

# Shariah Governance, Maqasid al-Shariah, SMEs Performance: The Role of Gender and Age

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## ABSTRACT

This study's primary objective is to develop shariah governance and maqasid al-shariah models in improving the performance of SMEs in Surabaya, Indonesia. The sampling technique used is the purposive sampling method, and the analysis model used is the Structural Equation Model (SEM). The results show that creating a conducive pre-condition/situation, Sharia governance principles, and ethics, and code of conduct have insignificant influence on SMEs' performance. In contrast, maqasid al-shariah has a significant influence on the performance of SMEs. Besides, the results also show that gender positively moderates the influence of ethics and code of conduct on the performance of SMEs. In contrast, age negatively moderates the influence of the creation of conducive pre-condition/situation and ethics and code of conduct on SMEs' performance. The results of this study are expected to be used as input for SMEs to improve their performance. SMEs need to understand the Sharia governance indicators and increase their understanding of maqasid al-shariah in running their business.

## ABSTRAK

Tujuan utama penelitian ini adalah untuk mengembangkan model tata kelola syariah dan maqasid syariah dalam meningkatkan kinerja UKM di Surabaya, Indonesia. Teknik pengambilan sampel yang digunakan adalah metode purposive sampling dan model analisis yang digunakan adalah Structural Equation Model (SEM). Hasil penelitian menunjukkan bahwa penciptaan prasyarat / situasi yang kondusif, prinsip-prinsip tata kelola syariah, serta etika dan kode etik berpengaruh tidak signifikan terhadap kinerja UKM, sedangkan maqasid syariah memiliki pengaruh yang signifikan terhadap kinerja UKM. Selain itu, hasil penelitian juga menunjukkan bahwa faktor gender dapat memoderasi pengaruh etika dan kode etik terhadap kinerja UKM dengan arah positif, sedangkan faktor usia dapat memoderasi pengaruh penciptaan prasyarat / situasi yang kondusif dan etika dan kode etik terhadap kinerja UKM dengan arah negatif. Hasil penelitian ini diharapkan dapat menjadi masukan bagi pelaku UMKM guna meningkatkan kinerja. UMKM perlu memahami indikator tata kelola syariah dan meningkatkan pemahaman tentang maqasid al-shariah dalam menjalankan usahanya.

## 1. 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) state that Indonesia has a good SME portfolio, and 99% of all companies in Indonesia are SMEs. Besides, SMEs have also employed over 99 million people, or 97% of Indonesia's total employment. SMEs contribute 57% of Indonesia's Gross Domestic Product (GDP). The growing number of small and medium-sized business units will undoubtedly open up significant

employment opportunities. Small and medium enterprises (SMEs) are the business groups that can survive when the economic crisis hit the country. Besides, SMEs also have a high ability to compete (Byrd & Megginson, 2009). However, SMEs are often seen as small businesses whose performance is low due to limitations in obtaining capital resources and technology and a lack of good corporate governance (Maurty, 2006).

Good corporate governance (GCG) is necessary for the development of a healthy and competitive

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company. The implementation of GCG will create a healthy, better, accountable, transparent, independent, responsible, and fair internal control system (Ramakrishnan, 2013). Good corporate governance (GCG) is a system that regulates and controls the relationship between management and those who have an interest in the company to create added value for all parties related to the company (Sutedi, 2012). The implementation of GCG in a company has a positive effect on the performance of the company. The better the implementation of GCG in the company, the better its performance (Al-Haddad, Alzurqan & 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 & Ahmed, 2008). However, in practice, corporate governance has not been implemented appropriately (Chapra & Ahmed, 2014). GCG is needed to maintain the company's sustainability through a management system based on the principles of transparency, accountability, responsibility, independence, and fairness (Committee, 1992). The importance of GCG for a company's sustainability also applies to the businesses run by SMEs based on *Sharia* governance (Hafeez, 2013).

*Shariah* business governance guidelines consist of 3 (three) necessary foundations: 1) based on *Shariah* principles and oriented to material and spiritual success; 2) based on the spiritual principles, such as *halal* and *thoyib*, as well as the operational basis which is reflected in 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 (KNKG, 2006). *Sharia* governance provides comprehensive guidance, covering economic transactions to moral behavior, 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 for all stakeholders through disclosure and transparency. 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. In contrast, Aras and Crowther (2008) show that GCG is insufficient to prove that the company will continue running its business.

To achieve business goals, apart from *shariah* business governance, it is also necessary to realize *maqasid al-shariah*. It describes a holistic view of Islam and serves as a living guide for individuals

and society (Dusuki & Abdullah, 2007), including business entities (Abdullah, 2012). The development of *maqasid al-shariah* as a performance measurement has not been carried out comprehensively in non-financial industries. The concept of *maqasid al-shariah* itself should be well understood. The absence of standards in *maqasid al-shariah*-based guidelines for *shariah* business operations is a significant problem for the business (Rahman *et al.*, 2015). Therefore, a *shariah* business institution must guard the mind, religion, soul, descendant, and wealth (Chapra, 2001). To achieve *maqasid al-shariah*, a *shariah* 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 *maqasid al-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 Syaifei (2013). *Maqasid al-shariah* can be measured by achieving three dimensions: education, the creation of justice, and achieving public interests.

In addition to good governance and *maqasid al-shariah*, the demographic factors also influence SME's performance. Gender is the determinant of business success (Rosa *et al.*, 1996). Firms controlled by females have better performance than those controlled by males (Watson, 2002, 2001). Differences in business performance stem from differences in attitudes and psychology between females and males (Asian Development Bank, 2014). The manager's age also affects the company's performance. The more mature the company manager is, the more committed they are to improving company performance (Amran, 2011). Thus, gender and age can moderate the influence of *sharia* governance and *maqasid al-shariah* on SMEs' performance.

Based on the background stated above, it can be concluded that SMEs need to implement the principles of *Sharia* governance and *maqasid al-shariah*. By implementing these two principles, it is hoped that the business units (SMEs) can achieve performance, both materially and spiritually, based on *Sharia* rules.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESES

### Corporate Governance

Corporate governance is the principle of balancing and controlling internal and external companies that guarantee all their stakeholders' accountability and

are responsible for business activities (Solomon, 2010). Corporate governance is a system and structure to manage a company to increase shareholder value and accommodate various parties that are interested 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 control management in conducting business. Good corporate governance should also 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 & Adjasi, 2007).

### **Shariah Corporate Governance (SCG)**

Sharia corporate governance aims to create a business based on Islamic principles and oriented towards material and spiritual success. The two essential foundations of the principles of *shariah* corporate governance are *halal* and *thayib*, while the operational bases are transparency, accountability, responsibility, independence, and fairness. The concept of managing a healthy business has existed since the time of the Prophet Muhammad and his companions. It can be traced through existing *Sharia* provisions and the efforts to support good governance and do not violate the *Sharia* provisions (Choudhury & Hoque, 2006).

Abu-Tapanjeh (2009) states that the principles of good governance, according to the Organization for Economic Cooperation and Development (OECD) and *shariah* 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 fairness and welfare of the people and spiritual responsibility; b) the rights and functions of stakeholders, such as 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; and 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* or *halal*.

Good corporate governance can help develop strategic planning to achieve effective and efficient performance (Ijeoma & Ezejiofor, 2013). Good corporate governance is essential for the development of a healthy and competitive company.

Besides, the implementation of good corporate governance will create a healthy, better, accountable, transparent, independent, responsible, and fair internal control system (Ramakrishnan, 2013).

Comprehensively, *Sharia* law functions as a religious ritual and includes several social, economic, political, business, and legal aspects. The recommended principle of *shariah* corporate governance is to be fair and honest to every community, including business transactions. Three parties determine the principle of *Sharia* corporate governance are: 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 right decisions according to the expectations/wishes of the community; c) with whom and to whom: the determining corporate governance requires adequate religious supervision to ensure the adjustment of all *shariah* 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, leadership competence that is free from the conflict of interest, including the ability and experience in running a company fairly in a competitive environment (Hafeez, 2013).

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 of corporate performance governance conceptualized 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 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 small companies' performance that will improve their performance.

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 fairness. The research aims to discuss the nature, implementation, and comparison between Islamic corporate governance principles and the principles of general corporate governance concerning the Organization of Economic Co-

operation and Development (OECD). The results show that Islamic corporate governance's dimension has a broader horizon and cannot separate between roles and responsibilities. All actions and obligations are under Islamic law jurisdiction, 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 and includes stakeholders, such as suppliers, customers, competitors, and owners. Meanwhile, the concept of general corporate governance is only concentrated on shareholders as the owners of the company and not on stakeholders. Besides, Islamic law's intense focus 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 all communities' rights are protected through the *Sharia* Board, which ensures that the institution complies with the rules of Islamic / *Sharia* law. Theoretically, the ICG concept is relatively stable and in line with various theorists who emphasize 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 where the corruption index is often high.

Abu-Tapanjeh (2009) analyses Islamic corporate governance from the perspective of OECD principles. The research discusses the current conditions of corporate governance practices in conventional economics using reasonable corporate governance measures at the functional level compared to the Islamic perspective. Like other civilizations 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 substantial implications in every Muslim's life and regulates a broader scope than the general governance principles. Therefore, success and prosperity are measured by morals and ethics, 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.

H<sub>1</sub>: *Shariah* governance consisting of the Creation of Conducive Pre-condition/Situation; Principles of *Shariah* Governance; and Ethics and Code of Conduct have a positive effect on the performance of SMEs.

### ***Maqasid al-Shariah***

*Maqasid al-shariah* 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 *maqasid al-shariah* goal is based on the constituent's objectives, which are the reason for the legislation of Islamic rules. Muhammed and Taib (2015) classified the *maqasid* into five main categories: maintaining religion, soul, mind, descent, and wealth. A detailed description of these objectives is essential for achieving the study objectives and for supporting the objectives of *Sharia* for human welfare. *Maqasid al-shariah* is an important *shariah* science. Today, *maqasid* has become the focus of attention in Muslim countries that provide easy access to *Sharia*. It can be achieved by developing a framework that can help create a development index for *maqasid al-shariah* financial institutions. This study aims to explore *maqasid al-shariah's* measurement by suggesting various indicators that find the relationship with the parameters of financial institutions and help develop a framework.

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

*Maqasid* 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 life in this world and the hereafter. The meaning of *maqasid al-shariah* is *al-ma'aani allati syuri'at laha al-ahkam*, which means the values that are the goal of establishing the law. *Maqasid al-shariah* serves to carry out two critical things: 1) *tahsil*, which means securing benefits (*manfaah*); and 2) *ibqa*, which means achieving protection in life in this 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 & Abdullah, 2007).

Al-Zuhaili (1986) defines the *maqasid al-shariah* 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* can be viewed from two parts: based on God's purpose as the maker of the *Sharia* and 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 realization 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 realize benefit (*maslahah*) for human beings (Zein, 2005).

According to Zahrah (1997), in the *shariah* business, the achievement of *maqasid al-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). The first dimension reveals how Islamic banking should spread knowledge and capabilities and instill values that support spiritual development. The second dimension reveals how Islamic banking must ensure that every business transaction is carried out fairly. Besides, Islamic banking should also ensure that every banking business is free from harmful elements that can create injustice, such as usury. The third dimension reveals that Islamic banking should create benefits or achieve public interest by giving priority to business activities that produce prosperity for the community. This includes activities that cover society's basic needs, such as clothing, food, and shelter.

H<sub>2</sub>: *Maqasid al-shariah* has a positive effect on the performance of SMEs.

### Demographic Factors

Two demographic factors examined in this study are the gender and age of managers of SMEs. Gender and age play an important role in business success. According to the Asian Development Bank (2014), SMEs managed by women have better performance than those managed by men. Differences in companies' performance managed by men and women are caused by differences in attitudes, behavior, culture, and psychological differences (Watson, 2002). Several factors that characterize women can drive the effectiveness of the strategies implemented and the business performance. With limited opportunities compared to men, women want to show their ability to run a business (Asian Development Bank (2014))

Besides, age also affects the performance achievements of SMEs. The more mature a business manager is, the more responsible he is to manage and improve company performance (Amran, 2011). As the owners get older, they need to prepare for their companies' sustainability. This makes the mature owners do their best to prepare their successors and improve their business performance so that the company will survive after they no longer manage the company. Therefore, gender and age moderate the effect of *shariah* governance and *maqasid al-shariah* on SMEs' performance.

H<sub>3</sub>: Gender moderates the effect of *sharia* governance and *maqasid al-shariah* on the performance of SMEs

H<sub>4</sub>: Age moderates the effect of *sharia* governance and *maqasid al-shariah* on the performance of SMEs

Figure 1 is a conceptual framework based on the explanation above. The performance of SMEs is influenced by *sharia* governance and *maqasid al-shariah*. The effect of these two exogenous variables on SMEs' performance is moderated by gender and age of managers.

Shariah Governance Dimension

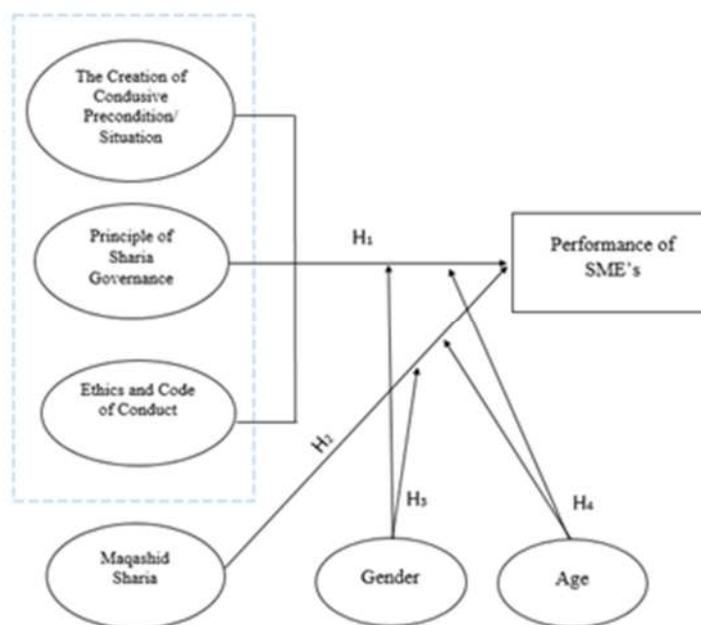


Figure 1. Conceptual Framework

**3. RESEARCH METHOD**

This research is based on a survey approach using a questionnaire to obtain data from respondents who run SMEs and live in Surabaya. The endogenous variable in this study is SMEs' performance, which is proxied by the growth in sales turnover, profit growth, and the growth in the number of customers. The exogenous variables used in this study are guidelines for Sharia corporate governance, which are proxied by creating a conducive pre-condition / situation, the principles of Good Governance, ethics and code of conduct, and *maqasid al-shariah*. The moderating variables used are gender and age of managers.

The analytical technique used is the PLS-SEM model approach. There are two stages in the PLS-SEM modeling process (Hair, Ringle & Sarstedt, 2011). First, the measurement model is evaluated in terms 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. There are 19 male respondents and 107 female respondents. 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. There are 63 respondents with Senior High School education. The

majority of respondents, or 85 respondents, run their business less than ten years. Based on the number of employees, 100 respondents have from one to four employees, and 26 respondents have more than five employees. One hundred thirteen respondents start their businesses, while 13 respondents continue their parents' business. Based on the average total sales per year, 105 respondents have 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%. 93% of respondents market their product nationally, while 7% of respondents market their product globally to foreign countries, such as Malaysia, China, Taiwan, Singapore, and Australia.

**4. DATA ANALYSIS AND DISCUSSION**

Reliability test is used to test the composite reliability as an estimate of the construct's internal consistency stated from the composite reliability. If the composite reliability value is between 0.60 - 0.70, the study's indicator is declared reliable. A validity test is used to evaluate the model indicated by the AVE (Average Variance Extracted) value above 5%. Table 1 indicates that all indicators are reliable, as evidenced by the composite reliability value of > 0.6. The validity value is > 5%, as measured by the average variance extracted (AVE), which means that all indicators are declared valid.

Table 1. Results of Validity and Reliability Tests

Variable	Composite Reliability	Average Variance Extracted (AVE)
Shariah Business Governance	0.927	0.646
Ethics	0.934	0.780
Performance	0.824	0,611
Maqasid al-shariah	0.784	0.259
Pre-Condition	0.918	0.585

Source: Processed data

**Structural Model**

The structural model shows the relationship between endogenous variables (the performance of SMEs) and exogenous variables (the creation of conducive pre-

condition / situation, the principles of good governance, ethics and code of conducts, and *maqasid al-shariah*). The test results using Wrap PLS 6.0 can be seen in Table 2.

Table 2. Test Results of the effect of *Shariah* Business Governance and *Maqasid al-Shariah*

Variable	P-value	Conclusion
reation of Conducive Pre-condition/Situation	0.485	Insignificant
Shariah Business Governance	0.379	Insignificant
Ethics and Code of Conducts	0.109	Insignificant
Maqasid al-Shariah	<b>0.032</b>	<b>Significant</b>
Gender	<b>0.028</b>	<b>Significant</b>
Age	<b>0.002</b>	<b>Significant</b>

Source: Processed data

Table 2 shows that creating a conducive pre-condition / situation, the principles 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%. In contrast, the *maqasid al-shariah* variable significantly influences performance as indicated by a p-value of 0.03, which is smaller than alpha 5%. This may be because the average respondent has not been in business for a long time, that is, under ten years. Besides, respondents do not understand the measurement indicators of sharia governance, such as committed to obeying and upholding truth and justice; no bribery for profit; free from conflicts of interest; fair in serving customers; honest; trustworthy, and provide excellent service in running a business (see Appendix).

The results of this study are not in line with the results of the research conducted by Al- Haddad, Alzurqan, and Al-Sufy (2011), which state that the implementation of Good Corporate Governance (GCG) in the company has a positive effect on the company performance, the better the implementation of GCG in the company, the better the company performance. 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 a 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 to stakeholders and God as the highest owner. The principles of corporate governance in Indonesia must pay attention to Islamic law to not fail in its implementation to achieve business performance (Widiyanti *et al.*, 2011).

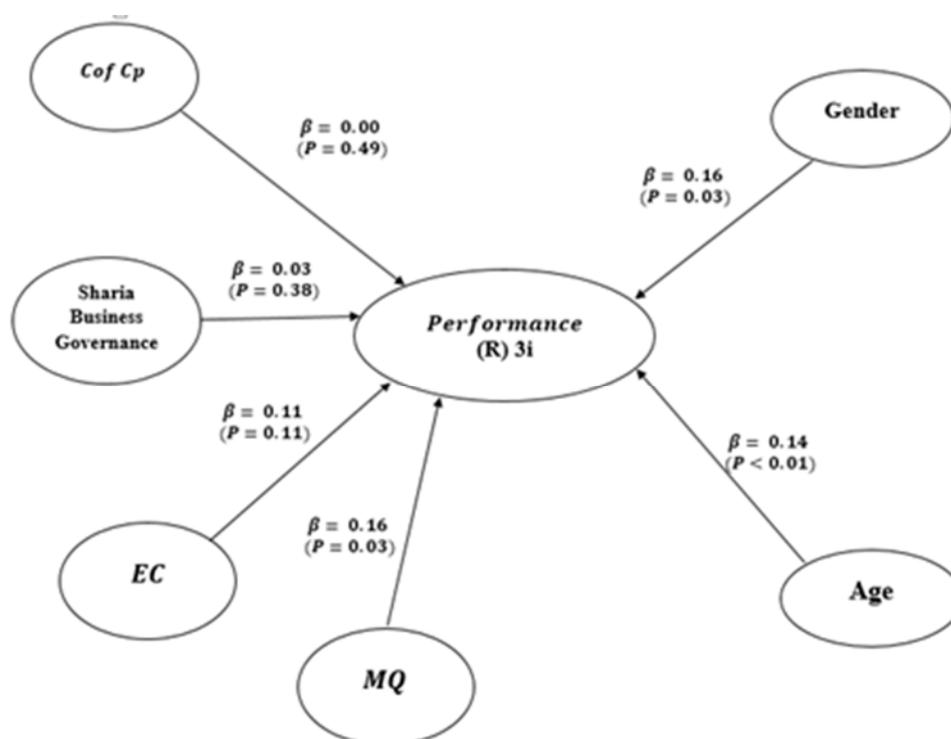
This study's results are not in line with the results of the research conducted by Hove-Sibanda, Sibanda, & Pooe (2017), which state that the implementation of corporate governance as a company's ability has a positive and significant relationship with the performance of SMEs. Bhatti (2009) also states that good corporate governance requires Islamic law principles, 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 behaviors that maximize value, reduces capital costs, and fosters strong markets" (Kablawi, 2008). Besides, 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 a Sharia Supervisory Board is necessary. First, most investors and clients from Islamic companies will lose confidence if bank management continues to violate Islamic law. Second, the *Sharia* system emphasizes ethics, which is believed to prevent Muslims from behaving unethically (Kablawi, 2008).

Table 2 shows that *maqasid al-shariah* significantly affects performance, as indicated by a p-value of 0.03, which is smaller than alpha 5%. This means that the respondents understand several factors that must be considered in running a business, such as not neglecting education, being fair in the sense of giving the right to leave, and provide a place to worship as a form of creating public interest. This variable describes Islam's holistic view as a way of life for individuals and society (Dusuki & Abdullah, 2007), including business entities (Abdullah, 2012). The results of this study are not in line with the results of the study conducted by Rahman *et al.* (2015) that the development of performance measurement based on *maqashid al-Sharia* in business and trade is quite significant. It is found that the development of *maqasid al-shariah* as a performance measurement has not been

carried out comprehensively in the non-financial sector. The concept of *maqasid al-shariah* must be well understood before developing the standard and framework of *maqashid al-Sharia*. The absence of standards in *maqasid al-sharia*-based guidelines for business operations is a significant problem. Therefore, it is necessary to develop standards of collective decisions from industry and practitioners. Besides, government policies and support are essential for industry or SMEs.

Furthermore, Table 2 shows the influence of demographic factors, such as gender and age, on SMEs' performance. The results show that gender and age significantly affect performance as indicated by the p-value, which is smaller than the alpha value of 5%. Figure 2 shows that gender affects SMEs' performance, which means that business success is determined by the gender of the person who runs the business. In this study, women dominate the business. However, this study's results are not in line with the results of the study conducted by Islam *et al.* (2011) that age has no significant influence on SMEs' performance. Likewise, gender does not play an essential role in the success of a business in Bangladesh.



Note: CofCp (Creation of Conducive Pre-Condition), EC (ethics and code of conduct), MQ (Maqasid al-Shariah)

Figure 2. The Test Results of The Effect of *Shariah Business Governance* and *Maqasid al-Shariah* on the Performance of SMEs

Reynolds, Camp, and Autio (2001) state that individuals between the ages of 25 and 44 are the

most active entrepreneurs. Likewise, the research conducted by Wahid, Furuholt, and Kristiansen (2006) shows that there is a significant correlation between the age of entrepreneurs and business success. Older entrepreneurs (>25 years of age) are more successful than younger entrepreneurs. Sinha (1996) also states that an entrepreneur's success is at the age between 32 and 44. According to Islam *et al.* (2011), age does not significantly affect the performance of SMEs. However, they state that the length of business has a significant effect on SME business's success, which means that SMEs that can operate longer are more successful in running their businesses. Besides, Chua, Chrisman, and Chang (2004) also state that the development of business performance is determined by the length of the business established. This study shows that the length of business has no significant effect on performance because the average length of the business of SMEs in Surabaya is less than ten years.

The next is testing the role of gender and age on the effect of shariah business governance and *maqasid al-shariah* on SMEs' performance. The moderating effect test results in Table 3 show that gender moderates the influence of ethics and code of conduct on SMEs' performance with a p-value of 0.017 smaller than alpha 5%. Age moderates the influence of the creation of a conducive pre-condition/situation on SMEs' performance with a p-value of 0.01 smaller than alpha 5%. Ethics and code of conduct have a significant influence on SMEs' performance with age as a moderating variable with a p-value of < 0.01 smaller than alpha 5%. *Maqasid al-shariah* does not moderate the influence of creating a conducive pre-condition / situation, the principles of *Sharia* business governance, ethics, and code of conduct on SMEs' performance because the p-value is more significant than alpha 5%.

Table 3. Moderating Effect Test Results

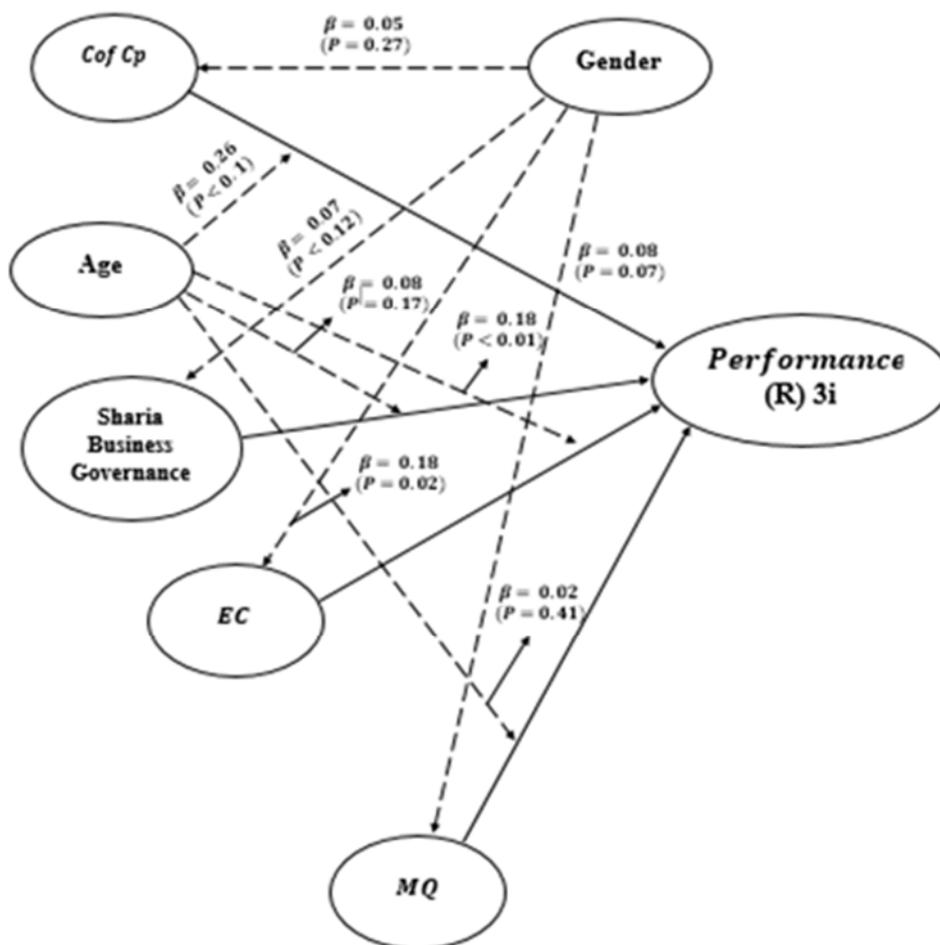
Moderating Variable	Moderating Variable		Alpha 5%	Conclusion
	Gender	Age		
Creation of Conducive Pre-condition (PK)	0.274	<b>0.001 (*)</b>	0.05	Significant
<i>Shariah</i> Business Governance (GGBS)	0.194	0.167	0.05	Insignificant
Ethics and Code of Conduct	<b>0.017 (*)</b>	<b>&lt;0.001 (*)</b>	0.05	Significant
<i>Maqasid al-shariah</i> (MS)	0.191	0,113	0.05	Insignificant

Source: Processed data

According to Mazzarol *et al.* (1999), women are generally more active to be the founders of new businesses than men. The results of research conducted by Mazzarol are in line with the results of this study that gender (female) actively moderates the influence of ethics and code of conduct on the performance of SMEs. *Sharia* business ethics is a moral reference as part of the *akhlaqul 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 falsely eat each other's possessions but in the form of commerce based on mutual pleasure/respect...*" (an-Nisa / 4: 29). Implementing these basic principles in *Sharia* business must also fulfill the core values, such as honesty, fairness, trustworthiness, and virtue (KNKG,

2006). It contrasts with the results of the study conducted by Kolvereid (1996) that men have higher entrepreneurial intentions than women.

In addition to gender, age as part of demographic factors moderates the influence of the variable of the creation of conducive pre-condition on SMEs' performance. The more mature the entrepreneur, the more comfortable he will be to create a healthy business climate so that it will impact the improvement of business performance. This study's results are in line with the results of previous research that age, as a demographic factor, is a significant factor in the success of SMEs (Reynolds, Camp, & 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 younger (Wahid, Furuholt, & Kristiansen, 2006).



Note: CofCp (Creation of Conducive Pre-Condition), EC (ethics and code of conduct), MQ (Maqashid Sharia)

Figure 3. The Moderating Role of Gender and Age on the Effect of Shariah

### 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Based on the results of the analysis and discussion, it can be concluded that *maqasid al-shariah* has a significant influence on SMEs' performance. In contrast, the creation of a conducive pre-condition / *Sharia*, sound governance principles, ethics, and code of conduct have insignificant influence on SMEs' performance. Besides, the gender factor can strengthen the effect of ethics and code of conduct on SMEs' performance. Conversely, the age factor can weaken the effect of the creation of conducive pre-condition/situation and ethics and code of conduct on SMEs' performance.

The results of this research can be used as input for business people that in order to improve performance, it is necessary to understand every indicator in measuring *shariah* governance. Besides, they also need to improve their understanding of *maqasid al-shariah*'s achievements in running their business.

This study uses 126 SMEs in Surabaya,

Indonesia, to examine *shariah* governance that covers the aspects of the creation of conducive pre-condition / situation, the principles of Good Governance, and ethics and code of conduct. Therefore, the results of this study cannot be fully generalized. Further researchers are expected to reconstruct the measurement of *shariah* governance in SMEs, such as fair, honest, halal, and far from usury. Also, SME entrepreneurs should understand the objectives of *maqasid al-shariah* as measured through Tahdhib al-Fard (private education), Iqamah al-'Adl (creation of justice), and Jalb al-Maslahah (achievement of public interest) in running their business.

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APPENDIX.

Research Instrument

Variable/Aspect	Indicator	Sources	
PRE-CONDITION CREATION			
Spiritual Pre-Condition	Must be committed to obeying and upholding truth and justice	Jumansyah (2013), KNKG (2011)	
	Must be consistent to obey and uphold truth and justice		
	Must understand every type of business that is run		
Operational Spiritual Pre-Condition	The government provides guidance and education to businessman		
	The government provides protection to businessman		
	The <i>Ulemas</i> support the creation of a healthy business climate		
	The <i>Ulemas</i> participate in drafting and issuing fatwas related to business activities		
	People need to comply with and implement ethics in transactions		
SHARIAH BUSINESS GOVERNANCE (GGBS) PRINCIPLES			
Spirituality	Not applying usury in doing business		Jumansyah (2013), KNKG (2011), Abu-Tapanjeh (2009)
	Do not sell items that are not lawful in doing business		
	Must compete fairly among other traders in doing business		
	No bribery is allowed to gain profit in doing business		
	Must have a balance between spiritual and material in doing business		
Operation	Must have a <i>shiddiq</i> nature or be honest in doing business.		
	Must have a <i>fathanah</i> nature or be wise in making business decisions		
	Must have an <i>amanah</i> nature or trustworthy in the form of responsibility for business activities		
	Must have a <i>tabligh</i> character or convey good business practices		
Transparency	Must provide clear and accurate financial condition information	Al Haddad et al. (2011), Ramakrishman (2013), KNKG (2006) Hafeez (2013)	
	Must provide clear and accurate information relating to business ownership		
	Have a principle of openness in running a business		
	Business policies must be written and communicated to all employees		

Accountability	Businessmen determine the details of the duties and responsibilities to each employee	
	Businessmen must believe that employees have the ability to carry out their duties and responsibilities	
	Businessmen must have performance measures consistent with applying sanctions and rewards	
	In carrying out their duties and responsibilities, all employees must adhere to business ethics	
	Businessmen believe that the procedures and work mechanisms that I carry out are guaranteed to be good and correct	
Responsibility	Businessmen must adhere to the principle of prudence of business rules / regulations	
	Businessmen must comply with all rights and obligations that have been agreed upon	
	Businessmen must have a social responsibility for the surrounding community	
Independence	Businessmen must avoid being dominated by any party	
	Businessmen must be free from conflicts of interest.	
	Businessmen must make objective decisions.	
	All employees must carry out their functions according to their duties and responsibilities	
Fairness	Businessmen must provide opportunities for their employees to provide input / opinions	
	Businessmen must be fair to all employees in accordance with the benefits and contributions given	
	Businessmen do not differentiate between employees based on religion, ethnicity, race, class and gender	
	Businessmen must be tawazun - that is, fair in serving their customers	
Ethic and Code of Conduct	Businessmen must have an honest attitude	Jumansyah (2013), KNKG (2011)
	Businessmen should not abuse each other	
	Businessmen must have a trustworthy nature	
	Businessmen must be able to provide excellent service	
<i>Maqasid al-Shariah</i>	Individual education	Mohammed & Taeb (2009), Chapra (2008)
	Justice creation	
	Achievement of the public interest	