

ISLAMIC VALUE OF INNOVATIVE PERFORMANCE IN SMALL AND MEDIUM-SIZED ENTERPRISES: CONCEPTUAL REVIEW OF FATHANAH

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ABSTRACT

Small and medium-sized enterprises (SMEs) contribute to the national economy. It follows to increase in market potential. Innovation has an important role in various business competitions. However, innovative performance has not been completely implemented by SME companies. This research offers the concept of fathanah in innovative performance in SMEs. The research method is a review of the literature on SME innovative performance. This study explains the innovative performance of SMEs with six concepts; process innovation, product innovation, management innovation, organizational innovation, marketing innovation, and technological innovation. The concept of fathanah in innovative performance in SMEs with dimensions of intelligence; intellectual quotient (IQ), emotional quotient (EQ), and spiritual quotient (SQ). This paper applies a conceptual approach. The limitations of this paper are that the dimensions mentioned have not been empirically tested. In addition, there may also be other dimensions of Islamic values related to innovative performance apart from the concept of fathanah. However, the fathanah concept is expected to be applied in innovative performance to develop SMEs.

Keywords: Innovative Performance, Fathanah, Intelligence, SMEs

INTRODUCTION

Countries in the world have great attention to the economic development of their country, especially the country of Indonesia. Small and Medium Enterprises (SMEs) contribute greatly (Susanto, 2017) to the global economy for economic growth. SME companies are an important part of a country's economy such as total production, large sales, employment population, and many companies. Therefore, SMEs must be managed aggressively (Tien, 2007) if there is a lack of funds and the value of creativity must be a key element of the company. The company's ability (Felicio, 2018) to develop, use new resources and skills by using available resources efficiently.

Innovation performance is very important for SMEs (Hossain and Kauranen, 2016) because it has more companies than big companies, high margins and many employees. SMEs have a special interest in innovation studies, (Barnett and Storey, 2000) but innovative activities are still limited. SMEs do not have large resources (Odoom and Mensah, 2018) to compete with foreign companies in the market. The development of corporate innovation focuses on large multinational companies, (Brouwer, 2010), then government policies ignore the contribution of SMEs. Policy makers are involved in helping the performance of SMEs (Harrington, et. Al., 2016) in realizing sustainable development. SMEs have limitations in innovative performance (Hossain and Kauranen, 2016) because of scarcity of resources, innovation and internal capabilities are not structured, and are more flexible in decision making.

This problem requires a solution to improve innovative performance in SMEs. Performance requires a level of competence (Helmiatin, 2017) to support company needs including intellectual quotient, emotional quotient, and spiritual quotient. Business people in the world who have been successful are the Prophet Muhammad, with the nature of his intelligence, namely the fathanah nature of managing a business. The fathanah character is expected to be a solution in improving innovation performance in SMEs based on a review of some literature. Therefore this paper examines two main issues: 1) The concept of innovative performance in SMEs and 2) The concept of fathanah in innovative performance in SMEs.

THEORETICAL BACKGROUND

A. Concept of SMEs

The definition of SMEs in several countries in the world has their respective differences (Hossain and Kauranen, 2016). SMEs according to Law Number 20 of 2008 concerning MSMEs are productive businesses owned by individuals and individual business entities. Micro, Small and Medium Enterprises (MSMEs) in Indonesia, are classified into three major groups in Law Number 20 of 2008 concerning MSMEs; First, Micro Enterprises have a net worth of at most 50 million (excluding land and business buildings) and have

annual sales of at most 300 million. Second, the criteria for small businesses are to have a net worth of more than 50 million - 500 million (excluding land and building business premises and having annual sales of more than 300 million - 2.5 billion, and third, criteria for medium businesses that have more net worth from 500 million to 10 billion (excluding land and buildings) and having sales of more than 2.5 billion - 50 billion.

Likewise SMEs in Europe are classified into three major groups; first, micro businesses are less than ten employees and annual turnover is up to € 2 million; secondly, small businesses are less than 50 employees and annual turnover is € 10 million; and third, medium-sized companies, less than 250 employees with annual turnover of up to € 50 million (Hossain and Kauranen, 2016). The three classifications of SMEs are measured based on the annual turnover of the business carried out.

B. Islamic Business Ethics

Business activities are human actions from the results of decisions that are free and deliberate, (Mele, 2015) and therefore have an ethical dimension. Islamic business ethics is defined as a code of moral principles determined by the Qur'an and Sunnah. Honesty, truth and justice are the ethical foundation (Prasetyo and Pratiwi, 2016) in explaining products to consumers. The characteristics of Islamic business namely Tawheed (Choudhury, 2009) the application of Tawhid law is implemented through sharia. Business decisions must be supported by faith (Alawneh, 1998) which in practice means following sharia law such as halal, permissible, and avoiding what is prohibited. Sharia-based business is explained in QS. al-Baqarah / 2: 275.

إِنَّ الَّذِينَ آمَنُوا وَعَمِلُوا الصَّالِحَاتِ وَأَقَامُوا الصَّلَاةَ وَآتَوُا الزَّكَاةَ لَهُمْ أَجْرُهُمْ عِنْدَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ
وَلَا هُمْ يَحْزَنُونَ

Translation:

“Those who swallow usury cannot rise up save as he ariseth whom the devil hath prostrated by (his) touch. That is because they say: Trade is just like usury; whereas Allah permitteth trading and forbiddeth usury. He unto whom an admonition from his Lord cometh, and (he) refraineth (in obedience thereto), he shall keep (the profits of) that which is past, and his affair (henceforth) is with Allah. As for him who returneth (to usury) – Such are rightful owners of the Fire. They will abide therein.”

Towards the completion of the mission of the Prophet, prohibited those who took usury firmly (Chapra, 2006) by stating that they fought and Allah and His Messenger, built the difference between usury and trade and demanded that Muslims stop all usury practices circulating in society. Islamic law holds a non-retroactive principle (Mustofa, 2018), when the prohibition on usury is

explained in the Qur'an, Muslims must abandon usury that is still valid. The prohibition of usury aims to avoid (Farooq, 2012) from unfair profits. Humans are ordered to practice buying and selling but avoid usury

Business practices in accordance with sharia are not only to achieve economic rationality, but also social rationality. In Islamic law, economics cannot be separated from society (Sadr, 1993). Among them is the prohibition of usury (usury/interest), uncertainty, hoarding, speculation, and gambling (Saleh, 1988). The social rationality inherent in Islamic business focuses on charity. Alms is classified (Iqbal, 1986) as obligatory alms (Zakat) and free alms (alms). Business implementation will help the economy of business people and the welfare of the country.

C. Intelligence in Islamic Business

Intelligence is the ability to solve or make something (Harim, 2004) which is for a particular culture. Intelligence is an individual's ability which consists of three things; (Binet and Safaria, 2005) first, the ability to direct the mind or control the actions that allow the individual to achieve the goals achieved (goal setting); second, the ability to change direction, if required, means that individuals are able to do it themselves in a particular environment; and three, the ability to criticize themselves or do auto criticism, meaning that individuals are able to make changes to mistakes. Possible problem-solving

Mapping human intelligence has three parts (Muttaqiyathun, 2010); intellectual intelligence, emotional intelligence, and spiritual intelligence. Emotional Quotient complements Intellectual Quotient when someone has to solve important problems or make someone important to do these things (Cooper and Sawaf, 1998) in a short time. Intellectual Quotient determines a person's success (Nggemanto, 2002) by 20 percent, while Emotional Quotient contributes 80 percent. A person's emotional intelligence can be developed better, more challenging and more prospects than IQ. Emotional intelligence can be widely applied to work, study, teaching, and so on. The development of emotional intelligence opens the door for the advancement of more substantial human skills, namely spiritual intelligence.

IQ is considered to be intelligence possessed by humans from birth (Helmiatin, 2018), while EQ is derived from environmental influences or family care. One example is someone who has a considerable sense of responsibility in the workplace compared to others in the same work area. Meanwhile, SQ has recently been considered a compliment to one's IQ and EQ. Employee behavior and spiritual intelligence are interconnected (Brophy, 2015) and have a strong correlation with better business. Spirituality in business can create prosperity (Roof, 2015) by increasing their morale, commitment, and productivity and reducing employee stress. The presence of SQ will allow someone to share the

IQ and EQ together because of the guidelines or norms contained in religious teachings.

METHODOLOGY

This paper is a conceptual paper that uses some literature from journal articles and books by identifying articles about innovative performance, SMEs, Islamic business ethics, and the concept of intelligence in business. Writing also uses the Qur'an as a reference to describe the approach of Islam in business.

RESULTS

A. Innovative Performance in SMEs

The performance of small and medium enterprises (SMEs) applies a culture of innovation (Susanto and Wasito, 2017) in a strategic and structured way. To improve the performance of SMEs in trying to improve culture and aligned innovation strategies (Hoq and Chowdhury, 2012) and closely related to the innovation process. Bodiaj (2010), explains that performance innovation is new to products, new products, market share, the timely launch of new products, a new percentage of product sales in total sales. New products must provide value to customers, therefore, market orientation is an important factor in the success of developing new products. Najib et al. (2011), shows that innovation affects the performance of manufacturing SMEs. The relationship between corporate innovation and performance implies (Susanto and Wasinto, 2017) that there is a competitive advantage when companies understand customer needs, competitor actions, and technology development. Hin et al. (2011), states that effective innovation results in a sustainable competitive advantage. Small companies are very suitable to develop innovations that do not require a large capital.

Innovators are very important in the commercial success of innovative products in SMEs (Caird, 1994). SMEs as a driver of economic growth and policy problems in the national economy (Fisher and Reuber, 2003). Entrepreneurs create new jobs (Henderson, 2002), increase local income and wealth, and connect communities with the larger global economy. Innovation must be dealt with as a diverse phenomenon with various types of benefits (Lichtenthaler, 2016) for SME performance, depending on the type of innovation the company introduced.

SMEs need to continue to improve their product innovations to be competitive (Salavou & Avlonitis, 2008). Product innovation is a novel form (Patrick, 2017) of products for customers. Trust encourages product innovation (Oldham and Cummings, 1996) by applying new employee ideas and increasing closer relations between management and employees. Failure in innovation can reduce the effective response of SMEs (Dibrell et. Al., 2008) to the introduction of new products that cause companies to lose excellence. So product innovation

creates or increases goods and services from before. Product innovation is related to process innovation.

Process innovation is a SMEs strategy intended to reduce unit production or shipping costs (Osei et al., 2016), to improve quality, or to produce or deliver new or significantly improved products. Process innovation (Oliver et.al., 2016) includes two different but related activities: technological process innovation and organizational process innovation. Technology process innovation occurs when new investment goods and intermediate goods, such as processing machines, industrial robots, and IT equipment, are used in the production process. Such technological process innovations must be accompanied by organizational process innovations, which are defined as new ways to regulate business activities.

Osei et al. (2016) argued that process innovation is related to management innovation, in the sense that the management system usually complements the technical one. Innovation management in SMEs is managing effectiveness (Seo and Chae, 2016) in terms of costs spent on process improvement. To address the competitive business environment more effectively, SMEs are asked to manage innovative activities.

Strategic management of innovation can contribute to the competitive advantage of the organization in the market. Organizational system innovation (Wahab and Jabar, 2017) is a major overhaul of organizational practices involving modification of mission, strategy, leadership, and culture based on the use of knowledge to solve problems every day. Innovative marketing organizations (Wahab and Jabar, 2017) will be able to provide more value to their customers. Innovation determines a good competitive advantage in the market. Marketing innovation in SMEs is focused (Grzegorz and Robert, 2018) on customer needs, the nature of openness involves cooperation with other entities, and implementing new solutions in marketing activities.

Marketing innovation in SMEs (Grzegorz and Robert, 2018) as the use of new marketing methods, including significant changes in product appearance, packaging, positioning, promotion, pricing policies or business models resulting from the company's new marketing strategy. The SMEs marketing center (O'Dwyer et.al., 2009) is a continuous development of the experience of entrepreneurial knowledge gained by doing business. SMEs recognize that small companies cannot compete (O'Dwyer et.al., 2009) using economies of scale; therefore, their competitive advantage lies in developing innovative products or processes, which depend on market and customer information. Identification of marketing innovations within the company; social media marketing, word of mouth marketing, and many others. This activity requires technological assistance.

Technology is one way to practice innovation in SMEs. Innovative performance in technology is carried out by SMEs to develop new products and

services (Mubarakki and Aruna, 2013) to be able to reduce transaction costs and fast communication with customers by offering new products and services so that products sold are more effective and efficient. Innovation uses technology (Rahman et.al., 2016) through social networking, access to information via the internet and machinery or technological tools in business operations. SME technology innovation (Mubarakki and Aruna, 2013) is carried out to survive in fierce competition, the global economic crisis and compete with larger organizations. All innovative performance types require technology in innovation activities.

B. Fathanah Concept of Innovative Performance in SMEs

Fathanah is one of the characteristics of the Prophet Muhammad. in business activities. Fathonah in business is someone's intellectual ability (Prasetyo and Pratiwi, 2016) in providing product information to customers, and providing solutions to problems in product development of a business. Prophet Muhammad in business activities (Prasetyo and Pratiwi, 2016), created the concept of marketing communication honestly and correctly so that consumers understand and are satisfied and loyal to the products that they offer, which in turn increases the benefits obtained. The intellectual quotient is not enough for business people to have, but also must have emotional and spiritual quotient in order to avoid all actions that are not Islamic Shari'a.

Innovative actions are important in creating opportunities (Dangmei, 2016) in SMEs by involving emotional quotient in promoting corporate creativity and innovation. Emotions are one of the important elements in helping successful entrepreneurs (Ngah and Salleh, 2015) in making rational decision-making processes and innovation processes. Emotional quotient drove (Eldin, 2017) by necessity, they will create new products to increase income. However, when emotional intelligence is driven by opportunities, they are oriented towards growth and consider problems as opportunities to improve the company.

Bagheri et al. (2013) analyzed that the main need to resolve conflicts in SMEs is to bring spirituality in the business environment. Problem-solving uses ethical values (Malik and Tariq, 2016) to be more creative and innovative. Safara and Bhattia (2013) analyze that spiritual quotient brings peace in people's lives because of spiritual quotient people behave with wisdom. Spiritual quotient shapes behavior (Khoshtinat, 2012) and improves performance more meaningfully and prioritizes consumer satisfaction.

Market demand also affects the ability of product innovation for SMEs by giving workers the freedom to innovate. In the perspective of Islamic business ethics (Oktarina and Mu'alim, 2017) an increase in public service needs is a product of innovation, economic activity is individual worship while producing in this case product innovation is a social obligation. Ethics in

business (Mehboob and Hashmi, 2016) create a balance between ethics and morality in terms of generating income and long-term growth of the company. The concept of Islam in business managerial aims to achieve performance and success (Rafiki and Wahab, 2013) as instructed by God to do the law by avoiding the forbidden, and emphasizing ethical behavior such as honesty and justice. The benefit is that products that have been innovated can be accepted by the market and can be competitive.

DISCUSSION

This study explains the concept of innovation performance for SMEs using six dimensions of innovation; product innovation, process innovation, organizational innovation, management innovation, marketing innovation, and technological innovation. The six dimensions must exist in SME innovation activities. Furthermore, in increasing innovation using the concept of fathanah with three dimensions of intelligence; intellectual quotient, emotional quotient, and spiritual quotient. This competency is linked to six dimensions of innovation performance to be applied by SMEs.

FURTHER STUDY

This study is conceptual and has not been empirically proven. This concept then needs to be tested and proven in the innovation performance of SMEs. Research is very influential in the development of innovation performance. It needs to be improved for further research with the concept of fathanah with some of the dimensions of intelligence.

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