

ISLAMIC ECONOMIC CREATIVE SOLUTIONS FOR SMALL AND MEDIUM ENTERPRISES IN THE SHORT AND LONG TERM

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ABSTRACT

This study aims to find out the creative solutions of Islamic economics in overcoming the economic obstacles faced by SMEs both short and long term. This research is descriptive analysis with a qualitative approach from secondary data including and literature. The results of this study indicate that the right Islamic economic solution to addressing the economic barriers of SMEs is to provide Islamic finance, strengthen management, and use financial technology (Fintech) features and establish relationships with customers. This research has implications for improving and strengthening sharia-based SMEs.

Keywords: SMEs, Creative Solutions, Islamic Economy

INTRODUCTION

Small and Medium Enterprises (SMEs) have a large amount and potential in absorbing labor, their contribution in the formation of gross domestic product (GDP) is also quite large. SMEs greatly contribute in developing the economy in Indonesia because they are able to reach all elements of society from various income levels. Small and medium businesses in general do not pay attention to the functional aspects of the company which includes financial management, production management, human resource management, and marketing management. As the spearhead of the country's economy, it is very important for SMEs to increase the effectiveness of their businesses. Good management of the functional aspects of the company will have an impact on business effectiveness. So far the quality of human resources working in SMEs in general is still very low, this is indicated by the still low quality of products, limited ability to develop new products, slow implementation of technology, and weak business management. So if SMEs experience short-term and long-term obstacles, the role of the government and practitioners of Islamic financial institutions and academics must participate in providing smart solutions to SMEs to restore a healthy and sustainable financial and management position based on the Islamic economic outlook, so research is needed to find out how is the creative solution of Islamic economics for UKM in the short term and how is the long term solution.

THEORETICAL BACKGROUND

A. SMEs Concept

There are specifications on Small and Medium Enterprises (SMEs) compared to other businesses, in this business relatively does not require many requirements such as the level of education, skills / expertise, and relatively little business capital needs and technology that tends to be simple. When the crisis hit SMEs it was considered a strategic factor in making improvements and developing economic sectors. As a labor-intensive business, SMEs must continue to innovate and have high creativity to continue to produce superior products and services. Developing SMEs are currently engaged in various creative industry sectors such as culinary fashion, design and others (Qomariah Lahamid, 2018). In Presidential Regulation Number 72 of 2015 there are 16 sub-sectors of creative economy products. The Central Statistics Agency (BPS) breaks it into 206 5-digit Indonesian Business Field Classification (KBLI) (BEKRAF, 2017). Based on Presidential Regulation No. 72 of 2015, the creative economy consists of several fields, namely application and game developers, architecture, interior design, visual communication design, product design, fashion, film, animation and video, photography, crafts, culinary, music, publishing, advertising, performing arts, fine arts, and television and radio. The

shift from the agricultural economic era, the era of industrialization and the information era is driving the growth of the creative economy.

It was further stated that the SME strategy in managing knowledge in addition to IRSA (identity, reflect, share, and apply) there are also three areas that must be considered by SMEs, namely: Organizations interpret information about the environment to get a sense of what is happening and what the company is doing. These, SMEs create new knowledge by converting and combining the expertise and knowledge (know-how) of their members so they can learn and innovate, UKM processes and analyzes information to select and commit to carry out activities in accordance with their actions. The expected model formed is the integration of sense making, knowledge creating, and decision making that form a knowing organization. This Knowing Organization is very effective because it constantly follows environmental changes, refreshes assets, and information processing activities for decision making. (Lila Bismala, 2016) SMEs really need assistance from various institutions in applying knowledge management, both from government, agencies, and educational institutions. Many efforts have been made by these three elements, although in reality it is still not too significant in improving the performance of SMEs.

The SMEs are often entered by the perpetrators because of accidental factors so that the SME actors often do not have knowledge that understands how to run their business. SMEs need to have knowledge management so that they have broad insight in business management. Setiarso (2006) states that there are a number of factors needed for successful implementation of a knowledge management strategy in SMEs as follows: 1) Scanning of the company's environment, 2) Conditions and business practices, whether the company is collecting information and knowledge about business conditions and practices outside company, 3) Operational competitors, whether the company understands the workings or internal operations of the company compared to competitors, 4) Incorporating knowledge as an asset, Corporate culture based on knowledge such as corporate culture needs to be created so that innovation becomes entrenched in the company, 5) Companies face the fact that they need the management of knowledge assets for important investments in the form of: labor, information systems and networks, and knowledge.

B. Small Enterprises

There are differences of opinion in defining small businesses because of differences in determining a business on a small scale when associated with medium and large businesses. The difference is due to differences in providing small scale in business. Each country differs in providing small business scale. In Indonesia, small businesses are often associated with empowering small businesses. This means that small businesses that can get assistance from the government must meet the following criteria: 1) Meet the net worth of at most

Rp.200 million excluding land and business development sites. 2) Or have annual sales of up to Rp 1 billion. 3) Belonging to an Indonesian citizen, an independent entity is not a subsidiary or branch company owned, controlled, or affiliated directly or indirectly with medium or large businesses. 4) Forms of business individuals, cooperatives, and legal entities that are not legal entities (Soeharto Prawirokusumo, 2010). In No. 20 of 2008 concerning SMEs that a small business unit is a business unit that meets the following criteria: 1) Net assets of more than Rp.50 million to Rp.500 million, excluding land and buildings for business premises; and 2) Annual sales results of more than Rp.300 million to Rp.2.5 billion (Article 6 of Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises).

Various problems and weaknesses of small businesses need attention to find solutions in order to empower small businesses as part of strengthening the nation's economy. It is stated further in articles 15 and 16 of the Constitution concerning small businesses, that the government, business world, and the community conducts development and development in the fields of production and processing by: 1) Enhancing management capabilities and production and processing techniques; 2) Improve the ability of design and engineering; and 3) Provide facilities in the procurement of production and processing facilities and infrastructure, raw materials, supporting materials, and packaging.

In addition to the above efforts, several other efforts that can develop small businesses are as follows: 1) Macro approach to create a business climate that is conducive to the growth and development of small businesses, including covering the provision of more public goods. 2) oriented to the development of small businesses such as infrastructure facilities (transportation, communication, and so on). 3) Develop partnerships between small businesses and large businesses and are based on mutual benefit of both parties. 4) Small businesses also need to improve business efficiency. 5) For the small business sector that does not yet have an association, it is necessary to form an Association (Kara and Jamaluddin, 2010).

C. Medium Enterprises

A medium-scale business is an economic activity carried out by an individual or household or an agency that aims to produce goods or services for commercial trade and has a sales turnover of more than 1 (one) billion. In Law No. 20 of 2008 concerning SMEs states that a medium-sized business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a good part directly or indirectly with a Small Business or Large Business with the amount of net assets or annual sales proceeds as stipulated in the law (Article 1 of Law No. 20 of 2008 concerning SMEs). Furthermore, the law stipulates that the criteria for medium-sized

businesses are as follows: a) Has a net worth of more than Rp. 500,000,000.00 up to a maximum of Rp. 10,000,000,000.00 excluding land and buildings where the business is located; or b) Has annual sales results of more than Rp 2,500,000,000.00 up to a maximum of Rp 50,000,000,000.00 (Article 6 of Law No. 20 of 2008 concerning SMEs).

The existence of medium-sized businesses in the national economy constellation has an important and very strategic importance to bridge the imbalance in the mastery of economic assets, between large businesses and small and micro businesses. Because, its position in various sides lies between large entrepreneurs and small / micro entrepreneurs. In the business profile in Indonesia quoted from Musa Hubeis, the number of medium-sized businesses is 361,052 units or 0.86% with job opportunities 10.54% of national employment opportunities. Although small, it is very meaningful when compared between small and micro businesses with large businesses. The number of small and micro enterprises is 41,301,263 units (99.13%) with 88.92% employment opportunities, while large businesses are 2,158 (0.01%) with 0.5 employment opportunities (Musa Hubeis, 2009).

D. SMEs Obstacle

Small businesses are businesses that need serious attention. The problem of opportunities and small business development in the national and global economy shows things that need to be strengthened in the business arena (capable or not sustainable) and how businesses need to be developed in the future, in order to achieve the perspective of potential small businesses and dynamic. Musa Hubeis explained the categories of problems faced by small businesses, namely: 1. Classical and fundamental problems, such as limited capital, human resources, product development, and marketing access. 2. Problems in general, for example between roles and functions of related agencies in solving basic problems related to advanced problems, such as licensing, taxation, collateral, and legal procedures. 3. Problems with the continued introduction and penetration of export markets that have not been optimal, lack of understanding of product design in accordance with the character of the market, legal issues relating to licensing, patents and contract procedures (Musa Hubeis, 2009).

Setyobudi (2007) states that the problems that are often faced by SMEs are, first, the problems that are classic and fundamental to SMEs (basic problems), among others in the form of capital problems, generally non-formal legal entity forms, human resources, product development, and marketing access. Second, the advanced problems (advanced problems), including the introduction and penetration of export markets that have not been optimal, the lack of understanding of product designs in accordance with the character of the market, legal issues involving patents, sales contract procedures, and regulations

that apply in export destination countries . Third, Intermediate problems, namely problems from related institutions to solve basic problems in order to be able to deal with further problems better. Fourth, the problems include financial management, collateral and limitations in entrepreneurship.

The SME business is growing and most SMEs are engaged in the creative industries. Some of the problems faced by SMEs in promotion and marketing, management (managerial), information technology, financial administration design and networking (networking) as well as financing problems even pay less attention to customer relationships. (Munawaroh, 2010). Other research shows that the obstacles faced by SMEs are financial access as the most significant obstacle hampering business growth. In addition to financial constraints, there are several barriers to the size, age and level of company growth and company ownership. Then external barriers are high cost loans and lack of consultant support (Wang, 2016).

METHODOLOGY

The research method used is descriptive analysis using a qualitative approach. The data collected is secondary data by conducting literature and literature studies.

RESULTS

A. Islamic Economic Solution for SMEs

- **Sharia Financing**

One suitable solution to help develop SMEs and in order to encourage economic growth in the real sector and assist government programs in labor absorption is strengthening capital through Islamic financial institutions such as BMT has a commitment to channel financing to micro, small and medium businesses.

Financing (financing), namely funding provided by one party to another party to support the planned investment, whether done alone or in institutions. In other words, financing is funding spent to support a planned investment. According to Ashar (Finance BMT) through his micro shop offering easy and fast financing to the public. Multipurpose financing with a limit of 11 million rupiah to 200 million rupiah. This financing uses murabahah and mudharabah contracts, where customers are provided with facilities and financing mechanisms. SMEs are greatly helped by the existence of Islamic financing with limits and time periods in accordance with business needs and income. Based on the results of observations to SME units that Islamic capital financing helps the business process and the refund process is also very affordable because it suits the needs and abilities of SMEs. However, still very few of the other SME actors who take capital from Islamic institutions. One of the sharia financing

available to SMEs is mudharabah financing, where the Islamic financial institutions provide 100% capital to SME unit actors with a profit sharing ratio of 70% and 30% and losses are borne by the fund owner.

According to Nur Syamsuddin Buchori (2012) the nature of its use of Islamic financing can be divided into the following two things:

1. Productive Financing, namely financing aimed at meeting production needs in the broadest sense, to increase business, both in production, trade and investment.
2. Consumptive Financing, namely financing used to meet consumption needs to meet daily needs.

Funding according to purpose can be divided into:

- a. Working capital financing, namely financing intended to obtain capital in the context of business development.
- b. Investment financing, i.e. financing intended to invest or procure consumer goods.
- c. Multipurpose financing, i.e. financing that can be used to lease an item, a bailout fund, or a service fee for managing customer needs.

Funding according to time period can be divided into:

1. Short-term financing, financing carried out with a period of 1 month to 1 year.
2. Medium term financing, financing carried out with a period of 1 year to 5 years.
3. Long-term financing, financing carried out with a period of more than 5 years.

According to Sutan Remy Sjahdeini, quoted from the Handbook of Islamic Banking, that Islamic banking is banking that provides facilities by seeking instruments that are in accordance with Islamic provisions and norms. These instruments are aimed at providing socio-economic benefits for Muslims, not solely aimed at maximizing the benefits, as is the goal of conventional banking. Commitment to development and progress for Muslim communities is the main goal of the existence of Islamic banking.

Based on the results of research that the existence of Islamic finance offered by Islamic financial institutions to SMEs is able to maintain financial conditions or capital this is evidenced by the attention of Islamic financial institutions to SMEs in the form of Islamic finance allocations must be a priority. Because it cannot be denied that the SME sector in reality shows its important role and contribution as the backbone of the economy in creating employment and poverty alleviation in Indonesia.

- **Management Strengthening**

The second solution to help the sustainability of SME businesses is to strengthen management. Aspects of company management are guidelines for business management. Although it is a small and medium-sized business, SMEs need to conduct business management in order to be able to carry out management principles well so that they can evaluate their business and find out about the development of their business. In its journey, a SWOT analysis was carried out to determine the strengths, weaknesses, opportunities and threats in business competition. SMEs must think about being able to conquer competitive markets outside their territory. Some criteria that can be used as a basis for measuring the performance of SMEs are business turnover, customer satisfaction, job satisfaction, efficiency and effectiveness of production, and product distribution. Product distribution will provide opportunities to get a wider market, which has an impact on the business turnover that will be obtained.

Consumer satisfaction needs to be measured because the basis of business development is the needs, desires, and satisfaction of consumers. If consumers are satisfied, the opportunity for business development will be even greater. From the internal aspects of the business, employees need to maintain satisfaction. Employees who are satisfied with what is obtained from the company where they work will provide the best performance for the company. Satisfaction is not only in terms of compensation, but from the quality of internal relations. Efficiency and effectiveness of production are assessed from the application of aspects of company management (human resource management, production management, financial management, and marketing management). Efficiency and effectiveness can be seen from several things such as the level of waste that occurs due to production errors, the accuracy of planning production capacity, inventory, and the other. This measurement will require different criteria between different types of businesses. As one form of the people's economy, SMEs need to get more attention from the government and related agencies, in relation to guidance and funding sources. The government needs to be more pro-SME actors and provide wider access in all aspects of management. (Bismala and Handayani, 2014).

Based on the management concept above, a practical SME management model is designed and in accordance with Islamic economic principles that can be easily applied to manage the SME business.

- **Financial Technology**

Fintech, a form of technology-based financial services that is currently becoming a trend in the world both in the form of devices and business (Amalia, Chishti, & Barberis, 2016). Fintech is the right solution to help launch a digital-based SME business.

The fintech sharia legal umbrella is based on the Financial Services Authority Regulation (POJK) 77 of 2016 concerning Information Technology-Based Money Lending and Borrowing Services. This rule does regulate generally every type of P2P fintech such as sharia and conventional fintech. However, Islamic fintech also refers to the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN MUI) Number 117/2018 concerning Information Technology-Based Financing Services Based on Sharia Principles (POJK Number 77 / POJK.01 / 2016).

Then the MUI fatwa states that Sharia fintech business activities must not contradict Sharia principles, which include avoiding usury, gharar (unclear contract), maysir (unclear purpose / speculation), tadlis (not transparent), dharar (danger), zhulm (danger) loss of one party), and haram. The benefits of Fintech can be felt by:

- a. For consumers, Fintech provides benefits, such as getting better services, more choices; and lower prices.
- b. For Fintech players (merchants of products or services), Fintech provides the benefits of simplifying the transaction chain; Suppress operational costs and capital costs, and freeze information flow.
- c. For the Government, Fintech provides benefits to encourage the transmission of economic policies, increase the velocity of money circulation so as to improve the people's economy, and encourage the National Financial Inclusion Strategy / SKNI. (Muhamad Rizal, 2018)

The presence of technology has made financial services cheaper, faster, and easier. These three elements are sometimes difficult to obtain when SMEs come to the bank. This is where the role of fintech can be a solution for the development of SME businesses in the future. The challenge is to maximize the role of fintech in supporting SMEs. The fundamental challenge is the access of Indonesian people to financial services.

- **Relation with Costumer**

The final solution in restoring the market position of SMEs is to maintain relationships with customers. The customer is not everything for the organization because God is the Most Giving Rizki. However, Islam considers that the customer is a medium of income from Allah to the organization. Therefore, the more customers, the greater the chance of getting rizki. The more customers often touch friendship to the organization, the higher the chance of the organization to get good luck. As the word of Allah Almighty. in Q-An-Nisa /4:1

وَاتَّقُوا اللَّهَ الَّذِي تَسَاءَلُونَ بِهِ وَالْأَرْحَامَ إِنَّ اللَّهَ كَانَ عَلَيْكُمْ رَقِيبًا

Translation:

And fear Allah who, by (using) His name, you ask one another, and (maintain) the relationship of friendship. Truly, Allah always takes care and watches over you.

Customer relationship management is an overall process to build and maintain relationships with consumers by conveying superior value and customer satisfaction. In establishing a relationship with a customer, the company must know certain characteristics needed to prove that a relationship exists so that it can make a positive contribution to the relationship. There are key dimensions in building a relationship, namely: (1) bonding, is part of a relationship in which both parties form a unity to achieve the goal; (2) trust, which is a belief in which each party will keep its promise and will not harm the other party; (3) empathy, namely dimensions and business relationships (Kotler Philip, 2007).

Customer relationship management strategy is one of the strategies that can be done by the company so that consumers stay afloat to make repurchases on company products or services. Customer relationship management activities according to Maya Ariyanti (2006) are carried out by:

- a. Developing customer insight
By collecting information from all things that can be used as interaction between consumers and organizations. This function is facilitated by creating a consumer database.
- b. Use of technology in CRM (Customer Relationship Management)
By making technology applications will make the goods and services produced more attractive, faster developing, and can follow changes in accordance with the wishes of consumers.
- c. Customer contact
Consumers can easily make contact with consumers. The easiest tool to use is the internet, which can help companies improve communication with their customers.
- d. Personalizing Customer interaction
With the availability of modern equipment with a range of technological developments designed to help consumers make purchasing decisions. The ways that companies can do is by making customer communities online, in addition, also by making personalization, namely by making products or services that are tailored to their customers personally.
- e. Achieving Superior Customer Experience
The existence of a website allows consumers to check their orders. Thus the delivery of goods or services can be in accordance with the wishes of consumers. Therefore, companies can create special 'experiences' for each of their customers.

DISCUSSION

The role of Islamic financial institution financing in the effort to develop small and medium enterprises (SMEs) is very much needed considering that there are many SMEs that have not yet received sharia financing facilities. Islamic financial institutions are expected to be able to further expand their access and be able to socialize their strengths well so that Islamic financial institutions can be a reinforcer and companion for developing SMEs.

UMKM as a form of people's economy that has a large role in the country's economy, requires a business management model. This business management model adopts enterprise management, which works on aspects of production management, human resource management, financial management, and marketing management. In the business management application, performance measurement criteria are developed that can be adopted and applied practically. MSMEs must also be able to carry out a SWOT analysis of their business so that they are able to assess the current situation, both against competitors, as well as business development and business evaluation.

Applying fintech, there are needs that arise before the SMEs finally decide to implement fintech. The decision was supported by offers from service providers, as well as information from fellow business actors. After applying, resistance arises from the costs arising from the application of fintech services. Business actors need to make price adjustments to their products. In the end, businesses maintain services that benefit their business.

In order to know what customers need and want, the company should establish customer relations. The way to be able to manage customer relationships is to develop customer knowledge in more detail by utilizing customer databases, by using technology, by making direct contact with consumers, by personalizing in interacting with consumers and by providing superior experience for consumers.

FURTHER STUDY

While the government can provide management training facilities for SMEs so that competency in managing business administration can increase. For this reason, the efforts of the creative SMEs are to take part in various training, seminars and various activities that support the improvement of their knowledge from the sharia side. It is expected that further research can provide details in developing 4.0 industry-based SMEs.

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