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**AN INCUBATION FOR SMALL MEDIUM ENTERPRISES (SMEs) ASSISTED BY
BAZDA**

Jumaizi

Sekolah Tinggi Maritim dan Transpor AMNI Semarang

E-mail: jumaizi10@gmail.com

Ken Sudarti

Faculty of Economics, Sultan Agung Islamic University, Indonesia

Email: kensudarti@yahoo.co.id

ABSTRACT

This study aims to find an effective incubation model of SMEs in order to survive, grow and absorb a lot of labor. This study is conducted at the Regional Zakat Agency (BAZDA) of Central Java. The population is BAZDA managers in Central Java with Sample of 68 BAZDA incorporated in Central Java. This study uses a mixed approach, qualitative and quantitative approach with descriptive analysis approach and focus on depth investigation on SMEs assisted by BAZDA. The methods and techniques used in this study are the compilation of the study of literature, previous empirical studies, observations and in-depth interview to respondents of SMEs managers assisted by BAZDA in Central Java Province. All method of approaches are assisted by the Statistical Programs for Social Analysis (SPSS), and Partial Least Square (PLS) to make it easier to analyze the data. The findings show that, qualitatively, SMEs assisted by BAZDA in Central Java need assistance and motivation to be monitored and assisted on a regular basis in order to see the flaws and strengths. Besides, Spiritual guidance to businesses is also needed to ensure them that only Allah is the giver of all good luck and facility to conduct business. SMEs also need to be assisted to open a new branch and solve problems faced. They must also be given customer service management and improvement of product quality in order to increase customer confidence. Training of good and clean living, honest and creative and getting involved in the seminar in order to raise the willingness to run business are needed as well. Based on the findings of the quantitative analysis, it shows that there is a positive significant influence of incubation, management skills and innovation toward the performance of SMEs assisted by BAZDA in Central Java.

Key word: Incubation, Management skill, innovation and performance of SMEs

1. Introduction

Poverty has become a global issue today, and Indonesia along with other 189 countries in the world declare to eradicate poverty by will to succeed *Millennium Development Goals (MDGs)* to eradicate poverty by 2015. According to the report of the coordinator of Indonesian economic ministry, efforts to improve the welfare of the people of Indonesia had been done since the beginning of independence or the old Order to the Reformation era, started from giving direct cash, program assistance, free education, health care, rice for poor people up to empowering poor communities to become fully empowered.

Several programs have been held to eradicate poverty, such as Presidential Instruction on Health, Transportation, Markets, *Bangdes*, and Un-developed Villages (IDT); Income Improvement Program Development for Small Farmers and Fishermen (P4K), Savings and Credit Program for Public Enterprises Welfare (Takesra-Kukesra), Sub-districts Development Program (PPK), the Urban Poverty Program (P2KP), Rural Infrastructure Development Program (P3DT), and so on. In addition, almost all departments also have poverty alleviation programs, and funds that have been issued by the government for the implementation of those programs have reached hundreds trillions of rupiahs.

Associated with poverty reduction, *BAZDA* has an important role, because it is one of institutions whose activities specified in poverty reduction, it is in accordance with the verse in the Koran, At-Tawbah 60. Based on the findings of research model on *good governance* of *BAZDA* conducted in central Java, Jumaizi et.al (2011) concludes that good governance of *BAZDA* must provide great benefits for poverty alleviation. The study also gives recommendations for further research to make the poor becomes not poor anymore if employed, given the venture capital, and empowered to be autonomous and how the model is effective to empower of poor people and communities, and absorb labor. Yet, until now, the incubation model of micro business is still partial. The absence of incubation model for small and medium enterprises becomes interesting topic to be studied in the future.

The finding targeted in this study is an effective incubation model for small and medium Enterprises to make them survive, grow and absorb a lot of labor.

Innovation model is very likely to be found because this study uses *in-depth interviews*, questionnaires and data retrieved directly from respondents (primary data). References and previous research findings will be the initial capital to be confirmed by the respondents as well as developing the questions to the respondents to produce innovative and useful model for the growth of micro enterprises assisted by *BAZDA*.

2. Literature Review

2.1 The underlying theory:

Swasono (2006) states that the poor would remain poor despite being given new clothes, rice, free medicine and school to 9 years. The poor will remain not poor if empowered to own power (*empowerment to be self empowerment*), and that the shape of empowerment of the poor can empower them. To eradicate poverty, people must be (1) employed, (2) given the venture capital and business training, and (3) provided business mentoring.

Employing the poor can be done by way of creating jobs. Employment may increase if the development of new businesses in the form of Small and Medium Enterprises (SMEs) runs well. Many SMEs become extinct at the age of two to five years (Treggono, 2009).

2.1.1 Ibn Khaldun Theory on Justice Cycle (*Circle of Equity*)

Ibn Khaldun's conceptual contribution is: Two of the most important correlations in the chain of causation are the development and justice. The development is very important because the normal tendency of human society is a change or advancement. Development here refers not only to economic development, but also more than that, which covers all aspects of human development, material and spiritual. However, the development cannot be done without justice in all sectors of human life.

A comprehensive justice will not be realized without the creation of communities that care through brotherhood and social equality (*ukhuwah*), ensure the safety of life, property and respect for human dignity, fulfillment of political and socio-economic, fair wages for anyone who has to work, as well as the prevention of injustice to anyone and in any form. In addition, another important variable is the *sharia*, or laws that refer to values or rules of human behavior that aims to fulfill their obligations to others and prevent malicious behavior to ensure fairness, development, and welfare of all people. (Mashuri, 2005: 35)

According to Ibn Khaldun, the State should serve as a facilitator and assist people in running their businesses efficiently, prevent them from doing dangerous things that eliminate all forms of justice. Thus, the State is not the State of *laissez-faire*. It is an institution that ensures the enactment of *sharia* and act as a facilitator of human development and welfare.

2.1.2 Theory of Suroso Imam Zadjuli: Islamic Economic System (*Sharia*) and civil society development

In this theory, economics system is a system implemented in practice. Economics is a science which studies human behavior both as individuals and group of community (can be a legal entity or not and in form of ruler/government) to meet their needs both material and spiritual needs. The practices of economic behavior are in the form of how, for what and by whom the organization implements the factors of production, distribution and allocation of goods and services within a country enforced. Thus, Islamic Economic system is the application of economics in everyday practice for individuals, families, group of society and government/authorities in order to organize the factors of production, distribution and use of goods and services produced in the subject regulations/legislation (the laws).

It is expected that the concept of *sharia economic* system can be carried out by religious economics experts to realize civil society development. In building civil society, it needs to be described in advance about understanding, readiness of pillar institutions and values in the society.

The definition of pillar institutions and the values of civil society according to Hasyim in zadjuli, (2006: 23), is as follows:

- a. Civil Society is a polite, civilized and cultured society. The behavior of civil society in addressing the issues and problems either big or small, complex or simple is always faced with good manners and civilized as well as find a way out by means of deliberation with fellow human beings and consulting with God according to His Guidance.

For the development of civil society, it needs to have a role model/leader in the community. Leader in the community should have function to:

- a. Be able to influence people's attitudes by virtue of the power and position.
- b. Be able to be a role model for society by virtue of personality and ability.

b. Pillar Institution

Pillar institutions that must be developed to realize the civil society are as follows:

1. *Ulama'* or experts of knowledge, which have more knowledge than the average community in rational areas, and utilize their knowledge not only for self-personal/family/ group, but also strongly to the community in general (*Ikhlasul Ulama*).
2. *Umara'* who assumes leadership. *Umara'* must be fair and balanced toward the people carried (*Adalatul Umara'*).
3. *Tujjar*, economic actors within the community. They have to be honest and not apostate to the community as well as over the welfare of society (*Amanatul Tujjar*).
4. *Muhtarifun*, workers/employees. Workers (employees) must be faithful in carrying out the task/profession as a mandate entrusted to him (*Nashihatul Muhtarifun*).
5. Loyal society. The fulfillment of elements in society will realize loyal civil society within a nation and state (*Al-Ibad*).

c. Civil Society Values

To realize the civil society, the heterogeneity of the new society can be transformed into a homogeneous society with adhesive universal values that can:

1. Create values that are able to maintain the existence of religion or values that exist in society (*hifzuddin*).
2. Foster the values that are able to maintain security, order, safety and guarantee of rights and obligations of human life (*hifzun-nafs*).
3. Uphold the values that ensure/enforce clear human thinking (*hifzul-aqli*).
4. Foster the values which is capable of creating a quiet and peaceful family with full of *silaturrahim* (*hifsun-nasal*).
5. Build values that ensure the economic development of mutually beneficial community. (*Hifdul mall*)
Islam: limited needs – unlimited natural resources.
Capitalist: unlimited need -limited natural resources, giving rise to unfair competition.
6. Create values that are not burdensome obligations in national and state community and society (*Al-Hajiyat*).
7. Make free to choose the values of the society towards the most profitable alternative and polite, civilized and high moral (*Al-Taksiniyyat*).

Baitul Mal is a special institution under the Caliph that regulates sources of property income of countries from fixed and temporal sources of income, then, allocate it to the routine and temporal expenses. Treasures collected in the *Baitul Mal* become the right of the Muslims and the state must spend it in *shariah* way, be accountable to pay for services rendered by individual to the state, eradicate poverty and hunger, and give employment benefits, the venture capital community, infrastructure development and public servants, transparency and others.

In Shofwatut Tafasir Section II/253, as quoted by Kurnia, Muhammad Ali as Shobuni explains that "it is a mercy to the whole universe, because God loves all His creatures by sending Muhammad SAW who brings great happiness, salvation from misery".

This shows that the policy objectives of *the Baitul Mal* for the income and expenditure of the state should be in harmony with the rescue of the people (Muslims and non-Muslims) of which causes such misery of poverty, unpaid debt, hunger, unemployment, natural disasters, ignorance, price volatility (inflation or deflation) because of market imbalance, which in general can be said as a policy for issuing state and society from the economic recession or depression. *Baitul Mal* policy also aims to create happiness for all people by formulating policy to improve the welfare of *Ruhiyah*

awareness among others through education, and in terms of capabilities and seek for material wealth with a growing economy without ignoring mechanism fair of economic distribution.

2.2. Incubation

Incubation is the process of guiding Small and Medium Enterprises and or new product development conducted by the Business Incubator in the provision of business infrastructure, development and management and technology. Whereas, an incubator is an institution engaged in the provision of facilities and business development, both management and technology for small and medium enterprises to improve and develop business activities or new products in order to be self-employment and competitive in a certain period of time.

2.3. Management Skills

Managerial Skills include:

- a. Technical skills, the experts required for the specific job to be done, e.g, operating the computer, building design, making layout of companies, and others.
- b. Human relations skills, to understand and interact with different types of people in the community. Among the examples of this expertise (HR skills) is the expertise in organizing, motivating, convincing people and others.
- c. Conceptual skills to think abstractly and systematically to diagnose and analyze a variety of problems in different situations, and to predict the future.
- d. Decision Making Skill, to identify the problem and offer a wide range of social alternatives to the problems faced.
- e. Time management skill to optimize time effectively and efficiently. (<http://blogspot.com/2011>).

2.4. Innovation

Innovation is a key function in the entrepreneurial process. Peter Drucker (1985) in Jawwad (2002) said that innovation has a typical function for entrepreneurs. With the innovation of entrepreneurs, we can create new and better production resources to process existing resources to increase potential value to create something that does not exist into exist. According to West, innovation is not signed a new thing in absolute terms. Changes can be seen as an innovation, if the change is new to someone, groups, or organization that introduce it (Marizar, 2005: 10).

A prospective entrepreneur must have the courage to give an idea through the stages of development. Thus, innovation is a combination of a vision to create a better idea, determination and dedication to maintain the concept through implementation. There are four types of innovation; those are discovery, development, duplication and synthesis (Suaryadi, 2007: 42).

2.5. Performance of SMEs

Performance is a periodic determiner of the operational effectiveness of the organization, its parts and employees based on the objectives, standards and criteria established (Srimindarti, 2006). According Mangkunagara (2001), the performance is: the result of the quality and quantity of work that can be accomplished by an employee in carrying out duties in accordance with the responsibilities assigned to him. Performance is the appearance of the work of both the quantity and quality of personnel within an organization. (Ilyas, 2001).

2.6. Previous research:

The study on the perception of poverty alleviation in the management implementation of *BAZDA* in Semarang by Adiwijaya and Jumaizi 2008 leads to the conclusion that the managers of social fund in Semarang strongly agree when management is more productive, programmed and coordinated massively. In the study, it is recommended that the reliable governance for funding is needed to be unearthed from the public and the government as well as beneficial to the alleviation of poverty.

Moreover, a subsequent study conducted by Jumaizi et.al (2011) on the model of good governance of *BAZDA*, generates new conclusions and findings to be investigated further. First, the transparent and accountable management is expected by the *stakeholders*, especially funders for accountability of funds. Second, it needs more efficacies because fund gained is expected to be allocated for community empowerment both in the way of employing the poor, performing incubation and training assistance for small and medium enterprises, giving capital without interest and collateral in the form of *qordul hasan* financing. And also, it needs to provide other productive sectors such as as a free school for the poor from kindergarten to college or vocational.

From the previous findings, it is necessary to conduct further study on how the effective model of incubation for Small and Medium Enterprises (SMEs) influences their performance and absorb more employees.

Trenggono 2009, in his study about empowering SMEs reveals that the study recommends the following matters:

1. Business Creativity and innovation are necessary for SMEs to make them grow.
2. SMEs need to consider the wishes of the people and do not really focus on the self-products and services.
3. Working capital for SMES should always be available.
4. Managerial skill becomes a necessary factor in SMEs besides technical ability.

3. Research Methods

3.1 The research model

Based on the previous theoretical and empirical reference, model of research can be presented as follows:

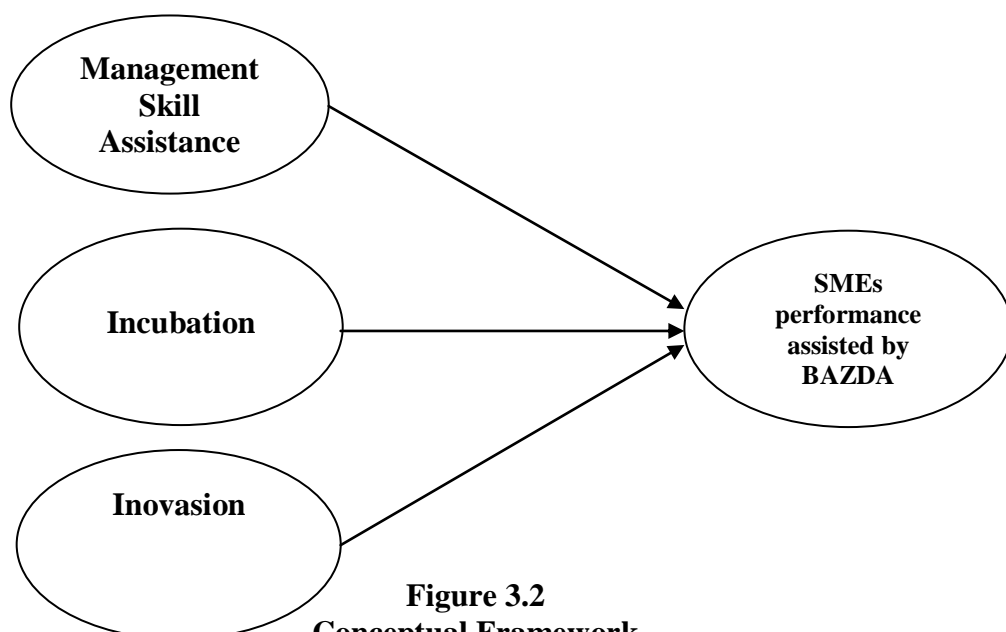


Figure 3.2
Conceptual Framework

3.2. Population and Sample

Population is the number of whole units of analysis in which its characteristics will be assumed (Cooper, 2005). The population in this study is the entire *BAZDA* manager in Central Java. Samples are a number of individuals representing the population to be studied. The sampling technique in this study is with purposive *sampling method*, in which for each county and city in Central Java province respondents who meet the criteria will be selected. The sample size is the indicator multiplied by 5 to 10 (Hair, 2009). Therefore, the number of samples in this study is from 5 x15 to 10x15 (indicators), it is obtained 75 to 150 respondents.

3.3. Variable and Indicator

Variables and indicators used in this study are as follows:

Table 3.1
Variables and Indicators

No.	Variables	Indicator
1	Incubation	Capital loans along with assistance
		Business management training
		Training quality improvement efforts
		Giving spiritual business
		Building confidence
		Provision of assistance if found obstacles
2	Management Skill	Determining market segment
		Perseverance and tenacity
		Creativity
		Seeing the desire of customers
		Competitive conditions around
		Determining more excessive business value than the others
		Promotion
3	Innovation	Modifying products
		Creating new products
		Assessment of new product development
		Varying Business products and being different/more unique than the others
4	Performance of SMEs	Improvement of sales turnover
		Improvement of operating profit
		Strengthening business working capital

3.4. Method of Analysis

The analysis used in this study is a qualitative and quantitative analysis. Qualitative analysis has the advantage to answer the question why many SMEs become extinct in the course of their business and what kind of effective incubation model for SMEs is. Briefly, the answers can be obtained through in-depth interviews with SMEs entrepreneurs and managers assisted by *BAZDA* and source of literature and findings of previous studies.

To determine the influence of incubation model on the performance of SMEs assisted by *BAZDA* uses *Partial Least Square* (PLS) or SPSS. This model is a set of

statistical techniques that allow the testing a set of correlations among variables. (Solimun, 2009).

4. Findings and Discussion

4.1 Profile of Respondents

Respondents in this study are managers of *BAZDA* in Central Java. Estimated by researcher, the entire questionnaire can be returned and good-fulfilled on the basis that the respondents are also concerned. Researcher assumes that the level of returned questionnaires distributed is high as the purpose of the questionnaire is also for the benefit of the people. This is in line with the programs by *BAZDA*. From returned questionnaires, the profile of the respondents can be fully-described as follows:

Table 4.1
PROFILE OF RESPONDENTS

No.	Remarks		(%)
1	Sex	Women	78
		Men	22
2	Age	Up to 30 years old	24
		Among 31 to 40 years old	12
		Among 41 to 50 years old	40
		Above 50 years old	24
3	Periods of becoming manager	Under 1 year	4
		Between 1 to 2 yrs	24
		Between 3 to 5 yrs	55
		Above 5 Years	17
4	Education	Senior High	36
		Diploma	21
		Bachelor	43

Source: Processed data

4.2. Latent Variables Description

4.2.1. The Description of Variable of Incubation

Based on the observations of researcher to variable of incubation through questionnaires and interviews with managers, it is obtained the following results:

Table 4.2
Description of Variable of Incubation

No.	Indicator	Opinions of Respondents (%)				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Capital loans along with assistance	-	-	14.5	46.8	37.7
2	Business management training	-	-	6.5	58.1	35.5
3	Training quality improvement efforts	-	-	11.3	45.2	43.5
4	Giving spiritual business	-	-	6.5	54.8	38.7
5	Building confidence	-	-	11.3	50.0	38.7
6	Provision of assistance if found obstacles	-	-	8.1	45.2	46.8

Source: processed data

From the table, it can be seen that the respondents' opinion on SMEs incubation assisted by *BAZDA* that agree and strongly agree can be described as follows:

- a. In the first indicator, 84.5% respondents think that managers need to be given capital loans along with assistance.
- b. In the second indicator, 93.6% respondents think that they need for the provision of training in business management to the managers.
- c. In the third indicator, 88.7% respondents think that managers need to be given training in quality improvement efforts.
- d. In the fourth indicator, 93.5% respondents think that managers need to be given training in spiritual business,
- e. In the fifth indicator, 88.7% respondents think that managers need to be given training to build confidence, and
- f. In the sixth indicator, 92% respondents said that managers needed to be given help when there are troubles and obstacles.

From the findings, it can be defined that incubation for managers of SMEs assisted by *BAZDA* can be performed through giving a capital loan along with assistance, training in business management, quality improvement efforts, spiritual business, self-confidence, and help when there are troubles and obstacles.

4.2.2. The Description of Management Skill Variable

Based on the observations to variable of Management skill through questionnaires and in-depth interviews with managers, it is obtained the following results:

Table 4.3
Respondents' opinion about management skills

No.	Indicator	Opinions of Respondents (%)				
		1: Strongly Disagree	2: Disagr ee	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Determining market segment	-	-	14.5	53.2	32.3
2	Perseverance and tenacity	-	-	16.1	64.5	19.4
3	Creativity	-	-	21.0	64.5	14.5
4	Seeing the desire of consumers	-	-	21.0	53.2	25.8
5	Competitive conditions around	-	-	21.0	56.5	22.6
6	Determining the more excessive value of business than the others	-	-	21.0	53.2	25.8
7	Promotion	-	-	14.5	54.8	30.6

Source: Processed Data

From the table it can be seen that the respondents opinion about management skills assistance to managers of SMEs assisted by *BAZDA* who agree and strongly agree is 88.5% on the first indicator (determining market segment), 83.9% on the second indicator (perseverance and tenacity), 79% on the third indicator that managers need to develop creativities, 79% on the fourth indicator that manager must be able to see consumer desire, 79.1% on the fifth indicator that manager should be concerned about condition of competition, and 79% on the sixth indicator that managers must be able to determine more excessive value of their business than the others, and 85.4% on the seventh indicator that managers should have right promotion to the right people and in large numbers.

The findings indicate that SMEs managers assisted by *BAZDA* should have management skills. Managers must be able to determine market segment, have perseverance and tenacity in developing the business, improve creativities, be capable of recognizing costumer desires, determine the condition of competition around, be able to provide more excessive business values than the others and get promotion to the right people and in large numbers.

4. 2.3. The Description of Innovation Variables

Based on the observations of researcher to variable of Innovation through questionnaires and interviews with managers, it is obtained the following results:

Table 4. 4
RESPONDENTS OPINION ABOUT INNOVATION

No.	Indicator	Opinions of Respondents (%)				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Modifying products	-		8.1	48.4	43.5
2	Creating new products	-		14.5	51.6	33.9
3	Assessment of new product development	-		16.1	45.2	38.7
4	Varying Business products and being different/more unique than the others	-		14.5	51.6	33.9

Source: data processed

From the table it can be seen that respondents who agree and strongly agree on innovation is 91.9% on the first indicator (modifying product), 85.5% on the second indicator that managers must be able to create new products, 83.9% on the third indicator that manager must perform assessment of new product development, and 85.5% on the fourth indicator that managers are able to do business variations to different and unique from the others.

These findings indicate that the SMEs manager assisted by *BAZDA* need to innovate to modify products, create new products, perform assessment of new products development, and be able to do business variations to be different from the others.

4.2.4. Description of SMEs performance variable

Based on the observations of researcher to variable of SMEs performance through questionnaires, and interviews with managers, it is obtained the following results:

Table 4. 5
RESPONSE RESPONDENTS ABOUT PERFORMANCE MICRO

No.	Indicator	Respondents Opinions (%)				
		1: Strongly Disagree	2: Disagree	3: Fairly Agree	4: Agree	5: Strongly Agree
1	Improvement of sales turnover	-		14.5	58.1	27.4
2	Improvement of operating profit	-	-	14.5	54.8	30.6
3	Strengthening business working capital	-	-	14.5	59.7	25.8

Source: data processed

From the table, it can be seen that the respondents answer on the performance of SMEs that agree and strongly agree is 85.5% on the first indicator on improvement of sales turnover, 85.4% on the second indicator about improvement of operating profit, and 85.5% on the third indicator on strengthening business working capital.

Therefore, all of the empowerment programs for SMEs assisted by *BAZDA* through incubation, management skill and innovation are responded positively.

4.3. Test on Correlation among Variables

Based on the analysis of PLS, the correlation among variables can be described as follows:

CORRELATION AMONG VARIABLES

NO	VARIABLE	COEFF.	T-STAT	DESCRIPTION
1	Incubation > Performance of SMEs	0.202	2.850	Significant
2	Management Skill > Performance of SMEs	0.292	3.077	Significant
3	Innovations> Performance of SMEs	0.508	6.589	Significant

Based on the table above, it can be concluded that:

1. There is a positive significant influence of incubation toward SMEs performance assisted by *BAZDA* in Central Java. It is evident from the results of t-statistics value of 2.850 and t-table value of 1.6759 with estimated coefficient value (β) of 0.202. It means that, if incubation is properly done, the performance of SMEs assisted by *BAZDA* will improve.
2. There is a positive significant influence of Management skill toward SMEs performance assisted by *BAZDA* in Central Java. It is evident from the results of t-statistics value of 3.077 and t-table value of 1.6759 with estimated coefficient (β) of 0.292. This condition indicates that if the Management Skill for SMEs managers is properly done, the performance of SMEs assisted by *BAZDA* will improve.
3. There is a significant positive influence of innovation toward the performance of SMEs assisted by *BAZDA* in Central Java. It is evident from the results of t-statistics test value of 6.589 and t-table value of 1.6759 with estimated coefficient value (β) of 0.508. This condition means that if the manager always performs innovation, the performance of SMEs assisted by *BAZDA* will improve.

5. Conclusion

Based on the findings and discussion, it can be concluded that:

- a. There is significant influence of incubation toward SMEs performance assisted by *BAZDA*. Incubation to SMEs is conducted by way of giving a capital loan along with assistance, training in business management, quality improvement efforts, spiritual business, self-confidence, and help when there are troubles and obstacles for the managers of SMEs.
- b. There is significant influence of management skill toward the performance of SMEs assisted by *BAZDA*. In the coaching of management skills, it can be done by fostering management to define market segments, create persistence and tenacity, creativity, see the desires of consumers, determine competition atmosphere of the business around, and improve branding and promotion.
- c. There is significant influence of innovation toward the performance of SMEs assisted by *BAZDA*. Innovation is done by way of modifying products, creating new products, assessing product development, and variations.

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