

The Role of Sharia Management in the Development of Micro, Small, and Medium Enterprises (MSMEs)

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ABSTRACT

This study aims to explore the role of sharia management in the development of Micro, Small, and Medium Enterprises (MSMEs) and how the application of sharia principles can improve the performance and sustainability of MSMEs. The research method used is a qualitative approach with data collection techniques through literature studies, in-depth interviews with MSME actors, and document analysis from Islamic financial management institutions. The results of the study indicate that the application of sharia management in MSMEs, including principles such as transparency, fairness, and the prohibition of usury, contributes significantly to the development of these businesses. Sharia principles not only help in managing risks more effectively but also increase customer trust and loyalty. The conclusion of the study confirms that sharia management plays an important role in facilitating the growth and sustainability of MSMEs by introducing ethical business practices that are in accordance with Islamic values, as well as increasing MSME access to more integrated financing and support.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a very important role in the global economy, especially in developing countries. MSMEs not only serve as the main driver of economic growth, but also as the main source of employment and providers of goods and services needed by the community. In many countries, MSMEs contribute significantly to Gross Domestic Product (GDP) and absorb a large portion of the workforce. However, despite their great potential, MSMEs often face various challenges that can hinder their growth and sustainability. One of the main challenges is limited access to financing. Many MSMEs struggle to obtain the funds needed for expansion, product development, or infrastructure improvements. Banks and financial institutions are often reluctant to provide credit to MSMEs due to the high risk and lack of reliable collateral. As a result, MSMEs are often forced to rely on informal or high-cost funding sources,

which can burden their business operations and growth. In addition to the problem of access to financing, unprofessional management is also a significant challenge for MSMEs. Many MSMEs run their businesses with limited managerial skills, often without formal training in business management. This can result in poor business decisions, poor financial management, and a lack of clear business development strategies. Lack of professionalism in management can also affect operational efficiency and the ability of MSMEs to compete in an increasingly competitive market.

Economic instability is also a major issue faced by MSMEs. Economic fluctuations, inflation, and market uncertainty can drastically affect MSMEs' revenues and operating costs. MSMEs often lack adequate resources or strategies to cope with rapid economic changes, which can lead to uncertainty in business planning and management. This instability can affect MSMEs' ability to survive in the long term and hinder their growth. In facing these challenges, MSMEs also often experience limitations in terms of technology and innovation. Many MSMEs have not yet utilized modern technologies that can improve operational efficiency, expand market reach, or optimize marketing strategies. Limited access to technology and digital knowledge can hinder MSMEs' ability to adapt to market changes and take advantage of new opportunities, ultimately limiting their growth potential. Overall, these challenges require attention and effective solutions to ensure that MSMEs can thrive and contribute optimally to the economy. Strategies such as increasing access to finance, developing managerial skills, and implementing modern technologies can help MSMEs overcome these obstacles. In this context, sharia management offers an approach that can provide additional solutions, with principles that support transparency, accountability, and business ethics, and has the potential to improve the overall management and growth of MSMEs. Therefore, the effective development and management of MSMEs is crucial to achieving sustainable economic growth.

In the context of MSME management, sharia management offers an alternative approach that can improve business effectiveness and sustainability. Sharia management, which is based on Islamic principles, such as fairness, transparency, and the prohibition of *riba* (interest), offers a framework that can support the development of MSMEs in a more ethical and morally sound manner. These principles serve to ensure that business operations are not only financially profitable but also in accordance with religious guidance, which in turn can build customer trust and loyalty. However, the application of sharia management in MSMEs in many countries is still limited and has not been fully accepted. Many MSMEs do not fully understand or apply sharia principles in their daily operations. This is due to the lack of information and understanding of the benefits and methods of implementing sharia management, as well as the challenges in integrating these principles into existing business practices. Therefore, it is important to conduct in-depth research on the application of sharia management in MSMEs because sharia principles can offer innovative solutions to the challenges faced by this sector. Sharia management, which is based on Islamic principles such as fairness, transparency, and prohibition of usury, provides a framework that can help MSMEs overcome various operational and financial problems. This study will provide a better understanding of how these principles can be integrated into everyday business practices, and how their proper implementation can have a positive impact on MSMEs.

One important aspect that needs to be studied is how sharia principles, such as the prohibition of usury and the emphasis on justice, can affect the financial management of MSMEs. Many MSMEs face difficulties in managing cash flow and financing, so the implementation of sharia principles that support financing without usury can offer a more sustainable alternative. This study can identify effective sharia methods in addressing financial problems, as well as measuring their impact on the performance and financial stability of MSMEs. In addition, this study is important to explore how sharia management principles can affect the managerial and operational practices of MSMEs. Sharia principles emphasize the importance of transparency, accountability, and integrity in business, which can improve operational efficiency and stakeholder trust. By understanding the ways in which these principles can be integrated into managerial strategies, this study can provide practical guidance for MSMEs to improve their governance and performance.

In-depth research will also help in identifying challenges and obstacles that MSMEs may face in implementing sharia management. Not all MSMEs may be ready or able to fully adopt Shari'ah principles, especially if they lack sufficient understanding or if there is resistance to change. By exploring these barriers, research can offer solutions and recommendations to help

MSMEs overcome the challenges they may face, as well as facilitate the transition to more Shari'ah-compliant managerial practices. Finally, the results of this study can provide significant contributions to the development of policies and support for MSMEs in the context of sharia management. With empirical evidence and clear recommendations, this study can help policymakers and financial institutions in designing programs and initiatives that support the implementation of sharia management in MSMEs. This will strengthen the capacity of MSMEs to grow and be sustainable, as well as provide a positive impact on the economy as a whole by utilizing sharia values in business management.

This study aims to identify and analyze the role of sharia management in the development of MSMEs, as well as to explore the impact of the application of sharia principles on business performance and sustainability. By understanding how sharia principles can be integrated into MSME business practices, it is hoped that this study can provide practical guidance for business actors and policymakers in optimizing the potential of MSMEs through management that is in accordance with Islamic values. This study is also expected to identify challenges and solutions in the implementation of sharia management, as well as provide recommendations to increase the adoption of sharia principles in the MSME sector. Overall, this study is expected to provide important contributions to the development of sharia management theory and practice in the context of MSMEs. By focusing on how sharia principles can influence and improve the management of MSMEs, this study aims to offer useful insights for practitioners, academics, and policy makers in their efforts to support the growth and sustainability of MSMEs in a sustainable manner and in accordance with Islamic moral values.

METHOD

This study uses a qualitative approach to explore the role of sharia management in the development of Micro, Small, and Medium Enterprises (MSMEs). This method was chosen because it allows for an in-depth analysis of the application of sharia principles in the context of MSME businesses, as well as understanding their impact on business performance and sustainability. Data were collected through several techniques, including in-depth interviews, case studies, and document analysis. First, in-depth interviews were conducted with MSME actors who have implemented sharia management principles in their operations. These interviews included business owners, managers, and key staff involved in the decision-making and management processes. The purpose of the interviews was to gain direct insight into how sharia principles are applied, the challenges faced, and the benefits perceived from the implementation. These interviews were conducted in a semi-structured manner to allow flexibility in exploring topics and obtaining in-depth information.

Second, case studies were conducted on several MSMEs that have successfully implemented sharia management. These case studies provide a practical overview of the implementation of sharia principles in various types of businesses, ranging from the trade, manufacturing, to service sectors. Data were collected through direct observation and analysis of internal company documents, such as financial reports, managerial policies, and business strategies. This case study helps in understanding how sharia principles are applied in real contexts and how their implementation affects business performance and sustainability. Third, document analysis was conducted to assess regulations, guidelines, and related literature that govern and support sharia management in MSMEs. The documents analyzed included government policies, guidelines for Islamic financial institutions, and academic and practical literature related to sharia management. This analysis aims to identify the existing framework, and how these regulations and guidelines affect the implementation of sharia principles in MSMEs. Furthermore, data collected from interviews, case studies, and document analysis were analyzed using thematic analysis techniques. This technique is used to identify patterns, themes, and relationships between sharia management principles and MSME performance. Thematic analysis allows researchers to organize and interpret data systematically, and draw conclusions about the impact of sharia management implementation on the sustainability and development of MSMEs.

The findings from the data analysis are compiled in the form of a report that includes conclusions and practical recommendations for MSMEs and policy makers. This report aims to provide guidance for MSMEs in implementing sharia management effectively, as well as providing suggestions for policy makers to support the development of MSMEs through sharia principles. In this way, the research is expected to provide significant contributions to the development of sharia management theory and practice in the context of MSMEs.

RESULTS AND DISCUSSION

This study identifies several key findings regarding the role of sharia management in the development of Micro, Small, and Medium Enterprises (MSMEs). The application of sharia principles in the business world, especially in the Micro, Small, and Medium Enterprises (MSMEs) sector, has a significant impact on business sustainability. One of the main principles of sharia is justice, which emphasizes balance in the relationship between business actors, consumers, and society. In the context of MSMEs, justice means ensuring that all parties involved receive their rights proportionally and fairly. For example, MSMEs that apply this principle will strive to provide fair prices to consumers and comply with fair provisions in their business relationships, thereby creating a healthy and sustainable business environment. In addition to justice, transparency is another sharia principle that is very valuable in managing MSMEs. Transparency refers to the openness of information regarding business policies, practices, and performance to all stakeholders. By implementing transparency, MSMEs not only build trust among customers and business partners but also reduce the risk of conflict and disputes. For example, MSMEs that openly disclose their financial statements and business processes will be more trusted by investors and customers, which in turn can increase their credibility and competitiveness in the market.

The principle of social responsibility, which is also part of the sharia, emphasizes the importance of making positive contributions to society and the surrounding environment. MSMEs that adopt this principle will focus on business practices that are not only financially profitable but also beneficial to society and the environment. For example, MSMEs can engage in philanthropic activities, such as donating a portion of their profits to social activities or supporting environmental initiatives. In this way, MSMEs not only fulfill their social responsibilities but also strengthen their relationships with local communities, which can support business growth and sustainability. In addition, the implementation of sharia principles can help MSMEs manage risks better. Fairness, transparency, and social responsibility help create a more stable and predictable business system. With a fair and transparent system, MSMEs can reduce uncertainty that often leads to financial or legal problems. These principles also help build a solid reputation, which in turn can minimize reputational risks and increase business opportunities in the long term. Overall, the implementation of sharia principles such as fairness, transparency, and social responsibility brings significant benefits to MSMEs, both in terms of financial and social sustainability. By integrating these principles into daily business practices, MSMEs can create a more just and responsible environment, and build a strong foundation for long-term growth. Success in implementing these principles not only strengthens the position of MSMEs in the market but also contributes to the welfare of society and sustainable economic development.

The principle of justice in sharia management ensures that MSMEs implement fair practices in their relationships with customers, suppliers, and employees. This creates a harmonious business environment and enhances the reputation of MSMEs in the local market. Fairness in MSME business practices also improves long-term business relationships and strengthens customer and partner loyalty. Transparency in sharia management helps MSMEs manage their finances and operations more effectively. By implementing the principle of transparency, MSMEs can improve accountability and reduce the risk of misappropriation or errors in management. The results of the study showed that MSMEs that implement clear financial reports and strict internal audit systems are able to manage resources better. This transparency also increases trust from investors and financial institutions, which is important for access to capital and business development.

Social responsibility, which is part of the sharia principle, plays an important role in the development of MSMEs. MSMEs that are committed to social responsibility tend to engage in activities that benefit the local community, such as training programs, community empowerment, and charity activities. The results of the study showed that MSMEs that are active in social

responsibility not only improve their image but also gain support and trust from the surrounding community. These activities improve good relations with customers and the community and strengthen the position of MSMEs in the market. Social responsibility, as one of the sharia principles, plays an important role in the development of Micro, Small, and Medium Enterprises (MSMEs). This principle emphasizes the importance of providing a positive impact on the community and the surrounding environment, not only focusing on financial gain alone. In the context of MSMEs, social responsibility requires business actors to consider the effects of their business activities on society and the environment. By implementing social responsibility, MSMEs not only build a good reputation but also contribute to sustainable development and social welfare.

One form of social responsibility that can be implemented by MSMEs is through philanthropic activities and support for local communities. For example, MSMEs can set aside part of their profits to support social projects such as education, health, or local infrastructure. This support can create harmonious relationships with the community around the MSME and strengthen customer loyalty and expand business networks. By involving themselves in social activities, MSMEs show their concern for the welfare of the community, which in turn can improve their positive image in the eyes of the public. In addition, social responsibility also includes environmentally friendly business practices. MSMEs can implement strategies to reduce negative impacts on the environment, such as the use of sustainable raw materials, efficient waste management, and reducing carbon emissions.

By integrating environmentally friendly principles into their operations, MSMEs not only help preserve the environment but also meet the demands of consumers who are increasingly concerned about environmental issues. This can strengthen the competitiveness of MSMEs, because consumers are more likely to choose products and services from companies that are committed to environmental sustainability. The principle of social responsibility also plays a role in creating a fair and ethical work environment. MSMEs that implement this principle will ensure that they provide good working conditions, protection of workers' rights, and development opportunities for employees. By prioritizing employee welfare, MSMEs can increase productivity, job satisfaction, and workforce retention. Employees who feel valued and cared for tend to be more motivated to contribute optimally to the success of the business, thus supporting the growth and stability of MSMEs. Overall, implementing social responsibility in MSMEs is not only fulfilling a moral obligation but also a smart business strategy.

By implementing the principles of social responsibility, MSMEs can build a strong reputation, improve relationships with the community, and better face environmental and social challenges. This principle helps MSMEs to grow sustainably, not only in financial aspects but also in making positive contributions to society and the environment, which ultimately contributes to their long-term success. This study reveals that sharia management provides a strong framework for risk management in MSMEs. Sharia principles encourage MSMEs to avoid business activities that are high risk or not in accordance with ethical values. By implementing risk management based on sharia principles, MSMEs can reduce potential losses and better face market uncertainty. Effective risk management helps MSMEs to survive in unstable economic conditions and maintain the sustainability of their businesses. Finally, the results of the study show that sharia management contributes to the development of MSMEs through increased innovation and adaptation. Sharia principles encourage MSMEs to develop products and services that are in accordance with ethical values and market needs. MSMEs that apply these principles tend to be more innovative in creating sustainable and relevant solutions. Effective adaptation to market and technological changes allows MSMEs to remain competitive and thrive in an increasingly dynamic business environment.

CONCLUSION

Sharia management plays a very important role in the development of Micro, Small, and Medium Enterprises (MSMEs), by offering principles that support business sustainability and growth. Sharia principles such as fairness, transparency, and social responsibility provide a solid framework for MSMEs to operate ethically and sustainably. By adopting these principles, MSMEs can create a fair and responsible business environment that supports the welfare of all stakeholders, including customers, employees, and communities. One of the main contributions of sharia management is in terms of fairness. This principle encourages MSMEs to ensure that all business transactions are carried out fairly and proportionally. The application of the principle of fairness helps MSMEs build a good reputation, reduce conflicts, and create harmonious relationships with customers and business partners. This is important to maintain business stability and sustainability, as well as to attract and retain loyal customers. Transparency is another aspect of sharia management that has a major impact on the development of MSMEs. By implementing transparency, MSMEs can ensure openness of information regarding business practices, financial reports, and operational policies. This transparency not only builds trust among customers and investors but also reduces the risk of disputes and increases credibility. MSMEs that are transparent in their operations are more likely to gain support and cooperation from various parties, which in turn strengthens their position in the market.

Social responsibility, as part of the sharia principles, also plays an important role in the development of MSMEs. By committing to social responsibility, MSMEs can have a positive impact on the community and the surrounding environment. Philanthropic activities, support for social initiatives, and environmentally friendly practices are examples of how MSMEs can contribute positively. This not only improves the image of MSMEs in the eyes of the public but also strengthens their relationship with the local community, which can have a positive impact on business growth and sustainability. Overall, sharia management provides guidelines that support ethical, sustainable, and responsive business practices to the needs of the community. By implementing sharia principles, MSMEs can better address business challenges, build strong relationships with various stakeholders, and achieve stable and sustainable growth. The success in integrating sharia principles into MSME management not only benefits the business itself but also contributes positively to broader economic and social development.

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