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# Exploring Factors Determining the Business Performance of Micro and Small Enterprises: Reality in Indonesian Muslim Entrepreneurs

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## Abstract

**Research aim:** This paper aims to identify important influences on the company performance of Muslim business owners in Southeast Sulawesi, Indonesia, using a balanced scorecard development approach incorporating Islamic values and business practices.

**Design/Methodology/Approach:** The research design used a quantitative approach called Exploratory Factor analysis through SPSS. The sampling technique was purposive sampling with 120 samples (Muslim entrepreneurs), with data collected through a survey questionnaire.

**Research findings:** Three significant factors determining the business performance of Muslim entrepreneurs: strategy and internal business processes, business orientation, external stimuli, and Islamic business practices. Approaches to Islamic business practice are critical for improving Muslim entrepreneurs' company performance.

**Theoretical contribution/ Originality:** This finding is one of the new models of the balanced scorecard theory to measure and improve the performance of Indonesian Muslim entrepreneurs.

**Practitioner/Policy implication:** Integration of business orientation with general approaches and sharia business practices such as halal product orientation and hard work can improve the business performance of Indonesian Muslim entrepreneurs.

**Research limitation/Implication:** This study only investigated the performance of Muslim entrepreneurs in 7 districts/cities in Southeast Sulawesi with a sample of 120 Muslim MSMEs.

**Keywords:** Business performance; Muslim entrepreneurs; Micro and small enterprises

## Introduction

Small and medium-sized businesses can now contribute to national economic progress. As a result, the Indonesian government passed Micro, Small, and Medium Businesses Law no. 20 of 2008. In addition, the Indonesia Stock Exchange encourages Muslim entrepreneurs to become sharia-compliant investors. Consequently, the government promotes the growth of SMEs through sharia financial products. Muslims must become entrepreneurs or dealers who can meet many other Muslims' demands while contributing to their country's economic progress (Zulkifli & Saripuddin, 2015). Furthermore, many Muslim entrepreneur communities

have formed associations and followed sharia-based literacy and business practices. Therefore, looking at the aspects that affect Muslim entrepreneurs' company performance is necessary.

Researchers and experts have developed many models of business performance measurement systems, such as Integrated Performance Measurement (IPM Systems) by Bititci et al. (1997) and the Balanced Scorecard model developed by Kaplan and Norton (2001). Although the balanced scorecard has been implemented in large corporations, research has shown the challenges of implementing it in small enterprises, and assumptions about its advantages for SMEs have not been backed up by scientific findings (Malagueño et al., 2017). The determinants that influence the performance of Muslim enterprises have been emphasized by research from Muslim nations. Besides, marketing ability affected the company's performance (Keh et al., 2007); (Rekarti & Doktoralina, 2017). Networking could affect a company's performance (Lin & Lin, 2016). Entrepreneurial marketing could affect SMEs' long-term viability (Sadiku-Dushi et al., 2019). According to Campbell and Park (2017) and Alonso-Dos-Santos and Llanos-Contreras, (2019), individual entrepreneurial orientation could influence SME success through the mediation role of active social networking (Fatima & Bilal, 2019). In addition, the market orientation directly improved financial and non-financial firm performance (Lee et al., 2015). There was a link between firm performance and information to make marketing decisions (Keh et al., 2007) and a positive relationship between strategic approach and firm performance.

Furthermore, Gursoy et al. (2017) argued that religious factors influence business actor behavior. For example, shariah's entrepreneurial personality, particularly justice and truthfulness, has significantly contributed to the advancement of company management (Halim & Muda, 2016). Prior research on the factors determining Muslim entrepreneurs' performance revealed several disparities, including alternative financing strategies and an Islamic finance model based on profit and loss sharing (Oseni et al., 2013), which significantly affected small and medium enterprise performance (Alimusa, 2019). Moreover, Faizal et al. (2013) argued that the characteristics of a Muslim entrepreneur are a valuable advantage in achieving entrepreneurial success. Furthermore, Wahab and Rafiki (2014) stated that the performance of enterprises is also determined by human capital, Islamic work principles, Islamic business practices, and Muslim behavior.

Since the relevance between religious-spiritual pillars and business is increasing, the findings above only demonstrated differences in variables or determinants that influenced the performance of SME businesses, including religious factors (Gümüşay, 2014). Although the SME performance measurement model employed Kaplan and Norton's Balanced Scorecard, previous studies did not apply Micro and Small Enterprises (Malagueño et al., 2017). They also did not focus on Muslim entrepreneurs in particular. Thus, this study focuses on factors determining Muslim entrepreneurs' business performance in Indonesia to gain long-term competitiveness. Therefore, this paper aims to investigate the determining factors of Muslim entrepreneurs' business performance by incorporating sharia aspects demonstrated by the previous studies in various countries where the sharia dimension has not been included in the balanced scorecard.

## **Literature Review**

Religious issues have become increasingly important in business (Raco et al., 2019) because true spiritual entrepreneurs are concerned with the well-being of others and their own. Religion impacts various personal characteristics, including social and economic behavior (Rietveld & van Burg, 2014). According to Dana (2009), there is an idea about the connection between religion and entrepreneurship, 1) Different religions place varying degrees of importance on business; 2) Different religions produce distinctive patterns of entrepreneurship; 3) Religious specialization shapes entrepreneurship; 4) Co-religionist loan networks, employee networks, information networks, and supply networks have an impact on entrepreneurship; 5) Islamic religion offers an opportunity for trade; 6) Religious beliefs can also be a hindrance to entrepreneurial spirit; 7) Religions have created mechanisms for preserving values. According to Yousef (2001) (Rafiki & Nasution, 2019), under Islam, Muslims are expected to work or participate in business to create a fair economic model that can be distributed through Islamic principles and to foster financial performance via the right the use materials to provide for necessities.

In Islam, success is referred to as Al-Falah. It is a holistic method that integrates physical and spiritual connections to guide what Muslim entrepreneurs genuinely need to accomplish in their businesses. As a result, this concept is viewed as critical and a more appropriate way for Muslimpreneurs to analyze the performance of their companies. Al-Falah is represented in business by three components: religious dedication, sharia principles, and entrepreneurial actions (Aminuddin et al., 2016). Personal or societal activities are influenced by spiritual movements connected to Allah (Tlaiss & McAdam, 2021). As a result, management and entrepreneurship studies should address religion's significance (Gümüşay, 2014). Furthermore, Halim and Muda (2016) stated that Islamic human capital is vital in developing corporate operations, particularly in promoting fair and honest working.

The prior study has looked at various business performance factors for Muslim entrepreneurs. Various business success criteria are based on their core concept of success or business performance (Angel et al., 2018). According to Balog et al. (2014), there is a link between entrepreneurs' religious values and the performance of their businesses. Zulkifli and Rosli (2013) revealed that spirituality moderates the link between entrepreneurship orientation and company performance among Malaysian entrepreneurs. Furthermore, the findings of an Indonesian study demonstrated that spiritual values had influenced Muslim entrepreneurs' business performance (Mahyarni et al., 2018). Another result is that entrepreneurial success is determined by hard work, commitment, leadership, constant prayer, and zakah/infaq (Machmud & Hidayat, 2020).

Aside from religious/spiritual aspects, internal and external environmental factors influence entrepreneurial performance (Ibrahim & Primiana, 2015). Internal factor consists of profitability (Monica-Violeta & Sorin, 2008) and productivity (Yu et al., 2018) can improve firm performance, while external factors such as government assistance. Then, Islamic financing has affected Muslim entrepreneurs' performance (Tawfiqi et al., 2018); (Balushi et al., 2018) because Islamic capital investment is a kind of alternative

finance that allows Muslim entrepreneurs to set up businesses under Islamic principles (Fathonih et al., 2019). Furthermore, marketing innovation strategy (Lin & Lin, 2016); (Fatima & Bilal, 2019), integrated business strategy (Saad et al., 2017), business adaptability (McDowell et al., 2016); (Phillips et al., 2019), orientation internal business process (Kaplan & Norton, 2001), and entrepreneurial orientation (Keh et al., 2007); (Campbell & Park, 2017) influenced business performance.

According to previous research findings, several factors affected the business performance of Muslim entrepreneurs. However, the balanced scorecard model on the performance of Muslim entrepreneurs could not be applied universally, particularly for micro and small firm. Thus, this research aims to maintain a balanced scorecard by incorporating extra factors based on past research on company performance in general and then evaluating it on Muslim entrepreneurs. The indicator variable chosen is undoubtedly consistent with the characteristics of the research object, such that it measures and develops a model or performance factor as the development of a theory of measuring MSME business performance and Muslim entrepreneurs who do not necessarily use the balanced scorecard theory. Thus, this research includes religiosity or sharia aspect variables such as the findings of Zulkifli and Rosli (2013); Mahyarni et al., 2018); (Machmud & Hidayat, 2020) as a new variable or construct that determines the business performance in Muslim entrepreneurs because religious factors have an impact on entrepreneurs business performance (Wahab & Rafiki, 2014), and Muslim entrepreneurial behavior (Gursoy et al., 2017). Variable selection of religious values or aspects of sharia is based on previous research and the Islamic worldview that a Muslim in carrying out business activities could not be separated from Islamic religious values (Aminuddin et al., 2016) because, in the Islamic perspective, business is a practice or an act while there are no actions that are not accountable to the people. God, as the rules of Fiqh: "*al-ashlu fi al-af'âl at-taqayyudu bi al-hukmi asy-syar'iy*" (The law of origin of human actions is bound by sharia law).

## **Research Methods**

### **Population and Sample**

The research populations were all Muslim entrepreneurs working in Micro and Small Enterprises in Indonesia. Purposive sampling with criteria was used in this study; Muslim entrepreneurs in Micro and Small Enterprises in Indonesia, especially Southeast Sulawesi, do not produce/sell "haram" (forbidden) products and do not use conventional financing or conventional bank credit. This study's sample size was  $10 \times 12$  variables indicator = 120 samples were collected (Muslim Entrepreneurs). It was enough to analyze the Exploratory Factor Analysis (EFA) type R, in which the expected sample was higher than 100, the absolute lowest sample size of EFA was 50 observations, and the size with the required ratio was at least 5 observations per variable ( $5 \times 1$ ) (Hair et al., 2019). The data was gathered from Muslim business owners in Southeast Sulawesi, Indonesia, using a survey questionnaire approach.

### **Variables for Investigation**

Based on the trends of prior research finding and incorporated between balance scorecard and Muslim characteristics in several studies and Muslim countries, this research investigation used 12 variable indicators to explore the factors that contribute to Muslim entrepreneurs' business performance; Business Productivity, Shariah Micro Financing, Islamic Business Practices, Muslim entrepreneurs Characteristics, government stimuli, Entrepreneurial orientation, increased profitability, Company expansion and sustainability, business adaptability, corporate strategy, promotional perspective, and internal business processes are all important considerations to determine affecting toward the business performance of Muslim entrepreneurs.

### **Data Analysis**

The quantitative Research Design was used to analyze data for this investigation. Exploratory factor analysis (EFA) type R was used to establish the structure resulting from already-existing components or to condense the information contained within the original variables into a new set of factors. Besides reducing 12 observational variables, this study identified the factors contributing to Muslim entrepreneurs' business performance using the Keizer-Meyer-Olkin (KMO) and Bartlett test results to confirm the factors. The extraction approach used the principal component analysis, and factor rotation was varimax rotation (Hair et al., 2019).

## **Results and Discussion**

The respondent's characteristics showed that most Muslim entrepreneurs are male (80 percent), and females account for only 20 percent. The overall responder age is 31-40 years (33,34 percent) and 51-60 years (25,84 percent). While the majority of entrepreneurs have an intermediate high school diploma (67 percent) and the kind of business sector of entrepreneurs is commercial (89,17 percent), the majority of respondents' company ownership status is private ownership (95 percent ). Table 1 has further information.

Furthermore, the first stage of Factor analysis used Principal Component Analysis to identify several factors contributing to Muslim entrepreneurs' business performance factor analysis with the KMO test, namely the model feasibility test. Hair et al. (2019) stated that the investigation could be factored in if the KMO value criterion is  $> 0,5$  and the Measure of Sampling Adequacy (MSA) value is  $> 0.5$ . the statistical result of the KMO value is 0.8. Thus, the factor analysis can be continued. Whereas, MSA of the anti-image matrix for business productivity is 0,701, Shariah micro-financing is 0,857, Islamic business practice is 0,777, Muslim entrepreneurs Characteristics is 0,775, External (government) Stimuli 0,667, Entrepreneurial Orientation 0,890, Profitability is 0,746, Company expansion & sustainability is 0,841, Business adaptability 0,886, Corporate Strategy is 0,869, promotional Perspective is 0,840, and Internal Business Process 0,789. Thus, all

parameters can measure the factors that determine business performance for Muslim entrepreneurs.

**Table 1** Respondent demographics

Characteristics	Total Frequency	Percentage (%)
Gender type		
Male	96	80
Female	24	20
Respondent's age (years)		
< 30	42	35
31 – 40	37	33,34
41-50	9	7,34
51-60	31	25,84
> 60	1	0,84
Education stage		
Junior high school	12	10
Senior high school	80	67
Bachelor's degree	21	17,5
Masters degree	4	3,33
Doctoral	-	-
Business Sector Type		
Commercial sector	107	89,17
service sector	13	10,83
Ownership status		
Private ownership	113	94.17
other people's ownership	3	2,5
collaborations	4	3,33

**Table 2** Results of EFA analysis

Variable	Factor			Communalities
	1	2	3	
corporate strategy	0.853			.682
Internal business process	0.773			.671
Business adaptability	0.764			.744
promotional perspective	0.762			.690
Entrepreneurial orientation	0.712			.673
Business Productivity		0.812		.534
increased Profitability		0.705		.635
External stimuli (government)		0.666		.539
Company expansion and sustainability		0.541		.664
Islamic business practices			0.826	.760
Characteristics of Muslimpreneurs			0.815	.620
Shariah Micro Financing			0.503	.714
Variance	4.515	1.279	1.105	
Percentage of variance (%)	37.662	10.662	9.206	57.490
KMO – Measure of Sampling Adequacy				.819
Bartlett's Test of Sphericity				782.712
Significance of Bartlett's Test of Sphericity				.000

Table 2 summarizes the exploratory factor analysis (EFA) results in type R using SPSS version 25. According to the research findings using Exploratory Factor Analysis, the three main factors that make up Muslim entrepreneurs' business performance are as follows. The first is the integrated business strategy factor, which affects 38% of business performance, including corporate strategy, internal business procedures, business adaptability, entrepreneurial orientation, and marketing orientation. *Second*; business orientation & External stimuli factors, which include business productivity, increased profitability, Company expansion & sustainability, and external stimuli (government), can shape business performance by 11%, while the *third factor*; Sharia business practices, which include sharia business practices, Muslim entrepreneurs characteristics, and sharia microfinance can contribute to the business performance of Muslim entrepreneurs around 9%. As a result, the three factors taken together can predict the business performance of Muslim entrepreneurs in Indonesia by 58 percent.

The final step in determining the factors is to evaluate the Component Transformation Matrix to assess the magnitude of the formed factors' correlation value. If the composite transformation matrix has a value greater than 0.5, the factors developed are appropriate for summarising the existing variables or indicators (Hair et al., 2019). The results of the component transformation matrix are shown in Table 3.

**Table 3** Result of Component Transformation Matrix

Component	1	2	3
1	.824	.454	.337
2	-.421	.891	-.172
3	-.379	.000	.925

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalization

Table 3 shows the correlations between the summated scales and factor scores (Hair et al., 2019), with correlations ranging from .824 to .925. The three factors developed were appropriate for summarizing the 12 existing indicator variables.

There are three factors affecting Muslim entrepreneurs' business performance. The first factor is *the* strategy and internal business processes. According to literature analysis, organizations require the correct integrative strategy to maintain outstanding performance and competitive advantage (Saad et al., 2017). Therefore, marketing (Keh et al., 2007); (Lee et al., 2015); (Kozielski, 2019); (Fatima & Bilal, 2019), internal business process orientation (Kaplan & Norton, 2001), adaptability in business (McDowell et al., 2016); (Phillips et al., 2019), and entrepreneurial orientation (Keh et al., 2007); (Campbell & Park, 2017) significantly affected business performance. Therefore, the performance of Muslim entrepreneurial enterprises is determined by corporate strategy and internal business processes to achieve sustainable competitiveness. Thus, the highlight of this finding is each Muslim entrepreneur in micro and small enterprises how to build a marketing innovation plan, such as community-based promotions (*'Jama'ah'*) or network relationships (Lin & Lin, 2016) to achieve business performance.

The second factor, the business orientation & external stimuli factor, can determine the Muslim entrepreneurs' performance. Business orientation includes business productivity, increased profitability, expansion, business sustainability, environmental stimuli like facilities, public policies, and favorable economic situations (Ibrahim & Primiana, 2015). This finding supported past research on how internal and external business environments affect corporate performance, such as profitability (Monica-Violeta & Sorin, 2008) and business productivity (Yu et al., 2018), possibly enhancing company performance. In contrast, external stimuli such as government regulations in conducting business impact entrepreneurs' performance (Ibrahim & Primiana, 2015). Entrepreneurial performance can be determined by environmental conditions and government backing (Gupta & Mirchandani, 2018). As a result, business environment elements (both internal and external) might have an impact on Muslim entrepreneurs' business performance.

The third factor is the Islamic business practices factor. According to literature and prior research result, the religious aspect (Spirituality value) is an essential factor in determining the entrepreneurial performance and success of Muslim entrepreneurs (Dewi & Dhewanto, 2012), (Mahyarni et al., 2018). Wahab and Rafiki (2014) found that company practices are influenced by Islamic work ethics and affect entrepreneurial performance, and spirituality is vital for company owners and entrepreneurs (Raco et al., 2019). As a result, there is a link between entrepreneurship and religious-spiritual activities (Gümüşay, 2014). When Muslims engage in business endeavors, they fulfill their religious duty to Allah (Ramadani et al., 2016). Furthermore, hard work, keeping promises, leadership, always praying, paying Zakah, and alms have impacted SME enterprises' growth (Machmud & Hidayat, 2020). Then, there is the influence of Islamic financing on increasing the performance of SMEs (Balushi et al., 2018); (Tawfiqi et al., 2018); (Alimusa, 2019); (Riwayati et al., 2020). Alternative finance models, such as sharia financial products based on profit and loss sharing, have piqued the interest of many small and medium-sized businesses. (Oseni et al., 2013). Due to what Allah states in Surah Al-Baqarah, verse 275, the *Usury* method utilized for corporate capital financing is prohibited in Islam "...And Allah Justified the sale and Forbidden Usury.."

The findings have implications for Muslim micro- and small-business owners, SME practitioners, and other researchers. According to the investigation, religious variables (Islamic business practices) are one of the drivers of company performance for Muslim entrepreneurs. As a result, Muslims, individuals, and groups must prioritize religious principles in all aspects of their lives, including business success, to find fulfillment in this world and the hereafter (Al-Falah).

## **Conclusion**

Based on the findings and discussion, three key factors affected Muslim entrepreneurs' business performance. There are strategy and internal business processes, business orientation and external stimuli, and Islamic business practices. This research suggests that sharia business practice elements can boost the competitiveness and sustainability of SMEs because Muslim consumers are already oriented towards halal items and

products from Muslim entrepreneurs. Thus, quantitative integration and combining business orientation with Islamic business practices (worship & Halal orientation) are essential in improving Muslim entrepreneurs' business performance to competitive and sustainable SMEs.

The theoretical contribution of this finding is the development of the balanced scorecard theory, which has not been previously developed to measure the performance of Indonesian Muslim entrepreneurs. Thus, the theoretical and practical implications of this finding are that the integration of business orientation with religious factors (Islamic business practices) can improve the business performance of Muslim entrepreneurs. Hence, future research on the relationship of spiritual values or sharia aspects to the performance of Muslim entrepreneurs needs to be tested and developed to determine the performance of micro and small enterprises on Muslim entrepreneurs globally. In addition, the findings suggest and recommend that only roughly 57.5% of the factors found in this study had the potential to influence Muslim entrepreneurs' ability to execute their businesses. Therefore, future research can observe and re-test the variables in this study by including more variables such as sharia marketing mix techniques and corporate information systems, broadening the scope of the research on an industrial scale, and using a larger sample.

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