Sharia* business governance, and *Maqashid Sharia*) on endogenous variable (SME performance). Based on the test results in table 2 and figure 1 above, the next analysis is to enter each of the significant control variables (business legality, gender and age) as moderating variables, in which the results can be seen in table 3 below:

Table 3
Moderating Variable Test Results

Moderating Variable	Moderating Variable			Alpha 5%	Conclusion
	Gender	Age	Legality		
Creation of Conducive Pre- condition/Situation (PK)	0.274	0.001 (*)	0.236	0.05	Significant
<i>Sharia Business</i> <i>Governance</i> (GGBS)	0.194	0.167	0.324	0.05	Insignificant
Ethics and Code of Conduct (Etika)	0.017 (*)	<0.001 (*)	0.393	0.05	Significant
Maqashid Syariah (MS)	0.191	0.113	0.266	0.05	Insignificant

Source: Processed data

The results obtained after entering gender, age and legality as moderating variables can be seen in Table 3. Gender moderates the influence of ethics and code of conduct on the SME performance with a p-value of 0.017 smaller than alpha 5%. Age moderates the influence of the creation of conducive pre-condition / situation on SME performance with a p-value of 0.01 smaller than alpha 5%. Ethics and code of conduct have a significant influence on SME performance with age as a moderating variable with a p-value of < 0.01 smaller than alpha 5%. Meanwhile, legality does not moderate the influence of the creation of a conducive pre-condition / situation, the principles of *Sharia* business governance, ethics and code of conduct, and *maqashid syari'ah* on SME Performance because the p-value is more significant than alpha 5%.

Mazzarol *et al.* (1999) found that women were generally more active to be the founders of new businesses than men. The results of the research conducted by Mazzarol are similar to the results of this study that gender (female) actively moderates the influence of ethics and code of conduct on SME performance. *Sharia* bisnis ethics is a moral reference as part of the *akhlakul karimah* in *Sharia*-based business. *Sharia* business ethics is based on goodwill and mutual respect ('antaradhin) between parties while adhering to *halal* and *tayib* aspects. It is by the command of Allah, which means: "*O people who believe, do not eat each other's possessions in a false way but in the form of commerce on the basis of mutual pleasure/respect...*" (an-Nisa / 4: 29). The implementation of these basic principles in *Sharia* business must also fulfill the core values, such as honest, fair, trustworthy and *ihsan* (Binhadi *et al.*, 2006). It is in contrast to the results of the study conducted by Kolvereid (1996) that men have higher entrepreneurial intentions than women.

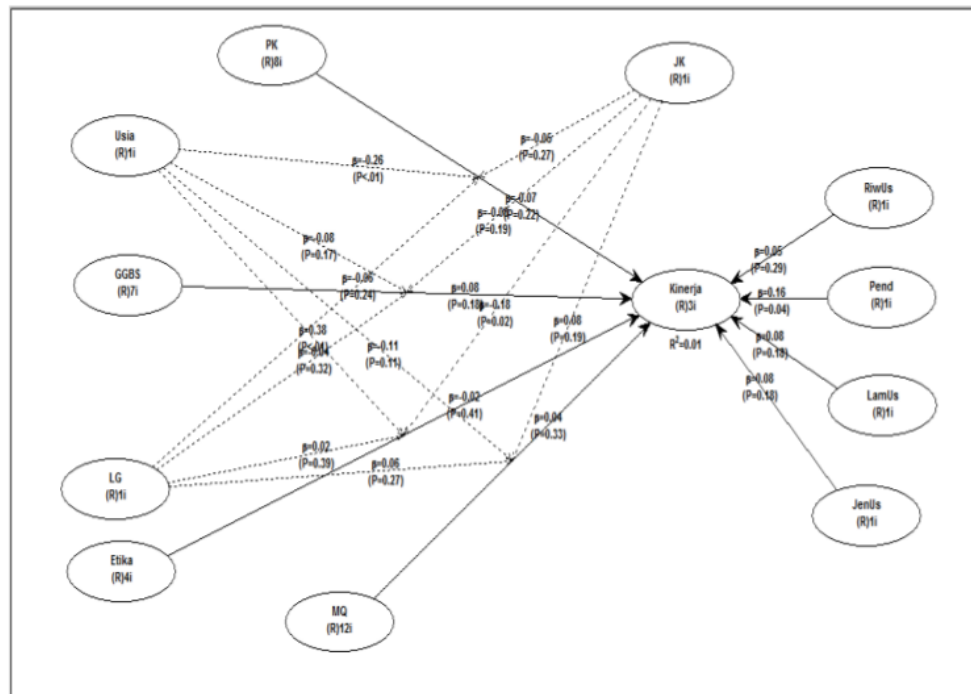


Figure 3

The Test Results of the Effect of *Sharia* Governance and *Maqashid Sharia* on SME Performance with Gender, Age, and Business Legality as Moderating Variables

In addition to gender, age as part of demographic factors moderates (weakens) the influence of the variable of the creation of conducive pre-condition / situation on SME performance. The more mature the age of the entrepreneur, the easier it will be to create a healthy business climate so that it will have an impact on the improvement of business performance. Also, the entrepreneurs should also be honest, trustworthy, and not allowed to tyrannise each other. Also they must be able to provide excellent service as a reflection of ethics and code of conduct. At a young age, an entrepreneur has not been able to run his business by ethics and code of conduct so that it will have an impact on business performance. The results of this study are by the results of previous research that age, as a demographic factor, is a significant factor in the success of SMEs (Reynolds, Camp and Autio, 2001). Likewise, there is a significant correlation between the age of the entrepreneur and business success. Entrepreneurs who are over 25 years old are more successful than those who are younger (Wahid, Furuholt and Kristiansen, 2006). However, the results of this study are not in

accordance with the statement that the success of an entrepreneur is at a young age (Sinha, 1996).

Conclusion

Based on the results of the analysis and discussion, it can be concluded that *maqashid Sharia* has a significant influence on the performance of SMEs, while the creation of a conducive pre-condition / *Sharia*, good governance principle, ethics and code of conduct have insignificant influence on the performance of SMEs with demographic factors as control variables (business legality, gender and age). Another conclusion that can be conveyed is that by entering the control variable as a moderating variable, the results show that gender can moderate (positive / strengthen) the significant positive influence of ethics and code of conduct on the performance of SMEs. Conversely, the age factor can moderate (negative / weaken) the significant negative influence of the creation of conducive pre-condition / situation and ethics and code of conduct on the performance of SMEs in Surabaya.

Research Implication

Theoretically, the results of the study are expected to contribute to the development of body knowledge related to sharia governance and maqashid sharia for enhancing the performance of SMEs in which sharia governance and maqashid are mostly used for manufacturing enterprises and bank. Practically, the results of the study could be considered as a recommendation for enhancing the performance of SMEs based on Sharia principles.

Limitation and Future Research

The authors were challenging to find SMEs managers who comprehend sharia governance. Therefore, the results of the study could not entirely be generalised. Also, it is suggested that further researchers adjust the *Sharia* governance measurement indicators in SMEs, such as fair, honest, far from *usury*, and *halal*. Also, the business people involved in SMEs should understand the objectives of *maqashid Sharia* which are measured through *Tahdhib al-Fard* (private education), *Iqamah al- 'Adl* (creation of justice) and *Jalb al-Maslahah* (achieving public interest) in running their business.

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